

Change in Effective Control Applications

Version 11.23.2012

**I Applicant: Care New England Health System
 Facility: The Memorial Hospital d/b/a
 Memorial Hospital of Rhode Island**

**II Applicant: Care New England Health System
 Facility: Memorial Hospital Home Care**

- EXHIBITS:**
- A - Legal Transfer Documents**
 - B - Organization Charts**
 - C - Charity Care Record**
 - D- Charity Care Policies, Procedures and Applications**
 - E - Licensure or Certification Citations**
 - F - Pending/Adjudicated Citations**
 - G - Investigations**
 - H - Quality Assurance Policies**
 - I - Evidence of Site Control**
 - J - Applicant Governing Documents**
 - K - Draft Revised Governing Documents**
 - L - Audited Financial Statements**

Volume II of II

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**AMENDED AND RESTATED
BYLAWS
OF
CARE NEW ENGLAND HEALTH SYSTEM**

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**AMENDED AND RESTATED
BYLAWS
of
CARE NEW ENGLAND HEALTH SYSTEM**

Article 1

Purposes, Powers and Offices

Section 1.1 **Purposes.** Care New England Health System (the “**Corporation**”) is organized, and at all times shall be operated, for the exclusive purpose of engaging in charitable, educational and scientific activities within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as the same may be amended from time to time (or the provisions of any succeeding law), and to the extent applicable, the regulations promulgated thereunder by the U.S. Department of Treasury (the “**Code**”), including, without limitation (a) to plan and coordinate a system for the delivery of high quality health services; (b) to operate for the benefit of and to support Women & Infants Hospital of Rhode Island (“**WIH**”), Kent County Memorial Hospital (“**KCMH**”), Butler Hospital (“**Butler**”), Kent County Visiting Nurse Association d/b/a VNA of Care New England (“**VNA**”), The Memorial Hospital d/b/a Memorial Hospital of Rhode Island (“**MHRI**”), and such other charitable, scientific or educational, public charities, described in Section 501(c)(3) and 509(a) of the Code, as may be affiliated with the Corporation from time to time; (c) to carry out the purposes set forth in the Articles of Incorporation of the Corporation (the “**Articles of Incorporation**”); and (d) to do whatever is deemed necessary, useful, advisable or conducive, directly or indirectly, to carry out the purposes of the Corporation described in this Section 1.1, including to carry on any other activity that may be lawfully carried on by a corporation formed under the Rhode Island Nonprofit Corporation Act, as the same may be amended from time to time (or the provisions of any succeeding law) (the “**Nonprofit Corporation Act**”). For purposes of these Amended and Restated Bylaws of Care New England Health System (the “**Bylaws**”), an “**Affiliate**” means WIH, KCMH, Butler, VNA, Women & Infants Corporation (“**WIC**”), Southeastern Healthcare System, Inc. (“**SHS**”), MHRI, and any other entity in which the Corporation directly controls (through power to elect through membership, ownership, contract or otherwise fifty percent (50%) or more of the governing body of such entity).

Section 1.2 **Powers.** The Corporation shall have all the powers enumerated in the Nonprofit Corporation Act; provided, however, that the Corporation shall exercise its powers only in the furtherance of the purposes set forth in the Articles of Incorporation and these Bylaws. Without limiting the foregoing, the Corporation shall undertake the following:

(a) Planning, directing and establishing policies to assure the development and delivery of quality health and behavioral health services, professional education and biomedical research on an integrated cost-effective basis;

(b) Establishing and maintaining uniform accounting policies;

(c) Negotiating, developing and approving all third party reimbursement, indemnity and managed care agreements and the like;

(d) Negotiating, developing and approving affiliation agreements for education and research between the Corporation and any appropriate school of medicine or other academic institution;

(e) Approving human resource policies;

(f) Amending or amending and restating the Articles of Incorporation, these Bylaws and other organizational and/or governing instruments and approving amendments to the charter, articles of incorporation or other organizational and/or governing instruments of any Affiliate;

(g) Approving a strategic plan and changes to any mission statement of the Corporation and any Affiliate;

(h) Approving capital budgets, operating budgets, and non-budgeted expenditures for the Corporation and any Affiliate in excess of \$500,000 or such other amount as may be determined by the Board of Directors of the Corporation (the “**Board**” or “**Board of Directors**”) from time to time;

(i) Approving the establishment, termination, or relocation (other than to a different location on the same campus) of any major clinical services of any Affiliate;

(j) Authorizing participation in joint ventures, consolidations, network associations and the like;

(k) Authorizing the formation of any new subsidiary or joint venture involving any Affiliate;

(l) Considering and authorizing incurrence of material indebtedness;

(m) Monitoring investment policy, including consideration of placing investments under common management to achieve economic efficiencies; and

(n) Planning, developing and implementing an integrated information system.

Section 1.3 **Offices**. The Corporation shall have its principal office and other offices at such places within and outside the State of Rhode Island as may from time to time be determined by the Board.

Article 2

Members

Section 2.1 **Members**. The members of the Corporation shall be those individuals then-serving as members of the Board of Directors. Any action required by law to be taken by the members of the Corporation shall be taken by the Board, acting as the members of the Corporation, pursuant to the procedures set forth in Section 3.8 through Section 3.15.

Article 3

Board of Directors

Section 3.1 **Authority of the Board**. Except as otherwise expressly required by law, the Articles of Incorporation or these Bylaws, the affairs of the Corporation shall be managed by the Board of Directors and the Board of Directors shall have, and may exercise, all of the powers of the Corporation.

Section 3.2 **Number of Directors**.

(a) Unless the Board otherwise determines, the Board of Directors shall consist of (a) between ten (10) and ~~fourteen (14) directors~~ seventeen (17) elected directors (the “**Elected Directors**”); and (b) the President and Chief Executive Officer of the Corporation (the “**President and Chief Executive Officer**”), and the President of the Medical Staff of each of WIH, KCMH and ~~Butler~~ MHRI, each of whom shall serve as *ex officio* directors of the Board with vote (the “**Ex Officio Directors**,” and collectively with the Elected Directors, the “**Directors**”). Each Director shall have one (1) vote.

~~(a)~~(b) In accordance with the Affiliation Agreement dated January 2, 2013, among the Corporation, SHS and MHRI (the “Affiliation Agreement”) three Elected Directors

were nominated by MHRI and appointed by CNE effective on the closing date (the “Closing Date”) of the transactions contemplated by the Affiliation Agreement (the “MHRI-Nominated Directors”).

(b)(c) Unless the Board otherwise determines, a majority of the Elected Directors shall be “**independent**” under standards established from time to time by resolution adopted by the Board. Additionally, the Board of Directors shall include individuals with such skill and experience as are necessary or helpful in the governance of the Corporation. Knowledge of and experience in medical education and research shall be a required competency, and if at any time such competency is lacking, an individual with such competency shall be identified and elected as soon as practicable. Knowledge of and experience in the quality of health care shall be considered a desirable competency but not a required competency. Notwithstanding the foregoing, the absence of any particular competency, skill or experience at any given time shall not affect whether the Board of Directors is legally constituted.

Section 3.3 **Directors Emeritus.** The Board of Directors may, at any time, elect to the position of “**Director Emeritus,**” a former director of the Board who, in the judgment of the Board, has served with special distinction on the Board. A Director Emeritus may be appointed for life or such other term as the Board may designate and shall be invited to attend public functions from time to time, as appropriate. A Director Emeritus shall not have any duties or authority of any then-current Director.

Section 3.4 **Election and Term of Directors.**

(a) Those individuals elected as Elected Directors in 2011 shall serve until the 2014 annual meeting of the Board of the Corporation. The MHRI-Nominated Directors shall serve on the Board from the Closing Date until the first annual meeting of the Board of Directors occurring after the third anniversary of the Closing Date.

(b) At the 2014 annual meeting of the Board, ~~the~~those individuals elected as Elected Directors in 2011 shall be classified into three (3) classes, Class I, Class II and Class III of approximately the same size for the purpose of the terms for which they severally hold office. ~~The then-current Elected Directors~~Those classified as Class I shall serve for a one (1) year term (until the 2015 annual meeting of the Board); ~~the then-current Elected Directors classified as~~

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Class II shall serve for a two (2) year term (until the 2016 annual meeting of the Board); and ~~the then current Elected Directors classified as~~ Class III shall serve for a three (3) year term (until the 2017 annual meeting of the Board).

(c) Commencing at the 2015 annual meeting of the Board and each annual meeting of the Board thereafter, the Board shall elect, from those nominees recommended by the Governance and Nominating Committee of the Corporation, that number of nominees to fill the Class I, Class II or Class III, as applicable, Elected Director positions and such elected directors shall serve for a three (3) year term.

(d) Following the expiration of the initial terms of the MHRI-Nominated Directors, any Directors elected to fill such vacancies shall have their terms staggered in the same manner as provided in Section 3.4(b) and (c).

~~(e)~~(e) Elected Directors may serve for up to three (3) consecutive three (3) year terms; provided, however that the Board may waive this limit for Elected Directors who are then-serving as a chairperson of a Board committee. Terms served prior to being elected in 2011 and terms of less than three (3) years shall not be counted for purposes of determining the number of terms served.

~~(d)~~(f) The Ex Officio Directors shall serve on the Board by virtue of his or her position as the President and Chief Executive Officer or President of the Medical Staff of WIH, KCMH ~~or~~ Butler or MHRI, as applicable, and as such, shall be deemed to have resigned as an Ex Officio Director at any time that he or she ceases to serve in his or her respective position with his or her replacement as the President and Chief Executive Officer or President of the Medical Staff of WIH, KCMH ~~or~~ Butler or MHRI filling his or her vacancy as an Ex Officio Director.

Section 3.5 **Resignation of Elected Directors.** Any Elected Director may resign at any time by giving written notice to the Board, the Chairperson of the Board (the "Chairperson"), a Vice Chairperson, the President and Chief Executive Officer, or the Secretary. The resignation of an Elected Director shall take effect upon the receipt of written notice or at such time as specified in the written notice. Unless otherwise specified in the written notice, acceptance of the resignation shall not be necessary to make it effective.

Section 3.6 **Removal of Elected Directors.** Any Elected Director may be removed with or without cause by a majority vote of the Board. An Elected Director shall receive ten (10) days prior written notice by registered or certified mail of a meeting concerning the removal of such Elected Director and shall be entitled to appear and be heard, but not vote, at such meeting.

Section 3.7 **Vacancy – Elected Directors.** Subject to the term limits set forth in Section 3.4, and subject to the limitations in this Section 3.7 any vacancy in an Elected Director position shall be filled by the Board at the next annual meeting or any special meeting of the Board called for that purpose. In the event that a MHRI-Nominated Director dies, resigns or is removed (in accordance with Section 3.5 or Section 3.6, respectively) during their initial term, such vacancy shall be filled by an individual who served on the MHRI Board of Trustees prior to the Closing Date. An individual elected to fill a vacancy will serve for the unexpired term of his or her predecessor.

Section 3.8 **Meetings of the Board.** An annual meeting of the Board of Directors shall be held during December in each year on such date and at such time and place as may be determined by the Board of Directors; which annual meeting may occur simultaneous with, or directly prior to or directly following, the regular meeting of the Board held during December. Unless the Board otherwise determines, there shall be regular monthly meetings of the Board; which regular meetings shall be held at such time and such place as may be determined by the Board of Directors. A special meeting of the Board of Directors shall be called by the Secretary (or other person as directed by the Board of Directors) upon the request of any two (2) Directors, the Chairperson, a Vice-Chairperson or the President and Chief Executive Officer.

Section 3.9 **Place of Meetings – Board.** All annual, regular and special meetings of the Board shall be held at such place, either within or outside the State of Rhode Island as shall be determined by the Board of Directors and stated in the notice for such meeting.

Section 3.10 **Notice for Meetings – Board.** The schedule (including dates, place and hour) of the regular monthly meetings of the Board for a year shall be delivered to each Director in advance of the first regular meeting for such year. Except as otherwise expressly required by law, the Articles of Incorporation or these Bylaws, the Secretary (or other person as directed by the Board of Directors) shall deliver written notice of any annual or special meeting to each

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Director, which written notice shall state the place, day and hour of the meeting and shall be delivered in person or by mailing, overnight delivery, electronically mailing or telephoning the same to each Director's last address, electronic mail address or telephone number appearing on the records of the Corporation not less than seven (7) days prior to the date of the special meeting; provided, however, that a special meeting may be called upon forty-eight (48) hours notice if such notice is given personally or by telephone to each Director. Notice of any meeting of the Board does not need to state the business to be transacted at, nor the purpose of, such meeting. Notice will be deemed delivered at the time when same is deposited in the United States mail, delivered to the delivery service, electronic mail sent or message left by telephone.

Section 3.11 **Waiver of Notice – Board**. A Director may waive notice of any meeting either before or after a meeting by providing to the Secretary a written waiver which shall be placed in the Corporation's records. Attendance by a Director at a meeting shall constitute waiver of notice of that meeting, except where such attending Director objects at the beginning of such meeting to the transaction of business because the meeting is not lawfully called or convened.

Section 3.12 **Quorum – Board**. A quorum shall exist at a meeting of the Board of Directors if a majority of the then-current Directors are present in person. In the absence of a quorum at any meeting of the Board of Directors, the Directors present in person at such meeting, shall have the power to adjourn the meeting to another place, day and hour with notice given to the Directors in the same manner as a special meeting.

Section 3.13 **Action at Meetings – Board**. Except as otherwise expressly required by law, the Articles of Incorporation or these Bylaws, the affirmative vote of a majority of the Directors present in person at a meeting at which a quorum is present shall be required to take action on any question brought at such meeting. Notwithstanding the foregoing or anything to the contrary herein, the following actions shall require the affirmative vote of three-quarters (3/4) of the total number of then-current Directors:

(a) sale, mortgage or discontinuation of use of all or substantially all of the real property or assets of the Corporation or any Affiliate;

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(b) merger with or acquisition of the Corporation by another entity, or material acquisition by the Corporation or any Affiliate of another provider or system of providers;

(c) any material change in the mission of the Corporation or any Affiliate; or

(d) any change in the provisions of this Section 3.13 or similar provision in the bylaws of any Affiliate.

Section 3.14 **Participation by Telephone – Board.** To the extent a Director is unable to attend an annual, regular or special meeting in person and such Director has provided notice to the office of the President and Chief Executive Officer of his or her circumstances, then such Director may participate in such annual, regular or special meeting by means of a conference telephone or other similar communications equipment pursuant to which all Directors participating in such meeting may simultaneously hear each other and such participation shall be deemed participation “in person.”

Section 3.15 **Written Consents – Board.** Except as otherwise expressly required by law, the Articles of Incorporation or these Bylaws, the Board may take action without a meeting if written consents setting forth the action are requested from and signed by all the Directors, which written consents may be signed in one or more counterparts, each of which shall be an original, but all of which together shall comprise one and the same written consent and which written consent(s) shall be placed in the records of the Corporation.

Section 3.16 **Reimbursement of Expenses – Board.** The Board of Directors may resolve to pay the reasonable out-of-pocket expenses incurred by a Director in the performance of his or her duties as a Director. This Section 3.16 shall not preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

Article 4

Committees

Section 4.1 **Committees.** The Board of Directors shall have the following standing committees: an Executive Committee, a Finance Committee, a Planning Committee, a Governance and Nominating Committee, an Audit & Compliance Committee, a Compensation

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Committee, an Investment Committee, and a Quality Committee. The chairperson of each standing committee of the Board shall be a member of the Board. The Board of Directors may designate such other committees by resolution to serve at its pleasure and to have such powers and perform such functions as the Board of Directors may assign to them. All committee members (along with the Directors and officers of the Corporation and the Affiliates), shall be subject to the Corporation's Conflicts of Interest and Confidentiality Policy, as may be amended from time to time by the Board of Directors. Unless otherwise determined by the Board, all committees shall adopt a committee charter which shall include the purposes, duties and responsibilities and membership of such committee; provided, that such committee charter (and any amendments thereto) shall be subject to review by the Governance and Nominating Committee and approval by the Board.

Section 4.2 **Term and Election – Committee Members.**

(a) Except for those individuals serving as a committee member by virtue of his or her position with the Corporation or an Affiliate and unless otherwise provided herein, the committee members shall be elected to serve on a committee by the Board from those nominees recommended by the Governance and Nominating Committee.

(b) Except for those individuals serving as a committee member by virtue of his or her position with the Corporation or an Affiliate (the term of which shall be concurrent with such individual's service in his or her position with the Corporation or Affiliate, as applicable, and expire at any time he or she ceases to serve in his or her respective position with his or her replacement filling his or her vacancy on the applicable committee), and unless otherwise determined by the Board, the term of each committee member will be one (1) year and there shall be no limit on the number of terms a committee member may serve.

Section 4.3 **Resignation, Removal and Vacancy – Committee Members.** Except for those individuals serving as a committee member by virtue of his or her position with the Corporation or an Affiliate, a committee member may resign at any time by giving written notice to the Board, the Chairperson, a Vice-Chairperson, the President and Chief Executive Officer, or the Secretary or may be removed with or without cause by the Board. The resignation of a committee member shall take effect upon the receipt of written notice or at such time as specified in the written notice. Unless otherwise specified in the written notice, acceptance of the

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resignation shall not be necessary to make it effective. Subject to any term limit determined by the Board for such committee member position, any vacancy in a committee member position shall be filled by the Board. An individual elected to fill a vacancy will serve for the unexpired term of his or her predecessor

Section 4.4 **Meetings – Committees.** Committees may hold meetings (regular and/or special) either within or outside the State of Rhode Island as shall be determined by such committee or the Board of Directors and stated in the notice for such meeting. A special meeting of a committee shall be called by the applicable chairperson upon the request of two (2) members of the applicable committee or the Board of Directors. Regular meetings of a committee shall be held at such intervals as set forth in the applicable committee's charter. The applicable chairperson (or other person as directed by the applicable chairperson) shall deliver written notice of any special meeting to each member of such committee, which written notice shall state the place, day and hour of the meeting and shall be delivered in person or by mailing, overnight delivery, electronically mailing or telephoning the same to the committee member's last address, electronic mail address or telephone number appearing on the records of the Corporation not less than seven (7) days prior to the date of the special meeting; provided, however, that in the event of an emergency, a special meeting may be called upon forty-eight (48) hours notice if such notice is given personally or by telephone to each member of such committee. Notice of any committee meeting does not need to state the business to be transacted at, nor the purpose of, such committee meeting. Notice will be deemed delivered at the time when same is deposited in the United States mail, delivered to the delivery service, electronic mail sent or message left by telephone. If a committee charter addresses some or all of the provisions in this Section 4.4, the provisions in the committee charter shall prevail.

Section 4.5 **Waiver of Notice – Committees.** A committee member may waive notice of any meeting either before or after a meeting by providing to the Secretary a written waiver which shall be placed in the Corporation's records. Attendance by a committee member at a meeting shall constitute waiver of notice of that meeting, except where such attending committee member objects at the beginning of such meeting to the transaction of business because the meeting is not lawfully called or convened.

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Section 4.6 **Quorum – Committees.** A quorum shall exist at a meeting of a committee if at least one-third (1/3) of the then-current members of such committee are present in person. Notwithstanding the foregoing, a quorum shall exist at a meeting of the Executive Committee, the Governance and Nominating Committee or the Compensation Committee if one-half (1/2) of the then-current members of such committee are present in person.

Section 4.7 **Action at Meetings; Written Consents – Committees.** The affirmative vote of a majority of the members of a committee present in person at a meeting at which a quorum is present shall be required to take action on any question brought at such meeting. Any action which may be taken at a meeting of a committee may be taken without a meeting if written consents setting forth the action are requested from and signed by all the members of such committee, which written consents may be signed in one or more counterparts, each of which shall be an original, but all of which together shall comprise one and the same written consent and which written consent(s) shall be placed in the records of the Corporation. If a committee charter addresses some or all of the provisions in this Section 4.7, the provisions in the committee charter shall prevail.

Section 4.8 **Participation by Telephone – Committees.** To the extent a committee member is unable to attend a regular or special meeting in person and such committee member has provided notice to the applicable chairperson of his or her circumstances, then such committee member may participate in such regular or special meeting by means of a conference telephone or other similar communications equipment pursuant to which all committee members participating in such meeting may simultaneously hear each other and such participation shall be deemed participation “in person.”

Section 4.9 **Executive Committee.** Unless otherwise determined by the Board, the Executive Committee shall consist of the Chairperson, each Vice-Chairperson of the Corporation, the President and Chief Executive Officer and the chairperson of the Finance Committee. Except as otherwise expressly required by law, the Articles of Incorporation or these Bylaws, during the intervals between meetings of the Board, the Executive Committee shall have and may exercise all the authority of the Board which is not inconsistent with any prior action of the Board.

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Section 4.10 **Finance Committee**. The Board of Directors shall have a Finance Committee which shall consist of (unless otherwise determined by the Board) the Treasurer of the Corporation (who shall serve as the chairperson of the Finance Committee), the President and Chief Executive Officer, the Chief Financial Officer of the Corporation, at least three (3) members of the Board, and such other members as the Chairperson shall nominate and the Board of Directors shall elect. The specific duties and responsibilities of the Finance Committee shall be set forth in the Finance Committee charter.

Section 4.11 **Planning Committee**. The Board of Directors shall have a Planning Committee which shall consist of (unless otherwise determined by the Board) not fewer than six (6) members, at least three of whom shall be members of the Board and at least one (1) of whom shall be an individual having detailed familiarity with the operations of each of WIC/WIH, KCMH, Butler, VNA and VNASHS/MHRI and such committee members shall be nominated by the Chairperson and elected by the Board of Directors. The specific duties and responsibilities of the Planning Committee shall be set forth in the Planning Committee charter.

Section 4.12 **Governance and Nominating Committee**. The Board of Directors shall have a Governance and Nominating Committee which shall consist of (unless otherwise determined by the Board) not fewer than three (3) members of the Board and such other members as the Chairperson shall nominate and the Board of Directors shall elect. Each member of the Governance and Nominating Committee shall be “**independent**” under standards established from time to time by resolution adopted by the Board. The specific duties and responsibilities of the Governance and Nominating Committee shall be set forth in the Governance and Nominating Committee charter.

Section 4.13 **Audit & Compliance Committee**. The Board of Directors shall have an Audit & Compliance Committee which shall consist of (unless otherwise determined by the Board) not fewer than three (3) members of the Board and such other members as the Chairperson shall nominate and the Board of Directors shall elect. Each member of the Audit & Compliance Committee shall be “**independent**” under standards established from time to time by resolution adopted by the Board. The specific duties and responsibilities of the Audit & Compliance Committee shall be set forth in the Audit & Compliance Committee charter.

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Section 4.14 **Compensation Committee**. The Board of Directors shall have a Compensation Committee which shall consist of (unless otherwise determined by the Board) not fewer five (5) members, three (3) of whom shall be members of the Board and such other members as the Chairperson shall nominate and the Board of Directors shall elect. Each member of the Compensation Committee shall be “**independent**” under standards established from time to time by resolution adopted by the Board. The specific duties and responsibilities of the Compensation Committee shall be set forth in the Compensation Committee charter.

Section 4.15 **Investment Committee**. The Board of Directors shall have an Investment Committee which shall consist of (unless otherwise determined by the Board) not fewer than three (3) members of the Board and such other members as the Chairperson shall nominate and the Board of Directors shall elect and of which shall include individuals whose knowledge of investments are of value to the Investment Committee. The specific duties and responsibilities of the Investment Committee shall be set forth in the Investment Committee charter.

Section 4.16 **Quality Committee**. The Board of Directors shall have a Quality Committee which shall consist of (unless otherwise determined by the Board) not fewer than three (3) members of the Board and such other members as the Chairperson shall nominate and the Board of Directors shall elect and of which shall include physician and nursing leaders who have demonstrated knowledge regarding quality of hospital and health services. The specific duties and responsibilities of the Quality Committee shall be set forth in the Quality Committee charter.

Section 4.17 **Reimbursement of Expenses – Committee Members**. The Board of Directors may resolve to pay the reasonable out-of-pocket expenses incurred by a committee member in the performance of his or her duties as a committee member. This Section 4.17 shall not preclude any committee member from serving the Corporation in any other capacity and receiving compensation therefor.

Article 5

Officers

Section 5.1 **Officers**. The officers of the Corporation shall be a Chairperson, one (1) or more Vice-Chairpersons, a President and Chief Executive Officer, one (1) or more Vice Presidents, a Secretary, a Treasurer, an Assistant Treasurer, and such other officers or assistant officers as may be appointed from time to time by the Board. Any two (2) or more offices may be held by the same person, with the exception of the offices of President and Chief Executive Officer and Secretary.

Section 5.2 **Election and Term – Officers**. The officers of the Corporation shall be elected by the Board at the annual meeting and shall, unless otherwise determined by the Board serve for a term of one (1) year. Except with respect to the Chairperson, there is no limit on the number of terms an officer may serve. The Chairperson may not serve in that position for more than three (3) consecutive one (1) year terms; provided that the Board may waive such limitation in circumstances in which continuity in leadership would serve the best interests of the Corporation.

Section 5.3 **Resignation – Officers**. Any officer may resign at any time by giving written notice to the Board, the Chairperson, a Vice-Chairperson, the President and Chief Executive Officer, or the Secretary. The resignation of an officer shall take effect upon the receipt of written notice or at such time as specified in the written notice. Unless otherwise specified in the written notice, acceptance of the resignation shall not be necessary to make it effective.

Section 5.4 **Removal – Officers**. Any officer may be removed with or without cause by the Board. Any such removal will be without prejudice to the contract rights, if any, of the officer removed. Election or appointment as an officer will not of itself create contract rights.

Section 5.5 **Vacancy – Officers**. Subject to any term limit set forth in Section 5.2, any vacancy in an officer position shall be filled by the Board. An individual elected to fill a vacancy will serve for the unexpired term of his or her predecessor.

Section 5.6 **Authority and Duties – Officers**.

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(a) The Chairperson shall preside at all meetings of the Board and shall have such other authorities and duties as are delegated from time to time by the Board.

(b) The President and Chief Executive Officer shall be the chief executive officer of the Corporation and, subject to the direction and judgment of the Board, shall have general supervision and control of all officers, agents, and employees of the Corporation and the management of its business interests, including the appointment of the senior management group of the Corporation.

(c) The Assistant Treasurer shall be the Chief Financial Officer of the Corporation and shall have such authorities and duties as are delegated from time to time by the Board.

(d) Each officer (other than the Chairperson, the President and Chief Executive Officer and the Assistant Treasurer) shall have the authority and shall perform the duties customarily appurtenant to their respective offices, and shall have such other authorities and duties as are delegated from time to time by the Board.

Article 6

Seal

Section 6.1 **Seal**. The corporate seal shall consist of a flat-faced circular die, with the name of the Corporation, the year and state of its incorporation and such additional material as may be prescribed from time to time by the Board, cut or engraved thereon.

Article 7

Fiscal Year; Annual Reports

Section 7.1 **Fiscal Year**. The fiscal year of the Corporation will be determined by the Board and in the absence of such determination will commence on October 1 and end on September 30 of each year.

Section 7.2 **Annual Reports**. Annually, at the close of the fiscal year, the Treasurer of the Corporation shall cause to be prepared a report showing the status of all operating revenues and expenses, and of all endowment funds, the income received therefrom during the preceding fiscal year, and the purposes for which said income was used. The annual report and

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the endowment report shall, at all times, be kept available for inspection by any person during ordinary business hours at the office of the President and Chief Executive Officer.

Article 8

Execution of Documents

Section 8.1 **Execution of Documents**. All checks, drafts, bills of exchange or other orders for the payment of money, obligations, notes, or other evidences of indebtedness, bills of lading, warehouse receipts, insurance certificates, contracts and other instruments of the Corporation, shall be signed or endorsed by such officer or officers, employee or employees, of the Corporation as shall from time to time be determined by resolution of the Board.

Article 9

Limitation of Liability

Section 9.1 **Limitation of Liability**. Pursuant to Section 7-6-9 of the Nonprofit Corporation Act, no individual serving without compensation as a Director, officer or committee member shall be personally liable to the Corporation or its members based solely on his or her conduct in the execution of the office or duties; provided, however that this Section 9.1 shall not eliminate the liability of a Director, officer or committee member to the extent such liability is imposed by applicable law for (a) malicious, willful or wanton misconduct; (b) breach of such Director's, officer's or committee member's duty of loyalty to the Corporation; and (c) any transaction from which there is an improper personal benefit. This Section 9.1 shall not eliminate the liability of a Director, officer or committee member for any act or omission occurring prior to the date upon which this provision becomes effective. No amendment to or repeal of this Section 9.1 shall apply to or have any effect on the liability or alleged liability, or any acts or omissions, of any Director, officer or committee member occurring prior to such amendment or repeal.

Article 10

Indemnification

Section 10.1 **Agreement of the Corporation**. In order to induce the individual members (if any), Directors, officers and committee members of the Corporation to serve as such

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(each an “**Indemnified Person**”), the Corporation agrees, subject to the exclusions hereinafter set forth, to indemnify an Indemnified Person against, and hold the Indemnified Person harmless from, any Loss or Expense (each as defined in Section 10.2).

Section 10.2 **Definitions**. Capitalized terms used in this Article 10, shall have the meanings set forth below:

(a) “**Covered Act**” means any act or omission by an Indemnified Person in the Indemnified Person’s official capacity with the Corporation and while serving as such or while serving at the request of the Corporation as a member of the governing body, officer, employee or agent of another corporation, limited liability company, partnership, joint venture, trust or other enterprise.

(b) “**Excluded Claim**” has the meaning set forth in Section 10.4.

(c) “**Expenses**” means any reasonable expenses incurred by an Indemnified Person in connection with the defense of any claim made against the Indemnified Person for Covered Acts including, without limitation, legal, accounting or investigative fees and expenses (including the expense of bonds necessary to pursue an appeal of an adverse judgment).

(d) “**Loss**” means any amount which an Indemnified Person is legally obligated to pay as a result of any claim made against such Indemnified Person for Covered Acts including, without limitation, judgments for, and awards of, damages, amounts paid in settlement of any claim, any fine or penalty or, with respect to an employee benefit plan, any excise tax or penalty.

(e) “**Proceeding**” means any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative.

Section 10.3 **Advance Payment of Expenses**. The Corporation will pay the Expenses of an Indemnified Person in advance of the final disposition of any Proceeding except to the extent that the defense of a claim against such Indemnified Party is undertaken pursuant to any directors’ and officers’ liability insurance (or equivalent insurance or other protection known by another term) maintained by the Corporation. The advance payment of Expenses will be subject to such Indemnified Person’s first agreeing in writing with the Corporation to repay the sums paid by it hereunder if it is thereafter determined that the Proceeding involved an Excluded

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Claim or that such Indemnified Person was otherwise not entitled to indemnification under these Bylaws.

Section 10.4 **Exclusions**. The following shall be considered “**Excluded Claims**” and the Corporation will not be liable to pay any Loss or Expense related to any Excluded Claim:

(a) With respect to a Proceeding in which a final non-appealable judgment or other adjudication by a court of competent jurisdiction determines that the Indemnified Person is liable to the Corporation (as distinguished from being liable to a third party) for:

(i) any breach of the Indemnified Person’s duty of loyalty to the Corporation;

(ii) acts or omissions not in good faith or which involve any malicious, willful or wanton misconduct or knowing violation of law; or

(iii) any transaction from which the Indemnified Person derived an improper personal benefit; or

(b) If a final, non-appealable judgment or other adjudication by a court of competent jurisdiction determines that such payment is unlawful.

Section 10.5 **Notice to the Corporation; Insurance**. Promptly after receipt by an Indemnified Person of notice of the commencement of or the treat of commencement of any Proceeding, such Indemnified Person will, if indemnification with respect thereto may be sought from the Corporation under these Bylaws, notify the Corporation of the commencement thereof. If, at the time of the receipt of such notice, the Corporation has any directors’ and officers’ liability insurance (or equivalent insurance or other protection known by another term) in effect, the Corporation will give prompt notice of the commencement of such Proceeding to the insurer in accordance with the procedures set forth in the policy or policies in favor of such Indemnified Person. The Corporation will thereafter take all the necessary or desirable action to cause such insurer to pay, on behalf of such Indemnified Person, all Loss and Expenses payable as a result of such Proceeding in accordance with the terms of such policies. Failure to promptly notify the Corporation will not adversely affect the Indemnified Person’s right to indemnification hereunder unless and only to the extent that (a) the Corporation is materially prejudiced in its ability to defend against the Proceeding by reason of such failure; or (b) failure to promptly

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notify the Corporation causes a delay in notifying any applicable insurer (as described in this Section 10.5) resulting in a denial of coverage.

Section 10.6 **Indemnification**.

(a) Payments on account of the Corporation's indemnity against Loss will be made by the Treasurer of the Corporation except if, in the specific case, a determination is made that the indemnification of the Indemnified Person is not proper in the circumstances because such Loss results from an Excluded Claim. If the Corporation so determines that the Loss results from an Excluded Claim (although no such determination is required by the Corporation prior to payment of a Loss by the Treasurer of the Corporation), the determination shall be made:

(i) by the Board by a majority vote of a quorum consisting of Directors not at the time parties to the Proceeding; or

(ii) if a quorum cannot be obtained for purposes of Section 10.6(a)(i), then by a majority vote of a committee of the Board duly designated to act in the matter by a majority vote of the full Board (in which designated Directors who are parties to the Proceeding may participate) consisting solely of three (3) or more Directors not at the time parties to the Proceeding; or

(iii) by independent legal counsel designated (A) by the Board in a manner described in Section 10.6(a)(i) or by a committee of the Board established in a manner described in Section 10.6(a)(ii), or (B) if the requisite quorum of the full Board cannot be obtained therefor and a committee cannot be so established, by a majority vote of the full Board (in which vote Directors who are parties to the Proceeding may participate). If made, any such determination permitted to be made by this Section 10.6(a) will be made within sixty (60) days of an Indemnified Person's written request for payment of a Loss.

(b) Payment of an Indemnified Person's Expenses in advance of the final disposition of any Proceeding will be made by the Treasurer of the Corporation except if, in the specific case, a determination is made pursuant to Section 10.6(a) that indemnification of such Indemnified Person is not proper in the circumstances because the Proceeding involved an Excluded Claim.

(c) The Corporation will have the power to purchase and maintain insurance on behalf of any Indemnified Person against liability asserted against him or her with respect to any Covered Act, whether or not the Corporation would have the power to indemnify such

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Indemnified Person against such liability under the provisions of these Bylaws. The Corporation will be subrogated to the rights of such Indemnified Person to the extent that the Corporation has made any payments to such Indemnified Person in request to any insured Loss or Expense as provided herein.

Section 10.7 **Settlement**. The Corporation will have no obligation to indemnify any Indemnified Person for any amounts paid in settlement of any Proceeding affected without the Corporation's prior written consent. The Corporation will not unreasonably withhold or delay its consent to any proposed settlement. If the Corporation so consents to the settlement of any Proceeding, or unreasonably withholds or delays such consent, it will be conclusively and irrefutably presumed for all purposes that the Loss or Expense does not constitute an Excluded Claim. If the Corporation reasonably withholds its consent solely on the grounds that the Proceeding constitutes an Excluded Claim, the Indemnified Person may accept the settlement without the consent of the Corporation, without prejudice to such Indemnified Person's rights to indemnification in the event the Corporation does not ultimately prevail on the issue of whether the Proceeding constitutes an Excluded Claim.

Section 10.8 **Rights Not Exclusive**. The rights provided in this Article 10 will not be deemed exclusive of any other rights to which an Indemnified Person may be entitled under any agreement, vote of disinterested Directors or otherwise, both as to action in the Indemnified Person's official capacity and as to action in any other capacity while serving in such position, and will continue after such Indemnified Person ceases to serve the Corporation as an Indemnified Person.

Section 10.9 **Enforcement**.

(a) An Indemnified Person's right to indemnification hereunder will be enforceable by such Indemnified Person in any court of competent jurisdiction and will be enforceable notwithstanding that an adverse determination has been made as provided in Section 10.6.

(b) In the event that any action is institute by an Indemnified Person under these Bylaws, such Indemnified Person will be entitled to be paid all court costs and expenses, including reasonable attorneys' fees, incurred by such Indemnified Person with respect to such

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action, unless the court determines that each of the material assertions made by such Indemnified Person as a basis for such action was not made in good faith or was frivolous.

Section 10.10 **Severability**. If any provision in this Article 10 is determined by a court to require the Corporation to perform or fail to perform an act which is in violation of any applicable law, this Article 10 shall be limited or modified in its applicable to the minimum extent necessary to avoid a violation of law, and, as so limited and modified, this Article 10 shall be enforceable in accordance with its terms.

Section 10.11 **Successors and Assigns**. The provisions of this Article 10 will be (a) binding upon all successors and assigns of the Corporation (including any transferee of all or substantially all of its assets); and (b) binding on and inure to the benefit of the heirs, executors, administrators and other personal representatives of an Indemnified Person.

Section 10.12 **Amendment of this Article 10** No amendment or termination of this Article 10 will be effective as to an Indemnified Person without prior written consent of that Indemnified Person and, in any event, will not be effective as to any Covered Act of an Indemnified Person occurring prior to the amendment or termination.

Article 11

Amendments

Section 11.1 **Amendments**. These Bylaws may be amended or amended and restated by written consent or approval by the Board in accordance with Section 3.13 or Section 3.15, as applicable; provided, however that prior to the third anniversary of the Closing Date, the affirmative vote of two-thirds (2/3rds) of the MHRI-Nominated Directors shall be required to approve any proposed amendment to Section 3.2, Section 3.4, Section 3.7 and/or Section 4.11 that relate to the amendments made to these Bylaws in accordance with the Affiliation Agreement.

Adopted on June 28, 2012 _____, 2013

3. The amendment was adopted in the following manner:

(check one box only)

- The amendment was adopted at a meeting of the members held on _____, at which meeting a quorum was present, and the amendment received at least a majority of the votes which members present or represented by proxy at such meeting were entitled to cast.
- The amendment was adopted by a consent in writing on _____, signed by all members entitled to vote with respect thereto.
- The amendment was adopted at a meeting of the Board of Directors held on _____ and received the vote of a majority of the directors in office, there being no members entitled to vote with respect thereto.

4. Date when amendment is to become effective _____
(not prior to, nor more than 30 days after, the filing of these Articles of Amendment)

Under penalty of perjury, we declare and affirm that we have examined these Articles of Amendment to the Articles of Incorporation, including any accompanying attachments, and that all statements contained herein are true and correct.

Date: _____

Print Corporate Name

By _____

President or Vice President (check one)

AND

By _____

Secretary or Assistant Secretary (check one)

THE MEMORIAL HOSPITAL

BYLAWS

ARTICLE I

BYLAWS AND PURPOSE OF THE HOSPITAL

Section 1.01. Incorporation. The name of the corporation shall be The Memorial Hospital with its main facilities located in the City of Pawtucket, County of Providence and State of Rhode Island (the "Hospital"). Pursuant ~~to the Rhode Island Nonprofit Corporation Act, as same may be amended from time to time (or the provisions of any succeeding law) (the "Act"); provided, however, that the Hospital shall exercise its powers only in furtherance of its legislative charter and these Bylaws, and subject to the powers of the Member set forth in Article II, Section 2.02.~~ The Hospital shall have all the powers enumerated in the Rhode Island Nonprofit Corporation Act, as same may be amended from time to time (or the provisions of any succeeding law) (the "Act"); provided, however, that the Hospital shall exercise its powers only in furtherance of its legislative charter and these Bylaws, and subject to the powers of the Member set forth in Article II, Section 2.02. As further described in these Bylaws, all authority and governing force of the Hospital is vested in the Board of ~~Trustees~~ Directors (the "Board") ~~who in turn are appointed by the sole member" or "Board of the Hospital (hereinafter referred to as the "MemberDirectors").~~

Section 1.02. Purpose. The overall purpose of the Hospital is to be a university medical school affiliated institution and to serve as the community health center for the Blackstone Valley community and other communities. The Hospital shall have programs of community outreach and shall develop training programs with primary care as its focal point. In addition, the Hospital shall continue to provide the highest quality care in its traditional in-patient activities and develop tertiary care capabilities in various areas of medical and surgical specialties. The Hospital shall in all respects undertake management decisions and activities regardless of race, color, gender, creed, age, national origin, or availability of insurance.

ARTICLE II

MEMBERSHIP OF THE HOSPITAL

Section 2.01. Member. ~~The Member of the Hospital shall be Southeastern Healthcare System, Inc., a non-profit corporation organized and existing under the laws of the State of Rhode Island. Southeastern Healthcare System, Inc. (or any successor to Southeastern Healthcare System, Inc. by reason of merger, consolidation, sale of all or substantially all of the assets of Southeastern Healthcare System, Inc. or otherwise) is the sole member of the Hospital (the "Member").~~

Section 2.02. Powers. ~~The Member shall exercise all of the rights and powers conferred upon the member of a non-profit corporation under the laws of the State of Rhode Island. The Member shall have such other powers as are specified in its charter and in these Bylaws. Without limitation as to the foregoing, the Member shall have the following powers:~~

(1) The sole power to amend these Bylaws; (2) The sole power to elect Trustees; (3) The sole power to elect officers of the Hospital; (4) The sole power to approve the Hospital's budget and any non-budgeted, material expenditures; (5) The sole power to approve the investments by the Hospital in any subsidiary or affiliate of the Hospital; (6) The sole power to vote the capital stock in any subsidiary or affiliate of the Hospital; and (7) The sole power to authorize the incurrence of indebtedness or guarantee indebtedness and any mortgage, pledge or grant of security interest, provided however that the Member may delegate its authority to the Board of the Hospital.

ARTICLE III

MEETINGS OF THE HOSPITAL MEMBER

Section 3.01. The Annual Meeting of the Hospital. The Member. An annual meeting of the Hospital ("the Annual Meeting of the Hospital") Member shall be held within the State of Rhode Island at a place determined by the Member, during December in each year on the last Wednesday in the month of November for the purpose of electing Trustees for a term commencing at the close of business of the meeting and for the transaction of such other business as may come before the meeting without notice other than by this Section 3.01. The Member may provide by resolution the date and at such time and place for the holding of additional regular meetings without notice other than such resolutions as may be determined by the Board; which annual meeting may occur simultaneous with, or following the annual meeting of the board of directors of the Member held in December.

Section 3.02. Special Meetings. Special meetingsA special meeting of the Hospital may Member shall be called at any time by the Chairman, President, any three (3) or more Trustees by the Secretary of the Corporation ("Secretary") (or other person as directed by the Board) upon the request of the Chairperson or the Member. The call of a special meeting shall state the time and place of the meeting and the specific business to be considered at said meeting. No other business may be transacted other than that specified in the call of the meeting.

Section 3.03. Notice of Special Meetings. Notice of any special meeting of the Hospital shall be given at least three (3) days prior thereto by written notice delivered personally or mailed to the Member and each Officer and Trustee at their business addresses (or, if no business address, then at their residences) or by facsimile. If mailed, such notice shall be deemed delivered when deposited in the United States mail, so addressed, with postage prepaid thereon. If notice is given personally or by facsimile, notice shall be deemed delivered when receivedExcept as otherwise expressly required by law, the Hospital's legislative charter or these Bylaws, the Secretary (or other person as directed by the Board of Directors) shall deliver written notice of any annual and any special meeting to the Member, which written notice shall state the place, day and hour of the meeting (and the purpose or purposes if a special meeting) and shall be delivered in person or by mailing, overnight delivery, electronically mailing or telephoning the same to Member's last address, electronic mail address or telephone number appearing on the records of the Corporation not less than (a) ten (10) nor more than sixty (60) days prior to the date of the annual meeting; or (b) forty-eight (48) hours prior to the date of the special meeting. Notice will be deemed delivered at the time when same is deposited in the United States mail, delivered to the delivery service, sent via electronic mail or a message is left by telephone.

Section 3.04. Action Without a Meeting. ~~Any action that may be taken~~ Except as otherwise expressly required by law, the Hospital's legislative charter or these Bylaws, the Member ~~at may take action with a special meeting of the Hospital may be taken without a meeting if a consent or consents in writing, a written consent setting forth the action so to be taken, shall be and signed before or after such action by the Member. Such, which written consent or consents(s) shall be filed with placed in the minutes records of the proceedings~~ Hospital.

Section 3.05. Action at Meeting. Except as otherwise expressly required by law, the Hospital's legislative charter or these Bylaws, the affirmative vote of the Member (through its authorized designee) shall be required to take action on any question brought at a meeting of the Member.

Section 3.06. Place of Meetings. All annual and special meetings of the Member shall be held at such place, either within or outside the State of Rhode Island as shall be determined by the Board of Directors and stated in the written notice for such annual or special meeting.

ARTICLE IV

CORPORATORS

Section 4.01. Composition. The Corporators shall be a diverse group of individuals who have evidenced their interest in the purposes and programs of the Hospital and the communities served by the Hospital. The number of Corporators shall be established and may be changed from time to time by resolution of the Member. At the 2003 Annual Meeting ~~annual meeting~~ of the Hospital ~~Member~~, the Corporators were divided into two (2) classes of approximately equal size. The term of office of the Corporators in the first class ~~shall expire~~ expired at the 2004 Annual Meeting of the Corporators, and the term of office of the second class of Corporators ~~shall expire~~ expired at the 2005 Annual Meeting of the Corporators. The Member may elect a Corporator at any time. Each Corporator elected shall serve until the expiration of such Corporator's term or until his or her successor shall have been duly elected and qualified or until such Corporator's death or resignation or removal in the manner provided herein. A Corporator elected during the ~~Annual Meeting~~ annual meeting of the Hospital ~~Member~~ shall serve for a term of two (2) years commencing at the next Annual Meeting of the Corporators. A Corporator elected at any other time shall serve for a term ending at the second Annual Meeting of the Corporators occurring after that Corporator's election. All members of the Board shall be Corporators. The Member shall have the authority to remove any Corporator with or without cause. In the event of the death, resignation or removal of a Corporator during the Corporator's term, the Member may fill the vacancy for the duration of the unexpired term. Any Corporator (i) attaining age seventy-two (72) as of December 2, 2003, or after the Annual Meeting of the Corporators of any year or (ii) whose principal residence has changed from the service area of the Hospital and who, in either case, no longer desires to serve as an active Corporator shall, upon the designation of the Member, be eligible to be elected as a Corporator Emeritus following expiration of such Corporator's term of office. A Corporator Emeritus shall be a person who served as a Corporator in good standing and, in the sole discretion of the

Member, is worthy of being appointed a Corporator Emeritus. A Corporator Emeritus shall have all of the rights and privileges of a Corporator.

Section 4.02. Purpose, Powers and Authority. The Corporators shall receive reports from the officers and committees of the Hospital, shall be asked to provide advice and counsel to the Hospital on matters of importance to the Hospital, and shall be eligible to serve the Hospital in various capacities. Notwithstanding the foregoing, the Corporators shall not have any vote on any matter.

Section 4.03. Meetings of the Corporators. The annual meeting of the Corporators ("the Annual Meeting of the Corporators") shall be held within the State of Rhode Island at a place determined by the Member, on the first Tuesday in the month of December in each year. In addition, there may be such other meetings of the Corporators as may be called ~~by upon the Chairman request of the Chairperson,~~ for the purpose of receiving the reports of the ~~Chairman~~ Chairperson, President, and Chief Executive Officer, the Treasurer, the President of the Medical Staff, the President of the Auxiliary, (if any), and the President of the Nurses' Alumni Organization, (if any), and to receive such other committee reports and transact such other business as is appropriate. ~~The Chairman of the Board of Directors of the Member~~ The Chairperson shall chair such meetings.

Section 4.04. Notice of Meetings of Corporators. Notice of the Annual Meeting of the Corporators or other meeting of the Corporators shall be given by the Secretary by publication thereof at least three (3) times in a newspaper of general circulation in the city of Pawtucket or by written notice to each Corporator and Corporator Emeritus.

ARTICLE V

BOARD OF TRUSTEES DIRECTORS

~~Section 5.01. Selection. Any person who has demonstrated or is apt to demonstrate an interest in the Hospital and the fulfillment of its role as a hospital seeking to deliver the best medical treatment possible and is otherwise interested in the purpose of the Hospital is eligible for election as a Trustee. The Trustees shall be elected by the Member at the Annual Meeting of the Hospital. Additional or replacement Trustees may be elected by the Member at any time.~~

Section 5.01. Selection. The directors of the Board (each a "Director") shall be those individuals then-serving as directors of the board of directors of Care New England Health System, the sole member of the Member ("Care New England").

Section 5.02. Powers. ~~Subject to the powers of the Member set forth in Article H, Section 2.02, the Board shall have the control and management of the affairs, property, and interests~~ Except as otherwise expressly required by law, the legislative charter of the Hospital or these Bylaws, the affairs of the Hospital shall be managed by the Board of Directors and the Board of Directors shall have, and may exercise, all powers of the Hospital. The Chairman of the Board of the Member (the "Chairman") and the President of the Member shall be the Chairman and the President ~~powers~~ of the Hospital, respectively.

~~Section 5.03. Membership. The Board shall consist of not less than ten (10) nor more than forty (40) Trustees. The Chairman of the Member and the President of the Member shall be members of the Board.~~

~~Section 5.04. Term of Office and Vacancy. The Trustees shall serve a term of one (1) year, and until a successor shall have been duly elected and qualified, or until the death, resignation or removal of such Trustee. In the event of the death, resignation or removal of any Trustee during the Trustee's term in office, the vacancy may be filled by the Member.~~

~~Section 5.05. Removal. The Member shall have the authority to remove any Trustee with or without cause.~~

~~Section 5.06. Regular Meetings. The Board shall meet not less than once per calendar quarter and as the Board may otherwise prescribe by resolution. The time and place for the holding of additional regular meetings may be provided by resolution without notice other than such resolution. A majority of the Board shall constitute a quorum for the transaction of business. The Board shall invite two (2) physicians from the Executive Committee of the Medical Staff to attend the regular meetings of the Executive Committee of the Board and the regular meetings of the Board.~~

~~Section 5.07. Special Meetings. Special meetings of the Board shall be called by the Secretary at the request of the Chairman, President, any three (3) Trustees, or the Member.~~

~~Section 5.08. Notice of Special Meetings. Notice of each special meeting specifying its purpose shall be given by the Secretary at least three (3) days prior thereto by written notice delivered personally or mailed to the Trustees at their business addresses (or, if no business address, then at their residences) or by facsimile or electronic transmission. If mailed, such notice shall be deemed delivered when deposited in the United States mail, so addressed, with postage prepaid thereon. If notice is given personally, by facsimile or by electronic transmission, notice shall be deemed delivered when received by the Trustee.~~

~~Section 5.09; Section 5.03. Meetings. An annual meeting of the Board of Directors shall be held during December in each year on such date and at such time and place as may be determined by the Board of Directors; which annual meeting may occur simultaneous with, or following, the annual meeting of the board of directors of Care New England held in December. Unless the Board otherwise determines, there shall be regular monthly meetings of the Board; which regular meetings shall be held at such time and such place as may be determined by the Board of Directors. A special meeting of the Board of Directors may be called by any two (2) Directors, by the Chairperson, by a Vice-Chairperson or by the President and Chief Executive Officer. All annual, regular and special meetings of the Board shall be held at such place, either within or outside the State of Rhode Island as shall be determined by the Board of Directors and stated in the notice for such meeting.~~

~~Section 5.04. Notice. The schedule (including dates, place and hour) of the regular monthly meetings of the Board for each year shall be delivered to each Director in advance of the first regular meeting for such year; provided, however, that for the 2013 calendar year, those (3) individuals appointed to the board of directors of Care New England who are~~

nominated by the Hospital, and reviewed and approved by Care New England and that individual serving as an *ex-officio* voting member of the board of directors of Care New England by virtue of his or her position as the President of the Hospital's Medical Staff shall be provided a schedule (including dates, place and hour) of the regular monthly meetings in advance of the first regular monthly meeting after the closing date as defined in the Affiliation Agreement among Care New England, the Member and the Hospital dated as of January 2, 2013. Except as otherwise expressly required by law, the Hospital's legislative charter or these Bylaws, the Secretary (or other person as directed by the Board of Directors) shall deliver written notice of any annual or special meeting to each Director, which written notice shall state the place, day and hour of the meeting and shall be delivered in person or by mailing, overnight delivery, electronically mailing or telephoning the same to each Director's last address, electronic mail address or telephone number appearing on the records of the Hospital not less than seven (7) days prior to the date of the special meeting; provided, however, that a special meeting may be called upon forty-eight (48) hours notice if such notice is given personally or by telephone to each Director. Notice of any meeting of the Board does not need to state the business to be transacted at, nor the purpose of, such meeting. Notice will be deemed delivered at the time when same is deposited in the United States mail, delivered to the delivery service, sent via electronic mail or a message is left by telephone.

Section 5.05. Joint Meetings. Any meeting of the Board or any committee thereof shall be deemed to be a joint meeting of the Board or such committee and the ~~Board~~board of directors of the Member or its comparable committee, unless otherwise specified in the notice.

~~Section 5.10-06. Presence Through Communications Equipment.~~ Section 5.10-06. Presence Through Communications Equipment. ~~Unless otherwise~~ Unless otherwise ~~To the extent a Director is unable to attend an annual, regular or special meeting in person and such Director has provided by law, Trustees notice to the office of the President and Chief Executive Officer of Care New England of his or her circumstances, then such Director may participate in a such annual, regular or special meeting of the Board by means of a conference telephone or other similar communications equipment, including video conferencing, by means of~~ To the extent a Director is unable to attend an annual, regular or special meeting in person and such Director has provided by law, Trustees notice to the office of the President and Chief Executive Officer of Care New England of his or her circumstances, then such Director may participate in a such annual, regular or special meeting of the Board by means of a conference telephone or other similar communications equipment, including video conferencing, by means of ~~pursuant to which all persons~~ pursuant to which all persons ~~Directors participating in the such meeting can communicate with~~ Directors participating in the such meeting can communicate with ~~may simultaneously hear each other at the same time and such participation by such means shall constitute presence~~ may simultaneously hear each other at the same time and such participation by such means shall constitute presence ~~be deemed participation "in person at the meeting."~~ be deemed participation "in person at the meeting."

~~Section 5.11-07. Action Without a Meeting.~~ Section 5.11-07. Action Without a Meeting. ~~Any~~ Any ~~Except as otherwise expressly required by law, the Hospital's legislative charter or these Bylaws, any action that may be taken by the Board at a meeting may be taken without a meeting if a consent or consents in writing, setting forth the action so to be taken, shall be signed before or after such action by all of the Trustees~~ Except as otherwise expressly required by law, the Hospital's legislative charter or these Bylaws, any action that may be taken by the Board at a meeting may be taken without a meeting if a consent or consents in writing, setting forth the action so to be taken, shall be signed before or after such action by all of the Trustees ~~are requested from and signed by all of the Directors, which written consents may be signed in one or more counterparts, each of which shall be an original, but all of which together shall comprise one and the same written consent.~~ are requested from and signed by all of the Directors, which written consents may be signed in one or more counterparts, each of which shall be an original, but all of which together shall comprise one and the same written consent. ~~Such written consent or consents shall be filed with the minutes of the proceedings of the Board.~~ Such written consent or consents shall be filed with the minutes of the proceedings of the Board.

Section 5.08. Quorum. A quorum shall exist at a meeting of the Board of Directors if a majority of the then-current Directors are present in person. In the absence of a quorum at any meeting of the Board of Directors, the Directors present in person at such

meeting, shall have the power to adjourn the meeting to another place, day and hour with notice given to the Directors in the same manner as a special meeting.

Section 5.09. Manner of Acting. Except as otherwise expressly required by law, the Hospital's legislative charter or these Bylaws, the affirmative vote of a majority of the Directors present in person at a meeting at which a quorum is present shall be required to take action on any question brought at such meeting. Notwithstanding the foregoing or anything to the contrary herein, the following actions shall require the affirmative vote of three-quarters (3/4) of the total number of then-current Directors:

(a) sale, mortgage or discontinuation of use of all or substantially all of the real property or assets of the Hospital or any controlled affiliate of the Hospital;

(b) merger with or acquisition of the Hospital by another entity, or material acquisition by the Hospital or any controlled affiliate of the Hospital of another provider or system of providers;

(c) any material change in the mission of the Hospital or any controlled affiliate of the Hospital; or

(d) any change in the provisions of this Section 5.09 or similar provision in the bylaws of any controlled affiliate of the Hospital.

The actions set forth above that involve the Hospital are also subject to the approval of the board of directors of Care New England.

ARTICLE VI

COMMITTEES

~~Section 5.12.~~ Section 6.01. Committees. The Board of Directors shall have a Quality Committee. The Board of Directors may designate such other committees to serve at its pleasure and to have such powers and perform such functions as the Board of Directors may assign to them. The resolution designating such other committees shall set forth the composition of each such committee and the functions to be performed by it. All committee members (along with the Directors and officers of the Hospital), shall be subject to the Care New England's Conflicts of Interest and Confidentiality Policy, as may be amended from time to time by the board of directors of Care New England. Unless otherwise determined by the Board, all committees shall adopt a committee charter which shall include the purposes, duties and responsibilities and membership of such committee; provided, that such committee charter (and any amendments thereto) shall be subject to review by the Governance and Nominating Committee of Care New England (the "Governance and Nominating Committee") and approval by the Board.

~~Quorum.~~ A majority of the number of Trustees of the Hospital from time to time shall constitute a quorum for the transaction of business at any meeting of the Board, but if less than such a majority is present at a meeting, a majority of the Trustees then present may adjourn the meeting from time to time without further notice. A majority of the members of any

committee from time to time shall constitute a quorum for the transaction of business at any meeting of such committee, but if less than such a majority is present at a meeting, a majority of the members then present may adjourn the meeting from time to time without further notice.

~~Section 5.13. Manner of Acting.~~ The act or decision done or made by a majority of the Trustees present at a meeting duly held at which a quorum is present shall be the act of the Board, unless a greater number is required by the Rhode Island Non-Profit Corporation Act, as amended (the "Act") or by the articles of incorporation.

~~Section 5.14. Presumption of Assent.~~ A Trustee who is present at a meeting of the Board at which action on any corporate matter is taken shall be deemed to have assented to such action unless his or her dissent shall be entered in the minutes of the meeting or unless the Trustee shall file a written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Hospital immediately after adjournment of the meeting. Such right to dissent shall not apply to a Trustee who voted in favor of such action.

~~Section 5.15. Specific Duties and Responsibilities of the Board.~~ In addition to the foregoing, the Board shall have the following duties and responsibilities:

(1) Orientation—All new members of the Board will attend an orientation session within the first two months of appointment.

(2) The Board, through reports from the Administration and the Medical Staff, shall endorse the Plan for Patient Care, and ensure that assessment and improvement mechanisms are in place to review and appraise the quality of care and patient safety rendered at the Hospital. The Board in conjunction with the Member shall establish policy, review and approve the organizational structure, strategic planning strategy, annual operating budget and capital budget for the Hospital and the program planning activities of the Hospital, enforce the mission, vision and goals of the institution, and promote financial stability. The Board will receive and review reports to ensure corporate compliance and Health Insurance Portability and Accountability Act of 1996 ("HIPAA") regulations are maintained.

(3) All designated employees of the Hospital shall be regularly reviewed regarding performance in their positions according to their job description. A detailed report from the Vice President of Human Resources shall be compiled in order to ensure competence of employees who are performing patient care services. The Board shall promote performance improvement by encouraging continuing education for employees and promote resolution of conflicts among hospital employees. The President of the Hospital shall provide the Board with a summary of such report for annual review.

(4) The Board will promote education for its members—administration, financial and clinical through numerous means including Board retreats.

(5) The Board shall evaluate the performance of its functions on an annual basis.

~~Section 5.16. Attendance.~~ In order to effectively discharge their responsibilities as Trustees, each Trustee is required to attend at least fifty percent (50%) of all regular Board

~~meetings within a twelve month period, unless a Trustee requests in writing that his or her absences be excused by the Chairman. The Chairman shall have discretion to excuse such absences, regardless of whether the request is made prior to or after the absences. Failure to attend the requisite number of meetings without being excused by the Chairman shall, at the discretion of the Chairman, result in removal from the Board.~~

~~Section 5.17. Honorary Trustees. Any member of the Board attaining age seventy two (72) after the Annual Meeting of the Hospital shall be ineligible for a re-election as a Trustee but shall be eligible to be elected as an Honorary Trustee. An Honorary Trustee shall be a person, who served as a Trustee in good standing and who regardless of age, in the opinion of the Member worthy of being appointed an Honorary Trustee. Honorary Trustees are not obligated to meet the attendance requirements of the Board and are ineligible to vote.~~

~~Section 5.18. Executive Committee of the Board. The Executive Committee of the Board shall be composed of the Chairman, the Vice Chairman, the President, the Treasurer, the Secretary and not less than five (5) other Trustees, which Trustees shall be appointed by the Chairman with approval of the Board. Such Trustees shall serve until the next Annual Meeting or at the pleasure of the Board. The Executive Committee of the Board shall exercise all the powers and authority of the Board when the Board is not meeting. A quorum for the meetings of the Executive Committee of the Board shall be at least five (5) members of the committee.~~

~~Section 5.19. Other Committees of the Board and the Hospital. The standing committees of the Board and the Hospital are the committees specified in Article VII of these Bylaws. In addition to the standing committees specified in Article VII hereof, the Board shall have the power to create, from time to time, other standing committees with such powers and responsibilities as the Board shall deem necessary and advisable. The Chairman, with the approval of the Board, shall also have the power, from time to time, to create special committees whose members may include individuals who are not Trustees. All committees, whether standing committees or special committees, shall be subject at all times to the supervision and control of the Board. All committees, whether standing committees or special committees, shall report at periodic intervals to the Board and in addition, to the Executive Committee of the Board upon request.~~

Section 5.20. ARTICLE VII

APPOINTMENTS, CONTRACTS, LOANS, CHECKS AND DEPOSITS

Section 7.01. Appointments. The Board shall make all appointments and reappointments to any category of membership on the Medical Staff on the recommendation of the Executive Committee of the Board and the Executive Committee of the Medical Staff. All appointments shall be initially for a provisional period of one (1) year and thereafter reappointments shall be conferred as specified in the Bylaws Governing the Medical Staff as the same may be amended from time to time. The procedures for processing and evaluating Medical Staff applications and all clinical privileges shall be developed by the Executive Committee of the Medical Staff in accordance with the Bylaws Governing the Medical Staff as the same may be amended from time to time. All members of the Medical Staff shall be required to maintain and carry professional liability insurance as shall be determined by the Board from time to time.

Section 5.21-7.02. Contracts. The Board may authorize any officer or officers, ~~or any agent or agents,~~ to enter into contracts and agreements in the name of and on behalf of the Hospital, and such authority may be general or confined to specific instances.

Section 5.22-7.03. Checks, Drafts or Other Similar Orders. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Hospital, shall be signed by such officer or officers, ~~or such agent or agents,~~ of the Hospital and in such manner as shall from time to time be determined by resolution of the Board.

Section 5.23-7.04. Deposits. All funds of the Hospital not otherwise employed shall be deposited from time to time to the credit of the Hospital in such banks, trust companies or other depositories or financial institutions as the Board may select.

ARTICLE XVIII

OFFICERS OF THE HOSPITAL

Section 6.01. The Officers. ~~The officers of the Hospital (the "Officers") shall be the Chairman, not less than a Chairperson, one (1) or more Vice-Chairman, the Chairpersons, a President, the Treasurer, the Assistant Treasurer, the and Chief Executive Officer, one (1) or more Vice Presidents, a Secretary, the Assistant Secretaries a Treasurer, and such other Officers officers or assistant officers as may be deemed desirable appointed from time to time by the Board. Any two (2) or more offices may be held by the same person, with the exception of the offices of President and Chief Executive Officer and Secretary. The officers designated herein of the Hospital shall be elected annually by the Board at its the annual meeting upon nomination from the Member. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as is practicable. Each officer shall hold office until his or her successor shall have been duly elected and shall have qualified or until such officer's death, resignation or removal in the manner hereinafter from those nominees recommended by the Governance and Nominating Committee and shall, unless otherwise determined by the Board serve for a term of one (1) year. Except with respect to the Chairperson, there is no limit on the number of terms an officer may serve. The Chairperson may not serve in that position for more than three (3) consecutive one (1) year terms; provided that the Board may waive such limitation in circumstances in which continuity in leadership would serve the best interests of the Hospital.~~

Section 6.02. Chairman. ~~The Chairman, who shall be the Chairman of the Board of the Member, shall preside at all meetings of the Hospital, the Board, and of the Executive Committee of the Board. The Chairman shall appoint the chair and members of all committees and submit appointments to the Board for approval, unless otherwise specified by these Bylaws. The Chairman shall be a member ex officio of all committees. In the absence of the President or in the event of the President's death, inability or refusal to act, the Chairman shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President.~~

Section 6.03. Vice Chairman. ~~In the absence of the Chairman, the Vice Chairman shall have the powers and duties of the Chairman and Section 8.02. Authority and Duties.~~

(a) The Chairperson shall preside at all meetings of the Member and of the Board and shall have such other powers, authorities and duties as the Board may prescribe are delegated from time to time by the Board.

Section 6.04. President. (b) The President, who and Chief Executive Officer shall be the President of the Member, shall be the principal chief executive officer of the Hospital and, subject to the direction and under the supervision judgment of the Board, shall have general charge of the business, affairs and property of the Hospital, supervision and control over its of all officers, agents, and employees of the Hospital and the management of its business interests, including the appointment of the senior management group of the Hospital. The President shall execute, on behalf of the Hospital, any deeds, mortgages, bonds, contracts or other instruments which the Board has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board or by these Bylaws to some other officer or agent of the Hospital, or shall be required by law to be otherwise signed or executed. The President shall do and perform all duties incident to the office of President and such other duties as may be assigned to the President by these Bylaws or by the Board. The President shall execute written consents of the Hospital in lieu of taking actions required or desirable at annual, regular or special meetings of such subsidiary entities as the President may deem necessary or desirable. Chief Executive Officer shall have the necessary authority and shall be held responsible for the administration of the Hospital in all of its activities and departments, subject to the direction of the Board. The President's performance shall be evaluated by the Executive Committee, which shall report to the Board annually. The President shall direct an in-department orientation for the Trustees as to the goals and objectives of the Hospital and the role of the Trustees in the development of such goals. Hospital's legislative charter, these Bylaws and such policies as may be adopted and objectives.

Section 6.05. Treasurer. The Treasurer shall perform such duties orders as may be from time issued by the Board or any of its committees to time assigned which it has delegated power for such action. Notwithstanding any provision to the Treasurer by the Chairman or contrary, the Board. The Treasurer, President and Chief Executive Officer shall serve ex officio on the Finance Committee and shall undertake such other duties as from time to time may be assigned to the Treasurer by the President or by the Board. If required by the Board, the Treasurer shall give a bond for the faithful discharge of his or her duties in such sum at the pleasure of the President and Chief Executive Officer of the Care New England, and any action with such surety or sureties as the Trustees shall determine.

Section 6.06. Assistant Treasurer. The Assistant Treasurer shall assume all the duties of the Treasurer whenever the latter is not readily available. The Assistant Treasurer shall, if required by the Board, give bond for the faithful performance of the Assistant Treasurer's duties.

Section 6.07. Secretary. The Secretary shall: (a) keep the minutes of the proceedings of the Board in one or more books provided for that purpose; (b) see that all notices are duly given in accordance respect thereto shall be taken after consultation with the provisions of these Bylaws or as required by law; (c) be custodian of the corporate records and of the seal of the Hospital and see that the seal of the Hospital is affixed to all documents the execution of which on behalf of the Hospital under its seal is duly authorized; and (d) in general perform all

~~duties incident to the office of Secretary and such other duties as from time to time may be assigned to the Secretary by the President or by the Board~~board of directors of Care New England.

~~Section 6.08. Assistant Secretaries. In(c) Each officer (other than the event of Chairperson and the absence or disability of the Secretary, the Assistant Secretaries, in order of seniority, President and Chief Executive Officer) shall have the powers authority and shall perform the duties of the Secretary and customarily appurtenant to their respective offices, and shall have such other powers authorities and duties as the Board may prescribe~~are delegated from time to time by the Board.

~~Section 6.09~~8.03. Removal. The ~~Member~~Board shall have the authority to remove any officer, with or without cause. Nothing herein, however, shall affect or interfere with any existing contractual rights of an officer who is a full-time or part-time employee of the Hospital.

~~Section 6.10~~8.04. Resignations. Any officer ~~or agent~~ may resign at any time by giving written notice to the Board of Directors ~~or to, the Chairperson, a Vice-Chairperson, the President and Chief Executive Officer or Secretary.~~ The resignation shall take effect at the time specified in the notice and, unless otherwise specified in such notice, the acceptance of the resignation shall not be necessary to make it effective.

~~Section 6.11~~8.05. Vacancies. ~~A~~Subject to any term limit set forth in Section 8.01, any vacancy in any office because of death, resignation, removal, disqualification or otherwise mayan officer position shall be filled inby the manner prescribed in these BylawsBoard. An individual elected to fill a vacancy will serve ~~for election or appointment to such office~~the unexpired term of his or her predecessor.

ARTICLE IX

ARTICLE VII

STANDING COMMITTEES

~~Section 7.01. Standing Committees.~~ The Joint Conference Committee, Finance Committee, Corporate Governance Committee, Community Relations & Fund Development Committee, Departmental Visiting Committee, and Audit Committee shall be the standing committees of the Board. Where indicated, individuals who are not Trustees may serve on such committees.

~~Section 7.02. Joint Conference Committee.~~ The Joint Conference Committee shall serve as the communication liaison between the Medical Staff, Administration and the Board. It shall consider matters relating to medical care generally, including medical programs, education and staff, quality assurance assessment and development, patient care audit reports and evaluation and staff reports, and it shall make periodic recommendations thereon to the Board. The Joint Conference Committee shall recommend to the Board all required action designed to ensure that the Hospital is in compliance with the Standards of the Joint Commission on Accreditation of Healthcare Organizations and other accrediting agencies. ~~Members of the Joint~~

Conference Committee shall be comprised of the Executive Committee of the Board and the Executive Committee of the Medical Staff, and Senior Vice President Operations/Chief of Nursing. The Joint Conference Committee shall meet regularly each calendar quarter and at such other times as may be necessary or desirable.

~~Section 7.03. Finance Committee. The Finance Committee shall be charged with the supervision of the investments of the endowment funds of the Hospital, subject, however, to the authority of the Board and the Member. The Finance Committee shall have the power to authorize the purchase or sale of particular securities; invest and reinvest Hospital funds; contract with independent investment advisors, investment counsel or managers, or trust companies or other professionals to act; and authorize the payment of compensation for investment management services. The Finance Committee shall also have the power to deposit the securities and other investments of the Hospital with such financial institution or brokerage as it may select and to execute with the depositories such contracts respecting the terms of the deposits and the duties of the depository as it may deem proper. The Finance Committee shall keep records of all its proceedings and it shall present its report to the next meeting of the Board for approval. The Finance Committee shall meet monthly and consist of at least five (5) Trustees, including the Treasurer *ex officio* and the President *ex officio*. The Finance Committee shall be a joint committee of the Hospital and the Member. A majority in number of the members of the Finance Committee shall constitute a quorum.~~

~~Section 7.04. Corporate Governance Committee. The Corporate Governance Committee shall develop, recommend and annually review corporate governance guidelines of the Hospital and oversee corporate governance matters, shall coordinate an annual review of the Board's performance in corporate governance, supervise adherence to the Hospital's conflict of interest policy, and review from time to time the Bylaws of the Hospital, conflict of interest questionnaires and policies, requests for waivers of such policies, and review the effectiveness of the Hospital's conflict of interest policy. The Corporate Governance Committee shall be a joint committee of the Hospital and the Member.~~

~~Section 7.05. Community Relations & Fund Development Committee. The Community Relations & Fund Development Committee shall keep the community informed of the aims, activities, and needs of the Hospital through the promotion of ethical publicity and proper interpretation of the objectives and performance of the Hospital, and shall meet when needed. The Community Relations & Fund Development Committee shall endeavor to increase the income of the Hospital by way of gifts, legacies and other similar donations, either for the general or for the specific purposes of the Hospital. The President or the President's delegate shall serve on the Committee. The Community Relations & Fund Development Committee shall be charged with the duty of recommending for nomination new Corporators to the Member. The Committee shall be a joint committee of the Hospital and the Member.~~

~~Section 7.06. Departmental Visiting Committee. The Departmental Visiting Committee is a committee of the whole Board which shall have the duty of visiting specific departments of the Hospital from time to time in groups of two (2) or more Trustees as designated by the Chairman. The Departmental Visiting Committee shall ascertain the effectiveness, efficiency, and patient safety of such departments and shall report its findings to the Board.~~

~~Section 7.07. Audit Committee. The Audit Committee shall be charged with the duty of recommending the appointment of independent auditors of the Hospital, of reviewing the scope and cost for the annual audit, of reviewing the result of such audit, and of monitoring the response of management to such audit and the implementation of internal audit procedures. The members of the Audit Committee must meet any educational and professional requirements established by the Board as prerequisites for membership on the Audit Committee. The Audit Committee shall be a joint committee of the Hospital and the Member.~~

ARTICLE VIII

THE MEDICAL STAFF

Section 89.01. Organization. For the purpose of these Bylaws, the designation "Medical Staff" shall mean the organization of physicians, dentists, and podiatrists who are or may be privileged to attend patients in the Hospital. The members of the Medical Staff shall adopt bylaws and rules and regulations, from time to time, for the conduct of its affairs, but such bylaws, rules and regulations shall not become effective until first approved by the Board after due notice of proposed action thereon, at a meeting of the Board.

Section 89.02. Responsibilities. The Medical Staff shall be responsible for, among other things, establishing policies, subject to Board approval and consistent with its bylaws and rules and regulations, as well as the Bylaws of the Hospital and applicable law, relating to: (a) participation in the Hospital's quality review and utilization management program, which includes assessing, maintaining, and improving the quality and efficiency of medical care; evaluating practitioner and institutional performance; monitoring critical patient care practices; evaluating practitioner's credentials for appointments and reappointments to the Medical Staff; delineating clinical privileges; and promoting appropriate use of medical and health care resources; (b) recommendation of appointments and reappointments to the Medical Staff; (c) development and monitoring of medical education and training programs; (d) development and maintenance of bylaws and related manuals and policies; (e) participation in the Hospital's long range planning activities; and (f) the exercise of all required responsibilities in a timely and proper manner.

The Medical Staff shall also evaluate the professional competence of the Medical Staff. Notwithstanding the foregoing, the ~~Trustees~~ Directors shall have ultimate authority as to staff appointments, reappointments, assignment and curtailment of privileges which authority shall be exercised in accordance with the Bylaws Governing the Medical Staff, as the same may be amended from time to time in conformity herewith. The Medical Staff shall establish a system of controls that is designed to ensure the achievement and maintenance of high standards of professional ethical practices. The Medical Staff shall have the responsibility of reporting to the Board, ~~through the Joint Conference Committee,~~ as to its evaluation of the achievement and maintenance of such standards.

ARTICLE X

ARTICLE IX

THE AUXILIARY

Section 910.01. There shall be an Auxiliary which shall adopt bylaws from time to time for the conduct of its own affairs. ~~These~~The Auxiliary bylaws shall not become effective until first approved by the Board after due notice of proposed action thereon, at a meeting of the Board at which a quorum is present.

ARTICLE XI

ARTICLE X

CONFLICT OF INTEREST

~~Section 10.01. Statement of General Policy on Conflict of Interest. No transaction involving remuneration or benefit to a Trustee or officer, or to an organization in which such Trustee or officer has a material financial interest or of which the Trustee or officer is a member, officer, director, general partner, principal or controlling stockholder, shall be entered into by the Hospital without (a) full disclosure to the Board or the Member by the interested Trustee or officer of the material facts of the transaction and the Trustee or officer's interest or relationship; (b) the authorization, approval or ratification of the affirmative vote of a majority of disinterested Trustees or the Member; and (c) a determination by the Board or the Member that the transaction is fair to the Hospital at the time it is authorized, approved or ratified. No Trustee so involved may vote on such authorization, approval or ratification by the Board or the Member.~~

~~Section 10.02. Adoption of Policy. The Board shall, from time to time, adopt a policy for the Trustees or officers and such other personnel as they shall deem appropriate, providing for the periodic disclosure to the Hospital of any and all interests which may give rise to a possible conflict of interest, either pecuniary or otherwise.~~

Section 11.01. Statement of General Policy on Conflict of Interest. All Directors and officers of the Hospital and all committee members shall be subject to Care New England's Conflicts of Interest and Confidentiality Policy, as may be amended from time to time by the board of directors of Care New England.

ARTICLE XII

ARTICLE XI

INDEMNIFICATION

~~Section 11.12.01. Each person who was, is, or is threatened~~Agreement of the Hospital. In order to be induce the Corporators (if any), Directors, officers and committee members of the Hospital to serve as such (each an "Indemnified Person"), the Hospital agrees, subject to the exclusions hereinafter set forth, to indemnify an Indemnified Person against, and hold the Indemnified Person harmless from, any Loss or Expense (each as defined in Section 12.02).

Section 12.02. Definitions. Capitalized terms used in this Article XII shall have the meanings set forth below:

(a) “Covered Act” means any act or omission by an Indemnified Person in the Indemnified Person’s official capacity with the Hospital and while serving as such or while serving at the request of the Hospital as a member of the governing body, officer, employee or agent of another corporation, limited liability company, partnership, joint venture, trust or other enterprise.

(b) “Excluded Claim” has the meaning set forth in Section 12.04.

(c) “Expenses” means any reasonable expenses incurred by an Indemnified Person in connection with the defense of any claim made a named defendant or respondent against the Indemnified Person for Covered Acts including, without limitation, legal, accounting or investigative fees and expenses (including the expense of bonds necessary to pursue an appeal of an adverse judgment).

(d) “Loss” means any amount which an Indemnified Person is legally obligated to pay as a result of any claim made against such Indemnified Person for Covered Acts including, without limitation, judgments for, and awards of, damages, amounts paid in settlement of any claim, any fine or penalty or, with respect to an employee benefit plan, any excise tax or penalty.

(e) “Proceeding” means any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative.

Section 12.03. Advance Payment of Expenses. The Hospital will pay the Expenses of an Indemnified Person in advance of the final disposition of any Proceeding except to the extent that the defense of a claim against such Indemnified Party is undertaken pursuant to any directors’ and officers’ liability insurance (or equivalent insurance or other protection known by another term) maintained by the Hospital. The advance payment of Expenses will be subject to such Indemnified Person’s first agreeing in writing with the Hospital to repay the sums paid by it hereunder if it is thereafter determined that the Proceeding involved an Excluded Claim or that such Indemnified Person was otherwise not entitled to indemnification under these Bylaws.

Section 12.04. Exclusions. The following shall be considered “Excluded Claims” and the Hospital will not be liable to pay any Loss or Expense related to any Excluded Claim:

(a) With respect to a Proceeding in which a final non-appealable judgment or other adjudication by a court of competent jurisdiction determines that the Indemnified Person is liable to the Hospital (as distinguished from being liable to a third party) for:

(i) any breach of the Indemnified Person’s duty of loyalty to the Hospital;

(ii) acts or omissions not in good faith or which involve any malicious, willful or wanton misconduct or knowing violation of law; or

(iii) any transaction from which the Indemnified Person derived an improper personal benefit.

(b) If a final, non-appealable judgment or other adjudication by a court of competent jurisdiction determines that such payment is unlawful.

Section 12.05. Notice to the Hospital; Insurance. Promptly after receipt by an Indemnified Person of notice of the commencement of or the threat of commencement of any Proceeding, such Indemnified Person will, if indemnification with respect thereto may be sought from the Hospital under these Bylaws, notify the Hospital of the commencement or threat thereof. If, at the time of the receipt of such notice, the Hospital has any directors' and officers' liability insurance (or equivalent insurance or other protection known by another term) in effect, the Hospital will give prompt notice of the commencement or threat of such Proceeding to the insurer in accordance with the procedures set forth in the policy or policies in favor of such Indemnified Person. The Hospital will thereafter take all the necessary or desirable action to cause such insurer to pay, on behalf of such Indemnified Person, all Loss and Expenses payable as a result of such Proceeding in accordance with the terms of such policies. Failure to promptly notify the Hospital will not adversely affect the Indemnified Person's right to indemnification hereunder unless and only to the extent that (a) the Hospital is materially prejudiced in its ability to defend against the Proceeding by reason of the fact that such person is, or was, a Trustee or an officer of the Hospital, or who, while a Trustee or an officer of the Hospital, is or was serving at the request of the Hospital as a Trustee, officer, employee or agent of another foreign or domestic corporation, joint venture, trust, other enterprise or employee benefit plan, shall be indemnified against judgments, penalties, fines, settlements and reasonable expenses (including attorneys' fees) actually incurred by such person in connection with any such action, suit or proceeding to such failure; or (b) failure to promptly notify the Hospital causes a delay in notifying any applicable insurer (as described in this Section 12.05) resulting in a denial of coverage.

Section 12.06. Indemnification.

(a) Payments on account of the Hospital's indemnity against Loss will be made by the Treasurer of the Hospital except if, in the specific case, a determination is made that the indemnification of the Indemnified Person is not proper in the circumstances because such Loss results from an Excluded Claim. If the Hospital so determines that the Loss results from an Excluded Claim (although no such determination is required by the Hospital prior to payment of a Loss by the Treasurer of the Hospital), the determination shall be made:

(i) by the Board by a majority vote of a quorum consisting of Directors not at the time parties to the Proceeding; or

(ii) if a quorum cannot be obtained for purposes of Section 12.06(a)(i), then by a majority vote of a committee of the Board duly designated to act in the matter by a majority vote of the full extent Board (in which designated Directors who are parties to the Proceeding may participate) consisting solely of three (3) or more Directors not at the time parties to the Proceeding; or

(iii) by independent legal counsel designated (A) by the Board in a manner described in Section 12.06(a)(i) or by a committee of the Board established in a manner described in Section 12.06(a)(ii), or (B) if the requisite quorum of the full Board cannot be

obtained therefor and a committee cannot be so established, by a majority vote of the full Board (in which vote Directors who are parties to the Proceeding may participate). If made, any such determination permitted under the Act. The indemnification to be made by this Section 12.06(a) will be made within sixty (60) days of an Indemnified Person's written request for payment of a Loss.

(b) Payment of an Indemnified Person's Expenses in advance of the final disposition of any Proceeding will be made by the Treasurer of the Hospital except if, in the specific case, a determination is made pursuant to Section 12.06(a) that indemnification of such Indemnified Person is not proper in the circumstances because the Proceeding involved an Excluded Claim.

(c) The Hospital will have the power to purchase and maintain insurance on behalf of any Indemnified Person against liability asserted against him or her with respect to any Covered Act, whether or not the Hospital would have the power to indemnify such Indemnified Person against such liability under the provisions of these Bylaws. The Hospital will be subrogated to the rights of such Indemnified Person to the extent that the Hospital has made any payments to such Indemnified Person in request to any insured Loss or Expense as provided byherein.

Section 12.07. Settlement. The Hospital will have no obligation to indemnify any Indemnified Person for any amounts paid in settlement of any Proceeding affected without the Hospital's prior written consent. The Hospital will not unreasonably withhold or delay its consent to any proposed settlement. If the Hospital so consents to the settlement of any Proceeding, or unreasonably withholds or delays such consent, it will be conclusively and irrefutably presumed for all purposes that the Loss or Expense does not constitute an Excluded Claim. If the Hospital reasonably withholds its consent solely on the grounds that the Proceeding constitutes an Excluded Claim, the Indemnified Person may accept the settlement without the consent of the Hospital, without prejudice to such Indemnified Person's rights to indemnification in the event the Hospital does not ultimately prevail on the issue of whether the Proceeding constitutes an Excluded Claim.

Section 12.08. Rights Not Exclusive. The rights provided in this Article XI shallXII will not be deemed exclusive of any other rights to which these persons seeking indemnification an Indemnified Person may be entitled under any bylaw, agreement, vote of disinterested Directors or otherwise, and shall continue both as to action in the Indemnified Person's official capacity and as to action in any person whoother capacity while serving in such position, and will continue after such Indemnified Person ceases to serve the Hospital as an Indemnified Person.

Section 12.09. Enforcement.

(a) An Indemnified Person's right to indemnification hereunder will be enforceable by such Indemnified Person in any court of competent jurisdiction and will be enforceable notwithstanding that an adverse determination has ceased to be a Trusteebeen made as provided in Section 12.06.

(b) In the event that any action is instituted by an Indemnified Person under these Bylaws, such Indemnified Person will be entitled to be paid all court costs and expenses, including reasonable attorneys' fees, incurred by such Indemnified Person with respect to such action, unless the court determines that each of the material assertions made by such Indemnified Person as a basis for such action was not made in good faith or an officer and was frivolous.

Section 12.10. Severability. If any provision in this Article XII is determined by a court to require the Hospital to perform or fail to perform an act which is in violation of any applicable law, this Article XII shall be limited or modified in its applicable to the minimum extent necessary to avoid a violation of law, and, as so limited and modified, this Article XII shall be enforceable in accordance with its terms.

Section 12.11. Successors and Assigns. The provisions of this Article XII will be (a) binding upon all successors and assigns of the Hospital (including any transferee of all or substantially all of its assets); and (b) binding on and inure to the benefit of the heirs, executors and administrators of such person. The Hospital may purchase and maintain insurance on behalf of any person who is or was a Trustee, officer, employee or agent of the Hospital, or who, while a Trustee, officer, employee or agent of the Hospital, is or was serving at the request of the Hospital as a Trustee, officer, partner, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, other enterprise or employee benefit plan, against any liability asserted against such person and incurred by such person in any such capacity or arising out of such person's status as such, whether or not the Hospital would have the power or obligation to indemnify such person against such liability under the provisions of this Article XI or under the Act. and other personal representatives of an Indemnified Person.

Section 12.12. Amendment of Article XII. No amendment or termination of this Article XII will be effective as to an Indemnified Person without prior written consent of that Indemnified Person and, in any event, will not be effective as to any Covered Act of an Indemnified Person occurring prior to the amendment or termination.

ARTICLE XIII

ARTICLE XII

GENERAL PROVISIONS

Section 4213.01. Fiscal Year. The fiscal year of the Hospital shall be determined by the Board and in the absence of such determination will begin on October 1 of each year and end on September 30 of the succeeding year.

Section 4213.02. Registered Office and Registered Agent. The registered office of the Hospital shall be located within the State of Rhode Island and need not be identical with the principal office of the Hospital. The registered agent and registered office may be changed from time to time by the Board in accordance with the provisions of the Act.

Section 4213.03. Waiver of Notice. Whenever any notice is required to be given to any person under the provisions of these Bylaws or under the provisions of the articles of incorporationHospital's legislative charter or under the provisions of the Act, a waiver thereof in

writing signed by the person or persons entitled to such notice and provided to the Secretary, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. The attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when a person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in any written waiver of notice of such meeting.

Section 13.04. Limitation of Liability. Pursuant to Section 7-6-9 of the Act, no individual serving without compensation as a Director, officer or committee member shall be personally liable to the Hospital or its members based solely on his or her conduct in the execution of the office or duties; provided, however that this Section 13.04 shall not eliminate the liability of a Director, officer or committee member to the extent such liability is imposed by applicable law for (a) malicious, willful or wanton misconduct; (b) breach of such Director's, officer's or committee member's duty of loyalty to the Hospital; and (c) any transaction from which there is an improper personal benefit. This Section 13.04 shall not eliminate the liability of a Director, officer or committee member for any act or omission occurring prior to the date upon which this provision becomes effective. No amendment to or repeal of this Section 13.04 shall apply to or have any effect on the liability or alleged liability, or any acts or omissions, of any Director, officer or committee member occurring prior to such amendment or repeal.

ARTICLE XXXIV

AMENDMENTS

Section 1314.01. These Bylaws may be amended from time to time or amended and restated by vote of the Member. Notice of any amendment proposed written consent or approval by the Board shall be given to the Member in such form accordance with Section 5.07 or Section 5.09, as the Board shall deem appropriate applicable, and the approval of Care New England.

Filing Fee: \$10.00

ID Number: 00009157



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Office of the Secretary of State
Corporations Division
148 W. River Street
Providence, Rhode Island 02904-2615

NON-PROFIT CORPORATION

**ARTICLES OF AMENDMENT TO
ARTICLES OF INCORPORATION**

Pursuant to the provisions of Section 7-6-40 of the General Laws of Rhode Island, 1956, as amended, the undersigned corporation adopts the following Articles of Amendment to its Articles of Incorporation:

1. The name of the corporation is Southeastern Healthcare System, Inc.

2. The following amendment to the Articles of Incorporation was adopted by the corporation:

[Insert Amendment]

Article FOURTH: Item 2: Intentionally deleted.

Multiple horizontal lines provided for additional text or amendments.

3. The amendment was adopted in the following manner:

(check one box only)

- The amendment was adopted at a meeting of the members held on _____, at which meeting a quorum was present, and the amendment received at least a majority of the votes which members present or represented by proxy at such meeting were entitled to cast.
- The amendment was adopted by a consent in writing on _____, signed by all members entitled to vote with respect thereto.
- The amendment was adopted at a meeting of the Board of Directors held on _____ and received the vote of a majority of the directors in office, there being no members entitled to vote with respect thereto.

4. Date when amendment is to become effective _____
(not prior to, nor more than 30 days after, the filing of these Articles of Amendment)

Under penalty of perjury, we declare and affirm that we have examined these Articles of Amendment to the Articles of Incorporation, including any accompanying attachments, and that all statements contained herein are true and correct.

Date: _____

Print Corporate Name

By _____

President or Vice President (check one)

AND

By _____

Secretary or Assistant Secretary (check one)

BYLAWS
FOR
SOUTHEASTERN HEALTHCARE SYSTEM, INC.

Article I

OFFICES

Section 1.01. The name of the corporation shall be Southeastern Healthcare System, Inc. (the "Corporation").

Section 1.02. The Corporation is organized exclusively for the purposes stated in its articles of incorporation (the "Articles of Incorporation").

Section 1.03. Principal Office. The principal office of the Corporation shall be located at 111 Brewster Street, Pawtucket, Rhode Island, 02860. The Corporation may have such other offices or places of business, within the State of Rhode Island, as the Board of Directors of the Corporation (the "Board" or the "Board of Directors") may from time to time establish or the business of the Corporation may require.

Section 1.04. Registered Office and Registered Agent. The registered office of the Corporation need not be identical with the principal office of the Corporation and shall initially be located in Providence, Rhode Island. The registered agent and registered office may be changed from time to time by the Board of Directors in accordance with the provisions of the Rhode Island Non-Profit Corporation Act, as amended (the "Act").

Article II

~~Section 2.01. Members. The Corporation shall not have members.~~

MEMBER

Section 2.01. Member. Care New England Health System (or any successor to Care New England Health System by reason of merger, consolidation, sale of all or substantially all of the assets of Care New England Health System or otherwise) is the sole member of the Corporation (the "Member").

Section 2.02. Member Meetings. An annual meeting of the Member shall be held during December in each year on such date and at such time and place as may be determined by the Member; which annual meeting may occur simultaneous with, or directly following the annual meeting of the board of directors of the Member held in December. A special meeting of the Member shall be called by the Secretary of the Corporation (the "Secretary") (or other person as directed by the Board of Directors) upon the request of the Chairperson of the Corporation (the "Chairperson") or the Member and the business transacted at any special meeting of the

Members shall be limited to the purpose or purposes stated in the written notice of such special meeting.

Section 2.03. Place of Meetings – Member. All annual and special meetings of the Member shall be held at such place, either within or outside the State of Rhode Island as shall be determined by the Board of Directors and stated in the written notice for such annual or special meeting.

Section 2.04. Notice for Meetings – Member. Except as otherwise expressly required by law, the Articles of Incorporation or these Bylaws, the Secretary (or other person as directed by the Board of Directors) shall deliver written notice of the annual meeting and any special meeting to the Member, which written notice shall state the place, day and hour of the meeting (and the purpose or purposes if a special meeting) and shall be delivered by mailing, overnight delivery, electronically mailing or telephoning the same to Member’s last address, electronic mail address or telephone number appearing on the records of the Corporation not less than (a) ten (10) nor more than sixty (60) days prior to the date of the annual meeting; or (b) forty-eight (48) hours prior to the date of the special meeting. Notice will be deemed delivered at the time when same is deposited in the United States mail, delivered to the delivery service, sent via electronic mail or a message is left by telephone.

Section 2.05. Action at Meetings – Member. Except as otherwise expressly required by law, the Articles of Incorporation or these Bylaws, the affirmative vote of the Member (through its authorized designee) shall be required to take action on any question brought at a meeting of the Member.

Section 2.06. Written Consents – Member. Except as otherwise expressly required by law, the Articles of Incorporation or these Bylaws, the Member may take action without a meeting in a written consent setting forth the action and signed by the Member; which written consent(s) shall be placed in the records of the Corporation.

Article III

BOARD OF DIRECTORS

~~Section 3.01. General Powers. The business and affairs of the Corporation shall be managed by its Board of Directors. Without limitation as to the foregoing, the Board of Directors shall prepare and establish policies for the delivery of quality health services, research and education by the Corporation and its affiliates and subsidiaries, including but not limited to The Memorial Hospital (the “Affiliated Hospitals and Medical Service Providers”); develop a medical health care delivery system with entities owned or controlled by the Corporation and the Affiliated Hospitals and Medical Service Providers; contract with third party providers, managed care providers and insurers for and on behalf of itself and its Affiliated Hospital and Medical Service Providers; affiliate with the Brown University School of Medicine in the field of family care medicine, primary care medicine and other medical disciplines and specialties for the education of medical students and for medically related research and development; develop and implement compensation and retirement plans for the officers and employees of the Corporation or its Affiliated Hospitals and Medical Service Providers; provide for the future of the Corporation and the Affiliated Hospitals and Medical Service Providers by developing an~~

~~endowment fund and to receive from the Affiliated Hospitals and Medical Service Providers funds to establish such endowment; and to generally provide leadership and coordination in the delivery of health services to the communities which the Corporation, its Affiliated Hospitals and Medical Service Providers serve in an integrated manner consistent with applicable law.~~

~~Section 3.02. Number, Tenure and Qualifications. The directors shall be the then existing Trustees of The Memorial Hospital. The directors shall serve a term of one (1) year which expires at the annual meeting. The directors shall be nominated from a list or lists of nominees received from the Nominating Committee, and each director elected shall serve until the expiration of such director's term or until such director's successor shall have been elected and qualified or until such director's death or resignation or removal in the manner provided herein. The number of directors of the Corporation may from time to time be changed by resolution of the directors. The Chairman of the Board of Trustees and the President of The Memorial Hospital shall be members of the Board of Directors of the Corporation.~~

~~Section 3.01. General Powers. Except as otherwise expressly required by law, the Articles of Incorporation or these Bylaws, the affairs of the Corporation shall be managed by the Board of Directors and the Board of Directors shall have, and may exercise, all of the powers of the Corporation.~~

~~Section 3.02. Number. The directors of the Board (each a "Director") shall be those individuals then-serving as directors of the board of directors of the Member.~~

~~Section 3.03. Vacancies. Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors. A director elected to fill a vacancy shall be elected for the unexpired term of such director's predecessor in office. Any directorship to be filled by reason of an increase in the number of directors may be filled by the Board of Directors for a term of office continuing only until the next election of directors.~~

~~Section 3.04. Removal. The directors may, at any meeting called for the purpose, remove any director with or without cause by vote of a majority of the directors.~~

~~Section 3.05. Resignations. Any director may resign at any time by giving written notice to the Board of Directors or to the Chairman. The resignation shall take effect at the time specified in the notice, and, unless otherwise specified in such notice, acceptance of the resignation shall not be necessary to make it effective.~~

~~Section 3.06. Annual Meetings. The An annual meeting of the Board of Directors shall be held within the State of Rhode Island at a place determined by the Board of Directors, on the last Wednesday in the month of November during December in each year for the purpose of electing directors and officers and for the transaction of on such other business date and at such time and place as may come before the meeting without notice other than be determined by this Section 3.06. The the Board of Directors may provide by resolution; which annual meeting may occur simultaneous with, or following, the annual meeting of the board of directors of the time and place for Member held in December. Unless the holding of additional~~

Board otherwise determines, there shall be regular monthly meetings without notice other than such resolution.

of the Board; which regular~~Section 3.07—Special Meetings. Special meetings of~~
shall be held at such time and such place as may be determined by the Board of Directors may be
. A special meeting of the Board of Directors shall be called by the Secretary (or at other person
as directed by the Board of Directors) upon the request of the President or any one director. The
person or persons authorized to call any two (2) Directors, the Chairperson, a Vice-Chairperson
or the President and Chief Executive Officer. All annual, regular and special meetings of the
Board of Directors may fix the manner and the shall be held at such place for holding any special
, either within or outside the State of Rhode Island as shall be determined by the Board of
Directors and stated in the notice for such meeting of the Board of Directors called by them.

~~Section 3.0804. Joint Meetings. Except for the annual meeting, all~~All meetings
of the Board of Directors of the Corporation or any committee thereof are deemed to be joint
meetings of the Corporation Board or such committee and the Boardboard of Trusteesdirectors
of The Memorial Hospitalthe Member or its comparable committeecommittees, unless otherwise
specified in the notice.

~~Section 3.05. Section 3.09—Notice. Notice of any special meeting shall be given~~
at least three (3) days prior thereto by written notice delivered personally or mailed to each
director at the director's business address (or, if no business address, then at the director's
residence), by facsimile or by electronic transmission. If mailed, such notice shall be deemed
delivered when deposited in the United States mail, so addressed, with postage prepaid thereon.
If notice is given personally, by facsimile or by electronic transmission, notice shall be deemed
delivered when received by a director.

~~Section 3.10. Quorum. A majority of the number of directors of the Corporation~~
from time to time shall constitute a quorum for the transaction of business at any meeting of the
Board of Directors, but if less than such a majority is present at a meeting, a majority of the
directors then present may adjourn the meeting from time to time without further notice. A
majority of the members of any committee from time to time shall constitute a quorum for the
transaction of business at any meeting of such committee, but if less than such a majority is
present at a meeting, a majority of the members then present may adjourn the meeting from time
to time without further notice.

~~Section 3.11.—Notice. The schedule (including dates, place and hour) of the~~
regular monthly meetings of the Board for each year shall be delivered to each Director in
advance of the first regular meeting for such year; provided, however, that for the 2013 calendar
year, those (3) individuals appointed to the board of directors of the Member who are nominated
by The Memorial Hospital d/b/a Memorial Hospital of Rhode Island ("MHRI"), the sole member
of which is the Corporation, and reviewed and approved by the Member and that individual
serving as an ex-officio voting member of the board of directors of the Member by virtue of his
or her position as the President of the MHRI Medical Staff shall be provided a schedule
(including dates, place and hour) of the regular monthly meetings in advance of the first regular
monthly meeting after the closing date as defined in the Affiliation Agreement among the
Member, the Corporation and MHRI dated as of January 2, 2013. Except as otherwise expressly

required by law, the articles of incorporation or these Bylaws, the Secretary (or other person as directed by the Board of Directors) shall deliver written notice of any annual or special meeting to each Director, which written notice shall state the place, day and hour of the meeting and shall be delivered in person or by mailing, overnight delivery, electronically mailing or telephoning the same to each Director's last address, electronic mail address or telephone number appearing on the records of the Corporation not less than seven (7) days prior to the date of the special meeting; provided, however, that a special meeting may be called upon forty-eight (48) hours notice if such notice is given personally or by telephone to each Director. Notice of any meeting of the Board does not need to state the business to be transacted at, nor the purpose of, such meeting. Notice will be deemed delivered at the time when same is deposited in the United States mail, delivered to the delivery service, sent via electronic mail or a message is left by telephone.

Section 3.06. Quorum. A quorum shall exist at a meeting of the Board of Directors if a majority of the then-current Directors are present in person. In the absence of a quorum at any ~~Manner of Acting~~. The act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be the act of the Board of Directors, unless a greater number is required by the Act or by the articles of incorporation. Meetings of directors may be held by means of a telephone conference circuit, and connection to such circuit shall constitute presence at such meeting.

~~Section 3.12. Presence Through Communications Equipment. Unless otherwise provided by law, directors may participate in a meeting of the Board of Directors, the Directors present in person at such meeting, shall have the power to adjourn the meeting to another place, day and hour with notice given to the Directors in the same manner as a special meeting.~~

Section 3.07. Manner of Acting. ~~or any committee by means of a conference telephone~~ Except as otherwise expressly required by law, the Articles of Incorporation or these Bylaws, the affirmative vote of a majority of the Directors present in person at a meeting at which a quorum is present shall be required to take action on any question brought at such meeting. Notwithstanding the foregoing or anything to the contrary herein, the following actions shall require the affirmative vote of three-quarters (3/4) of the total number of then-current Directors:

(a) sale, mortgage or discontinuation of use of all or substantially all of the real property or assets of the Corporation or any controlled affiliate of the Corporation;

(b) merger with or acquisition of the Corporation by another entity, or material acquisition by the Corporation or any controlled affiliate of the Corporation of another provider or system of providers;

(c) any material change in the mission of the Corporation or any controlled affiliate of the Corporation; or

(d) any change in the provisions of this Section 3.07 or similar provision in the bylaws of any controlled affiliate of the Corporation.

The actions set forth above that involve the Corporation are also subject to the approval of the board of directors of the Member.

Section 3.08. Presence Through Communications Equipment. To the extent a Director is unable to attend an annual, regular or special meeting in person and such Director has provided notice to the office of the President and Chief Executive Officer of the Member of his or her circumstances, then such Director may participate in such annual, regular or special meeting by means of a conference telephone or other similar communications equipment, including video conference, by means of pursuant to which all persons Directors participating in the such meeting can communicate with may simultaneously hear each other at the same time and such participation by such means shall constitute presence be deemed participation "in person at the meeting."

~~Section 3.13.~~ Section 3.09. Action by Written Consent. Any Except as otherwise expressly required by law, the Articles of Incorporation or these Bylaws, any action that may be taken by the Board of Directors at a meeting may be taken without a meeting if a consent or consents in writing, setting forth the action so to be taken, shall be signed before or after such action by all of the directors are requested from and signed by all of the Directors, which written consents may be signed in one or more counterparts, each of which shall be an original, but all of which together shall comprise one and the same written consent. Such written consent or consents shall be filed with the minutes of the proceedings of the Board of Directors.

Section 3.10. Compensation. 14. Presumption of Assent. A director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be deemed to have assented to such action unless his or her dissent shall be entered in the minutes of the meeting or unless the director shall file a written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action. The Board of Directors may resolve to pay the reasonable out-of-pocket expenses incurred by a Director in the performance of his or her duties as a Director. This section shall not preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

~~Section 3.15. Compensation.~~ The Board of Directors shall not receive any compensation for attendance at meetings. This section shall not preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 3.16. Executive Committee. There shall be an Executive Committee which shall consist of the Chairman, the Vice Chairman, the President, the Treasurer, the Secretary and not less than five (5) other Directors of the Corporation. The Executive Committee shall meet monthly and shall exercise all the powers and authority of the Board of Directors when the Board of Directors is not meeting. A quorum for the meetings of the Executive Committee shall be at least five (5) members of the committee.

Section 3.17. Nominating Committee. There shall be a Nominating Committee composed of the members of the Governance Committee and not less than two (2) nor more than

~~four (4) members of the Board of Directors chosen by the Chairman. Said committee shall be formed annually to the date of the annual meeting of the Board of Directors and shall take all actions deemed necessary or desirable to cause the nomination of eligible individuals to the office of director and to the offices of the Corporation and elected offices of The Memorial Hospital.~~

~~Section 3.18. Audit Committee. There shall be an Audit Committee which shall make recommendations on the appointment of independent auditors for the Corporation and its Affiliated Hospitals and Medical Service Providers, shall review the scope and cost for the annual audit, shall review the result of such audit, and shall monitor the response of management as to such audit and the implementation of internal audit procedures. The Audit Committee shall be a joint committee of the Corporation and The Memorial Hospital.~~

~~Section 3.19. Corporate Governance Committee. The Corporate Governance Committee shall develop, recommend and annually review corporate governance guidelines of the Corporation and oversee corporate governance matters, shall coordinate an annual review of the Board's performance in corporate governance, supervise adherence to the Corporation's conflict of interest policy, and review from time to time the Bylaws of the Corporation, conflict of interest questionnaires and policies, requests for waivers of such policies, and review the effectiveness of the Corporation's conflict of interest policy. The Corporate Governance Committee shall be a joint committee of the Corporation and The Memorial Hospital.~~

~~Section 3.20. Other Committees. The Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from its members other committees including committees referred to as a joint committee in the Bylaws of The Memorial Hospital, which, to the extent provided in such resolution, shall have and may exercise any or all of the authority of the Board of Directors, provided that no such committee shall have the authority of the Board of Directors in reference to amending the articles of incorporation, adopting a plan of merger or consolidation, recommending the sale, lease, exchange or other disposition of all or substantially all the property and assets of the Corporation otherwise than in the regular course of its business, recommending a voluntary dissolution of the Corporation or a revocation thereof, or amending the Bylaws of the Corporation. The designation of any such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed by law. The Chairman and President shall be ex officio members of each committee except the Nominating Committee.~~

Article IV

COMMITTEES

Section 4.01. Committees. The Board of Directors may designate committees to serve at its pleasure and to have such powers and perform such functions as the Board of Directors may assign to them. The resolution designating such committees shall set forth the composition of each such committee and the functions to be performed by it. All committee members (along with the Directors and officers of the Corporation), shall be subject to the Member's Conflicts of Interest and Confidentiality Policy, as may be amended from time to time by the board of directors of the Member. Unless otherwise determined by the Board, all

committees shall adopt a committee charter which shall include the purposes, duties and responsibilities and membership of such committee; provided, that such committee charter (and any amendments thereto) shall be subject to review by the Governance and Nominating Committee of the Member (the "Governance and Nominating Committee") and approval by the Board.

Article V

OFFICERS

Section 4.01. Number Officers. The officers of the Corporation shall be a Chairman, not less than one (1) Vice Chairman, a President, a Secretary, a Treasurer and such other those individuals then-serving as officers and agents as may be deemed necessary by of the Board of Directors. Any two or more offices may be held by the same person, except the offices of the President and Secretary. No officer need be a director of the Corporation. The Chairman and the President of the Corporation Member and such individuals shall be the Chairman of the Board of Trustees and the President of The Memorial Hospital, respectively.

Section 4.02. Election and Term of Office. The officers of the Corporation specifically designated serve in Section 4.01 of this Article IV shall be elected annually by the Board of Directors at its annual meeting upon nominations from the Nominating Committee. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as is practicable. Each officer shall hold office until his or her successor the same officer position for, and shall have been duly elected and shall have qualified or until such officer's death, resignation or removal in the manner hereinafter provided.

Section 4.03. Other Officers. The Board of Directors may elect or appoint such other officers and agents, including one or more Assistant Secretaries and one or more Assistant Treasurers, as it shall deem necessary, each of whom shall hold office for such period and shall exercise such powers and perform such the same duties as are provided in these Bylaws or as the Board of Directors may from time to time determine. The Board of Directors may delegate to any officer the power to appoint any such officers and agents and to prescribe their respective powers, duties and salaries.

Section 4.04. Removal. Any officer or agent may be removed by the Board of Directors whenever, in its judgment, the best interests of the Corporation will be served thereby. Nothing herein, however, shall affect any contractual rights of any officer or agent so removed.

Section 4.05. Resignations. Any officer or agent may resign at any time by giving written notice to the Board of Directors or to the President or Secretary. The resignation shall take effect at the time specified in the notice and, unless otherwise specified in such notice, the acceptance of the resignation shall not be necessary to make it effective.

Section 4.06. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise may be filled in the manner prescribed in these Bylaws for election or appointment to such office. In the case of a vacancy in any of the offices specifically designated in Section 4.01 of this Article IV, such vacancy shall be filled for the unexpired portion of the term of such office.

~~Section 4.07. Chairman.~~ The Chairman shall preside at all meetings of the Board of Directors. No person shall be elected Chairman for more than three (3) successive one (1) year terms. In the absence of the President or in the event of the President's death, inability or refusal to act, the Chairman shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Chairman shall have such other powers and perform such other duties on the Board of Directors may prescribe from time to time.

~~Section 4.08. Vice Chairman.~~ In the absence of the Chairman, the Vice-Chairman shall have the powers and duties of the Chairman and such other powers and duties as the Board of Directors may prescribe from time to time.

~~Section 4.09. President.~~ The President shall be the principal executive officer of the Corporation and, subject to the direction and under the supervision of the Board of Directors, shall have general charge of the business, affairs and property of the Corporation, and control over its officers, agents and employees. The President shall execute, on behalf of the Corporation, any deeds, mortgages, bonds, contracts or other instruments which the Board of Directors have authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed. The President shall do and perform all duties incident to the office of President and such other duties as may be assigned to the President by these Bylaws or by the Board of Directors. The President shall execute written consents of the Corporation as the sole member of the Affiliated Hospitals and Medical Service Providers in lieu of taking actions required or desirable at annual, regular or special meetings of such entities as the President may deem necessary or desirable, subject to the direction of the Board of Directors of the Corporation.

~~Section 4.10. Secretary.~~ The Secretary shall: (a) keep the minutes of the proceedings of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance and authorities with the provisions of these Bylaws or as required by law; (c) be custodian of the corporate records and of the seal of the Corporation and see that the seal of the Corporation is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized; and (d) in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to the Secretary by the President or by the Board of Directors.

~~Section 4.11. Treasurer.~~ The Treasurer shall: (a) have charge and custody of and be responsible for all funds and securities of the Corporation; (b) receive and give receipts for monies due and payable to the Corporation from any source whatsoever, and deposit all such monies in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance respect to, the Corporation as he or she serves for, or has with the provisions of respect to, the Member Article V of these Bylaws; and (c) in general, perform all of the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to the Treasurer by the President or by the Board of Directors. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his or her duties in such sum and with such surety or sureties as the directors shall determine.

~~Section 4.12. Salaries.~~ Except as provided in Section 4.03 of this Article IV, the salaries of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such salary by reason of the fact that such officer is also a director of the Corporation.

Article V

Article VI

CONTRACTS, LOANS, CHECKS AND DEPOSITS

Section 56.01. Contracts. The Board of Directors may authorize any officer or officers, ~~or any agent or agents,~~ to enter into contracts and agreements in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

Section 56.02. Loans. No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by a general or specific resolution of the Board of Directors.

Section 56.03. Checks, Drafts or Other Similar Orders. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such officer or officers, ~~or such agent or agents,~~ of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

Section 56.04. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select.

Article ~~V~~VII

INDEMNIFICATION

~~Section 67.01. Each person who was, is, or is threatened~~Agreement of the Corporation. In order to be made a named defendant or respondent in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is, or was, a director or an officer induce the individual members (if any), Directors, officers and committee members of the Corporation, or who, while a director or an officer of the Corporation, is or was to serve as such (each an "Indemnified Person"), the Corporation agrees, subject to the exclusions hereinafter set forth, to indemnify an Indemnified Person against, and hold the Indemnified Person harmless from, any Loss or Expense (each as defined in Section 7.02).

Section 7.02. Definitions. Capitalized terms used in this Article VII shall have the meanings set forth below:

(a) "Covered Act" means any act or omission by an Indemnified Person in the Indemnified Person's official capacity with the Corporation and while serving as such or

while serving at the request of the Corporation as a director member of the governing body, officer, employee or agent of another foreign or domestic corporation, joint venture, trust, other enterprise or employee benefit plan, shall be indemnified against judgments, penalties, fines, settlements and reasonable expenses (including attorneys' fees) actually incurred by such person in connection with any such action, suit or proceeding to the full extent permitted under the Act. The indemnification provided by this Article VI shall not be deemed exclusive of any other rights to which those persons seeking indemnification may be entitled under any bylaw, agreement, or otherwise, and shall continue as to any person who has ceased to be a director or an officer and shall inure to the benefit of the heirs, executors and administrators of such person. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or who, while a director, officer, employee or agent of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, employee or agent of another foreign or domestic corporation limited liability company, partnership, joint venture, trust, or other enterprise or employee benefit plan.

(b) "Excluded Claim" has the meaning set forth in Section 7.04.

(c) "Expenses" means any reasonable expenses incurred by an Indemnified Person in connection with the defense of any claim made against any the Indemnified Person for Covered Acts including, without limitation, legal, accounting or investigative fees and expenses (including the expense of bonds necessary to pursue an appeal of an adverse judgment).

(d) "Loss" means any amount which an Indemnified Person is legally obligated to pay as a result of any claim made against such Indemnified Person for Covered Acts including, without limitation, judgments for, and awards of, damages, amounts paid in settlement of any claim, any fine or penalty or, with respect to an employee benefit plan, any excise tax or penalty.

(e) "Proceeding" means any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative.

Section 7.03. Advance Payment of Expenses. The Corporation will pay the Expenses of an Indemnified Person in advance of the final disposition of any Proceeding except to the extent that the defense of a claim against such Indemnified Party is undertaken pursuant to any directors' and officers' liability insurance (or equivalent insurance or other protection known by another term) maintained by the Corporation. The advance payment of Expenses will be subject to such Indemnified Person's first agreeing in writing with the Corporation to repay the sums paid by it hereunder if it is thereafter determined that the Proceeding involved an Excluded Claim or that such Indemnified Person was otherwise not entitled to indemnification under these Bylaws.

Section 7.04. Exclusions. The following shall be considered "Excluded Claims" and the Corporation will not be liable to pay any Loss or Expense related to any Excluded Claim:

(a) With respect to a Proceeding in which a final non-appealable judgment or other adjudication by a court of competent jurisdiction determines that the Indemnified Person is liable to the Corporation (as distinguished from being liable to a third party) for:

(i) any breach of the Indemnified Person's duty of loyalty to the Corporation;

(ii) acts or omissions not in good faith or which involve any malicious, willful or wanton misconduct or knowing violation of law; or

(iii) any transaction from which the Indemnified Person derived an improper personal benefit.

(b) If a final, non-appealable judgment or other adjudication by a court of competent jurisdiction determines that such payment is unlawful.

Section 7.05. Notice to the Corporation; Insurance. Promptly after receipt by an Indemnified Person of notice of the commencement of or the threat of commencement of any Proceeding, such Indemnified Person will, if indemnification with respect thereto may be sought from the Corporation under these Bylaws, notify the Corporation of the commencement or threat thereof. If, at the time of the receipt of such notice, the Corporation has any directors' and officers' liability insurance (or equivalent insurance or other protection known by another term) in effect, the Corporation will give prompt notice of the commencement or threat of such Proceeding to the insurer in accordance with the procedures set forth in the policy or policies in favor of such Indemnified Person. The Corporation will thereafter take all the necessary or desirable action to cause such insurer to pay, on behalf of such Indemnified Person, all Loss and Expenses payable as a result of such Proceeding in accordance with the terms of such policies. Failure to promptly notify the Corporation will not adversely affect the Indemnified Person's right to indemnification hereunder unless and only to the extent that (a) the Corporation is materially prejudiced in its ability to defend against the Proceeding by reason of such failure; or (b) failure to promptly notify the Corporation causes a delay in notifying any applicable insurer (as described in this Section 7.05) resulting in a denial of coverage.

Section 7.06. Indemnification.

(a) Payments on account of the Corporation's indemnity against Loss will be made by the Treasurer of the Corporation except if, in the specific case, a determination is made that the indemnification of the Indemnified Person is not proper in the circumstances because such Loss results from an Excluded Claim. If the Corporation so determines that the Loss results from an Excluded Claim (although no such determination is required by the Corporation prior to payment of a Loss by the Treasurer of the Corporation), the determination shall be made:

(i) by the Board by a majority vote of a quorum consisting of Directors not at the time parties to the Proceeding; or

(ii) if a quorum cannot be obtained for purposes of Section 7.06(a)(i), then by a majority vote of a committee of the Board duly designated to act in the matter by a majority vote of the full Board (in which designated Directors who are parties to the Proceeding may participate) consisting solely of three (3) or more Directors not at the time parties to the Proceeding; or

(iii) by independent legal counsel designated (A) by the Board in a manner described in Section 7.06(a)(i) or by a committee of the Board established in a manner described in Section 7.06(a)(ii), or (B) if the requisite quorum of the full Board cannot be obtained therefor and a committee cannot be so established, by a majority vote of the full Board (in which vote Directors who are parties to the Proceeding may participate). If made, any such determination permitted to be made by this Section 7.06(a) will be made within sixty (60) days of an Indemnified Person's written request for payment of a Loss.

(b) Payment of an Indemnified Person's Expenses in advance of the final disposition of any Proceeding will be made by the Treasurer of the Corporation except if, in the specific case, a determination is made pursuant to Section 7.06(a) that indemnification of such Indemnified Person is not proper in the circumstances because the Proceeding involved an Excluded Claim.

(c) The Corporation will have the power to purchase and maintain insurance on behalf of any Indemnified Person against liability asserted against such person and incurred by such person in any such capacity or arising out of such person's status as such him or her with respect to any Covered Act, whether or not the Corporation would have the power or obligation to indemnify such person Indemnified Person against such liability under the provisions of these Bylaws. The Corporation will be subrogated to the rights of such Indemnified Person to the extent that the Corporation has made any payments to such Indemnified Person in request to any insured Loss or Expense as provided herein.

Section 7.07. Settlement. The Corporation will have no obligation to indemnify any Indemnified Person for any amounts paid in settlement of any Proceeding affected without the Corporation's prior written consent. The Corporation will not unreasonably withhold or delay its consent to any proposed settlement. If the Corporation so consents to the settlement of any Proceeding, or unreasonably withholds or delays such consent, it will be conclusively and irrefutably presumed for all purposes that the Loss or Expense does not constitute an Excluded Claim. If the Corporation reasonably withholds its consent solely on the grounds that the Proceeding constitutes an Excluded Claim, the Indemnified Person may accept the settlement without the consent of the Corporation, without prejudice to such Indemnified Person's rights to indemnification in the event the Corporation does not ultimately prevail on the issue of whether the Proceeding constitutes an Excluded Claim.

Section 7.08. Rights Not Exclusive. The rights provided in this Article VI or VII will not be deemed exclusive of any other rights to which an Indemnified Person may be entitled under the Act—any agreement, vote of disinterested Directors or otherwise, both as to action in the Indemnified Person's official capacity and as to action in any other capacity while serving in such position, and will continue after such Indemnified Person ceases to serve the Corporation as an Indemnified Person.

Section 7.09. Enforcement.

(a) An Indemnified Person's right to indemnification hereunder will be enforceable by such Indemnified Person in any court of competent jurisdiction and will be

enforceable notwithstanding that an adverse determination has been made as provided in Section 7.06.

(b) In the event that any action is instituted by an Indemnified Person under these Bylaws, such Indemnified Person will be entitled to be paid all court costs and expenses, including reasonable attorneys' fees, incurred by such Indemnified Person with respect to such action, unless the court determines that each of the material assertions made by such Indemnified Person as a basis for such action was not made in good faith or was frivolous.

Section 7.10. Severability. If any provision in this Article VII is determined by a court to require the Corporation to perform or fail to perform an act which is in violation of any applicable law, this Article VII shall be limited or modified in its applicable to the minimum extent necessary to avoid a violation of law, and, as so limited and modified, this Article VII shall be enforceable in accordance with its terms.

Section 7.11. Successors and Assigns. The provisions of this Article VII will be (a) binding upon all successors and assigns of the Corporation (including any transferee of all or substantially all of its assets); and (b) binding on and inure to the benefit of the heirs, executors, administrators and other personal representatives of an Indemnified Person.

Section 7.12. Amendment of Article VII. No amendment or termination of this Article VII will be effective as to an Indemnified Person without prior written consent of that Indemnified Person and, in any event, will not be effective as to any Covered Act of an Indemnified Person occurring prior to the amendment or termination.

Article VIII

Article VII

GENERAL PROVISIONS

Section 78.01. Fiscal Year. The fiscal year of the Corporation shall be determined by the Board and in the absence of such determination will begin on the first day of October and end on the last day of September each year.

Section 78.02. Corporate Seal. The Corporation shall have a corporate seal which shall be circular in form and shall have inscribed thereon the name of the Corporation, the state of incorporation and the year of incorporation.

Section 78.03. Waiver of Notice. Whenever any notice is required to be given to any person under the provisions of these Bylaws or under the provisions of the ~~articles~~ Articles of ~~incorporation~~ Incorporation or under the provisions of the Act, a waiver thereof in writing signed by the person or persons entitled to such notice and provided to the Secretary, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. The attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when a person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be

transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in any written waiver of notice of such meeting.

Section 8.04. Limitation of Liability. Pursuant to Section 7-6-9 of the Act, no individual serving without compensation as a Director, officer or committee member shall be personally liable to the Corporation or its members based solely on his or her conduct in the execution of the office or duties; provided, however that this Section 8.04 shall not eliminate the liability of a Director, officer or committee member to the extent such liability is imposed by applicable law for (a) malicious, willful or wanton misconduct; (b) breach of such Director's, officer's or committee member's duty of loyalty to the Corporation; and (c) any transaction from which there is an improper personal benefit. This Section 8.04 shall not eliminate the liability of a Director, officer or committee member for any act or omission occurring prior to the date upon which this provision becomes effective. No amendment to or repeal of this Section 8.04 shall apply to or have any effect on the liability or alleged liability, or any acts or omissions, of any Director, officer or committee member occurring prior to such amendment or repeal.

Article IX

~~Article VIII~~

CONFLICT OF INTEREST

~~Section 8.01. Statement of General Policy on Conflict of Interest.~~ No transaction involving remuneration or benefit to a director or officer, or to an organization in which such director or officer has a material financial interest or of which the director or officer is a member, officer, director, general partner, principal or controlling stockholder, shall be entered into by the Corporation without (a) full disclosure to the Board of Directors or the members entitled to vote by the interested director or officer of the material facts of the transaction and the director or officer's interest or relationship; (b) the authorization, approval or ratification of the affirmative vote of a majority of disinterested directors or the members entitled to vote; and (c) a determination by the Board of Directors that the transaction is fair to the Corporation at the time it is authorized, approved or ratified. No director so involved may vote on such authorization, approval or ratification by the Board of Directors.

~~Section 8.02. Adoption of Policy.~~ The Board of Directors shall from time to time, adopt a policy for the directors or officers and such other personnel as they shall deem appropriate, providing for the periodic disclosure to the Corporation of any and all interests which may give rise to a possible conflict of interest, either pecuniary or otherwise.

Section 9.01. Statement of General Policy on Conflict of Interest. All Directors and officers of the Corporation and all committee members shall be subject to the Member's Conflicts of Interest and Confidentiality Policy, as may be amended from time to time by the board of directors of the Member.

Article X

~~Article IX~~

DRAFT

AMENDMENTS

Section 910.01. ~~Except as provided herein, these Amendments. These Bylaws may be altered, amended or repealed~~amended and new bylaws may be adopted~~restated by majority vote of~~written consent or approval by the Board of Directors at any annual or special meeting of~~in accordance with Section 3.07 or Section 3.09, as applicable and the Board of Directors called for such purpose~~approval of the Member.

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Care New England Health System
Consolidated Balance Sheet

	12/31/2012	9/30/2012	12/31/2011	12/12-9/12		12/12-12/11	
				Change	% Change	Change	% Change
ASSETS							
Current assets:							
Cash and Cash equivalents	60,789,683	62,834,427	26,313,749	-2,044,744	-3.25%	34,475,934	131.02%
Investments	25,951,365	25,919,112	25,463,485	32,253	0.12%	487,880	1.92%
Receivables							
Patient	135,808,165	131,918,853	130,173,580	3,889,312	2.95%	5,634,585	4.33%
Other	25,127,688	21,659,231	26,619,647	3,468,457	16.01%	-1,491,959	-5.60%
	160,935,853	153,578,084	156,793,227	7,357,769	4.79%	4,142,626	2.64%
Less estimated uncollectibles	35,620,980	35,233,907	33,880,632	387,073	1.10%	1,740,348	5.14%
Net receivables	125,314,873	118,344,177	122,912,595	6,970,696	5.89%	2,402,278	1.95%
Assets limited as to use	2,948,588	2,519,851	4,323,103	428,737	17.01%	-1,374,515	-31.79%
Inventories	4,982,244	4,860,022	4,018,167	122,222	2.51%	964,077	23.99%
Prepaid expenses	7,395,856	6,539,505	6,850,575	856,351	13.10%	545,281	7.96%
Notes Receivable, net	33,040	32,793	31,586	247	0.75%	1,454	4.60%
Pledges, net	1,556,751	1,877,826	1,418,382	-321,075	-17.10%	138,369	9.76%
Total current assets	228,972,400	222,927,713	191,331,642	6,044,687	2.71%	37,640,759	19.67%
Assets limited as to use							
Board designated	93,760,361	91,001,215	84,251,972	2,759,146	3.03%	9,508,389	11.29%
Self insurance trust funds	151,630,829	147,754,305	138,972,342	3,876,524	2.62%	12,658,487	9.11%
Deferred compensation fund	4,129,516	4,208,411	4,108,348	-78,895	-1.87%	21,168	0.52%
Trustee held funds	20,649,616	22,453,515	24,425,338	-1,803,899	-8.03%	-3,775,722	-15.46%
Total assets limited as to use	270,170,322	265,417,446	251,758,000	4,752,876	1.79%	18,412,322	7.31%
Less amount required to meet current obligations	2,948,588	2,519,851	4,323,103	428,737	17.01%	-1,374,515	-31.79%
Noncurrent assets limited as to use	267,221,734	262,897,595	247,434,897	4,324,139	1.64%	19,786,837	8.00%
Property, plant and equipment, net	248,706,985	249,787,289	248,604,698	-1,080,304	-0.43%	102,287	0.04%
Other Assets:							
Endowment funds	39,782,887	39,510,908	35,596,516	271,979	0.69%	4,186,371	11.76%
Investments	4,175,157	4,175,157	6,591,690	0	0.00%	-2,416,533	-36.66%
Deferred financing costs, net	753,209	764,597	755,163	-11,388	-1.49%	-1,954	-0.26%
Notes and advances receivable, net	28,693	36,970	61,714	-8,277	-22.39%	-33,021	-53.51%
Pledges receivable, net	2,676,242	2,654,887	2,580,048	21,355	0.80%	96,194	3.73%
Prepaid expenses and other	1,021,493	1,053,585	1,138,903	-32,092	-3.05%	-117,410	-10.31%
Total other assets	48,437,681	48,196,104	46,724,034	241,577	0.50%	1,713,647	3.67%
Total assets	793,338,800	783,808,701	734,095,271	9,530,099	1.22%	59,243,529	8.07%

LIABILITIES AND NET ASSETS

	12/31/2012	9/30/2012	12/31/2011	12/12-9/12		12/12-12/11		
				Change	% Change	Change	% Change	
Current liabilities:								
Current pension payable	16,019,059	12,138,551	8,037,797	3,880,508	31.97%	7,981,262	99.30%	
Current installments of long-term debt	6,446,218	6,393,013	5,676,157	53,205	0.83%	770,061	13.57%	
Accounts payable and accrued expenses	92,073,819	91,880,970	85,809,388	192,849	0.21%	6,264,431	7.30%	
Deferred revenue	11,098,880	9,682,603	11,856,150	1,416,277	14.63%	-757,270	-6.39%	
Estimated third party payor settlements	13,269,872	10,809,417	14,293,545	2,460,455	22.76%	-1,023,673	-7.16%	
Deferred compensation	0	0	330,345	0	#N/A	-330,345	-100.00%	
Total current liabilities	138,907,848	130,904,554	126,003,382	8,003,294	6.11%	12,904,466	10.24%	
Estimated third party payor settlements	24,531,529	25,531,529	20,567,405	-1,000,000	-3.92%	3,964,124	19.27%	
Net pension liability	56,657,785	57,191,703	57,329,330	-533,918	-0.93%	-671,545	-1.17%	
Net post retirement liability	1,788,923	1,788,923	1,973,659	0	0.00%	-184,736	-9.36%	
Asset retirement obligation	1,728,333	1,680,800	1,697,524	47,533	2.83%	30,809	1.81%	
Self-insurance reserves	130,249,351	125,931,253	114,316,945	4,318,098	3.43%	15,932,406	13.94%	
Interest rate swaps	13,356,799	13,629,389	12,670,450	-272,590	-2.00%	686,349	5.42%	
Long-term debt, net of current portion	107,806,435	108,377,894	104,228,090	-571,459	-0.53%	3,578,345	3.43%	
Deferred compensation	5,641,415	6,199,797	4,302,481	-558,382	-9.01%	1,338,934	31.12%	
Total liabilities	480,668,418	471,235,842	443,089,266	9,432,576	2.00%	37,579,152	8.48%	
Net assets:								
Unrestricted	258,299,765	259,188,721	246,601,013	-888,956	-0.34%	11,698,752	4.74%	
Temporarily restricted	34,947,911	34,041,338	26,139,020	906,573	2.66%	8,808,891	33.70%	
Permanently restricted	19,422,706	19,342,800	18,265,972	79,906	0.41%	1,156,734	6.33%	
Total net assets	312,670,382	312,572,859	291,006,005	97,523	0.03%	21,664,377	7.44%	
Total liabilities and net assets	793,338,800	783,808,701	734,095,271	9,530,099	1.22%	59,243,529	8.07%	

Adjustments/Eliminations
Balance Sheet

	12/31/2012	9/30/2012	12/31/2011	12/12-9/12		12/12-12/11	
				Change	% Change	Change	% Change
ASSETS							
Current assets:							
Cash and Cash equivalents	0	0	0	0	#N/A	0	#N/A
Investments	0	0	0	0	#N/A	0	#N/A
Receivables							
Patient	0	0	0	0	#N/A	0	#N/A
Other	0	-113,000	0	113,000	100.00%	0	#N/A
Less estimated uncollectibles	0	-113,000	0	113,000	100.00%	0	#N/A
Net receivables	0	-113,000	0	113,000	100.00%	0	#N/A
Assets limited as to use	0	0	0	0	#N/A	0	#N/A
Inventories	0	0	0	0	#N/A	0	#N/A
Prepaid expenses	0	0	0	0	#N/A	0	#N/A
Notes Receivable, net	0	0	0	0	#N/A	0	#N/A
Pledges, net	0	0	0	0	#N/A	0	#N/A
Due from Affiliates	-109,730,769	-130,775,615	-129,760,151	21,044,846	16.09%	20,029,382	15.44%
Total current assets	-109,730,769	-130,888,615	-129,760,151	21,157,846	16.16%	20,029,382	15.44%
Assets limited as to use							
Board designated	0	0	0	0	#N/A	0	#N/A
Self insurance trust funds	0	0	0	0	#N/A	0	#N/A
Deferred compensation fund	0	0	0	0	#N/A	0	#N/A
Depreciation funding trust	0	0	0	0	#N/A	0	#N/A
Interest Rate Swap	0	0	0	0	#N/A	0	#N/A
Trustee held funds	0	0	0	0	#N/A	0	#N/A
Total assets limited as to use	0	0	0	0	#N/A	0	#N/A
Less amount required to meet current obligations	0	0	0	0	#N/A	0	#N/A
Noncurrent assets limited as to use	0	0	0	0	#N/A	0	#N/A
Property, plant and equipment, net	0	0	0	0	#N/A	0	#N/A
Other Assets:							
Endowment funds	0	0	0	0	#N/A	0	#N/A
Net pension asset	0	0	0	0	#N/A	0	#N/A
Prepaid pension	0	0	0	0	#N/A	0	#N/A
Deferred financing costs, net	0	0	0	0	#N/A	0	#N/A
Notes and advances receivable, net	0	0	0	0	#N/A	0	#N/A
Pledges receivable, net	0	0	0	0	#N/A	0	#N/A
Prepaid expenses and other	0	0	0	0	#N/A	0	#N/A
Total other assets	0	0	0	0	#N/A	0	#N/A
Total assets	-109,730,769	-130,888,615	-129,760,151	21,157,846	16.16%	20,029,382	15.44%

LIABILITIES AND NET ASSETS

	12/31/2012	9/30/2012	12/31/2011	12/12-9/12		12/12-12/11	
				Change	% Change	Change	% Change
Current liabilities:							
Notes payable	0	0	0	0	#N/A	0	#N/A
Advances from third party payors	0	0	0	0	#N/A	0	#N/A
Current pension payable	0	0	-4,000,000	0	#N/A	4,000,000	100.00%
Current installments of long-term debt	-3,560,532	-3,560,532	-3,824,473	0	0.00%	263,941	6.90%
Accounts payable and accrued expenses	-641,472	-113,000	-317,841	-528,472	-467.67%	-323,631	-101.82%
Deferred revenue	0	0	0	0	#N/A	0	#N/A
Estimated third party payor settlements	0	0	0	0	#N/A	0	#N/A
Due to Affiliates	-13,226,596	-34,687,069	-29,719,188	21,460,473	61.87%	16,492,592	55.49%
Deferred compensation	0	0	0	0	#N/A	0	#N/A
Total current liabilities	-17,428,600	-38,360,601	-37,861,502	20,932,001	54.57%	20,432,902	53.97%
Estimated third party payor settlements	0	0	0	0	#N/A	0	#N/A
Long term pension payable	0	0	0	0	#N/A	0	#N/A
Net pension liability	0	0	0	0	#N/A	0	#N/A
Net post retirement liability	0	0	0	0	#N/A	0	#N/A
Additional pension liability	0	0	0	0	#N/A	0	#N/A
Asset Retirement obligation	0	0	0	0	#N/A	0	#N/A
Deferred reimbursement	0	0	0	0	#N/A	0	#N/A
Self-insurance reserves	0	0	0	0	#N/A	0	#N/A
Interest rate swap	0	0	0	0	#N/A	0	#N/A
Due to CNE, LTD, net of current	-92,302,169	-92,528,014	-91,898,649	225,845	0.24%	-403,520	-0.44%
Long-term debt, net of current portion	0	0	0	0	#N/A	0	#N/A
Deferred compensation	0	0	0	0	#N/A	0	#N/A
Total liabilities	-109,730,769	-130,888,615	-129,760,151	21,157,846	16.16%	20,029,382	15.44%
Net assets:							
Unrestricted	0	0	0	0	#N/A	0	#N/A
Temporarily restricted	0	0	0	0	#N/A	0	#N/A
Permanently restricted	0	0	0	0	#N/A	0	#N/A
Total net assets	0	0	0	0	#N/A	0	#N/A
Total liabilities and net assets	-109,730,769	-130,888,615	-129,760,151	21,157,846	16.16%	20,029,382	15.44%
	0	0	0				

Care New England
Combined Statement of Unrestricted Activities
For the three months ending December 31, 2012

	Current YTD Actual	Current YTD Budget	Variance Actual to Budget	%	Current YTD Actual	Prior YTD Actual	Variance Actual to Actual	%
Unrestricted revenues and gains:								
Patient service revenue (net of contractual allowances and discounts)	\$216,742,011	\$220,350,466	(\$3,608,455)	-1.64%	\$216,742,011	\$207,941,881	\$8,800,130	4.23%
Less: Charity care	(9,210,155)	(9,767,174)	557,019	5.70%	(9,210,155)	(8,355,167)	(854,988)	-10.23%
Provision for bad debts	(11,506,405)	(10,954,798)	(551,607)	-5.04%	(11,506,405)	(9,013,951)	(2,492,454)	-27.65%
Net patient service revenue less provision for bad debts	196,025,451	199,628,494	(3,603,043)	-1.80%	196,025,451	190,572,763	5,452,688	2.86%
Net assets released from restrictions	596,898	610,905	(14,007)	-2.29%	596,898	619,441	(22,543)	-3.64%
Research revenue	7,066,034	6,625,907	440,127	6.64%	7,066,034	6,824,832	241,202	3.53%
Other revenue	6,473,738	6,468,791	4,947	0.08%	6,473,738	6,238,736	235,002	3.77%
Total revenues and gains	210,162,121	213,334,097	(3,171,976)	-1.49%	210,162,121	204,255,772	5,906,349	2.89%
Operating expenses:								
Salaries and Wages	107,747,856	109,487,084	1,739,228	1.59%	107,747,856	104,290,854	(3,457,002)	-3.31%
Fringe Benefits	30,768,874	31,529,142	760,268	2.41%	30,768,874	32,723,983	1,955,109	5.97%
Insurances	6,591,424	6,674,695	83,271	1.25%	6,591,424	6,367,936	(223,488)	-3.51%
Medical Supplies and Drugs	18,652,362	19,045,980	393,618	2.07%	18,652,362	16,838,591	(1,813,771)	-10.77%
Other Expenses	26,402,589	27,387,673	985,084	3.60%	26,402,589	23,101,108	(3,301,481)	-14.29%
Research expenses	6,999,918	6,625,903	(374,015)	-5.64%	6,999,918	6,711,155	(288,763)	-4.30%
Licensure Fee	8,076,428	8,076,428	0	0.00%	8,076,428	7,958,816	(117,612)	-1.48%
Interest	855,665	890,928	35,263	3.96%	855,665	975,515	119,850	12.29%
Depreciation and amortization	7,374,665	7,394,379	19,714	0.27%	7,374,665	7,395,478	20,813	0.28%
Total operating expenses	213,469,781	217,112,212	3,642,431	1.68%	213,469,781	206,363,436	(7,106,345)	-3.44%
Net Income (loss) from operations	(3,307,660)	(3,778,115)	470,455	12.45%	(3,307,660)	(2,107,664)	(1,199,996)	-56.93%
Nonoperating gains and (losses):								
Unrestricted gifts & bequests	189,591	130,848	58,743	44.89%	189,591	180,456	9,135	5.06%
Income on investments whose use is limited	779,613	396,568	383,045	96.59%	779,613	561,828	217,785	38.76%
Gains on investments whose use is limited	274,235	281,249	(7,014)	-2.49%	274,235	304,057	(29,822)	-9.81%
Change in net unrealized gains and losses	1,267,058	628,440	638,618	101.62%	1,267,058	5,067,311	(3,800,253)	-75.00%
Change in market value of Interest rate swap	272,590	0	272,590	#DIV/0!	272,590	(1,313,916)	1,586,506	120.75%
Receipts (payment) on interest rate swap	0	0	0	#DIV/0!	0	0	0	#DIV/0!
Fund raising expenditures	(489,243)	(615,866)	126,643	20.56%	(489,243)	(479,319)	(9,924)	-2.07%
Net nonoperating gains	2,293,844	821,219	1,472,625	179.32%	2,293,844	4,320,417	(2,026,573)	-46.91%
Excess of expenses over revenues and gains	(1,013,816)	(2,956,896)	1,943,080	65.71%	(1,013,816)	2,212,753	(3,226,569)	-145.82%
Net assets released from restrictions	124,863	421,752	(296,889)	-70.39%	124,863	445,928	(321,065)	-72.00%
Increase (Decrease) in unrestricted net assets net assets	(\$888,953)	(\$2,535,144)	\$1,646,191	64.93%	(\$888,953)	\$2,658,681	(\$3,547,634)	-133.44%

Eliminations
Statement of Unrestricted Activities
For the three months ending December 31, 2012

	Current YTD Actual	Current YTD Budget	Prior YTD Actual	Variance Actual to Budget	%	Variance Actual to Actual	%
Unrestricted revenues and gains:							
Patient service revenue (net of contractual allowances and discounts)	0	0	0	0	#DIV/0!	0	#DIV/0!
Less: Charity care	0	0	0	0	#DIV/0!	0	#DIV/0!
Provision for bad debts	0	0	0	0	#DIV/0!	0	#DIV/0!
Net patient service revenue less provision for bad debts	0	0	0	0	#DIV/0!	0	#DIV/0!
Net assets released from restrictions	0	0	0	0	#DIV/0!	0	#DIV/0!
Research revenue	0	0	0	0	#DIV/0!	0	#DIV/0!
Other revenue	-2,999,283	-2,849,139	-22,552,560	-150,144	-5.27%	19,553,277	86.70%
Total revenues and gains	-2,999,283	-2,849,139	-22,552,560	-150,144	-5.27%	19,553,277	86.70%
Operating expenses:							
Salaries and Wages	0	0	-693,911	0	#DIV/0!	-693,911	-100.00%
Fringe Benefits	0	0	0	0	#DIV/0!	0	#DIV/0!
Insurances	0	0	0	0	#DIV/0!	0	#DIV/0!
Medical Supplies and Drugs	0	0	0	0	#DIV/0!	0	#DIV/0!
Other Expenses	-2,999,283	-2,849,139	-21,858,649	150,144	5.27%	-18,859,366	-86.28%
Research expenses	0	0	0	0	#DIV/0!	0	#DIV/0!
Licensure Fee	0	0	0	0	#DIV/0!	0	#DIV/0!
Interest	0	0	0	0	#DIV/0!	0	#DIV/0!
Depreciation and amortization	0	0	0	0	#DIV/0!	0	#DIV/0!
Total operating expenses	-2,999,283	-2,849,139	-22,552,560	150,144	5.27%	-19,553,277	-86.70%
Net Income After Brown	0	0	0	0	#DIV/0!	0	#DIV/0!
Nonoperating gains and (losses):							
Unrestricted Gifts & Bequests	0	0	0	0	#DIV/0!	0	#DIV/0!
Income on investments whose use is limited	0	0	0	0	#DIV/0!	0	#DIV/0!
Gains on investments whose use is limited	0	0	0	0	#DIV/0!	0	#DIV/0!
Transfer to Parent	0	0	0	0	#DIV/0!	0	#DIV/0!
Change in net unrealized gains and losses	0	0	0	0	#DIV/0!	0	#DIV/0!
Change in Market Value of Interest Rate Swaps	0	0	0	0	#DIV/0!	0	#DIV/0!
Receipts (payment) on Interest Rate Swap	0	0	0	0	#DIV/0!	0	#DIV/0!
Fund Raising Expenditures	0	0	0	0	#DIV/0!	0	#DIV/0!
Net nonoperating gains	0	0	0	0	#DIV/0!	0	#DIV/0!
Excess of revenues and gains over expenses	0	0	0	0	#DIV/0!	0	#DIV/0!
Change in Net Unrealized Gains and Losses	0	0	0	0	#DIV/0!	0	#DIV/0!
Net assets released from restrictions	0	0	0	0	#DIV/0!	0	#DIV/0!
Increase in unrestricted net assets	0	0	0	0	#DIV/0!	0	#DIV/0!

Care New England Health System and Affiliates

**Consolidated Financial Statements with
Supplementary Consolidating Information
September 30, 2012 and 2011**

Care New England Health System and Affiliates
Index
September 30, 2012 and 2011

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Report of Independent Auditors

To the Board of Directors
Care New England Health System

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in net assets and cash flows present fairly, in all material respects, the financial position of Care New England Health System and Affiliates ("Care New England") at September 30, 2012 and 2011, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Care New England's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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 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.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual affiliates and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual affiliates.

PricewaterhouseCoopers LLP

December 21, 2012

Care New England Health System and Affiliates
Consolidated Balance Sheets
September 30, 2012 and 2011

	2012	2011
Assets		
Current		
Cash and cash equivalents	\$ 62,834,427	\$ 42,228,189
Investments	25,919,112	30,538,218
Patient accounts receivable, net of allowance for doubtful accounts of \$35,233,907 in 2012 and \$32,567,214 in 2011	96,684,946	95,824,246
Other receivables	21,659,231	19,185,236
Pledges receivable, net	1,877,826	1,660,823
Other current assets	11,432,320	9,490,236
Current portion of assets whose use is limited	2,519,851	4,080,531
Total current assets	<u>222,927,713</u>	<u>203,007,479</u>
Assets whose use is limited or restricted as to use		
Endowment funds	39,510,908	34,993,047
Board-designated funds	91,001,215	80,223,173
Trustee-held funds	170,207,820	160,618,076
Deferred compensation funds	4,208,411	4,351,646
Total assets limited as to use	<u>304,928,354</u>	<u>280,185,942</u>
Less: Amounts required to meet current obligations	<u>(2,519,851)</u>	<u>(4,080,531)</u>
Noncurrent assets limited as to use	<u>302,408,503</u>	<u>276,105,411</u>
Property, plant and equipment, net	249,787,289	250,795,543
Pledges receivable, net	2,654,887	2,963,287
Investments	4,175,157	6,595,191
Other assets	1,855,152	1,979,554
Total assets	<u>\$ 783,808,701</u>	<u>\$ 741,446,465</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 91,880,970	\$ 93,895,217
Current portion of estimated third-party payor settlements and advances	10,809,417	14,509,100
Current portion of long-term debt and capital leases	6,393,013	5,913,883
Pension liability	12,138,551	11,378,200
Other current liabilities	9,682,603	8,319,173
Total current liabilities	<u>130,904,554</u>	<u>134,015,573</u>
Long-term liabilities		
Self-insurance reserves	125,931,253	117,916,536
Long-term portion of estimated third-party payor settlements and advances	24,620,668	19,656,544
Long-term debt and capital leases	108,377,894	105,966,325
Pension liability	57,191,703	54,526,947
Postretirement liability	1,788,923	1,973,659
Interest rate swaps	13,629,389	11,356,534
Other liabilities	8,791,458	7,456,846
Total long-term liabilities	<u>340,331,288</u>	<u>318,853,391</u>
Net assets		
Unrestricted	259,188,721	244,071,577
Temporarily restricted	34,041,338	26,369,596
Permanently restricted	19,342,800	18,136,328
Total net assets	<u>312,572,859</u>	<u>288,577,501</u>
Total liabilities and net assets	<u>\$ 783,808,701</u>	<u>\$ 741,446,465</u>

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates
Consolidated Statements of Operations
Years Ended September 30, 2012 and 2011

	2012	2011
Revenues and gains		
Patient service revenue (net of contractual allowances and discounts)	\$ 804,558,084	\$ 755,046,092
Provision for bad debts	<u>(42,706,347)</u>	<u>(31,931,088)</u>
Net patient service revenue less provision for bad debts	761,851,737	723,115,004
Net assets released from restrictions and used for operations	2,579,956	2,995,386
Research revenue	26,695,762	28,456,839
Other revenue	<u>55,025,887</u>	<u>54,588,515</u>
Total revenues and gains	<u>846,153,342</u>	<u>809,155,744</u>
Operating expenses		
Salaries and benefits	551,985,701	526,523,654
Supplies and other expenses	163,501,746	150,237,859
Research expenses	26,516,062	28,599,517
Depreciation and amortization	27,463,883	27,521,712
Insurance	30,434,400	29,603,122
Licensure fee	31,835,264	30,712,398
Interest	<u>3,604,940</u>	<u>3,741,400</u>
Total operating expenses	<u>835,341,996</u>	<u>796,939,662</u>
Income from operations	<u>10,811,346</u>	<u>12,216,082</u>
Nonoperating gains (losses)		
Investment income on assets limited as to use	3,973,173	3,246,158
Unrestricted gifts and bequests	544,936	645,990
Change in fair value of interest rate swaps	(2,272,855)	(1,539,686)
Change in net unrealized gains (losses) on investments	13,239,205	(12,679,303)
Nonoperating expenditures	<u>(2,106,586)</u>	<u>(1,886,229)</u>
Net nonoperating gains (losses)	<u>13,377,873</u>	<u>(12,213,070)</u>
Excess of revenues and gains over expenses and losses	24,189,219	3,012
Other changes in unrestricted net assets		
Pension and postretirement adjustment	(11,125,426)	(19,355,459)
Net assets released from restrictions used for purchase of property, plant and equipment	2,033,732	3,419,281
Transfer from (to) deferred revenue	<u>19,619</u>	<u>(2,641,640)</u>
Increase in unrestricted net assets	<u>\$ 15,117,144</u>	<u>\$ (18,574,806)</u>

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Unrestricted net assets		
Excess of revenues and gains over expenses and losses	\$ 24,189,219	\$ 3,012
Other changes in unrestricted net assets		
Pension and postretirement adjustment	(11,125,426)	(19,355,459)
Net assets released from restrictions used for purchase of property, plant and equipment	2,033,732	3,419,281
Transfer to deferred revenue	19,619	(2,641,640)
Increase in unrestricted net assets	<u>15,117,144</u>	<u>(18,574,806)</u>
Temporarily restricted net assets		
Contributions	8,110,785	7,114,804
Income from investments	1,026,932	908,944
Net realized and unrealized gains (losses) from investments	3,147,713	(1,344,487)
Net assets released from restrictions	(4,613,688)	(6,414,667)
Increase (decrease) in temporarily restricted net assets	<u>7,671,742</u>	<u>264,594</u>
Permanently restricted net assets		
Net realized and unrealized gains (losses) from investments	1,142,497	(499,422)
Contributions	63,975	104,080
Increase (decrease) in permanently restricted net assets	<u>1,206,472</u>	<u>(395,342)</u>
Increase (decrease) in net assets	23,995,358	(18,705,554)
Net assets		
Beginning of year	<u>288,577,501</u>	<u>307,283,055</u>
End of year	<u>\$ 312,572,859</u>	<u>\$ 288,577,501</u>

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates
Consolidated Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Operating activities		
Change in net assets	\$ 23,995,358	\$ (18,705,554)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Pension and postretirement adjustment	11,125,426	19,355,459
Depreciation and amortization	27,463,883	27,521,712
Gain on early extinguishment of debt	(202,223)	-
Provision for bad debt	42,706,347	31,931,088
Change in fair value of interest rate swaps	2,272,855	1,539,686
Income and gains on assets limited as to use	(3,973,173)	(3,246,158)
Net unrealized (gains) losses on investments	(13,239,205)	12,679,303
Restricted contributions and investment income	(898,987)	395,342
Changes in		
Patient accounts receivable	(43,567,047)	(46,723,599)
Investments	13,197,771	(42,982,013)
Other current and long-term assets	(4,200,280)	(9,216,025)
Accounts payable and accrued expenses	(2,014,247)	(6,072,292)
Estimated third-party payor settlements	1,264,441	(1,737,164)
Deferred revenue and other liabilities	2,698,042	1,325,516
Net pension liability	(7,885,055)	(3,740,625)
Self-insurance reserves	8,014,717	13,778,976
Net cash provided by (used in) operating activities	<u>56,758,623</u>	<u>(23,896,348)</u>
Investing activities		
Purchase of property and equipment	(26,455,629)	(25,089,952)
Purchase of investments	(114,702,347)	(115,355,519)
Proceeds from the sale of investments	<u>101,013,682</u>	<u>108,193,744</u>
Net cash used in investing activities	<u>(40,144,294)</u>	<u>(32,251,727)</u>
Financing activities		
Proceeds from long-term debt and capital leases	10,000,000	28,000,000
Payments on long-term debt and capital leases	(6,907,078)	(8,136,099)
Restricted contributions to be used for long-term investments and investment income	<u>898,987</u>	<u>(395,342)</u>
Net cash provided by financing activities	<u>3,991,909</u>	<u>19,468,559</u>
Net increase (decrease) in cash and cash equivalents	20,606,238	(36,679,516)
Cash and cash equivalents		
Beginning of year	<u>42,228,189</u>	<u>78,907,705</u>
End of year	<u>\$ 62,834,427</u>	<u>\$ 42,228,189</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 4,047,720	\$ 3,866,428

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

1. Description of Organization

Corporate Structure

Care New England Health System ("CNE", "Care New England", or the "Health System"), a not-for-profit corporation, was established in February 1996 as the holding company for the development of an integrated delivery network which consists of Butler Hospital, Kent County Memorial Hospital, and Women & Infants Hospital of Rhode Island (collectively, the "Hospitals"), and the Kent County Visiting Nurse Association, d/b/a VNA of Care New England (the "Agency").

The accompanying consolidated financial statements include the accounts of Care New England and its affiliates, over which Care New England has corporate governance:

- Butler Hospital ("Butler") and its affiliates, Carriage House, LLC ("Carriage"), and Butler Hospital Allied Medical Services, LLC.
- Kent County Memorial Hospital ("Kent") and its affiliates, Kent Hospital Foundation, Kent Ancillary Services, LLC, Affinity Physicians, LLC, and Toll Gate Indemnity, Ltd. ("Toll Gate").
- Women & Infants Corporation ("WIC") and its affiliates, Women & Infants Development Foundation, Palomar Group, Inc. ("Palomar"), Women & Infants Hospital of Rhode Island ("WIH"), WIH Faculty Physicians, Inc., Women & Infants Ancillary Services, LLC, Women & Infants Health Care Alliance, LLC, and W&I Indemnity, Ltd. ("W&I Indemnity").
- Kent County Visiting Nurse Association and its affiliate, Healthtouch, Inc. (together, the "Agency").
- Care New England Wellness Centers, LLC.

Intercompany accounts have been eliminated in consolidation.

Mission and Nature of Business

Care New England is dedicated to building an exemplary health care system. Care New England supports the three Hospitals, the Agency, and other affiliated organizations.

The mission of Butler Hospital is to provide treatment of psychiatric illness in an atmosphere of dignity and respect, and to contribute to knowledge through education and research, while continuously improving the ways Butler serves its patients and the community. Butler is a 117-bed, not-for-profit psychiatric teaching hospital, affiliated with The Warren Alpert Medical School of Brown University, providing services for the care of patients from Rhode Island and nearby Massachusetts. As a complement to its role in service and education, Butler actively supports research by members of its staff. Butler is accredited by The Joint Commission ("TJC").

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

The mission of Kent County Memorial Hospital is to continually improve the health and well-being of the people and communities it serves, offering its essential services without regard for the ability to pay. Kent is a 359-bed, not-for-profit general hospital providing a full range of services for the acute care of patients principally from Kent County, Rhode Island. Kent is affiliated with, and provides clinical training to, the students of the University of New England College of Osteopathic Medicine, and currently operates American Osteopathic Association approved residency programs in emergency medicine, family practice, internal medicine, and a fellowship program in hyperbaric medicine. Kent is accredited by TJC and the Commission on Accreditation of Rehabilitation Facilities. Toll Gate, a wholly owned subsidiary of Kent insures primary and excess hospital professional and general liability risks for the Hospital and its employees on an occurrence basis. Toll Gate insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from employed physicians' professional liability on both a claims-made and occurrence basis. Toll Gate also insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from community physicians' professional liability on both a claims-made and occurrence basis.

The mission of Women & Infants Corporation is to support Women & Infants Hospital of Rhode Island and all other affiliated organizations. The mission of Women & Infants Hospital of Rhode Island is to improve the health and well-being of women and infants, and to provide essential services regardless of ability to pay. WIH is a 247-bed, not-for-profit regional center for women and infants' care in Rhode Island and southern New England. Among other university affiliations, Women & Infants is the primary teaching affiliate of the Warren Alpert Medical School of Brown University in obstetrics, gynecology and newborn pediatrics along with related sub-specialty and internal medicine services. As a complement to its role in service and education, WIH actively supports research by members of its staff. WIH is accredited by TJC. W&I Indemnity is a wholly owned subsidiary of WIH. W&I Indemnity insures excess hospital professional liability risks for the Hospital and its employees on an occurrence basis, and excess hospital professional liability risks for the Care New England Health System solely to the extent not covered by commercial insurance purchased by Care New England, Butler, or Kent. W&I Indemnity insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from employed physicians' and residents' medical malpractice liability on an occurrence basis. W&I Indemnity also insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from community physicians' medical malpractice liability on both a claims-made and occurrence basis.

The mission of Kent County Visiting Nurse Association is to provide and administer a comprehensive, multidisciplinary, therapeutic, hospice, and public health nursing program. The Agency is a not-for-profit corporation, providing home care services to the residents of Rhode Island and nearby Massachusetts. Healthtouch, Inc. is a not-for-profit corporation providing private duty nursing and personal care services, primarily to residents of Rhode Island.

2. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in accordance with the reporting principles of not-for-profit accounting as defined by Not-for-Profit Entities and the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide for Health Care Organizations.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates are made in the areas of patient accounts receivable, accruals for settlements with third-party payors, incurred but not reported liabilities for medical, workers' compensation, and medical malpractice insurance, and other accrued expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

Care New England 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 the Boards of Trustees (the "Boards") designation or other arrangements under trust agreements.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, other-than-temporary impairments in the value of securities, interest, and dividends) is included in the excess of revenues and gains over expenses unless the income or loss is restricted by donor or law.

Kent, WIH, Butler and the Agency follow the practice of pooling resources of unrestricted and restricted assets for long-term investment purposes. The investment pool is operated on the market value method whereby each participating fund is assigned a number of units based on the percentage of the pool it owns at the time of entry. Income, gains, and losses of the pool are allocated to the funds based on their respective participation in the pool.

Alternative investments (nontraditional, not readily marketable holdings) include hedge funds. Alternative investment interests generally are structured such that the Health System holds a limited partnership interest. The Health System's ownership structure does not provide for control over the related investees, and the Health System's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. There are no future funding commitments for alternative investments at September 30, 2012.

Individual investment holdings within the alternative investments include nonmarketable and market-traded debt and equity securities, and interests in other alternative investments. The Health System may be exposed indirectly to securities lending, short sales of securities, and trading in futures and forward contracts, options, and other derivative products. Alternative investments often have liquidity restrictions under which the Health System's capital may be divested only at specified times. The Health System's liquidity restrictions may be up to 90 days for certain investments. Liquidity restrictions may apply to all or portions of a particular invested amount. The Health System's policy is to record its ownership interest in certain alternative investments of less than 5% at cost.

Care New England Health System and Affiliates

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Financial information used by the Health System to evaluate its alternative investments is provided by the investment manager or general partner, and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not always coincide with the Health System's annual financial statement reporting.

There is uncertainty in the valuation for alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, and time lags associated with reporting by investee companies. As a result, there is at least a reasonable possibility that estimates will change in the near term.

Income and realized net gains (losses) on investments of endowments and specific purpose funds are reported as follows:

- Increases (decreases) in permanently restricted net assets if the terms of the gift require that they be added to the principal of permanently restricted net assets;
- Increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income or the income has not yet been appropriated; or
- Increases (decreases) in the unrestricted net assets in all other cases.

Assets Limited as to Use

Assets limited as to use primarily include endowment funds, assets held by trustees under indenture agreements and insurance programs, deferred compensation arrangements, and designated assets set aside by one or more of the Boards, over which the Boards retain control and may, at their discretion, subsequently use for other purposes. Amounts required to meet current obligations of the Hospitals have been reclassified to current assets.

Inventories

Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out) or market. Inventories of \$4,860,022 and \$4,180,758 at September 30, 2012 and 2011, respectively are included in other current assets in the consolidated balance sheets.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Donated property and equipment is recorded at fair value at the date of receipt. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Depreciation is recorded using the straight-line method based on the estimated useful life of each class of depreciable asset, as recommended by the American Hospital Association as follows:

Buildings and improvements	5 – 40 Years
Fixed and moveable equipment	3 – 20 Years

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Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support, and are excluded from the excess of revenues 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 those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Assets recorded under capital leases are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included with depreciation and amortization expense in the consolidated statements of operations.

Upon retirement or sale of assets, the cost of assets disposed of and the related accumulated depreciation are eliminated and the related gains or losses are recognized in other revenue in the consolidated statements of operations.

Care New England evaluates the potential impairment of property, plant and equipment whenever events or changes in circumstances indicate that the carrying value of a group of assets may not be recoverable.

Pledges

Pledges, less an allowance for uncollectible amounts, are recorded as receivables in the year made. Pledges receivable over a period greater than one year are stated at net present value. Pledges are recorded as additions to the appropriate net asset classification.

Deferred Financing Costs

Expenses related to issuance of bonds are deferred and amortized on a straight-line basis over the period during which the bonds are expected to be outstanding.

Self-Insurance Reserves

The reserves for self-insured programs are estimated based on actuarial studies and the Hospitals' and industry experience. The reserves include estimates of the ultimate cost for both reported claims and claims incurred but not yet reported. The Hospitals have established separate indemnification companies and trust funds for payment of certain self-insured claims including medical malpractice.

Care New England is self-insured for losses arising from workers' compensation claims. Loss reserves are estimated based on actuarial studies, and the Health System's and industry experience.

For the employees of the Hospitals and the Agency, Care New England is self-insured for losses arising from health insurance claims. Self-insured losses for both reported claims and claims incurred but not yet reported are estimated based on actuarial studies and the Health System's actual experience.

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.

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Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues and gains over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues and gains over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, 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), and changes in the pension and postretirement liability.

Net Patient Service Revenue

The Hospitals and the Agency have individual agreements with many third-party payors that provide payments at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments.

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 such things as 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 adjustments.

Research Revenue

Research revenue includes revenue from federal, state, institutional and other sources for the purposes of funding research activities.

Other Revenue

Other revenue includes underwriting income, rental income, cafeteria sales, laboratory services provided to nonpatients, sales of home medical equipment, vendor rebates and discounts, various services provided to physicians and other organizations and gains or losses upon the retirement or sale of assets.

Charity Care

The Health System provides care to patients who meet certain criteria under their charity care policies without charge or at amounts less than established rates. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient revenue.

Contributions and Donor-Restricted 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 when the condition is satisfied. 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 operations and changes in net assets as net assets released from restrictions.

Unrestricted contributions are reported net of direct fundraising expenses in the consolidated statements of operations.

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Income Tax Status

Care New England, the Hospitals, the Agency, Healthtouch, Women & Infants Faculty Physicians, Inc., Women & Infants Corporation, Women & Infants Development Foundation, Palomar, and Kent Hospital Foundation are not-for-profit corporations, and have been recognized as tax exempt on related income pursuant to Section 501(c)(3) of the Internal Revenue Code. W&I Indemnity, Ltd. and Toll Gate Indemnity, Ltd. are foreign corporations with no material tax liability. Other affiliates are single-member limited liability companies which are treated as part of their sole member for tax purposes.

New Accounting Pronouncements

Measuring Charity Care for Disclosure

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2010-23 (ASU 2010-23), *Measuring Charity Care for Disclosure* that requires health care entities to use cost as the measurement basis for charity care disclosures and defines cost as the direct and indirect costs of providing charity care. The Health System adopted the guidance on October 1, 2011, and the accompanying notes to the consolidated financial statements reflect the amended disclosure requirements. The cost of caring for charity care patients is disclosed in Note 4. This guidance amends disclosure requirements only; therefore, there was no impact to the Health System's consolidated financial statements upon adoption.

Presentation of Insurance Claims and Related Insurance Recoveries

In August 2010, the FASB issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which prohibits the offsetting of conditional or unconditional liabilities with anticipated insurance recoveries from third parties. The Health System adopted the new guidance on October 1, 2011. The adoption of the guidance did not have a significant impact on the consolidated financial statements.

Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts

In July 2011, the FASB issued ASU 2011-7, *Presentation and Disclosure of Patient Service Revenue, the Provision for Bad Debts, and Allowance for Doubtful Accounts*. This guidance requires the Health System to modify the presentation of its consolidated statements of operations and changes in net assets by reclassifying the provision for bad debts associated with patient revenue from an operating expense to a deduction from patient service revenue. Additionally, the guidance requires enhanced disclosure about the Health System's policies for recognizing revenue and assessing bad debts, patient service revenue (net of contractual allowances and discounts), and qualitative and quantitative information about changes in the allowance for doubtful accounts. The Health System adopted the guidance on October 1, 2011.

Reclassifications

Certain items in the 2011 financial statements have been reclassified to conform to the current year presentation.

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3. Revision to the 2011 Consolidated Financial Statements

The Health System has revised the September 30, 2011 consolidated financial statements to reflect the correction of an error related to the misapplication of accounting principles related to temporarily restricted net assets. As a result of this correction, the following adjustments have been made to the previously reported September 30, 2011 temporarily restricted net asset.

	As Reported	Adjustment	As Revised
Unrestricted net assets	\$ 223,493,967	\$ 20,577,610	\$ 244,071,577
Temporarily restricted net assets	46,947,206	(20,577,610)	26,369,596

4. Uncompensated Care and Community Services

The Health System maintains records to identify and monitor the level of charity care and community services it provides, including the amount of charges forgone for services and the estimated cost incurred to provide those services. The revenues forgone and estimated costs and expenses incurred to provide charity care for the years ended September 30 are as follows:

	2012	2011
Revenues forgone, based on established rates	\$ 36,846,051	\$ 35,271,183
Expenses and costs incurred	14,376,362	14,554,470

Of the Health System's total expenses reported (\$835,341,996 and \$796,939,662 in 2012 and 2011, respectively), an estimated \$14,376,362 and \$14,554,470 arose during 2012 and 2011 respectively, from providing services to charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to patients who qualify for charity care. The ratio of cost to charges is calculated based on total expenses (less bad debt expense) divided by gross patient service revenue. The Health System did not receive significant contributions that were restricted for the care of indigent patients during 2012 and 2011.

In addition to the above-mentioned medical care rendered, the Health System provides numerous other services free of charge to the community. These services include such things as transporting patients to the healthcare facilities, interpretation of medical information to various languages, volunteer services to other not-for-profit agencies, emergency and disaster relief services, various health, educational, research and teaching programs, healthcare screening services, therapeutic patient services, and provision of direct services to patients with multiple psychosocial needs.

	2012	2011
Approximated revenues forgone, or cost of the services provided to the community	\$ 7,131,790	\$ 7,397,062

The Health System also provides services to other indigent patients under the Medicaid/Rite Care Program, which reimburses healthcare providers at amounts which are less than the cost of services provided to the recipients.

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In addition to the cost of charity care and other community service programs, the Health System provided \$42,706,347 and \$31,931,088 for uncollectible patient accounts during the years ended September 30, 2012 and 2011, respectively.

5. Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Health System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Health System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay a portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Health System's allowance for doubtful accounts for self-pay patients increased from 25.4% of net accounts receivable at September 30, 2011, to 26.7% of net accounts receivable at September 30, 2012. In addition, the Health System's self-pay charity and bad debt write-offs increased \$7,154,000 from \$63,285,000 for fiscal year 2011 to \$70,439,000 for fiscal year 2012. Both increases were the result of increases in patients served who had no insurance coverage or who had higher co pays and/or deductibles than in the past. The largest increases were experienced at Kent where a significant increase in the number of patients treated in its emergency department also contributed to the increase in self-pay activity. The Health System has not changed its charity care or uninsured discount policies during fiscal years 2011 or 2012.

6. Pledges Receivable

Unconditional promises to give are recorded at present value as current and long-term assets based on expected time of collection. Future expected collections of these pledges as of September 30 are as follows:

	2012	2011
Within one year	\$ 2,065,207	\$ 2,195,890
One to five years	2,804,623	3,650,520
Beyond five years	19,324	6,305
	<u>4,889,154</u>	<u>5,852,715</u>
Less: Allowance for uncollectibles	<u>(356,441)</u>	<u>(1,228,605)</u>
Pledges receivable, net	<u>\$ 4,532,713</u>	<u>\$ 4,624,110</u>

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7. Summary of Investments

Investments at September 30 are summarized as follows:

	2012	2011
Securities, at market		
Cash and cash equivalents	\$ 30,726,952	\$ 29,229,814
Fixed income securities	77,989,608	74,757,990
Equity securities	43,582,040	52,244,843
Mutual funds	80,484,437	76,231,228
Auction rate securities	4,175,157	10,598,691
Alternative investments	57,514,333	35,591,407
Assets held under split - interest agreements	11,216,513	10,074,539
Cash surrender value of life insurance	<u>29,333,583</u>	<u>28,590,839</u>
	<u>\$ 335,022,623</u>	<u>\$ 317,319,351</u>

The cash surrender value of life insurance is included in Board-designated funds.

Investment return for the years ended September 30 consisted of the following:

	2012	2011
Interest and dividend income	\$ 2,493,051	\$ 2,862,928
Net realized gains on sales of investments	8,754,299	9,885,312
Net change in unrealized (losses) gains	<u>13,239,205</u>	<u>(12,679,303)</u>
	<u>\$ 24,486,555</u>	<u>\$ 68,937</u>
Included in operating revenue	\$ 7,274,177	\$ 9,502,082
Included in nonoperating revenue	<u>17,212,378</u>	<u>(9,433,145)</u>
	<u>\$ 24,486,555</u>	<u>\$ 68,937</u>

Care New England, the Hospitals, and the Agency routinely invest their surplus operating funds in various overnight repurchase agreements, money market funds, and fixed income U.S. agency bonds, which are classified as cash and cash equivalents.

Through its consolidated treasury management system, Care New England, on behalf of the Health System, has invested surplus operating cash in auction rate securities with varying maturity dates, which are backed by student loans. These loans are guaranteed for repayment by the federal government. During 2008, the auctions at which these securities were sold began to fail, requiring CNE to hold these securities indefinitely. However, payments of interest from the underlying loan pool remain current. As of September 30, 2012, these securities are recorded as long-term investments and as of September 30 2011, these securities are recorded as short-term and long-term investments in the consolidated balance sheets and Care New England has recorded an other-than-temporary impairment loss of \$824,844 and \$651,310, respectively, based on an independent valuation of the securities. During 2012, \$6,250,000 of the auction rate securities were liquidated at face value, resulting in a nonoperating gain of \$361,466. During 2011, \$9,750,000 of the auction rate securities were liquidated at face value, resulting in a nonoperating gain of \$548,825.

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The summary of the current and long-term fair value of the auction rate securities is as follows:

	2012	2011
Current investments	\$ -	\$ 4,003,500
Long term investments	<u>4,175,157</u>	<u>6,595,191</u>
	<u>\$ 4,175,157</u>	<u>\$ 10,598,691</u>

8. Property, Plant and Equipment

A summary of property, plant and equipment at September 30 follows:

	2012	2011
Land and land improvements	\$ 10,534,754	\$ 10,409,078
Buildings and improvements	349,992,370	345,142,240
Moveable equipment	<u>260,585,416</u>	<u>275,240,463</u>
Total property, plant and equipment	621,112,540	630,791,781
Less: Accumulated depreciation and amortization	<u>(381,298,883)</u>	<u>(382,282,204)</u>
	239,813,657	248,509,577
Construction and projects in progress	<u>9,973,632</u>	<u>2,285,966</u>
Property, plant and equipment, net	<u>\$ 249,787,289</u>	<u>\$ 250,795,543</u>

Depreciation expense of property, plant and equipment amounted to \$27,298,979 and \$27,364,023 for the years ended September 30, 2012 and 2011, respectively.

Care New England had property, plant and equipment disposals of \$608,919 and \$3,119,556 with accumulated depreciation of \$529,266 and \$2,922,517 for the years ended September 30, 2012 and 2011, respectively. In addition, the Health System wrote off \$27,753,034 of fully depreciated assets that were being tracked on the fixed asset register and determined to no longer be in service. The net book value was written off and reflected in the consolidated statements of operations.

During May 2010, Kent received a Certificate of Need approval from the Rhode Island Department of Health to construct and relocate its outpatient surgical suites on one floor of a two-story medical building being built on its campus by a private developer. The Certificate of Need also includes lobby renovations, the construction of a connector to the main hospital building, and the construction of a 10-bed short stay nursing unit in the vacated outpatient surgery space. The project will be funded through tax-exempt debt and philanthropic donations. Total estimated cost of the project is \$15,000,000 and it is expected to be completed during fiscal 2013.

During November 2010, Butler received a Certificate of Need approval from the Rhode Island Department of Health to build a building that will house an updated Patient Assessment Service, and accommodate an increase in Butler's licensed bed complement of inpatient psychiatry beds by twenty-six. The building will be funded through tax-exempt debt, use of equity, and philanthropic donations. Total estimated cost of the new building is \$19,126,000 and it is expected to be completed during calendar 2013.

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As of September 30, 2012, the Health System estimated the total cost of completion of construction and projects in progress to be approximately \$30,991,000. The funding to complete these projects will come from Board-designated funds, trustee-held funds, philanthropic donations and operating cash.

WIH leases land for its facility from Rhode Island Hospital ("RIH"), for a nominal annual payment, under a 99-year lease agreement which expires December 31, 2085.

Butler owns approximately 110 acres of land, which was purchased with donated funds in the mid-19th century. This land has a book value of one dollar.

In the late 1940s, Kent acquired 57 acres of land, which is recorded at the acquisition price of \$90,165.

Conditional asset retirement obligations are recorded at \$1,680,800 and \$1,650,159 as of September 30, 2012 and 2011, respectively. These obligations are recorded in other noncurrent liabilities in the consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2012 and 2011, there were no significant retirement obligations incurred or settled. Accretion expense of \$30,641 and \$66,284 was recorded during the years ended September 30, 2012 and 2011, respectively.

9. Long-Term Debt and Capital Leases

A summary of long-term debt at September 30 is as follows:

	2012	2011
Variable rate \$46,730,000 RIHEBC 2008 Series A bonds, final maturity in 2032	\$ 40,275,000	\$ 41,655,000
Variable rate \$38,210,000 RIHEBC 2008 Series B bonds, final maturity in 2037	28,570,000	29,885,000
Fixed rate \$12,000,000 RIHEBC 2010 Series bonds, final maturity in 2031	11,369,682	11,793,682
Fixed rate \$16,000,000 RIHEBC 2011 Series bonds, final maturity in 2031	15,392,733	16,000,000
Term, \$300,000 RIHEBC equipment note, final maturity in 2014	66,102	97,058
Term, \$3,750,000 Bank of America mortgage note, final maturity in 2015	2,406,250	2,593,750
Term, \$4,000,000 Time Insurance Company mortgage note, final maturity in 2027	3,578,380	3,671,380
Capital lease obligations	<u>13,112,760</u>	<u>6,184,338</u>
Total long-term debt and capital lease obligations	114,770,907	111,880,208
Less: Current portion of long-term debt and capital lease obligations	<u>(6,393,013)</u>	<u>(5,913,883)</u>
Long-term debt and capital lease obligations, excluding current portion	<u>\$ 108,377,894</u>	<u>\$ 105,966,325</u>

Rhode Island Health and Educational Building Corporation (RIHEBC) Bonds

In 2008, the Health System issued RIHEBC 2008 Series A variable rate bonds of \$46,730,000. The bonds have mandatory sinking fund redemptions ranging from \$1,430,000 in 2013 to \$2,735,000 in 2032.

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In 2008, the Health System issued RIHEBC 2008 Series B variable rate bonds of \$38,210,000. The bonds have mandatory sinking fund redemptions ranging from \$660,000 in 2013 to \$1,810,000 in 2037.

The proceeds from the CNE 2008 Series A bonds were used to (1) refund the outstanding CNE 2002 Series A bonds, and (2) pay certain expenses related to the issuance of the CNE 2008 Series A bonds. The proceeds from the CNE 2008 Series B bonds were used to (1) defease a portion of the outstanding CNE 2002 Series B bonds, and (2) finance a portion of WIH's Certificated of Need project consisting of the construction, equipping, and furnishing of a five-story addition to WIH's existing hospital building, (3) finance a portion of routine capital improvements, and (4) pay certain expenses related to the issuance of the CNE 2008 Series B bonds. The CNE 2002 Series B bonds were defeased by depositing a portion of the proceeds of the CNE 2008 Series B bond proceeds and money contributed by the Obligated Group members, Butler, Kent, WIC and WIH in an account held by the trustee for the CNE 2002 Series B bonds to provide funds as and when necessary to pay the principal and interest on the CNE 2002 Series B bonds. The refunding trust had sufficient fixed income securities to meet the required payments on the outstanding balances, with final payment made on September 1, 2012.

The Series A and Series B bonds bear interest at a daily, weekly, or monthly rate, which is payable on the first business day of each month, and on maturity or redemption dates and the fixed rate conversion date. In no event will the interest rate borne by the bonds exceed 10% per annum. Since issuance in 2008, the bonds have borne weekly interest rate. CNE has pledged gross receipts backed by a bank letter of credit which expires on February 1, 2015. The bonds are subject to tender at the option of the owners thereof. To the extent the tendered bonds are not able to be remarketed, the letter of credit bank has committed to purchase the bonds. Amounts advanced by the bank to pay the purchase price on bonds being purchased and not reimbursed to the bank on the date of such drawing will be converted to a credit agreement loan and amortized over three years. CNE, Butler, Kent, WIC, and WIH are jointly and severally liable for repayment.

Under the terms of the Series A and Series B revenue bonds, CNE and the Hospitals are required to make periodic debt service payments with a trustee, which are included with assets limited as to use. The revenue bond indenture and letter of credit agreement also places limits on the incurrence of additional borrowings, and require that the Obligated Group satisfy certain measures of financial performance as long as the bonds are outstanding. The Health System is required to comply with certain debt covenants under the bond agreements, including a minimum debt service coverage ratio of 1.25 to 1 and a liquidity ratio of .75 to 1. The Health System has been, and remains, compliant with these terms.

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In 2010, the Health System issued RIHEBC 2010 Series fixed rate bonds of \$12,000,000. The bonds have mandatory sinking fund redemptions ranging from \$439,618 in 2013 to \$813,065 in 2030, with a final payment of \$417,695 in 2031. These bonds were issued as Direct Purchase Tax Exempt Bank qualified bonds. The bonds bear a fixed interest rate of 3.65% through December, 2017 with 3 year optional tenders through December, 2030. The bonds bear interest on a per annum basis with semi-annual payments based on a 20 year amortization. The proceeds from the bonds are being used by Kent to finance (i) the renovation, equipping and furnishing of existing hospital space to house a ten (10) bed short stay unit; (ii) the construction, equipping and furnishing of a 30,000 square foot ambulatory surgical center with a connection to Kent's existing hospital building and (iii) cost of issuance. CNE, Butler, Kent, WIC and WIH are jointly and severable liable for repayment. Unspent bond proceeds of \$9,123,660 are included in trustee-held funds in the consolidated balance sheet at September 30, 2012. The Health System is required to comply with certain debt covenants under the bond agreements, including a minimum debt service coverage ratio of 1.25 to 1 and a liquidity ratio of .75 to 1. The Health System has been, and remains, compliant with these terms.

In 2011, the Health System issued RIHEBC 2011 Series fixed rate bonds of \$16,000,000. The bonds have mandatory sinking fund redemptions ranging from \$612,216 in 2013 to \$1,044,574 in 2031. These bonds were issued as unrated private placement tax exempt bonds. The bonds bear a fixed interest rate of 2.99% through July 31, 2018. The bonds bear interest on a per annum basis with semi-annual payments based on a 20 year amortization. The proceeds from the bonds are being used to finance (i) the construction, equipping and furnishing of a 32,000 square foot addition of Butler's existing hospital facility; (ii) refinancing of the Bank of Rhode Island mortgage held by WIC; (iii) refinancing of certain capital leases; (iv) purchase of capital equipment; (v) capitalized interest and (vi) cost of issuance. CNE, Butler, Kent, WIC and WIH are jointly and severable liable for repayment. Unspent bond proceeds of \$8,061,841 are included in trustee-held funds in the consolidated balance sheet at September 30, 2012. The Health System is required to comply with certain debt covenants under the bond agreements, including a minimum debt service coverage ratio of 1.25 to 1 and a liquidity ratio of .75 to 1. The Health System has been, and remains, compliant with these terms.

Rhode Island Health and Educational Building Corporation Notes

In 2004, the Health System entered into a \$300,000 RIHEBC Equipment Note due July 1, 2004 through June 1, 2014. Monthly interest and principal installments of \$3,141 are due at a fixed interest rate of 4.72%. The note is collateralized by the equipment purchased with the proceeds by the Agency and guaranteed by the Health System.

Bank Mortgage Notes

In 2005, the Health System entered into a \$3,750,000 mortgage note with Bank of America due August 2005 through July 2015. Interest and principal installments of \$33,837 on August 1, 2005 to \$24,883 on June 1, 2015 are due monthly, with a final payment of \$1,899,215 due June 2015, at a fixed interest rate of 5.64%. The note is collateralized by the real estate purchased. The Health System is required to comply with certain debt covenants under the note agreement, including a minimum debt service coverage ratio of 1.25 to 1. The Health System has been, and remains, compliant with these terms.

In 2007, the Health System entered into a \$4,000,000 mortgage note with Time Insurance Company due October 2007 through September 2027. Interest and principal installments of \$25,261 are due monthly, with a final payment of \$1,338,527 due September 2027, at a fixed interest rate of 5.79%. The note is collateralized by the real estate purchased.

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Interest Rate Swaps

CNE maintains interest rate swap programs on certain of its 2008 Series A and B variable rate revenue bonds. These bonds expose the Health System to variability in interest payments due to changes in interest rates. The Health System entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These agreements involve the exchange of fixed rate payments by CNE for variable rate payments from counterparties, based on the Securities Industry and Financial Markets Association (SIFMA) Index.

In 2004, CNE entered into an interest rate swap agreement with Bank of America Investments, effectively converting the \$50,000,000 RIHEBC CNE 2002 Series A variable rate debt to a fixed rate of 2.99% for the period of October 1, 2005 through August 1, 2011.

As part of the 2008 Series A & B refinancing, CNE (1) maintained the interest rate swap agreement that was entered into in 2004 with Bank of America Investments which effectively converted \$45,400,000 of the RIHEBC CNE 2008 Series A variable rate bonds to a fixed rate of 3.02% for the period of February 1, 2008 through August 1, 2011. The notional amount of the swap at September 30, 2010 was \$42,860,000, (2) entered into an interest rate swap agreement with Deutsche Bank Group which effectively converts all of the RIHEBC CNE 2008 Series A variable rate bonds to a fixed rate of 4.216% for the period of August 1, 2011 through July 1, 2032. The notional amount of the swap at September 30, 2012 and 2011 was \$40,275,000 and \$41,655,000, respectively, and (3) entered into an interest rate swap agreement with Morgan Stanley Capital Services which effectively converts all of the RIHEBC CNE 2008 Series B variable rate bonds to a fixed rate of 3.857% for the period of February 1, 2008 through August 31, 2037. The notional amount of the swap at September 30, 2012 and 2011 was \$28,570,000 and \$29,885,000, respectively.

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The Health System uses the interest rate swap agreements in order to manage its interest rate risk associated with its outstanding debt. These swaps effectively convert interest rates on variable rate bonds to fixed rates. The interest rate swap agreements meet the definition of derivative instruments. However, the change in the market value and cash flow impact of the derivative instruments are accounted for as a nonoperating activity. The swaps, while serving as an economic hedge, do not qualify as an accounting hedge.

The following table summarizes the 2008 Series A and B debt activity for the fiscal years ended September 30:

	2012	2011
Debt outstanding		
October 1 – August 31	\$ 71,540,000	\$ 74,500,000
September 1 – September 30	<u>\$ 68,845,000</u>	<u>\$ 71,540,000</u>
Weighted-average bonds outstanding	<u>\$ 71,315,417</u>	<u>\$ 74,253,333</u>
Interest payments to bondholders plus letter of credit fees paid to bank	\$ 357,773	\$ 443,848
Net cash payments on interest rate swaps	<u>2,790,916</u>	<u>2,463,050</u>
	<u>\$ 3,148,689</u>	<u>\$ 2,906,898</u>
Effective interest rate	4.42 %	3.91 %
Market value of swap agreements at September 30	<u>\$ (13,629,389)</u>	<u>\$ (11,356,534)</u>
Change in market value of swap agreements	<u>\$ (2,272,855)</u>	<u>\$ (1,539,686)</u>

Scheduled principal repayments on long-term debt are as follows for the years ended September 30:

2013	\$ 3,454,768
2014	3,573,635
2015	5,508,585
2016	3,598,782
2017	3,735,978
Thereafter	<u>81,786,399</u>
	<u>\$ 101,658,147</u>

Care New England had available \$15,000,000 from October 1, 2010 through August 12, 2011 and December 29, 2011 through September 30, 2012 through a line of credit with a financial institution. There were no outstanding balances on the line of credit as of September 30, 2012 and 2011.

The Hospitals classify certain noncancelable leases as capital leases, and include the property under lease in their property and equipment. Amortization expense for these assets is included in depreciation and amortization expenses in the consolidated statements of operations and changes in net assets. Ownership of the leased property converts to the Hospitals at the end of the lease term. Assets and related accumulated depreciation under the capital leases are included in property, plant and equipment (Note 8).

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Future minimum lease payments due under capital lease arrangements are as follows:

2013	\$ 3,191,638
2014	2,604,613
2015	2,011,869
2016	1,511,533
2017	1,509,123
Thereafter	<u>3,018,248</u>
Total minimum lease payments	13,847,024
Less: Amount representing interest	<u>734,264</u>
Capital lease obligations at September 30, 2012	<u>\$ 13,112,760</u>

10. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at September 30:

	2012	2011
Healthcare services	\$ 4,664,831	\$ 3,815,689
Healthcare research	108,698	63,369
General purposes	8,317,602	7,306,745
Indigent care	2,845,711	2,483,848
Health education	2,039,599	1,945,865
Plant replacement and expansion	10,347,455	6,547,723
Endowment	4,320,036	3,254,498
Other	<u>1,397,406</u>	<u>951,859</u>
Total temporarily restricted net assets	<u>\$ 34,041,338</u>	<u>\$ 26,369,596</u>

Permanently restricted net assets at September 30 are restricted investments to be held in perpetuity.

	2012	2011
Plant replacement and expansion	\$ 11,216,513	\$ 10,074,539
Indigent care	874,506	877,018
General purposes	1,603,479	1,603,481
Research	539,628	560,279
Healthcare services	4,081,187	4,007,497
Health education	<u>1,027,487</u>	<u>1,013,514</u>
Total permanently restricted net assets	<u>\$ 19,342,800</u>	<u>\$ 18,136,328</u>

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The Health System follows the requirements of the Rhode Island enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 as they relate to its permanently restricted endowments. The Health System's endowments consist of numerous individual funds established for a variety of purposes. Its endowments consist solely of donor-restricted endowment funds. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Health System classifies restricted donor funds in accordance with the laws of the State of Rhode Island and generally accepted accounting principles. The Health System classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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 Health System 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 Health System 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 Health System.

For the year ended September 30, 2012, the Health System had the following changes in the endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 16,702,976	\$ 8,061,789	\$ 24,764,765
Investment return			
Investment income	505,468	523	505,991
Net appreciation (realized and unrealized)	<u>3,240,794</u>	<u>-</u>	<u>3,240,794</u>
Total investment return	3,746,262	523	3,746,785
Contributions	(14,258)	63,975	49,717
Appropriation of endowment assets for expenditure	<u>(499,107)</u>	<u>-</u>	<u>(499,107)</u>
Endowment net assets at end of year	<u>\$ 19,935,873</u>	<u>\$ 8,126,287</u>	<u>\$ 28,062,160</u>

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For the year ended September 30, 2011, the Health System had the following changes in the endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 17,801,565	\$ 7,957,205	\$ 25,758,770
Investment return			
Investment income	333,250	504	333,754
Net appreciation (realized and unrealized)	<u>(1,066,399)</u>	<u>-</u>	<u>(1,066,399)</u>
Total investment return	(733,149)	504	(732,645)
Contributions	(37,149)	104,080	66,931
Appropriation of endowment assets for expenditure	<u>(328,291)</u>	<u>-</u>	<u>(328,291)</u>
Endowment net assets at end of year	<u>\$ 16,702,976</u>	<u>\$ 8,061,789</u>	<u>\$ 24,764,765</u>

In addition to permanently restricted endowments, Kent is an income beneficiary of various trusts. On September 30, 2012 and 2011, the market value of the trust assets, which are recorded as permanently restricted net assets, totaled \$11,216,513 and \$10,074,539, respectively. Distributions of income are made at the discretion of the trustees.

It is the policy of the Health System that any appropriations from the appreciation in endowment funds are periodically requested of and approved by the Board of Trustees.

The Board have responsibility for formulating investment policy. The investment policy is to invest in a conservative asset portfolio with minimal investment risk. Certain funds are included in a consolidated long term investment pool and invested in accordance with the investment strategy, authorized by the Boards.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Health System to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets are immaterial as of September 30, 2012 and 2011. These deficiencies resulted from unfavorable market fluctuations. The individual donor-restricted endowment funds with deficiencies will retain future income and appreciation to restore the required fair value of the assets.

During fiscal 2012 and 2011, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	2012	2011
Healthcare services	\$ 1,234,809	\$ 1,541,279
Healthcare research	2,693	18,205
Plant replacement and expansion	2,033,732	3,419,281
Other	1,112,625	1,046,630
Health education	127,886	282,197
Indigent care	<u>101,943</u>	<u>107,075</u>
Total net assets released from restrictions	<u>\$ 4,613,688</u>	<u>\$ 6,414,667</u>

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11. Retirement Plans

The Health System has two separate pension plans. One plan covers the employees of CNE and the Hospitals, with the exception of the unionized employees of WIH (who are covered under a multiemployer union plan) and certain WIH-employed physicians. The other plan covers the employees of the Agency.

Care New England Pension Plan

The Care New England Pension Plan (the "Plan"), established on October 1, 1998, is a defined benefit cash balance plan that covers all of the employees of CNE, and all of the Hospitals' employees, with the exception of the unionized employees and certain employed physicians at WIH. The benefits for the unionized employees at Butler are computed under a separate formula that was in effect when the Butler plan was a standalone noncontributory defined benefit plan. The Hospitals incur and fund their respective pension plan expenses within the guidelines established by the Employee Retirement Income Security Act of 1974.

The Care New England Board of Trustees voted, on September 23, 2010, to freeze the Plan effective December 31, 2010 for all employees with the exception of the Butler unionized employees. Effective December 31, 2010, compensation paid to a participant shall be disregarded for plan purposes, except for purposes related to determining benefits for the unionized employees at Butler. In addition, a participant's cash balance account will only increase annually for interest credit. In connection with the Plan freeze, the Health System enhanced contributions to the Care New England 403(b) Match and Savings Plan.

Included in cumulative changes in unrestricted net assets at September 30, 2012 that has not yet been recognized in net periodic pension cost is an actuarial loss of \$81,856,881. Included in changes in unrestricted net assets at September 30, 2011 that has not yet been recognized in net periodic pension cost is an actuarial loss of \$70,950,846.

The actuarial loss included as cumulative changes in unrestricted net assets and expected to be recognized in net periodic pension cost during the fiscal year ended September 30, 2013 is \$1,777,022.

Net periodic pension cost includes the following components at September 30:

	2012	2011
Service cost	\$ 1,866,870	\$ 4,078,458
Interest cost	10,681,494	11,114,337
Expected return on plan assets	(13,033,563)	(13,523,703)
Amortization of loss	<u>1,471,248</u>	<u>1,012,569</u>
Net periodic pension expenses	<u>\$ 986,049</u>	<u>\$ 2,681,661</u>

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The assumptions used to determine net periodic benefit cost for the years ended September 30 are as follows:

	2012	2011
Discount rate	5.03 %	5.26 %
Expected return on assets	7.75	7.75
Rate of compensation increase	4.00	4.00

The following table presents a reconciliation of the beginning and ending balances of the plan projected benefit obligations, fair value of plan assets, funded status, and accumulated other comprehensive income (AOCI) of the plan as of September 30:

	2012	2011
Changes in benefit obligations		
Projected benefit obligations at beginning of year	\$ 221,054,222	\$ 216,299,180
Service cost	1,866,870	4,078,458
Interest cost	10,681,494	11,114,337
Actuarial loss	24,371,104	4,380,881
Benefits and expenses paid	<u>(12,319,565)</u>	<u>(14,818,634)</u>
Projected benefit obligations at end of year	<u>\$ 245,654,125</u>	<u>\$ 221,054,222</u>
Changes in plan assets		
Fair value of plan assets at beginning of period	\$ 169,224,897	\$ 170,770,388
Actual return on plan assets	25,027,384	(2,051,857)
Employer contributions	9,500,000	15,325,000
Benefits and expenses paid	<u>(12,319,565)</u>	<u>(14,818,634)</u>
Fair value of plan assets at end of period	<u>\$ 191,432,716</u>	<u>\$ 169,224,897</u>
Funded status		
Total pension liability	\$ (54,221,409)	\$ (51,829,325)
Accumulated benefit obligation	243,129,449	218,932,069
Amounts recognized in unrestricted net assets		
Unrestricted net assets at beginning of period	\$ 70,950,846	\$ 52,006,974
Less amounts amortized during the year		
Net loss	1,471,248	1,012,569
Plus amounts occurring during the year		
Net loss	<u>12,377,283</u>	<u>19,956,441</u>
Unrestricted net assets at end of period	<u>\$ 81,856,881</u>	<u>\$ 70,950,846</u>

The assumptions used to develop the projected benefit obligation as of September 30 are as follows:

	2012	2011
Discount rate	3.80 %	5.03 %
Rate of compensation increase	4.00 %	4.00 %

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Plan Assets

The Plan's investment objectives are to achieve long-term growth in excess of inflation, and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets. In order to minimize risk, the Plan attempts to minimize the variability in yearly returns. The Plan diversifies its holdings among sectors, industries, and companies. No more than 6% of the Plan's portfolio (measured on market value) may be held in an individual company's stocks or bonds.

To develop the expected long-term rate of return on plan assets assumption, the Health System considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The Health System's pension plan asset allocations (based on market value) at September 30, by asset category, are as follows:

	Target Allocation	Actual 2012	Actual 2011
Asset category			
Alternative investments	18 %	25 %	26 %
Fixed income securities	26	28	24
Equity securities	56	47	50
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Contributions

The Health System contributed \$9,500,000 and \$15,325,000 to the Plan in 2012 and 2011, respectively. The Health System expects to contribute \$6,000,000 to the Plan in 2013.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year	Pension Benefits
2013	\$ 17,860,000
2014	15,535,000
2015	15,380,000
2016	15,433,000
2017	15,990,000
Years 2018–2021	82,637,000

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Care New England 403(b) Match and Savings Plan

Effective January 1, 2009, the Pension Plan Protection legislation resulted in regulatory changes which discontinued the matching credits to the participants that were previously recorded in the CNE Pension Plan. As a result, CNE established the Care New England 403(b) Plan to account for future matching credits. The plan covers employees that meet certain eligibility requirements. Additionally, effective January 1, 2011, in connection with the freeze of the Care New England Pension Plan, the Health System also provides a nonelective contribution to participant accounts, as defined in the Plan document. Nonelective contributions are allocated to each eligible participant based on a percentage of salary, a combination of the recipients age and years of service, and are credited to each such participant as of the first day of the Plan year, as further described in the Plan document.

The Health System recorded an expense of \$12,736,528 and \$8,941,660 for the nonelective contribution to participant accounts for the fiscal years that ended September 30, 2012 and 2011, respectively. In addition, the Health System recorded an expense of \$3,216,389 and \$2,904,069 for matching credits for fiscal years ended September 30, 2012 and 2011, respectively. The Health System will fund the 2012 expense in calendar year 2013 and funded the 2011 expense in calendar year 2012.

WIH Union Plan

Payments to a multiemployer pension plan covering union employees at WIH for the years ended September 30, 2012 and 2011 were \$8,150,291 and \$7,766,513, respectively.

Kent County Visiting Nurse Association Pension Plan

The Agency has a noncontributory defined benefit pension plan covering all employees who have satisfied certain eligibility requirements that was frozen effective December 31, 2007, and replaced with a contributory retirement savings plan. Benefits under the defined benefit plan were based on years of service and employee's compensation levels.

Included in the charge to net assets at September 30, 2012 and 2011 is an unrecognized actuarial loss of \$3,580,493 and \$3,303,783, respectively. The actuarial loss expected to be recognized in net periodic pension cost during the fiscal year ended September 30, 2013 is \$307,193.

The Agency's pension expense was \$262,262 in 2012 and \$187,497 in 2011.

The assumptions used to determine net periodic benefit cost for the years ended September 30 are as follows:

	2012	2011
Discount rate	4.75 %	5.00 %
Expected return on assets	7.50 %	7.50 %
Rate of compensation increase	N/A	N/A

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The assumptions used to develop the projected benefit obligation as of September 30 are as follows:

	2012	2011
Discount rate	3.94 %	4.75 %
Rate of compensation increase	N/A	N/A

To develop the expected long-term rate of return on plan assets assumption, the Agency considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Plan assets, valued at fair value, consist of 3% cash and cash equivalents and 97% mutual funds. The fair value of the Plan assets were \$6,459,055 and \$5,466,732 at September 30, 2012 and 2011, respectively.

The Agency made required contributions to the Plan of \$266,294 and \$308,354 in 2012 and 2011, respectively. The Agency is expected to make \$227,221 in contributions to the Plan during 2013. Benefit payments are expected to be paid as follows:

Fiscal Year	Pension Benefits
2013	\$ 243,000
2014	253,000
2015	298,000
2016	325,000
2017	384,000
Years 2018–2021	2,611,000

Effective January 1, 2008, the Agency established a 403(b) Retirement Savings Plan that covers employees who have met certain eligibility requirements. Discretionary contributions to the plan are based on years of service and compensation levels. For the fiscal years that ended September 30, 2012 and 2011, respectively, the Agency recorded an expense of \$256,171 and \$244,703.

12. Postretirement Plans

Kent sponsors an unfunded noncontributory defined benefit postretirement plan that provides medical and dental benefits to certain salaried and nonsalaried employees. In 1996, Kent amended the plans to eliminate benefits for all employees, except for certain employees with at least 25 years of service at that date.

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Included in the charge to net assets are the following amounts that have not yet been recognized in net periodic postretirement benefit cost as of September 30, 2012 and 2011, respectively: unrecognized net transition obligation of \$257,750 and \$354,751 and unrecognized actuarial loss of \$232,036 and \$192,355. The unrecognized net transition obligation and actuarial loss expected to be recognized in net periodic postretirement costs during the fiscal year ended September 30, 2013 are \$97,000 and \$4,244, respectively.

The postretirement benefit cost for these plans was \$181,839 in 2012 and \$206,032 in 2011.

13. Patient Service Revenue

For the majority of the System's revenue, the Hospitals and the Agency have agreements with third-party payors that provide for payments to the Hospitals and the Agency at amounts different from their established rates. At the time of rendering service to the patients, the Hospitals and the Agency obtain assignment of benefits payable under the patient's health insurance program, plan, or policy (e.g., Medicaid, Blue Cross, health maintenance organizations, commercial insurance, Medicare, and others). The following is a breakdown of gross patient service revenue by payor type for the years ended September 30:

	2012	2011
Medicare and Medicare Managed Care	32 %	32 %
Medicaid and Medicaid Managed Care	21	20
Blue Cross	24	26
Managed care	11	11
Self-pay	5	4
Other third-party payors	7	7
	100 %	100 %

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there will always be a possibility that the recorded estimates of net revenue could change by a significant amount in the future. The Hospitals and the Agency believe they are in compliance with all applicable laws and regulations. Cost reports filed annually with third-party payors are subject to audit prior to final settlement. The Hospitals and the Agency are compliant with all reimbursement filings. A summary of cost report activity as of September 30, 2012 is as follows:

Medicare

Cost reports for the Hospitals and the Agency have been filed through 2011, and settled through 2011 for the Agency, 2008 for Butler, and 2006 for Kent and WIH.

State of Rhode Island (Medicaid)

Cost reports have been filed through 2010, and settled through 2006 for Butler, Kent and WIH. The implementation of a prospective payment system eliminated the need for Medicaid settlements after fiscal year 2010.

The filing of these cost reports and associated settlements require the use of estimates. Net patient service revenue was increased by approximately \$200,000 and \$3,300,000 in 2012 and 2011, respectively, to reflect the changes in the estimated settlements for certain prior years.

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The Health System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Health System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Health System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Health System records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), for the years ended September 30, 2012 and 2011 is summarized as follows:

	2012	2011
Patient service revenue (net of contractual allowances and discounts)		
Third-party payors	\$ 764,152,967	\$ 720,608,442
Self-pay	<u>40,405,117</u>	<u>34,437,650</u>
Total All Payors	<u>\$ 804,558,084</u>	<u>\$ 755,046,092</u>

14. Disproportionate Share

The government has long recognized the financial burdens which are borne by hospitals which serve an unusually large number, or "disproportionate share", of low-income patients. Kent and WIH received disproportionate share payments of \$33,014,520 and \$27,734,289 from the State of Rhode Island's Medicaid program for the years ended September 30, 2012 and 2011, respectively. Kent and WIH also recorded disproportionate share payments of \$4,137,338 and \$4,936,177 from Medicare during 2012 and 2011, respectively.

15. Concentration of Credit Risk

As of September 30, 2012 and 2011, Care New England, the Hospitals, and the Agency had cash and cash equivalents in excess of Federal Depository Insurance limits at major financial institutions. These financial institutions have a strong credit rating, and management believes that credit risks related to these deposits are minimal.

The Hospitals and the Agency receive a significant portion of its payment for services rendered from a limited number of governmental and commercial third-party payors, including Medicare, Medicaid, and Blue Cross. The organization has not historically incurred any significant concentrated credit losses in the normal course of business.

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In addition, the organizations routinely grant credit to patients without requiring collateral or other security. The mix of receivables, net of contractual allowances, from patients and third-party payors at September 30, 2012 and 2011, was as follows:

	2012	2011
Medicare and Medicare Managed Care	13 %	12 %
Medicaid and Medicaid Managed Care	13	18
Blue Cross	20	18
Managed care	12	14
Self-pay	27	23
Other third-party payors	15	15
	<u>100 %</u>	<u>100 %</u>

The Health System provides an allowance for doubtful accounts to address the risks of nonpayment of accounts receivable.

16. Commitments and Contingencies

Operating Leases

Care New England, the Hospitals, and the Agency have entered into operating lease agreements with several vendors for the lease of certain equipment and office space. Future minimum lease payments under noncancelable operating leases as of September 30, 2012 are:

2013	\$ 5,525,000
2014	4,683,772
2015	3,770,024
2016	3,510,245
2017	3,632,359
Later years	<u>37,056,002</u>
Total minimum lease payments	<u>\$ 58,177,402</u>

Total rent expense for operating leases for the years ended September 30, 2012 and 2011 amounted to \$6,235,788 and \$5,942,924, respectively.

Butler has entered into several agreements with various parties, mostly nonprofit organizations, to lease space on the Butler campus. Rental income in the amount of \$3,033,054 and \$3,007,056 for the fiscal years ending September 30, 2012 and 2011, respectively, is included in other operating revenues in the consolidated statements of operations.

Litigation

CNE, the Affiliates, and the Agency have been individually named as codefendants in several complaints. It is the opinion of management that the liability, if any, to CNE, the Affiliates, and the Agency in excess of insurance coverage will have no material adverse effect on the consolidated financial position of Care New England.

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Collective Bargaining Agreements

At September 30, 2012, approximately 41% of the Health System's employees were covered by collective bargaining agreements. The collective bargaining agreement covering 41% of Butler's employees will expire on March 29, 2013, and be subject to negotiation. The remaining bargaining agreements will be in effect through fiscal 2013.

17. Professional and General Liability Claims

Due to strategic and economic issues, as well as the potential for limited availability of commercial insurance policies, the Care New England entities have moved over time to covering the majority of their professional and general liability insurance to self-insured approaches. The adequacy of the coverage provided, reserves, and the funding levels are evaluated annually by independent actuaries who review the soundness of the programs and recommend future funding levels. Potential losses are estimated based on industry as well as entity experience, and a provision for these losses is recorded.

Butler annually contributes to its self-insurance trust fund to provide for risks relating to its existing actuarially calculated primary level of professional and general liabilities, as well as the tail liability related to prior claims-made coverage. Butler's professional liability coverage for claims in excess of its primary coverage limits is provided by W&I Indemnity.

Kent Hospital established Toll Gate Indemnity in 2004, as an off-shore captive insurance entity to insure primary and excess hospital professional and general liability risks, as well as to supply indemnification coverage for certain eligible medical staff.

WIH annually contributes to its self-insurance trust fund to provide for risks relating to its existing actuarially calculated primary level of professional and general liabilities, as well as the tail liability related to prior claims-made coverage.

In addition to the trust fund, WIH established W&I Indemnity in 1994, as an off-shore captive insurance entity to provide coverage for claims in excess of its underlying policy, as well as to insure the contractual liability arising from indemnification agreements with certain eligible medical staff.

The provisions for anticipated losses were based upon expected undiscounted values. Trust fund and captive assets are available for the payment of claims.

CNE Wellness Centers, LLC and the Agency purchase general and professional liability insurance from Toll Gate Indemnity.

18. Other Self-Insurance Reserves

Care New England has established a workers' compensation trust fund to cover all past and future self-insured claims of workers' compensation activity for CNE, the Hospitals, and the Agency. The reserve for workers' compensation losses is based on an actuarial study and actual experience. At September 30, 2012 and 2011, the amounts accrued for estimated self-insurance costs have not been discounted.

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CNE, on behalf of itself, the Hospitals, and the Agency, has entered into a self-insurance program for health insurance risks. This program covers the health insurance claims for all of CNE's, the Hospitals', and the Agency's employees, with the exception of the unionized employees at WIH. The provisions for health insurance losses are based on actuarial assumptions and actual claims experience.

19. Affiliation With Rhode Island Hospital

In 1981, RIH and WIH approved an agreement providing for the affiliation of the two Hospitals. The affiliation agreement provides for a program of shared medical services, thereby greatly increasing the scope of comprehensive acute-care services available to WIH in maternal, gynecological, and neonatal care. In accordance with the agreement, the Hospital relocated to the property of RIH.

20. Affiliation With Accredited Medical Schools

Butler and WIH are affiliated with the Warren Alpert Medical School of Brown University. The affiliation agreements provide that Butler and WIH will be the principal academic medical centers for psychiatry and healthcare unique to women and newborns, respectively. Kent is affiliated with the University of New England College of Osteopathic Medicine.

21. Functional Expenses

CNE provides healthcare services to residents within their geographic service areas. Expenses related to providing these services for the years ended September 30 are as follows:

	2012	2011
Healthcare services	\$ 661,186,079	\$ 628,362,863
General and administrative	<u>174,155,917</u>	<u>168,576,799</u>
	<u>\$ 835,341,996</u>	<u>\$ 796,939,662</u>

22. Fair Value of Financial Instruments

The Health System calculates fair value defined in ASC Topic 820 to value its financial assets and liabilities, where applicable. ASC Topic 820 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. Topic 820 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 Topic 820 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.

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- 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 Health System 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.

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. Fair value for Level 3 is based upon unobservable inputs for the asset (i.e., supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset (including assumptions about risk).

The Health System's ownership in alternative investments is limited partnership interests in private equity funds. The value of certain alternative investments represents the ownership interest in the Net Asset Value (NAV) of the respective partnership. The NAV of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities related. The Health System has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of September 30.

The fair value of interest rate swap agreements is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, treasury yields, and credit spreads.

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Financial instruments carried at fair value for the System's nonpension plan assets as of September 30, 2012 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 26,297,412	\$ 4,429,540	\$ -	\$ 30,726,952
Fixed income securities	38,628,640	39,360,968	-	77,989,608
Equity securities	43,582,040	-	-	43,582,040
Alternative investments	-	23,403,645	24,844,790	48,248,435
Auction rate securities	-	-	4,175,157	4,175,157
Mutual funds	20,309,265	60,175,172	-	80,484,437
Total investments	128,817,357	127,369,325	29,019,947	285,206,629
Assets held under split-interest agreements	5,542,603	5,673,910	-	11,216,513
Total assets	\$ 134,359,960	\$ 133,043,235	\$ 29,019,947	\$ 296,423,142
Liabilities				
Interest rate swap agreements	\$ -	\$ (13,629,389)	\$ -	\$ (13,629,389)

Financial instruments carried at fair value for the System's nonpension plan assets as of September 30, 2011 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 26,816,133	\$ 2,413,681	\$ -	\$ 29,229,814
Fixed income securities	44,166,078	30,501,011	90,901	74,757,990
Equity securities	52,221,158	-	23,685	52,244,843
Alternative investments	-	16,107,216	13,713,965	29,821,181
Auction rate securities	-	-	10,598,691	10,598,691
Mutual funds	22,736,865	53,494,363	-	76,231,228
Total investments	145,940,234	102,516,271	24,427,242	272,883,747
Assets held under split-interest agreements	10,074,539	-	-	10,074,539
Total assets	\$ 156,014,773	\$ 102,516,271	\$ 24,427,242	\$ 282,958,286
Liabilities				
Interest rate swap agreements	\$ -	\$ (11,356,534)	\$ -	\$ (11,356,534)

The amounts reported in the financial instruments table exclude certain alternative investments valued at approximately \$9,265,898 as of September 30, 2012 and \$5,770,226 as of September 30, 2011, which are valued at cost (Notes 2 and 7) and the values of life insurance policies valued at \$29,333,583 as of September 30, 2012 and \$28,590,839 as of September 30, 2011, which are valued at the lesser of discounted value or cash surrender value.

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Financial instruments carried at fair value for assets invested in the Defined Benefit Pension Plan as of September 30, 2012 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 7,262,893	\$ 2,178	\$ -	\$ 7,265,071
Fixed income securities	27,512,181	-	-	27,512,181
Equity securities	17,242,890	-	-	17,242,890
Alternative investments	-	38,378,495	101,034,079	139,412,574
	<u>\$ 52,017,964</u>	<u>\$ 38,380,673</u>	<u>\$ 101,034,079</u>	<u>\$ 191,432,716</u>

Financial instruments carried at fair value for the Defined Benefit Pension Plan assets as of September 30, 2011 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 4,844,943	\$ 1,026	\$ -	\$ 4,845,969
Fixed income securities	25,899,100	-	-	25,899,100
Equity securities	19,023,296	-	-	19,023,296
Alternative investments	-	41,611,960	77,844,572	119,456,532
	<u>\$ 49,767,339</u>	<u>\$ 41,612,986</u>	<u>\$ 77,844,572</u>	<u>\$ 169,224,897</u>

During the years ended September 30, 2012 and 2011, respectively, the changes in the fair value for the System's financial instruments in the nonpension plan assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	Fixed Income Securities	Equity Securities	Alternative Investments	Auction Rate Securities	Total Investments
Fair value at October 1, 2011	\$ 90,901	\$ 23,685	\$ 13,713,965	\$ 10,598,691	\$ 24,427,242
Total gains (losses)					
Dividends and interest income	-	-	61,817	-	61,817
Net realized gains on investments	-	-	174,047	361,466	535,513
Change in net unrealized appreciation on investments	-	-	1,993,449	(535,000)	1,458,449
Purchases	-	-	14,258,095	-	14,258,095
Sales	-	-	(5,356,583)	(6,250,000)	(11,606,583)
Transfers in and/or out of Level 3	(90,901)	(23,685)	-	-	(114,586)
Fair value at September 30, 2012	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,844,790</u>	<u>\$ 4,175,157</u>	<u>\$ 29,019,947</u>

Care New England Health System and Affiliates
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	Fixed Income Securities	Equity Securities	Alternative Investments	Auction Rate Securities	Total Investments
Fair value at October 1, 2010	\$ -	\$ 87,912	\$ 14,528,650	\$ 19,817,913	\$ 34,434,475
Total gains (losses)					
Dividends and interest income	3,235	606	236,514	-	240,355
Net realized gains on investments	-	-	339,441	548,826	888,267
Change in net unrealized appreciation on investments	1,123	(6,153)	(2,689,188)	(18,048)	(2,712,266)
Purchases	-	14,976	9,900,000	-	9,914,976
Sales	(28,883)	(15,456)	(10,918,332)	(9,750,000)	(20,712,671)
Transfers in and/or out of Level 3	115,426	(58,200)	2,316,880	-	2,374,106
Fair value at September 30, 2011	\$ 90,901	\$ 23,685	\$ 13,713,965	\$ 10,598,691	\$ 24,427,242

During the year ended September 30, 2012 and 2011, the changes in the fair value for the System's financial instruments invested in the System's Defined Benefit Pension Plan assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	2012	2011
Balance at beginning of year	\$ 77,844,572	\$ 66,321,707
Total gains (losses)		
Dividends and interest income	775,356	341,450
Net Realized gains on investments	24,818	5,672,999
Change in net unrealized appreciation on investments	8,067,102	(7,099,511)
Purchases	18,600,000	25,848,927
Sales	(4,277,769)	(13,241,000)
Balance at end of year	\$ 101,034,079	\$ 77,844,572

Care New England Health System and Affiliates
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The Health System uses NAV to determine the fair value of its investments which do not have a readily determinable fair market value. The following table summarizes the key provisions for the Health System's nonpension plan investments as of September 30, 2012, which are valued at NAV. There were no outstanding unfunded commitments at September 30, 2012.

	Net Asset Value	Redemption Terms
Fixed Income	\$ 4,046,142	Bi-monthly upon 30 day prior written notice.
Common Collective Trust	2,880,046	Monthly upon 30 day prior written notice.
Common Collective Trust	3,885,091	Bi-monthly upon 5 day prior written notice.
Common Collective Trust	4,319,792	Monthly upon 10 day prior written notice.
International Equity	11,275,824	First day of each month.
Absolute Return	8,927,528	Bi-monthly upon 5 day prior written notice.
Hedge Fund		End of each quarter with 90 day prior written notice.
Alternative Investments	5,882,195	
Common Collective Trust	3,471,524	First day of each month.
Common Collective Trust	5,304,373	Daily with a minimum of \$25,000 upon written notification by 3PM EST.
Global Asset Allocation	<u>5,264,722</u>	Daily upon 5 day prior written notice.
	<u>\$ 55,257,237</u>	

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

Accounts Payable and Accrued Expenses

The carrying amount reported in the consolidated balance sheets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the consolidated balance sheets for estimated third-party payor settlements approximates its fair value.

Long-Term Debt

The Health System's long-term debt obligations are reported in the accompanying statements of financial position at principal value less unamortized discount or premium, which totaled approximately \$102 million at September 30, 2012, excluding capital leases. The estimated fair value of the Health System's long-term debt as of September 30, 2012 approximated its carrying value.

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Notes to Consolidated Financial Statements
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23. Affiliation Agreement With Memorial Hospital of Rhode Island

In September 2012, Care New England Health System and Memorial Hospital of Rhode Island entered into a letter of intent for a potential transaction in which Memorial Hospital of Rhode Island would become a part of the health system operated by Care New England. Care New England and Memorial Hospital are currently engaged in due diligence and the negotiation of a definitive agreement.

24. Subsequent Event

Care New England Health System has assessed the impact of subsequent events through December 21, 2012, the date the audited financial statements were issued and has concluded that there were no such events that require adjustments to the audited financial statements or disclosure in the notes to the audited financial statements.

**Supplementary Consolidating
Financial Statements**

Care New England Health System and Affiliates
Consolidating Balance Sheet
September 30, 2012

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Assets							
Current assets							
Cash and cash equivalents	\$ 14,055,663	\$ (9,212,629)	\$ 65,049,075	\$ (1,893,792)	\$ (5,163,890)	\$ -	\$ 62,834,427
Investments	-	-	-	25,919,112	-	-	25,919,112
Patient accounts receivable	7,098,474	65,013,709	57,406,711	-	2,399,959	-	131,918,853
Less: Allowance for doubtful accounts	(1,351,601)	(22,362,370)	(11,187,392)	-	(332,544)	-	(35,233,907)
Net patient accounts receivable	5,746,873	42,651,339	46,219,319	-	2,067,415	-	96,684,946
Other receivables	4,590,032	5,350,650	11,514,027	164,484	153,038	(113,000)	21,659,231
Pledges receivable, net	219,471	683,427	974,928	-	-	-	1,877,826
Other current assets	873,591	4,997,678	2,859,084	2,662,682	39,285	-	11,432,320
Current portion of assets whose use is limited	444,954	483,131	179,075	1,412,691	-	-	2,519,851
Due from affiliates—other	4,368,186	9,131,910	5,057,996	15,838,458	290,519	(34,687,069)	-
Due from affiliates—debt	-	-	-	96,088,546	-	(96,088,546)	-
Total current assets	30,298,770	54,085,506	131,853,504	140,192,181	(2,613,633)	(130,888,615)	222,927,713
Assets whose use is limited or restricted as to use							
Endowment funds	15,592,995	15,491,747	8,426,166	-	-	-	39,510,908
Board-designated funds	4,555,654	24,597,196	61,212,571	-	635,794	-	91,001,215
Trustee-held funds	10,442,511	31,655,397	119,838,050	8,271,862	-	-	170,207,820
Deferred compensation funds	1,890,320	777,097	1,157,335	288,004	95,655	-	4,208,411
Total assets limited as to use	32,481,480	72,521,437	190,634,122	8,559,866	731,449	-	304,928,354
Less: Amounts required to meet current obligations	(444,954)	(483,131)	(179,075)	(1,412,691)	-	-	(2,519,851)
Noncurrent assets limited as to use	32,036,526	72,038,306	190,455,047	7,147,175	731,449	-	302,408,503
Property, plant and equipment, net	22,954,549	68,275,829	154,162,702	3,489,261	904,948	-	249,787,289
Pledges receivable, net	200,895	1,953,082	500,910	-	-	-	2,654,887
Investments	517,028	-	2,068,112	1,590,017	-	-	4,175,157
Other assets	71,191	1,159,295	276,348	348,318	-	-	1,855,152
Total assets	\$ 86,078,959	\$ 197,512,018	\$ 479,316,623	\$ 152,766,952	\$ (977,236)	\$ (130,888,615)	\$ 783,808,701

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates
Consolidating Balance Sheet
September 30, 2012

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Liabilities and Net Assets							
Current liabilities							
Accounts payable and accrued expenses	\$ 9,661,008	\$ 29,013,780	\$ 37,590,276	\$ 13,744,415	\$ 1,984,491	\$ (113,000)	\$ 91,880,970
Current portion of estimated third-party payor settlements and advances	212,908	4,107,581	6,245,126	-	243,802	-	10,809,417
Current portion of long-term debt and capital leases	192,747	1,469,443	187,500	4,507,993	35,330	-	6,393,013
Current portion of long-term debt, due to parent	612,781	1,269,144	1,678,607	-	-	(3,560,532)	-
Pension liability	1,519,114	5,532,644	2,816,488	2,162,318	107,987	-	12,138,551
Other current liabilities	1,439,100	1,629,985	4,759,226	1,500,004	354,288	-	9,682,603
Due to affiliates	1,518,769	5,216,000	12,346,272	15,197,102	408,926	(34,687,069)	-
Total current liabilities	15,156,427	48,238,577	65,623,495	37,111,832	3,134,824	(38,360,601)	130,904,554
Long term liabilities							
Self-insurance reserves	2,248,423	26,584,860	83,300,596	13,797,374	-	-	125,931,253
Long-term portion of estimated third-party payor settlements and advances	2,384,292	5,544,295	16,692,081	-	-	-	24,620,668
Long-term debt and capital leases	3,612,016	1,416,934	2,218,750	101,099,422	30,772	-	108,377,894
Pension liability	14,662,611	23,606,286	10,958,431	4,994,077	2,970,298	-	57,191,703
Postretirement liability	-	1,788,923	-	-	-	-	1,788,923
Interest rate swaps	-	-	-	13,629,389	-	-	13,629,389
Other liabilities	2,988,577	1,884,759	2,345,685	1,479,831	92,606	-	8,791,458
Due to parent, long-term debt	14,698,778	27,347,965	50,481,271	-	-	(92,528,014)	-
Total long-term liabilities	40,594,697	88,174,022	165,996,814	135,000,093	3,093,676	(92,528,014)	340,331,288
Net assets							
Unrestricted	11,946,775	39,816,679	233,975,976	(19,344,973)	(7,205,736)	-	259,188,721
Temporarily restricted	15,958,566	8,561,926	9,520,846	-	-	-	34,041,338
Permanently restricted	2,422,494	12,720,814	4,199,492	-	-	-	19,342,800
Total net assets	30,327,835	61,099,419	247,696,314	(19,344,973)	(7,205,736)	-	312,572,859
Total liabilities and net assets	\$ 86,078,959	\$ 197,512,018	\$ 479,316,623	\$ 152,766,952	\$ (977,236)	\$ (130,888,615)	\$ 783,808,701

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates
Consolidating Statement of Operations
Year Ended September 30, 2012

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Revenues and gains							
Patient service revenue (net of contractual allowances and discounts)	\$ 66,380,825	\$ 324,548,139	\$ 397,940,613	\$ 1,244,508	\$ 14,940,842	\$ (496,843)	\$ 804,558,084
Provision for bad debts	(2,853,893)	(36,189,675)	(3,673,580)	-	10,801	-	(42,706,347)
Net patient service revenue less provision for bad debts	63,526,932	288,358,464	394,267,033	1,244,508	14,951,643	(496,843)	761,851,737
Net assets released from restrictions and used for operations	321,201	660,378	1,598,377	-	-	-	2,579,956
Research revenue	10,838,714	-	15,857,048	-	-	-	26,695,762
Other revenue	19,395,562	12,419,575	37,914,373	85,579,328	1,028,235	(101,311,186)	55,025,887
Total revenues and gains	94,082,409	301,438,417	449,636,831	86,823,836	15,979,878	(101,808,029)	846,153,342
Operating expenses							
Salaries and benefits	63,272,987	162,850,160	258,155,420	58,838,037	13,320,568	(4,451,471)	551,985,701
Supplies and other expenses	14,863,131	100,260,325	115,641,768	27,763,949	2,216,131	(97,243,558)	163,501,746
Research expenses	10,675,755	-	15,840,307	-	-	-	26,516,062
Depreciation and amortization	3,485,332	9,043,796	14,259,396	449,055	226,304	-	27,463,883
Insurance	2,035,040	11,947,667	16,362,086	63,560	139,047	(113,000)	30,434,400
Licensure fee	-	13,446,669	18,388,595	-	-	-	31,835,264
Interest	443,047	802,014	2,195,385	160,446	4,048	-	3,604,940
Total operating expenses	94,775,292	298,350,631	440,842,957	87,275,047	15,906,098	(101,808,029)	835,341,996
Income (loss) from operations	(692,883)	3,087,786	8,793,874	(451,211)	73,780	-	10,811,346
Nonoperating gains (losses)							
Investment income on assets limited as to use	1,983,279	376,742	1,346,434	247,539	19,179	-	3,973,173
Unrestricted gifts and bequests	55,936	615	398,113	-	90,272	-	544,936
Change in fair value of interest rate swaps	-	-	-	(2,272,855)	-	-	(2,272,855)
Change in net unrealized (losses) gains on investments	(654,825)	2,657,974	11,315,244	(148,450)	69,262	-	13,239,205
Nonoperating expenditures	(314,360)	(860,725)	(883,580)	-	(47,921)	-	(2,106,586)
Net nonoperating gains (losses)	1,070,030	2,174,606	12,176,211	(2,173,766)	130,792	-	13,377,873
Excess (deficiency) of revenues and gains over expenses and losses	\$ 377,147	\$ 5,262,392	\$ 20,970,085	\$ (2,624,977)	\$ 204,572	\$ -	\$ 24,189,219

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates
Consolidating Statement of Changes in Net Assets
Year Ended September 30, 2012

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Unrestricted net assets							
Excess (deficiency) of revenues and gains over expenses and losses	\$ 377,147	\$ 5,262,392	\$ 20,970,085	\$ (2,624,977)	\$ 204,572	\$ -	\$ 24,189,219
Pension and postretirement adjustment	(7,272,127)	(1,312,116)	(170,517)	(2,093,956)	(276,710)	-	(11,125,426)
Net assets released from restrictions used for purchase of property, plant and equipment	137,970	953,713	942,049	-	-	-	2,033,732
Transfers	26,000	26,000	26,000	(100,000)	22,000	-	-
Transfer to deferred revenue	19,619	-	-	-	-	-	19,619
(Decrease) increase in unrestricted net assets	(6,711,391)	4,929,989	21,767,617	(4,818,933)	(50,138)	-	15,117,144
Temporarily restricted net assets							
Contributions	961,191	3,279,885	3,869,709	-	-	-	8,110,785
Income from investments	234,724	638,028	154,180	-	-	-	1,026,932
Net realized and unrealized gains from investments	1,594,578	627,520	925,615	-	-	-	3,147,713
Net assets released from restrictions	(459,171)	(1,614,091)	(2,540,426)	-	-	-	(4,613,688)
Increase in temporarily restricted net assets	2,331,322	2,931,342	2,409,078	-	-	-	7,671,742
Permanently restricted net assets							
Net realized and unrealized gains from investments	-	1,141,973	524	-	-	-	1,142,497
Contributions	(6,653)	6,713	63,915	-	-	-	63,975
(Decrease) increase in permanently restricted net assets	(6,653)	1,148,686	64,439	-	-	-	1,206,472
(Decrease) increase in net assets	(4,386,722)	9,010,017	24,241,134	(4,818,933)	(50,138)	-	23,995,358
Net assets at beginning of year	34,714,557	52,089,402	223,455,180	(14,526,040)	(7,155,598)	-	288,577,501
Net assets at end of year	\$ 30,327,835	\$ 61,099,419	\$ 247,696,314	\$ (19,344,973)	\$ (7,205,736)	\$ -	\$ 312,572,859

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates
Consolidating Balance Sheet
September 30, 2011

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Assets							
Current assets							
Cash and cash equivalents	\$ 16,383,496	\$ 6,759,981	\$ 37,089,536	\$ (13,910,768)	\$ (4,094,056)	\$ -	\$ 42,228,189
Investments	1,645,743	-	1,983,158	26,909,317	-	-	30,538,218
Patient accounts receivable	6,695,474	53,675,679	65,956,627	-	2,063,680	-	128,391,460
Less: Allowance for doubtful accounts	(1,008,034)	(18,023,227)	(13,124,110)	-	(411,843)	-	(32,567,214)
Net patient accounts receivable	5,687,440	35,652,452	52,832,517	-	1,651,837	-	95,824,246
Other receivables	2,486,892	5,561,791	10,819,886	116,676	199,991	-	19,185,236
Pledges receivable, net	183,340	554,200	923,283	-	-	-	1,660,823
Other current assets	836,258	4,554,845	2,438,867	1,617,264	43,002	-	9,490,236
Current portion of assets whose use is limited	679,392	1,109,335	2,281,783	10,021	-	-	4,080,531
Due from affiliates – other	4,071,228	2,620,530	1,547,503	11,493,346	140,399	(19,873,006)	-
Due from affiliates – debt	-	-	-	95,723,122	-	(95,723,122)	-
Total current assets	31,973,789	56,813,134	109,916,533	121,958,978	(2,058,827)	(115,596,128)	203,007,479
Assets whose use is limited or restricted as to use							
Endowment funds	13,944,405	13,715,541	7,333,101	-	-	-	34,993,047
Board-designated funds	3,965,894	20,633,295	55,075,397	-	548,587	-	80,223,173
Trustee-held funds	12,164,645	34,934,344	112,106,857	1,412,230	-	-	160,618,076
Deferred compensation funds	1,793,847	1,070,079	1,113,087	280,212	94,421	-	4,351,646
Total assets limited as to use	31,868,791	70,353,259	175,628,442	1,692,442	643,008	-	280,185,942
Less: Amounts required to meet current obligations	(679,392)	(1,109,335)	(2,281,783)	(10,021)	-	-	(4,080,531)
Noncurrent assets limited as to use	31,189,399	69,243,924	173,346,659	1,682,421	643,008	-	276,105,411
Property, plant and equipment, net	21,815,094	68,277,037	157,203,527	2,685,977	813,908	-	250,795,543
Pledges receivable, net	374,391	1,790,034	798,862	-	-	-	2,963,287
Investments	816,698	-	3,266,796	2,511,697	-	-	6,595,191
Other assets	50,791	1,295,024	314,679	319,060	-	-	1,979,554
Total assets	\$ 86,220,162	\$ 197,419,153	\$ 444,847,056	\$ 129,158,133	\$ (601,911)	\$ (115,596,128)	\$ 741,446,465

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates
Consolidating Balance Sheet
September 30, 2011

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Liabilities and Net Assets							
Current liabilities							
Accounts payable and accrued expenses	\$ 10,004,744	\$ 34,423,301	\$ 35,567,640	\$ 11,754,804	\$ 2,144,728	\$ -	\$ 93,895,217
Current portion of estimated third-party payor settlements and advances	869,213	2,827,844	10,568,241	-	243,802	-	14,509,100
Current portion of long-term debt and capital leases	228,748	1,412,303	512,728	3,726,267	33,837	-	5,913,883
Current portion of long-term debt, due to parent	573,324	941,388	2,091,940	-	-	(3,606,652)	-
Pension liability	1,541,469	5,452,964	2,872,294	1,412,335	99,138	-	11,378,200
Other current liabilities	1,448,665	1,513,971	5,098,545	-	257,992	-	8,319,173
Due to affiliates	1,943,826	7,903,957	5,452,012	3,755,579	817,632	(19,873,006)	-
Total current liabilities	16,609,989	54,475,728	62,163,400	20,648,985	3,597,129	(23,479,658)	134,015,573
Long term liabilities							
Self-insurance reserves	2,068,466	25,611,122	78,300,993	11,935,955	-	-	117,916,536
Long-term portion of estimated third-party payor settlements and advances	2,007,520	5,063,286	12,585,738	-	-	-	19,656,544
Long-term debt and capital leases	5,003,058	2,886,378	2,406,253	95,607,415	63,221	-	105,966,325
Pension liability	8,497,658	26,656,414	12,839,480	3,835,775	2,697,620	-	54,526,947
Postretirement liability	-	1,973,659	-	-	-	-	1,973,659
Interest rate swaps	-	-	-	11,356,534	-	-	11,356,534
Other liabilities	2,232,278	2,193,627	2,535,715	299,509	195,717	-	7,456,846
Due to parent, long-term debt	15,086,636	26,469,537	50,560,297	-	-	(92,116,470)	-
Total long-term liabilities	34,895,616	90,854,023	159,228,476	123,035,188	2,956,558	(92,116,470)	318,853,391
Net assets							
Unrestricted	18,658,166	34,886,690	212,208,359	(14,526,040)	(7,155,598)	-	244,071,577
Temporarily restricted	13,627,244	5,630,584	7,111,768	-	-	-	26,369,596
Permanently restricted	2,429,147	11,572,128	4,135,053	-	-	-	18,136,328
Total net assets	34,714,557	52,089,402	223,455,180	(14,526,040)	(7,155,598)	-	288,577,501
Total liabilities and net assets	\$ 86,220,162	\$ 197,419,153	\$ 444,847,056	\$ 129,158,133	\$ (601,911)	\$ (115,596,128)	\$ 741,446,465

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates
Consolidating Statement of Operations
Year Ended September 30, 2011

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Revenues and gains							
Patient service revenue (net of contractual allowances and discounts)	\$ 64,309,852	\$ 299,788,244	\$ 375,106,190	\$ 248,004	\$ 15,792,411	\$ (198,609)	\$ 755,046,092
Provision for bad debts	(1,796,158)	(24,146,955)	(5,981,694)	-	(6,281)	-	(31,931,088)
Net patient service revenue less provision for bad debts	62,513,694	275,641,289	369,124,496	248,004	15,786,130	(198,609)	723,115,004
Net assets released from restrictions and used for operations	515,141	815,162	1,665,083	-	-	-	2,995,386
Research revenue	10,907,545	-	17,549,294	-	-	-	28,456,839
Other revenue	18,188,183	14,698,760	35,014,775	57,227,710	1,088,816	(71,629,729)	54,588,515
Total revenues and gains	92,124,563	291,155,211	423,353,648	57,475,714	16,874,946	(71,828,338)	809,155,744
Operating expenses							
Salaries and benefits	63,515,803	160,979,258	256,541,949	38,377,253	13,896,113	(6,786,722)	526,523,654
Supplies and other expenses	13,469,899	91,868,376	88,806,181	18,991,309	2,059,710	(64,957,616)	150,237,859
Research expenses	10,901,077	-	17,698,440	-	-	-	28,599,517
Depreciation and amortization	3,324,998	8,873,736	14,694,296	399,972	228,710	-	27,521,712
Insurance	1,790,359	12,540,460	14,783,640	76,674	495,989	(84,000)	29,603,122
Licensure fee	-	13,441,647	17,270,751	-	-	-	30,712,398
Interest	568,145	755,933	2,278,233	123,860	15,229	-	3,741,400
Total operating expenses	93,570,281	288,459,410	412,073,490	57,969,068	16,695,751	(71,828,338)	796,939,662
Income (loss) from operations	(1,445,718)	2,695,801	11,280,158	(493,354)	179,195	-	12,216,082
Nonoperating gains (losses)							
Investment income on assets limited as to use	820,545	483,038	1,692,236	250,316	23	-	3,246,158
Unrestricted gifts and bequests	58,147	1,130	412,125	100,000	74,588	-	645,990
Change in fair value of interest rate swaps	-	-	-	(1,539,686)	-	-	(1,539,686)
Change in net unrealized losses on investments	(354,523)	(3,972,518)	(8,211,568)	(100,014)	(40,680)	-	(12,679,303)
Nonoperating expenditures	(321,469)	(842,322)	(696,783)	-	(25,655)	-	(1,886,229)
Net nonoperating gains (losses)	202,700	(4,330,672)	(6,803,990)	(1,289,384)	8,276	-	(12,213,070)
Excess (deficiency) of revenues and gains over expenses and losses	\$ (1,243,018)	\$ (1,634,871)	\$ 4,476,168	\$ (1,782,738)	\$ 187,471	\$ -	\$ 3,012

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates
Consolidating Statement of Changes in Net Assets
Year Ended September 30, 2011

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Unrestricted net assets							
Excess (deficiency) of revenues and gains over expenses and losses	\$ (1,243,018)	\$ (1,634,871)	\$ 4,476,168	\$ (1,782,738)	\$ 187,471	\$ -	\$ 3,012
Pension and postretirement adjustment	(3,118,755)	(9,057,549)	(4,367,310)	(2,216,786)	(595,059)	-	(19,355,459)
Net assets released from restrictions used for purchase of property, plant and equipment	351,935	789,882	2,277,464	-	-	-	3,419,281
Transfers	(8,618)	(27,307)	(37,485)	75,000	(1,590)	-	-
Transfer to deferred revenue	(807,390)	-	(1,834,250)	-	-	-	(2,641,640)
(Decrease) increase in unrestricted net assets	(4,825,846)	(9,929,845)	514,587	(3,924,524)	(409,178)	-	(18,574,806)
Temporarily restricted net assets							
Contributions	1,011,584	3,615,937	2,487,283	-	-	-	7,114,804
Income from investments	197,215	449,984	261,745	-	-	-	908,944
Net realized and unrealized losses from investments	(713,034)	(110,650)	(520,803)	-	-	-	(1,344,487)
Net assets released from restrictions	(867,076)	(1,605,044)	(3,942,547)	-	-	-	(6,414,667)
(Decrease) increase in temporarily restricted net assets	(371,311)	2,350,227	(1,714,322)	-	-	-	264,594
Permanently restricted net assets							
Net realized and unrealized gains (losses) from investments	-	(499,926)	504	-	-	-	(499,422)
Contributions	6,090	15,634	82,356	-	-	-	104,080
Increase (decrease) in permanently restricted net assets	6,090	(484,292)	82,860	-	-	-	(395,342)
Decrease in net assets	(5,191,067)	(8,063,910)	(1,116,875)	(3,924,524)	(409,178)	-	(18,705,554)
Net assets at beginning of year	39,905,624	60,153,312	224,572,055	(10,601,516)	(6,746,420)	-	307,283,055
Net assets at end of year	\$ 34,714,557	\$ 52,089,402	\$ 223,455,180	\$ (14,526,040)	\$ (7,155,598)	\$ -	\$ 288,577,501

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates

**Consolidated Financial Statements with
Supplementary Consolidating Information
September 30, 2011 and 2010**

Care New England Health System and Affiliates
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September 30, 2011 and 2010

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Report of Independent Auditors

To the Board of Trustees
Care New England Health System

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of operations, changes in net assets and cash flow present fairly, in all material respects, the financial position of Care New England Health System and Affiliates ("Care New England") at September 30, 2011, and the consolidated results of their operations, changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Care New England's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements 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 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 audit provides a reasonable basis for our opinion. The financial statements of Care New England as of September 30, 2010 and for the year then ended were audited by other auditors whose report dated December 23, 2010 expressed an unqualified opinion on those statements.

Our audit was conducted for the purpose of forming an opinion on the 2011 consolidated financial statements taken as a whole. The supplementary consolidating information included on page 39 to 42 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual affiliates. Accordingly, we do not express an opinion on the financial position and results of operations of the individual affiliates. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

December 22, 2011

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Care New England Health System and Affiliates
Consolidated Balance Sheets
September 30, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 42,228,189	\$ 78,907,705
Investments	30,538,218	2,846,997
Patient accounts receivable, net of allowance for uncollectible accounts of \$32,567,214 in 2011 and \$31,296,045 in 2010	95,824,246	81,031,735
Other receivables	19,185,236	12,799,246
Pledges receivable, net	1,660,823	1,303,759
Other current assets	9,490,236	9,503,750
Current portion of assets whose use is limited	4,080,531	3,530,085
Total current assets	<u>203,007,479</u>	<u>189,923,277</u>
Assets whose use is limited or restricted as to use		
Endowment funds	34,993,047	36,763,760
Board-designated funds	80,223,173	76,029,006
Trustee-held funds	160,618,076	137,210,575
Deferred compensation funds	4,351,646	3,940,457
Total assets limited as to use	<u>280,185,942</u>	<u>253,943,798</u>
Less: Amounts required to meet current obligations	<u>(4,080,531)</u>	<u>(3,530,085)</u>
Noncurrent assets limited as to use	<u>276,105,411</u>	<u>250,413,713</u>
Property, plant and equipment, net	250,795,543	253,227,303
Pledges receivable, net	2,963,287	1,285,438
Investments	6,595,191	19,817,913
Other assets	1,979,554	1,170,918
Total assets	<u>\$ 741,446,465</u>	<u>\$ 715,838,562</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 95,317,221	\$ 101,389,513
Current portion of estimated third-party payor settlements and advances	14,509,100	15,189,402
Current portion of long-term debt and capital leases	5,913,883	5,976,801
Pension liability	11,378,200	2,426,552
Interest rate swaps	-	1,104,629
Other current liabilities	6,897,169	4,634,608
Total current liabilities	<u>134,015,573</u>	<u>130,721,505</u>
Long-term liabilities		
Self-insurance reserves	117,916,536	104,137,560
Long-term portion of estimated third-party payor settlements and advances	19,656,544	20,713,406
Long-term debt and capital leases	105,966,325	86,039,506
Pension liability	54,526,947	47,441,341
Postretirement liability	1,973,659	2,396,079
Interest rate swaps	11,356,534	8,712,219
Other liabilities	7,456,846	8,393,891
Total long-term liabilities	<u>318,853,391</u>	<u>277,834,002</u>
Net assets		
Unrestricted	223,493,967	242,068,773
Temporarily restricted	46,947,206	46,682,612
Permanently restricted	18,136,328	18,531,670
Total net assets	<u>288,577,501</u>	<u>307,283,055</u>
Total liabilities and net assets	<u>\$ 741,446,465</u>	<u>\$ 715,838,562</u>

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates
Consolidated Statements of Operations
Years Ended September 30, 2011 and 2010

	2011	2010
Revenues and gains		
Net patient service revenue	\$ 755,046,092	\$ 730,762,119
Net assets released from restrictions and used for operations	2,995,386	7,843,614
Research revenue	28,456,839	28,954,976
Other revenue	54,588,515	37,709,538
Total revenues and gains	<u>841,086,832</u>	<u>805,270,247</u>
Operating expenses		
Salaries and benefits	526,523,654	502,912,902
Supplies and other expenses	150,237,859	139,539,901
Research expenses	28,599,517	28,961,381
Depreciation and amortization	27,521,712	27,599,900
Insurance	29,603,122	21,595,578
Licensure fee	30,712,398	27,866,534
Interest	1,278,350	1,254,472
Provision for uncollectible accounts	31,931,088	36,700,064
Total operating expenses	<u>826,407,700</u>	<u>786,430,732</u>
Income from operations	<u>14,679,132</u>	<u>18,839,515</u>
Nonoperating gains (losses)		
Investment income on assets limited as to use	3,246,158	2,418,733
Unrestricted gifts and bequests	645,990	489,569
Change in fair value of interest rate swaps	(1,539,686)	(3,675,851)
Net payments on interest rate swaps	(2,463,050)	(2,477,873)
Change in net unrealized (losses) gains on investments	(12,679,303)	10,490,064
Nonoperating expenditures	(1,886,229)	(1,553,979)
Net nonoperating (losses) gains	<u>(14,676,120)</u>	<u>5,690,663</u>
Excess of revenues and gains over expenses and losses	3,012	24,530,178
Other changes in unrestricted net assets		
Pension and postretirement adjustment	(19,355,459)	(12,672,250)
Net assets released from restrictions used for purchase of property, plant and equipment	3,419,281	4,792,191
Transfer to deferred revenue	(2,641,640)	-
Others	-	47,703
(Decrease) increase in unrestricted net assets	<u>\$ (18,574,806)</u>	<u>\$ 16,697,822</u>

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2011 and 2010

	2011	2010
Unrestricted net assets		
Excess of revenues over expenses	\$ 3,012	\$ 24,530,178
Other changes in unrestricted net assets		
Pension and postretirement adjustment	(19,355,459)	(12,672,250)
Net assets released from restrictions used for purchase of property, plant and equipment	3,419,281	4,792,191
Transfer to deferred revenue	(2,641,640)	-
Others	-	47,703
(Decrease) increase in unrestricted net assets	<u>(18,574,806)</u>	<u>16,697,822</u>
Temporarily restricted net assets		
Contributions	7,114,804	11,389,097
Income from investments	908,944	709,262
Net realized and unrealized (losses) gains from investments	(1,344,487)	1,436,561
Net assets released from restrictions	<u>(6,414,667)</u>	<u>(13,525,190)</u>
Increase in temporarily restricted net assets	<u>264,594</u>	<u>9,730</u>
Permanently restricted net assets		
Net realized and unrealized (losses) gains from investments	(499,422)	734,967
Contributions	<u>104,080</u>	<u>152,635</u>
(Decrease) increase in permanently restricted net assets	<u>(395,342)</u>	<u>887,602</u>
(Decrease) increase in net assets	<u>(18,705,554)</u>	<u>17,595,154</u>
Net assets		
Beginning of year	<u>307,283,055</u>	<u>289,687,901</u>
End of year	<u>\$ 288,577,501</u>	<u>\$ 307,283,055</u>

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates
Consolidated Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	2011	2010
Operating activities		
Change in net assets	\$ (18,705,554)	\$ 17,595,154
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Pension and postretirement adjustment	19,355,459	12,672,250
Depreciation and amortization	27,521,712	27,599,900
Provision for bad debt	31,931,088	36,700,064
Change in fair value of interest rate swaps	1,539,686	3,675,851
Income and gains on assets limited as to use	(3,246,158)	(2,418,733)
Net unrealized (gains) losses on investments	12,679,303	(10,490,064)
Restricted contributions and investment income	395,342	(887,602)
Changes in		
Patient accounts receivable	(46,723,599)	(37,925,476)
Investments	(60,912,110)	(9,738,889)
Other current and long-term assets	(9,216,025)	1,345,372
Accounts payable and accrued expenses	(6,072,292)	14,292,564
Estimated third-party payor settlements	(1,737,164)	(5,378,105)
Deferred revenue and other liabilities	1,325,516	(1,460,902)
Net pension liability	(3,740,625)	(5,990,571)
Self-insurance reserves	13,778,976	1,472,767
Net cash (used in) provided by operating activities	<u>(41,826,445)</u>	<u>41,063,580</u>
Investing activities		
Purchase of property and equipment	(25,089,952)	(23,943,062)
Purchase of investments	(9,900,000)	-
Proceeds from the sale of investments	20,668,322	-
Net cash used in investing activities	<u>(14,321,630)</u>	<u>(23,943,062)</u>
Financing activities		
Proceeds from long-term debt	28,000,000	4,899,749
Payments on long-term debt	(8,136,099)	(7,161,920)
Restricted contributions to be used for long-term investments and investment income	<u>(395,342)</u>	<u>887,602</u>
Net cash provided by (used in) financing activities	<u>19,468,559</u>	<u>(1,374,569)</u>
Net (decrease) increase in cash and cash equivalents	(36,679,516)	15,745,949
Cash and cash equivalents		
Beginning of year	<u>78,907,705</u>	<u>63,161,756</u>
End of year	<u>\$ 42,228,189</u>	<u>\$ 78,907,705</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	\$ 1,215,630	\$ 1,355,785

The accompanying notes are an integral part of these financial statements.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

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1. Description of Organization

Corporate Structure

Care New England Health System ("CNE", "Care New England", or the "Health System"), a not-for-profit corporation, was established in February 1996 as the holding company for the development of an integrated delivery network which consists of Butler Hospital, Kent County Memorial Hospital, and Women & Infants Hospital of Rhode Island (collectively, the "Hospitals"), and the Kent County Visiting Nurse Association, d/b/a VNA of Care New England (the "Agency").

The accompanying consolidated financial statements include the accounts of Care New England and its affiliates, over which Care New England has corporate governance:

- Butler Hospital ("Butler") and its affiliates, Carriage House, LLC ("Carriage"), and Butler Hospital Allied Medical Services, LLC.
- Kent County Memorial Hospital ("Kent") and its affiliates, Kent Hospital Foundation, Kent Ancillary Services, LLC, Affinity Physicians, LLC, and Toll Gate Indemnity, Ltd. ("Toll Gate").
- Women & Infants Corporation ("WIC") and its affiliates, Women & Infants Development Foundation, Palomar Group, Inc. ("Palomar"), Women & Infants Hospital of Rhode Island ("WIH"), WIH Faculty Physicians, Inc., Women & Infants Ancillary Services, LLC, Women & Infants Health Care Alliance, LLC, and W&I Indemnity, Ltd. ("W&I Indemnity").
- Kent County Visiting Nurse Association and its affiliate, Healthtouch, Inc. (together, the "Agency").
- Care New England Wellness Centers, LLC.

Significant intercompany accounts have been eliminated in consolidation.

Mission and Nature of Business

Care New England is dedicated to building an exemplary health care system. Care New England supports the three Hospitals, the Agency, and affiliated organizations.

The mission of Butler Hospital is to provide treatment for psychiatric illness in an atmosphere of dignity and respect, and to contribute to knowledge through education and research, while continuously improving the ways Butler serves its patients and the community. Butler is a 117-bed, not-for-profit psychiatric teaching hospital, affiliated with the Warren Alpert Medical School of Brown University, providing services for the care of patients from Rhode Island and nearby Massachusetts. As a complement to its role in service and education, Butler actively supports research by members of its staff. Butler is accredited by The Joint Commission ("TJC").

The mission of Kent County Memorial Hospital is to continually improve the health and well-being of the people and communities it serves, offering its essential services without regard for the ability to pay. Kent is a 359-bed, not-for-profit general hospital providing a full range of services for the acute care of patients principally from Kent County, Rhode Island. Kent is affiliated with, and provides clinical training to, the students of the University of New England College of Osteopathic Medicine, and currently operates American Osteopathic Association approved residency programs in emergency medicine, family practice, internal medicine, and a fellowship program in hyperbaric medicine. Kent is accredited by TJC and the Commission on Accreditation of Rehabilitation Facilities. Toll Gate, a wholly owned subsidiary of Kent insures primary and excess hospital

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professional and general liability risks for the Hospital and its employees on an occurrence basis. Toll Gate insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from employed physicians' professional liability on both a claims-made and occurrence basis. Toll Gate also insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from community physicians' professional liability on both a claims-made and occurrence basis.

The mission of Women & Infants Corporation is to support Women & Infants Hospital of Rhode Island and all other affiliated organizations. The mission of Women & Infants Hospital of Rhode Island is to improve the health and well-being of women and infants, and to provide essential services regardless of ability to pay. WIH is a 247-bed, not-for-profit regional center for women and infants' care in Rhode Island and southern New England. Among other university affiliations, Women & Infants is the primary teaching affiliate of the Warren Alpert Medical School of Brown University in obstetrics, gynecology and newborn pediatrics along with related sub-specialty and internal medicine services. As a complement to its role in service and education, WIH actively supports research by members of its staff. WIH is accredited by TJC. W&I Indemnity is a wholly owned subsidiary of WIH. W&I Indemnity insures excess hospital professional liability risks for the Hospital and its employees on an occurrence basis, and excess hospital professional liability risks for the Care New England Health System solely to the extent not covered by commercial insurance purchased by Care New England, Butler, or Kent. W&I Indemnity insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from employed physicians' and residents' medical malpractice liability on an occurrence basis. W&I Indemnity also insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from community physicians' medical malpractice liability on both a claims-made and occurrence basis.

The mission of Kent County Visiting Nurse Association is to provide and administer a comprehensive, multidisciplinary, therapeutic, hospice, and public health nursing program. The Agency is a not-for-profit corporation, providing home care services to the residents of Rhode Island and nearby Massachusetts. Healthtouch, Inc. is a not-for-profit corporation providing private duty nursing and personal care services, primarily to residents of Rhode Island.

2. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in accordance with the reporting principles of not-for-profit accounting as defined by Not-for-Profit Entities and the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide for Health Care Organizations.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates are made in the areas of patient accounts receivable, accruals for settlements with third-party payors, incurred but not reported liabilities for health insurance, workers' compensation, and medical malpractice insurance, and other accrued expenses. Actual results could differ from those estimates.

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Cash and Cash Equivalents

Care New England 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 the Boards of Trustees (the "Boards") designation or other arrangements under trust agreements.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, other-than-temporary impairments in the value of securities, interest, and dividends) is included in the excess of revenues and gains over expenses unless the income or loss is restricted by donor or law.

Kent, WIH and the Agency follow the practice of pooling resources of unrestricted and restricted assets for long-term investment purposes. The investment pool is operated on the market value method whereby each participating fund is assigned a number of units based on the percentage of the pool it owns at the time of entry. Income, gains, and losses of the pool are allocated to the funds based on their respective participation in the pool.

Alternative investments (nontraditional, not readily marketable holdings) include hedge funds. Alternative investment interests generally are structured such that the Health System holds a limited partnership interest. The Health System's ownership structure does not provide for control over the related investees, and the Health System's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. There are no future funding commitments for alternative investments at September 30, 2011.

Individual investment holdings within the alternative investments include nonmarketable and market-traded debt and equity securities, and interests in other alternative investments. The Health System may be exposed indirectly to securities lending, short sales of securities, and trading in futures and forward contracts, options, and other derivative products. Alternative investments often have liquidity restrictions under which the Health System's capital may be divested only at specified times. The Health System's liquidity restrictions may be up to 90 days for certain investments. Liquidity restrictions may apply to all or portions of a particular invested amount. The Health System's policy is to record its ownership interest in certain alternative investments of less than 5% at cost.

Financial information used by the Health System to evaluate its alternative investments is provided by the investment manager or general partner, and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Health System's annual financial statement reporting.

There is uncertainty in the valuation for alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, and time lags associated with reporting by investee companies. As a result, there is at least a reasonable possibility that estimates will change in the near term.

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Income and realized net gains (losses) on investments of endowments and specific purpose funds are reported as follows:

- Increases (decreases) in permanently restricted net assets if the terms of the gift require that they be added to the principal of permanently restricted net assets;
- Increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income or the income has not yet been appropriated; or
- Increases (decreases) in the unrestricted net assets in all other cases.

Assets Limited as to Use

Assets limited as to use primarily include endowment funds, assets held by trustees under indenture agreements and insurance programs, deferred compensation arrangements, and designated assets set aside by one or more of the Boards, over which the Boards retain control and may, at their discretion, subsequently use for other purposes. Amounts required to meet current obligations of the Hospitals have been reclassified to current assets.

Inventories

Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out) or market. Inventories of \$4,180,758 and \$3,919,717 at September 30, 2011 and 2010, respectively are included in other current assets in the consolidated balance sheets.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Donated property and equipment is recorded at fair value at the date of receipt. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Depreciation is recorded using the straight-line method based on the estimated useful life of each class of depreciable asset, as recommended by the American Hospital Association as follows:

Buildings and improvements	5 - 40 years
Fixed and moveable equipment	3 - 20 years

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support, and are excluded from the excess of revenues 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 those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Assets recorded under capital leases are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included with depreciation and amortization expense in the consolidated statements of operations.

Upon retirement or sale of assets, the cost of assets disposed of and the related accumulated depreciation are eliminated and the related gains or losses are recognized in other revenue in the consolidated statements of operations.

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Care New England evaluates the potential impairment of property, plant and equipment whenever events or changes in circumstances indicate that the carrying value of a group of assets may not be recoverable.

Pledges

Pledges, less an allowance for uncollectible amounts, are recorded as receivables in the year made. Pledges are recorded as additions to the appropriate net asset classification.

Deferred Financing Costs

Expenses related to issuance of bonds are deferred and amortized on a straight-line basis over the period during which the bonds are expected to be outstanding.

Self-Insurance Reserves

The reserves for self-insured programs are estimated based on actuarial studies and the Hospitals' and industry experience. The reserves include estimates of the ultimate cost for both reported claims and claims incurred but not yet reported. The Hospitals have established separate indemnification companies and trust funds for payment of certain self-insured claims.

Care New England is self-insured for losses arising from workers' compensation claims. Loss reserves are estimated based on actuarial studies, and the Health System's and industry experience.

For the employees of the Hospitals and the Agency, with the exclusion of the unionized employees at Women & Infants Hospital, Care New England is self-insured for losses arising from health insurance claims. Self-insured losses for both reported claims and claims incurred but not yet reported are estimated based on actuarial studies and the Health System's actual experience.

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.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues and gains over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues and gains over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, 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), and changes in the pension and postretirement liability.

Net Patient Service Revenue

The Hospitals and the Agency have individual agreements with many third-party payors that provide payments at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments.

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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 such things as 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 adjustments.

Research Revenue

Research revenue includes revenue from federal, state, institutional and other sources for the purposes of funding research activities.

Other Revenue

Other revenue includes underwriting income, rental income, cafeteria sales, laboratory services provided to nonpatients, sales of home medical equipment, vendor rebates and discounts, various services provided to physicians and other organizations and gains or losses upon the retirement or sale of assets.

Charity Care

The Health System provides care to patients who meet certain criteria under their charity care policies without charge or at amounts less than established rates. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient revenue.

Contributions and Donor-Restricted 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 when the condition is satisfied. 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 operations and changes in net assets as net assets released from restrictions.

Unrestricted contributions are reported net of direct fundraising expenses in the consolidated statements of operations.

Income Tax Status

Care New England, the Hospitals, the Agency, Healthtouch, Women & Infants Faculty Physicians, Inc., Women & Infants Corporation, Women & Infants Development Foundation, Palomar, and Kent Hospital Foundation are not-for-profit corporations, and have been recognized as tax exempt on related income pursuant to Section 501(c)(3) of the Internal Revenue Code. W&I Indemnity, Ltd. and Toll Gate Indemnity, Ltd. are foreign corporations with no material tax liability. Other affiliates are single-member limited liability companies which are treated as part of their sole member for tax purposes.

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New Accounting Pronouncements

Presentation and Disclosure of Net Revenues, Provision for Bad Debts, and the Allowance for Doubtful Accounts

In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2011-7 (ASU 2011-7), *Health Care Entities: Presentation and Disclosure of Net Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*. Under the new guidance, bad debts relating to patient service revenue will be separately disclosed in the consolidated statements of operations and reported as a component of net patient service revenue. Bad debts associated with activities other than patient service revenue will continue to be reported as an operating expense. For Care New England, ASU 2011-7 would be effective for fiscal years beginning after December 15, 2011, but early adoption is permitted. The Health System has decided not to early adopt this standard.

Postretirement Benefit Plan Assets

In March 2008, the FASB issued ASC Topic 517-20-65-2, *Employers' Disclosures about Postretirement Benefit Plan Assets*. This Topic amends ASC Topic 958-715 to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The Health System adopted the provisions of the Topic beginning with the fiscal year ended September 30, 2010.

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued ASC Topic 815-10-65-1, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of Topic 815-10-50 (ASC Topic 815-10-65-1)*. ASC Topic 815-10-65-1 builds upon the existing disclosure requirements of ASC Topic 815-10-50, *Accounting for Derivative Instruments and Hedging Activities*, by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under ASC Topic 815-10-50 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Health System adopted ASC Topic 815-10-65-1 for its fiscal year ending September 30, 2010.

Reclassifications

Certain items in the 2010 financial statements have been reclassified to conform to the current year presentation.

3. Uncompensated Care and Community Services

The Health System maintains records to identify and monitor the level of charity care and community services it provides, including the amount of charges forgone for services and the estimated cost incurred to provide those services. The revenues forgone and estimated costs and expenses incurred to provide charity care for the years ended September 30 are as follows:

	2011	2010
Revenues forgone, based on established rates	\$ 35,271,183	\$ 26,405,197
Expenses and cost incurred	14,554,470	11,545,773

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In addition to the above-mentioned medical care rendered, the Health System provides numerous other services free of charge to the community. These services include such things as transporting patients to the healthcare facilities, interpretation of medical information to various languages, volunteer services to other not-for-profit agencies, emergency and disaster relief services, various health, educational, research and teaching programs, healthcare screening services, therapeutic patient services, and provision of direct services to patients with multiple psychosocial needs.

	2011	2010
Approximated revenues forgone, or cost of the services provided to the community	\$ 7,397,062	\$ 10,095,776

The Health System also provides services to other indigent patients under the Medicaid/Rite Care Program, which reimburses healthcare providers at amounts which are less than the cost of services provided to the recipients.

In addition to the cost of charity care and other community service programs, the Health System provided \$31,931,088 and \$36,700,064 for uncollectible patient accounts during the years ended September 30, 2011 and 2010, respectively.

4. Pledges Receivable

Unconditional promises to give are recorded at present value as current and long-term assets based on expected time of collection. Future expected collections of these pledges as of September 30 are as follows:

	2011	2010
Within one year	\$ 2,195,890	\$ 1,791,872
One to five years	3,650,520	2,154,974
Beyond five years	6,305	10,105
	<u>5,852,715</u>	<u>3,956,951</u>
Less: Allowance for uncollectibles	<u>(1,228,605)</u>	<u>(1,367,754)</u>
Pledges receivable, net	<u>\$ 4,624,110</u>	<u>\$ 2,589,197</u>

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5. Summary of Investments

Investments at September 30 are summarized as follows:

	2011	2010
Securities, at market		
Cash and cash equivalents	\$ 29,408,878	\$ 18,480,802
Fixed income securities	75,556,136	37,580,326
Equity securities	52,244,843	67,096,178
Mutual funds	85,328,557	83,166,909
Auction rate securities	10,598,691	19,817,913
Alternative investments	35,591,407	23,052,753
Cash surrender value of life insurance	28,590,839	27,413,827
	<u>\$ 317,319,351</u>	<u>\$ 276,608,708</u>

The cash surrender value of life insurance is included in Board-designated funds.

Investment return for the years ended September 30 consisted of the following:

	2011	2010
Interest and dividend income	\$ 2,862,928	\$ 2,685,828
Net realized gains on sales of investments	9,885,312	2,645,146
Net change in unrealized (losses) gains	(12,679,303)	10,490,064
	<u>\$ 68,937</u>	<u>\$ 15,821,038</u>
Included in operating revenue	\$ 9,502,082	\$ 2,912,241
Included in nonoperating revenue	(9,433,145)	12,908,797
	<u>\$ 68,937</u>	<u>\$ 15,821,038</u>

Care New England, the Hospitals, and the Agency routinely invest their surplus operating funds in various overnight repurchase agreements, money market funds, and fixed income U.S. agency bonds, which are classified as cash and cash equivalents.

Through its consolidated treasury management system, Care New England, on behalf of the Health System, has invested surplus operating cash in auction rate securities with varying maturity dates, which are backed by student loans. These loans are guaranteed for repayment by the federal government. During 2008, the auctions at which these securities were sold began to fail, requiring CNE to hold these securities indefinitely. However, payments of interest from the underlying loan pool remain current. As of September 30, 2011 and 2010, these securities are recorded as short-term and long-term investments in the consolidated balance sheets and Care New England has recorded an other-than-temporary impairment loss of \$651,310 and \$1,182,086, respectively, based on an independent valuation of the securities. During 2011, \$9,750,000 of the auction rate securities were liquidated at face value, resulting in a nonoperating gain of \$548,825. During 2010, \$3,225,000 of the auction rate securities were liquidated at face value, resulting in a nonoperating gain of \$198,359. During October, 2011, an additional \$4,250,000 were liquidated at face value, resulting in a nonoperating gain of \$246,500.

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The summary of the current and long-term fair value of the auction rate securities is as follows:

	2011	2010
Current investments	\$ 4,003,500	\$ -
Long term investments	6,595,191	19,817,913
	<u>\$ 10,598,691</u>	<u>\$ 19,817,913</u>

6. Property, Plant and Equipment

A summary of property, plant and equipment at September 30 follows:

	2011	2010
Land and land improvements	\$ 10,409,078	\$ 10,169,616
Buildings and improvements	345,142,240	334,879,014
Moveable equipment	275,240,463	262,280,466
Total property, plant and equipment	630,791,781	607,329,096
Less: Accumulated depreciation and amortization	(382,282,204)	(357,840,698)
	248,509,577	249,488,398
Construction and projects in progress	2,285,966	3,738,905
Property, plant and equipment, net	<u>\$ 250,795,543</u>	<u>\$ 253,227,303</u>

Depreciation expense for property, plant and equipment amounted to \$27,364,023 and \$27,526,520 for the years ended September 30, 2011 and 2010, respectively.

Care New England disposed of \$3,119,556 and \$1,952,944 of assets, with accumulated depreciation of \$2,922,517 and \$1,952,944 for the years ended September 30, 2011 and 2010, respectively. The net book value was written off and reflected in the consolidated statements of operations.

During May 2010, Kent received a Certificate of Need approval from the Rhode Island Department of Health to construct and relocate its outpatient surgical suites to one floor of a two-story medical building being built on its campus by a private developer. The Certificate of Need also includes lobby renovations, the construction of a connector to the main hospital building, and the construction of a 10-bed short stay nursing unit in the vacated outpatient surgery space. The project is being funded through the issuance of tax-exempt debt and philanthropic donations. Total estimated cost of the project is \$15,000,000.

During November 2010, Butler received a Certificate of Need approval from the Rhode Island Department of Health to build a building that will house an updated Patient Assessment Service, and accommodate an increase in Butler's licensed bed complement of inpatient psychiatry beds by twenty-six. The building is being funded through the issuance of tax-exempt debt, use of equity, and philanthropic donations. Total estimated cost of the new building is \$19,126,000.

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As of September 30, 2011, the Health System estimated the total cost of completion of construction and projects in progress to be approximately \$35,444,126. The funding to complete these projects will come from Board-designated funds, philanthropic donations, tax-exempt debt, and operating cash.

WIH leases land for its facility from Rhode Island Hospital ("RIH"), for a nominal annual payment, under a 99-year lease agreement which expires December 31, 2085.

Butler owns approximately 110 acres of land, which was purchased with donated funds in the mid-19th century. This land has a book value of one dollar.

In the late 1940s, Kent acquired 57 acres of land, which is recorded at the acquisition price of \$90,165.

Conditional asset retirement obligations are recorded at \$1,650,159 and \$1,580,875 as of September 30, 2011 and 2010, respectively. These obligations are recorded in other long-term liabilities in the consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2011 and 2010, there were no significant retirement obligations incurred or settled. Accretion expense of \$66,284 and \$64,576 was recorded during the years ended September 30, 2011 and 2010, respectively.

7. Long-Term Debt and Capital Leases

A summary of long-term debt at September 30 is as follows:

	2011	2010
Variable rate \$46,730,000 RIHEBC 2008 Series A bonds, final maturity in 2032	\$ 41,655,000	\$ 42,985,000
Variable rate \$38,210,000 RIHEBC 2008 Series B bonds, final maturity in 2037	29,885,000	31,515,000
Fixed rate \$12,000,000 RIHEBC 2010 Series bonds, final maturity in 2031	11,793,682	-
Fixed rate \$16,000,000 RIHEBC 2011 Series bonds, final maturity in 2031	16,000,000	-
Term, \$300,000 RIHEBC equipment note, final maturity in 2014	97,058	131,919
Term, \$2,250,000 BankRI mortgage note, final maturity in 2015	-	2,006,936
Term, \$3,750,000 Bank of America mortgage note, final maturity in 2015	2,593,750	2,781,250
Term, \$4,000,000 Time Insurance Company mortgage note, final maturity in 2027	3,671,380	3,759,163
Capital lease obligations	6,184,338	8,837,039
Total long-term debt and capital lease obligations	<u>111,880,208</u>	<u>92,016,307</u>
Less: Current portion of long-term debt and capital lease obligations	<u>(5,913,883)</u>	<u>(5,976,801)</u>
Long-term debt and capital lease obligations, excluding current portion	<u>\$ 105,966,325</u>	<u>\$ 86,039,506</u>

Rhode Island Health and Educational Building Corporation (RIHEBC) Bonds

In 2008, the Health System issued RIHEBC 2008 Series A variable rate bonds of \$46,730,000. The bonds have mandatory sinking fund redemptions ranging from \$1,380,000 in 2012 to \$2,735,000 in 2032.

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In 2008, the Health System issued RIHEBC 2008 Series B variable rate bonds of \$38,210,000. The bonds have mandatory sinking fund redemptions ranging from \$1,315,000 in 2012 to \$660,000 in 2013, with a final payment of \$1,810,000 in 2037.

The proceeds from the CNE 2008 Series A bonds were used to (1) refund the outstanding CNE 2002 Series A bonds, and (2) pay certain expenses related to the issuance of the CNE 2008 Series A bonds. The proceeds from the CNE 2008 Series B bonds were used to (1) defease a portion of the outstanding CNE 2002 Series B bonds, and (2) finance a portion of WIH's Certificated of Need project consisting of the construction, equipping, and furnishing of a five-story addition to WIH's existing hospital building, (3) finance a portion of routine capital improvements, and (4) pay certain expenses related to the issuance of the CNE 2008 Series B bonds. The CNE 2002 Series B bonds were defeased by depositing a portion of the proceeds of the CNE 2008 Series B bond proceeds and money contributed by the Obligated Group members, Butler, Kent, WIC and WIH in an account held by the trustee for the CNE 2002 Series B bonds to provide funds as and when necessary to pay the principal and interest on the CNE 2002 Series B bonds. The refunding trust of \$1,208,013 has sufficient fixed income securities to meet the required payments on the outstanding balances as of September 30, 2011.

The Series A and Series B bonds bear interest at a daily, weekly, or monthly rate, which is payable on the first business day of each month, and on maturity or redemption dates and the fixed rate conversion date. In no event will the interest rate borne by the bonds exceed 10% per annum. Since issuance in 2008, the bonds have borne weekly interest rate. CNE has pledged gross receipts backed by a bank letter of credit which expires on February 1, 2015. The bonds are subject to tender at the option of the owners thereof. To the extent the tendered bonds are not able to be remarketed, the letter of credit bank has committed to purchase the bonds. Amounts advanced by the bank to pay the purchase price on bonds being purchased and not reimbursed to the bank on the date of such drawing will be converted to a credit agreement loan and amortized over three years. CNE, Butler, Kent, WIC, and WIH are jointly and severally liable for repayment.

Under the terms of the Series A and Series B revenue bonds, CNE and the Hospitals are required to make periodic debt service payments with a trustee, which are included with assets limited as to use. The revenue bond indenture and letter of credit agreement also places limits on the incurrence of additional borrowings, and require that the Obligated Group satisfy certain measures of financial performance as long as the bonds are outstanding. The Health System is required to comply with certain debt covenants under the bond agreements, including a minimum debt service coverage ratio of 1.25 to 1 and a liquidity ratio of .75 to 1. The Health System has been, and remains, compliant with these terms.

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In 2010, the Health System issued RIHEBC 2010 Series fixed rate bonds of \$12,000,000. The bonds have mandatory sinking fund redemptions ranging from \$424,000 in 2012 to \$813,065 in 2030, with a final payment of \$417,695 in 2031. These bonds were issued Direct Purchase Tax Exempt Bank qualified bonds. The bonds bear a fixed interest rate of 3.65% through December, 2017 with 3 year optional tenders through December, 2030. The bonds bear interest on a per annum basis with semi-annual payments based on a 20 year amortization. The proceeds from the bonds are being used by Kent to finance (i) the renovation, equipping and furnishing of existing hospital space to house a ten (10) bed short stay unit; (ii) the construction, equipping and furnishing of a 30,000 square foot ambulatory surgical center with a connection to Kent's existing hospital building and (iii) cost of issuance. CNE, Butler, Kent, WIC and WIH are jointly and severable liable for repayment. Unspent bond proceeds of \$11,486,297 are included in trustee-held funds in the consolidated balance sheet at September 30, 2011. The Health System is required to comply with certain debt covenants under the bond agreements, including a minimum debt service coverage ratio of 1.25 to 1 and a liquidity ratio of .75 to 1. The Health System has been, and remains, compliant with these terms.

In 2011, the Health System issued RIHEBC 2011 Series fixed rate bonds of \$16,000,000. The bonds have mandatory sinking fund redemptions ranging from \$607,267 in 2012 to \$1,044,574 in 2031. These bonds were issued as unrated private placement tax exempt bonds. The bonds bear a fixed interest rate of 2.99%. The bonds bear interest on a per annum basis with semi-annual payments based on a 20 year amortization. The proceeds from the bonds are being used to finance (i) the construction, equipping and furnishing of a 32,000 square foot addition of Butler's existing hospital facility; (ii) refinancing of the Bank of Rhode Island mortgage held by WIC; (iii) refinancing of certain capital leases; (iv) purchase of capital equipment; (v) capitalized interest and (vi) cost of issuance. CNE, Butler, Kent, WIC and WIH are jointly and severable liable for repayment. Unspent bond proceeds of \$11,595,442 are included in trustee-held funds in the consolidated balance sheet at September 30, 2011. The Health System is required to comply with certain debt covenants under the bond agreements, including a minimum debt service coverage ratio of 1.25 to 1 and a liquidity ratio of .75 to 1. The Health System has been, and remains, compliant with these terms.

Rhode Island Health and Educational Building Corporation Notes

In 2003, the Health System entered into a \$340,000 RIHEBC Equipment Note due March 2003 through February 2010. Monthly interest and principal installments of \$4,687 were due at a fixed interest rate of 4.25%. The note was collateralized by the equipment purchased with the proceeds by the Agency and guaranteed by the Health System.

In 2004, the Health System entered into a \$300,000 RIHEBC Equipment Note due July 1, 2004 through June 1, 2014. Monthly interest and principal installments of \$3,141 are due at a fixed interest rate of 4.72%. The note is collateralized by the equipment purchased with the proceeds by the Agency and guaranteed by the Health System.

Bank Mortgage Notes

In 2005, the Health System entered into a \$2,250,000 mortgage note with BankRI due July 2005 through June 2015. Interest and principal installments of \$14,538 are due monthly, with a final payment of \$1,734,954 due June 2015, at a fixed interest rate of 6.03%. The note was collateralized by the real estate purchased. This note was refinanced as part of the RIHEBC 2011 Series bonds. WIH was required to comply with certain debt covenants under the note agreement, including a minimum fixed charge coverage ratio of 1.15 to 1. The Health System had been compliant with these terms.

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In 2005, the Health System entered into a \$3,750,000 mortgage note with Bank of America due August 2005 through July 2015. Interest and principal installments of \$33,837 on August 1, 2005 to \$24,883 on May 5, 2015 are due monthly, with a final payment of \$1,890,625 due June 2015, at a fixed interest rate of 5.64%. The note is collateralized by the real estate purchased. The Health System is required to comply with certain debt covenants under the note agreement, including a minimum debt service coverage ratio of 1.25 to 1. The Health System has been, and remains, compliant with these terms.

In 2007, the Health System entered into a \$4,000,000 mortgage note with Time Insurance Company due October 2007 through September 2027. Interest and principal installments of \$25,261 are due monthly, with a final payment of \$1,338,527 due September 2027, at a fixed interest rate of 5.79%. The note is collateralized by the real estate purchased.

Interest Rate Swaps

CNE maintains interest rate swap programs on certain of its 2008 Series A and B variable rate revenue bonds. These bonds expose the Health System to variability in interest payments due to changes in interest rates. The Health System entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These agreements involve the exchange of fixed rate payments by CNE for variable rate payments from counterparties, based on the Securities Industry and Financial Markets Association (SIFMA) Index.

In 2004, CNE entered into an interest rate swap agreement with Bank of America Investments, effectively converting the \$50,000,000 RIHEBC CNE 2002 Series A variable rate debt to a fixed rate of 2.99% for the period of October 1, 2005 through August 1, 2011.

As part of the 2008 Series A & B refinancing, CNE (1) maintained the interest rate swap agreement that was entered into in 2004 with Bank of America Investments which effectively converted \$45,400,000 of the RIHEBC CNE 2008 Series A variable rate bonds to a fixed rate of 3.02% for the period of February 1, 2008 through August 1, 2011. The notional amount of the swap at September 30, 2010 was \$42,860,000, (2) entered into an interest rate swap agreement with Deutsche Bank Group which effectively converts all of the RIHEBC CNE 2008 Series A variable rate bonds to a fixed rate of 4.216% for the period of August 1, 2011 through July 1, 2032. The notional amount of the swap at September 30, 2011 was \$41,655,000, and (3) entered into an interest rate swap agreement with Morgan Stanley Capital Services which effectively converts all of the RIHEBC CNE 2008 Series B variable rate bonds to a fixed rate of 3.857% for the period of February 1, 2008 through August 31, 2037. The notional amount of the swap at September 30, 2011 and 2010 was \$29,885,000 and \$33,765,000, respectively.

The Health System uses the interest rate swap agreements in order to manage its interest rate risk associated with its outstanding debt. These swaps effectively convert interest rates on variable rate bonds to fixed rates. The interest rate swap agreements meet the definition of derivative instruments. However, the change in the market value and cash flow impact of the derivative instruments are accounted for as a nonoperating activity. The swaps, while serving as an economic hedge, do not qualify as an accounting hedge.

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The following table summarizes the 2008 Series A and B debt activity for the fiscal years ended September 30:

	2011	2010
Debt outstanding		
October 1 – August 31	\$ 74,500,000	\$ 78,035,000
September 1 – September 30	\$ 71,540,000	\$ 74,500,000
Weighted-average bonds outstanding	\$ 74,253,333	\$ 77,740,417
Interest payments to bondholders plus letter of credit fees paid to bank	\$ 443,848	\$ 461,610
Net cash payments on interest rate swaps	2,463,050	2,477,873
	<u>\$ 2,906,898</u>	<u>\$ 2,939,483</u>
Effective interest rate	3.91 %	3.78 %
Market value of swap agreements at September 30	\$ (11,356,534)	\$ (9,816,848)
Change in market value of swap agreements	<u>\$ (1,539,686)</u>	<u>\$ (3,675,851)</u>

Scheduled principal repayments on long-term debt are as follows for the years ended September 30:

2012	\$ 4,032,647
2013	3,462,863
2014	3,570,614
2015	5,508,585
2016	3,599,783
Thereafter	85,521,378
	<u>\$ 105,695,870</u>

Care New England had available \$15,000,000 during 2010 and through August 12, 2011 through a line of credit with a financial institution. There were no outstanding balances on the line of credit as of September 30, 2011 and 2010.

The Hospitals classify certain noncancelable leases as capital leases, and include the property under lease in their property and equipment. Amortization expense for these assets is included in depreciation and amortization expenses in the consolidated statements of operations and changes in net assets. Ownership of the leased property converts to the Hospitals at the end of the lease term. Assets and related accumulated depreciation under the capital leases are included in property, plant and equipment (Note 6).

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Future minimum lease payments due under capital lease arrangements are as follows:

2012	\$ 2,239,991
2013	1,904,260
2014	1,317,236
2015	724,492
2016	224,155
Thereafter	<u>1,288,488</u>
Total minimum lease payments	7,698,622
Less: Amount representing interest	<u>1,514,284</u>
Capital lease obligations at September 30, 2011	<u>\$ 6,184,338</u>

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at September 30:

	2011	2010
Healthcare services	\$ 17,671,618	\$ 17,360,187
Healthcare research	6,785,050	6,816,908
General purposes	7,306,745	7,761,408
Indigent care	2,483,848	2,617,636
Health education	1,945,865	2,000,500
Plant replacement and expansion	6,547,723	3,887,073
Endowment	3,254,498	3,550,816
Other	<u>951,859</u>	<u>2,688,084</u>
Total temporarily restricted net assets	<u>\$ 46,947,206</u>	<u>\$ 46,682,612</u>

Permanently restricted net assets at September 30 are restricted investments to be held in perpetuity.

	2011	2010
Plant replacement and expansion	\$ 10,074,539	\$ 10,574,465
Indigent care	877,018	874,506
General purposes	1,603,481	1,603,481
Research	560,279	554,191
Healthcare services	4,007,497	3,918,334
Health education	<u>1,013,514</u>	<u>1,006,693</u>
Total permanently restricted net assets	<u>\$ 18,136,328</u>	<u>\$ 18,531,670</u>

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The Health System follows the requirements of the Rhode Island enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 as they relate to its permanently restricted endowments. The Health System's endowments consist of numerous individual funds established for a variety of purposes. Its endowments consist solely of donor-restricted endowment funds. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Health System classifies restricted donor funds in accordance with the laws of the State of Rhode Island and generally accepted accounting principles. The Health System classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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 Health System 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 Health System 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 Health System.

For the year ended September 30, 2011, the Health System had the following changes in the endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 17,801,565	\$ 7,957,205	\$ 25,758,770
Investment return			
Investment income	333,250	504	333,754
Net appreciation (realized and unrealized)	<u>(1,066,399)</u>	<u>-</u>	<u>(1,066,399)</u>
Total investment return	(733,149)	504	(732,645)
Contributions	(37,149)	104,080	66,931
Appropriation of endowment assets for expenditure	<u>(328,291)</u>	<u>-</u>	<u>(328,291)</u>
Endowment net assets at end of year	<u>\$ 16,702,976</u>	<u>\$ 8,061,789</u>	<u>\$ 24,764,765</u>

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For the year ended September 30, 2010, the Health System had the following changes in the endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 21,172,035	\$ 7,804,023	\$ 28,976,058
Investment return			
Investment income	416,852	547	417,399
Net appreciation (realized and unrealized)	<u>1,554,990</u>	<u>-</u>	<u>1,554,990</u>
Total investment return	1,971,842	547	1,972,389
Contributions	2,394,766	152,635	2,547,401
Appropriation of endowment assets for expenditure	<u>(2,535,646)</u>	<u>-</u>	<u>(2,535,646)</u>
Endowment net assets at end of year	<u>\$ 23,002,997</u>	<u>\$ 7,957,205</u>	<u>\$ 30,960,202</u>

In addition to permanently restricted endowments, Kent is an income beneficiary of various trusts. On September 30, 2011 and 2010, the market value of the trust assets, which are recorded as permanently restricted net assets, totaled \$10,074,539 and \$10,574,465, respectively. Distributions of income are made at the discretion of the trustees.

It is the policy of the Health System that any appropriations from the appreciation in endowment funds are periodically requested of and approved by the Board of Trustees.

The Boards have responsibility for formulating investment policy. The investment policy is to invest in a conservative asset portfolio with minimal investment risk. Certain funds are included in a consolidated long term investment pool and invested in accordance with the investment strategy, authorized by the Boards.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Health System to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets are immaterial as of September 30, 2011 and 2010. These deficiencies resulted from unfavorable market fluctuations. The individual donor-restricted endowment funds with deficiencies will retain future income and appreciation to restore the required fair value of the assets.

During fiscal 2011 and 2010, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	2011	2010
Healthcare services	\$ 1,541,279	\$ 5,771,899
Healthcare research	18,205	1,118,390
Plant replacement and expansion	3,419,281	4,792,191
Other	1,046,630	1,520,773
Health education	282,197	213,630
Indigent care	<u>107,075</u>	<u>108,307</u>
Total net assets released from restrictions	<u>\$ 6,414,667</u>	<u>\$ 13,525,190</u>

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9. Retirement Plans

The Health System has two separate pension plans. One plan covers the employees of CNE and the Hospitals, with the exception of the unionized employees of WIH (who are covered under a multiemployer union plan) and certain WIH-employed physicians. The other plan covers the employees of the Agency.

Care New England Pension Plan

The Care New England Pension Plan (the "Plan"), established on October 1, 1998, is a defined benefit cash balance plan that covers all of the employees of CNE, and all of the Hospitals' employees, with the exception of the unionized employees and certain employed physicians at WIH. The benefits for the unionized employees at Butler are computed under a separate formula that was in effect when the Butler plan was a standalone noncontributory defined benefit plan. The Hospitals incur and fund their respective pension plan expenses within the guidelines established by the Employee Retirement Income Security Act of 1974.

The Care New England Board of Trustees voted, on September 23, 2010, to freeze the Plan effective December 31, 2010 for all employees with the exception of the Butler unionized employees. Effective December 31, 2010, compensation paid to a participant shall be disregarded for plan purposes, except for purposes related to determining benefits for the unionized employees at Butler. In addition, a participant's cash balance account will only increase annually for interest credit. As a result, the System realized a gain on the curtailment of the Plan in the fiscal year ending September 30, 2010 of \$3,194,728, which is recorded in pension expense. In connection with the Plan freeze, the Health System will enhance contributions to the Care New England 403(b) Match and Savings Plan.

Included in cumulative changes in unrestricted net assets at September 30, 2011 that has not yet been recognized in net periodic pension cost is an actuarial loss of \$70,950,846. Included in changes in unrestricted net assets at September 30, 2010 that has not yet been recognized in net periodic pension cost is an actuarial loss of \$52,006,974.

The actuarial loss included as cumulative changes in unrestricted net assets and expected to be recognized in net periodic pension cost during the fiscal year ended September 30, 2012 is \$1,471,248.

Net periodic pension cost includes the following components at September 30:

	2011	2010
Service cost	\$ 4,078,458	\$ 10,360,836
Interest cost	11,114,337	10,601,834
Expected return on plan assets	(13,523,703)	(13,150,540)
Amortization of prior service cost	-	(728,403)
Amortization of loss	1,012,569	1,906,636
Net periodic pension expenses	<u>\$ 2,681,661</u>	<u>\$ 8,990,363</u>
Curtailment	\$ -	\$ 3,194,728

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The assumptions used to determine net periodic benefit cost for the years ended September 30 are as follows:

	2011	2010
Discount rate	5.26 %	5.50 %
Expected return on assets	7.75	8.25
Rate of compensation increase	4.00	4.00

The following table presents a reconciliation of the beginning and ending balances of the plan projected benefit obligations, fair value of plan assets, funded status, and accumulated other comprehensive income (AOCI) of the plan as of September 30:

	2011	2010
Changes in benefit obligations		
Projected benefit obligations at beginning of period	\$ 216,299,180	\$ 197,178,743
Service cost	4,078,458	10,360,836
Interest cost	11,114,337	10,601,834
Actuarial loss	4,380,881	13,714,782
Benefits and expenses paid	(14,818,634)	(13,608,066)
Curtailment	-	(1,948,949)
Projected benefit obligations at end of period	<u>\$ 221,054,222</u>	<u>\$ 216,299,180</u>
Changes in plan assets		
Fair value of plan assets at beginning of period	\$ 170,778,388	\$ 156,816,240
Actual return on plan assets	(2,059,857)	15,087,214
Employer contributions	15,325,000	12,475,000
Benefits and expenses paid	(14,818,634)	(13,608,066)
Fair value of plan assets at end of period	<u>\$ 169,224,897</u>	<u>\$ 170,770,388</u>
Funded status		
Total pension liability	\$ (51,829,325)	\$ (45,528,792)
Accumulated benefit obligation	218,932,069	214,765,024
Unrestricted net assets		
Unrestricted net assets at beginning of period	\$ 52,006,974	\$ 40,161,320
Less amounts amortized during the year		
Net prior service credit	-	(3,923,131)
Net loss	1,012,569	3,855,585
Plus amounts occurring during the year		
Net loss	<u>19,956,441</u>	<u>11,778,108</u>
Unrestricted net assets at end of period	<u>\$ 70,950,846</u>	<u>\$ 52,006,974</u>

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The assumptions used to develop the projected benefit obligation as of September 30 are as follows:

	2011	2010
Discount rate	5.03 %	5.26 %
Rate of compensation increase	4.00 %	4.00 %

Plan Assets

The Plan's investment objectives are to achieve long-term growth in excess of inflation, and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets. In order to minimize risk, the Plan attempts to minimize the variability in yearly returns. The Plan diversifies its holdings among sectors, industries, and companies. No more than 6% of the Plan's portfolio (measured on market value) may be held in an individual company's stocks or bonds.

To develop the expected long-term rate of return on plan assets assumption, the Health System considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The Health System's pension plan asset allocations (based on market value) at September 30, by asset category, are as follows:

Asset category	Target Allocation	Actual 2011	Actual 2010
Alternative investments	28 %	26 %	26 %
Fixed income securities	20	24	30
Equity securities	52	50	44
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Contributions

The Health System contributed \$15,325,000 and \$12,475,000 to the Plan in 2011 and 2010, respectively. The Health System expects to contribute \$12,250,000 to the Plan in 2012.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year	Pension Benefits
2012	\$ 15,300,000
2013	15,600,000
2014	15,700,000
2015	16,200,000
2016	16,100,000
Years 2017–2021	81,400,000

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Care New England 403(b) Match and Savings Plan

As a result of the Pension Plan Protection legislation, regulatory changes impacting matching credits previously recorded in the CNE Pension Plan were discontinued effective January 1, 2009. As a result, CNE established the Care New England 403(b) Plan to account for future matching credits. The plan covers employees that meet certain eligibility requirements. The Health System recorded an expense of \$2,904,069 and \$2,776,391 for fiscal years ended September 30, 2011 and 2010, respectively. The Health System funded \$2,682,349 and \$2,657,261 in fiscal 2011 and 2010 to the plan for the calendar year 2010 and 2009 matching credits, respectively.

Effective January 1, 2011, in connection with the freeze of the Care New England Pension Plan, the Health System will provide a nonelective contribution to participant accounts, as defined in the Plan document. Nonelective contributions will be allocated to each eligible participant based on a percentage of salary based on a combination of the recipients age and years of service, and will be credited to each such participant as of the first day of the Plan year, as further described in the Plan document. As a result, the Health System recorded an expense of \$8,941,660 for fiscal year ended September 30, 2011, which will be funded in fiscal 2012.

WIH Union Plan

Payments to a multiemployer pension plan covering union employees at WIH for the years ended September 30, 2011 and 2010 were \$7,766,513 and \$7,535,000, respectively.

Kent County Visiting Nurse Association Pension Plan

The Agency has a noncontributory defined benefit pension plan covering all employees who have satisfied certain eligibility requirements that was frozen effective December 31, 2007, and replaced with a contributory retirement savings plan. Benefits under the defined benefit plan were based on years of service and employee's compensation levels.

Included in the charge to net assets at September 30, 2011 and 2010 is an unrecognized actuarial loss of \$3,303,783 and \$2,708,723, respectively. The actuarial loss expected to be recognized in net periodic pension cost during the fiscal year ended September 30, 2012 is \$292,510.

The Agency's pension expense was \$187,497 in 2011 and \$165,914 in 2010.

The assumptions used to determine net periodic benefit cost for the years ended September 30 are as follows:

	2011	2010
Discount rate	5.00 %	5.50 %
Expected return on assets	7.50 %	7.50 %
Rate of compensation increase	N/A	N/A

The assumptions used to develop the projected benefit obligation as of September 30 are as follows:

	2011	2010
Discount rate	4.75 %	5.00 %
Rate of compensation increase	N/A	N/A

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To develop the expected long-term rate of return on plan assets assumption, the Agency considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Plan assets, valued at fair value, consist of 3% cash and cash equivalents and 97% mutual funds. The fair value of the Plan assets were \$5,466,732 and \$5,410,313 at September 30, 2011 and 2010, respectively.

The Agency made required contributions to the Plan of \$308,354 and \$97,165 in 2011 and 2010, respectively. The Agency is expected to make \$330,826 in contributions to the Plan during 2012. Benefit payments are expected to be paid as follows:

Fiscal Year	Pension Benefits
2012	\$ 227,000
2013	236,000
2014	246,000
2015	291,000
2016	317,000
Years 2017–2021	2,403,000

Effective January 1, 2008, the Agency established a 403(b) Retirement Savings Plan that covers employees who have met certain eligibility requirements. Discretionary contributions to the plan are based on years of service and compensation levels. For the fiscal years that ended September 30, 2011 and 2010, respectively, the Agency recorded an expense of \$244,703 and \$227,728.

10. Postretirement Plans

Kent sponsors an unfunded noncontributory defined benefit postretirement plan that provides medical and dental benefits to certain salaried and nonsalaried employees. In 1996, Kent amended the plans to eliminate benefits for all employees, except for certain employees with at least 25 years of service at that date.

Included in the charge to net assets are the following amounts that have not yet been recognized in net periodic postretirement benefit cost as of September 30, 2011 and 2010, respectively: unrecognized net transition obligation of \$354,751 and \$451,750 and unrecognized actuarial loss of \$192,355 and \$278,826. The unrecognized net transition obligation and actuarial gain expected to be recognized in net periodic postretirement costs during the fiscal year ended September 30, 2012 are \$97,000 and \$0, respectively.

The postretirement benefit cost for these plans was \$206,032 in 2011 and \$759,771 in 2010. Included in the benefit cost for the plan in 2010 was \$581,795 related to the costs of offering an early retirement program.

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11. Patient Service Revenue

For the majority of the System's revenue, the Hospitals and the Agency have agreements with third-party payors that provide for payments to the Hospitals and the Agency at amounts different from their established rates. At the time of rendering service to the patients, the Hospitals and the Agency obtain assignment of benefits payable under the patient's health insurance program, plan, or policy (e.g., Medicaid, Blue Cross, health maintenance organizations, commercial insurance, Medicare, and others). The following is a breakdown of gross patient service revenue by payor type for the years ended September 30:

	2011	2010
Medicare and Medicare Managed Care	32 %	31 %
Medicaid and Medicaid Managed Care	20	20
Blue Cross	26	26
Managed care	11	11
Self-pay	4	4
Other third-party payors	7	8
	<u>100 %</u>	<u>100 %</u>

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there will always be a possibility that the recorded estimates of net revenue could change by a significant amount in the future. The Hospitals and the Agency believe they are in compliance with all applicable laws and regulations. Cost reports filed annually with third-party payors are subject to audit prior to final settlement. The Hospitals and the Agency are compliant with all reimbursement filings. A summary of cost report activity as of September 30, 2011 is as follows:

Medicare: Cost reports for the Hospitals and the Agency have been filed through 2010, and settled through 2010 for the Agency, 2008 for Butler, and 2006 for Kent and WIH.

State of Rhode Island (Medicaid): Cost reports have been filed through 2010, and settled through 2006 for Butler, Kent and WIH.

The filing of these cost reports and associated settlements require the use of estimates. Net patient service revenue was increased by approximately \$3,286,300 and \$4,411,454 in 2011 and 2010, respectively, to reflect the changes in the estimated settlements for certain prior years.

12. Disproportionate Share

The government has long recognized the financial burdens which are borne by hospitals which serve an unusually large number, or "disproportionate share", of low-income patients. Kent and WIH received disproportionate share payments of \$27,734,289 and \$24,190,258 from the State of Rhode Island's Medicaid program for the years ended September 30, 2011 and 2010, respectively. Kent and WIH also recorded disproportionate share payments of \$4,936,177 and \$4,740,205 from Medicare during 2011 and 2010, respectively.

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13. Concentration of Credit Risk

As of September 30, 2011 and 2010, Care New England, the Hospitals, and the Agency had cash and cash equivalents in excess of Federal Depository Insurance limits at major financial institutions. These financial institutions have a strong credit rating, and management believes that credit risks related to these deposits are minimal.

The Hospitals and the Agency receive a significant portion of its payment for services rendered from a limited number of governmental and commercial third-party payors, including Medicare, Medicaid, and Blue Cross. The organization has not historically incurred any significant concentrated credit losses in the normal course of business.

In addition, the organizations routinely grant credit to patients without requiring collateral or other security. The mix of receivables, net of contractual allowances, from patients and third-party payors at September 30, 2011 and 2010, was as follows:

	2011	2010
Medicare and Medicare Managed Care	11 %	11 %
Medicaid and Medicaid Managed Care	29	30
Blue Cross	20	16
Managed care	12	9
Self-pay	16	19
Other third-party payors	12	15
	<u>100 %</u>	<u>100 %</u>

The Health System provides an allowance for uncollectible accounts to address the risks of nonpayment of accounts receivable.

14. Commitments and Contingencies

Operating Leases

Care New England, the Hospitals, and the Agency have entered into operating lease agreements with several vendors for the lease of certain equipment and office space. Future minimum lease payments under noncancelable operating leases as of September 30, 2011 are:

2012	\$ 5,595,458
2013	4,501,011
2014	4,048,572
2015	3,347,513
2016	3,124,235
Later years	<u>41,854,414</u>
Total minimum lease payments	<u>\$ 62,471,203</u>

Total rent expense for operating leases for the years ended September 30, 2011 and 2010 amounted to \$5,942,924 and \$5,545,102, respectively.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

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Butler has entered into several agreements with various parties, mostly nonprofit organizations, to lease space on the Butler campus. Rental income in the amount of \$3,007,056 and \$2,939,233 for the fiscal years ending September 30, 2011 and 2010, respectively, is included in other operating revenue in the consolidated statements of operations.

Litigation

CNE, the Affiliates, and the Agency have been individually named as codefendants in several complaints. It is the opinion of management that the liability, if any, to CNE, the Affiliates, and the Agency in excess of insurance coverage will have no material adverse effect on the consolidated financial position of Care New England.

Collective Bargaining Agreements

At September 30, 2011, approximately 40% of the Health System's employees were covered by collective bargaining agreements. The collective bargaining agreement covering 49% of the Agency's employees will expire on May 31, 2012, and be subject to negotiation. The remaining bargaining agreements will be in effect through fiscal 2012.

15. Professional and General Liability Claims

Due to strategic and economic issues, as well as the potential for limited availability of commercial insurance policies, the Care New England entities have moved over time to covering the majority of their professional and general liability insurance to self-insured approaches. The adequacy of the coverage provided, reserves, and the funding levels are evaluated annually by independent actuaries who review the soundness of the programs and recommend future funding levels. Potential losses are estimated based on industry as well as entity experience, and a provision for these losses is recorded.

Butler annually contributes to its self-insurance trust fund to provide for risks relating to its existing actuarially calculated primary level of professional and general liabilities, as well as the tail liability related to prior claims-made coverage. Butler's professional liability coverage for claims in excess of its primary coverage limits is provided by W&I Indemnity.

Kent Hospital established Toll Gate Indemnity in 2004, as an off-shore captive insurance entity to insure primary and excess hospital professional and general liability risks, as well as to supply indemnification coverage for certain eligible medical staff.

WIH annually contributes to its self-insurance trust fund to provide for risks relating to its existing actuarially calculated primary level of professional and general liabilities, as well as the tail liability related to prior claims-made coverage.

In addition to the trust fund, WIH established W&I Indemnity in 1994, as an off-shore captive insurance entity to provide coverage for claims in excess of its underlying policy, as well as to insure the contractual liability arising from indemnification agreements with certain eligible medical staff.

The provisions for anticipated losses were based upon expected undiscounted values. Trust fund and captive assets are available for the payment of claims.

CNE Wellness Centers, LLC and the Agency purchase general and professional liability insurance from Toll Gate Indemnity.

Care New England Health System and Affiliates
Notes to Consolidated Financial Statements
September 30, 2011 and 2010

16. Other Self-Insurance Reserves

Care New England has established a workers' compensation trust fund to cover all past and future self-insured claims of workers' compensation activity for CNE, the Hospitals, and the Agency. The reserve for workers' compensation losses is based on an actuarial study and actual experience. At September 30, 2011 and 2010, the amounts accrued for estimated self-insurance costs have not been discounted.

CNE, on behalf of itself, the Hospitals, and the Agency, has entered into a self-insurance program for health insurance risks. This program covers the health insurance claims for all of CNE's, the Hospitals', and the Agency's employees, with the exception of the unionized employees at WIH. The provisions for health insurance losses are based on actuarial assumptions and actual claims experience.

17. Affiliation With Rhode Island Hospital

In 1981, RIH and WIH approved an agreement providing for the affiliation of the two Hospitals. The affiliation agreement provides for a program of shared medical services, thereby greatly increasing the scope of comprehensive acute-care services available to WIH in maternal, gynecological, and neonatal care. In accordance with the agreement, the Hospital relocated to the property of RIH.

18. Affiliation With Accredited Medical Schools

Butler and WIH are affiliated with the Warren Alpert Medical School of Brown University. The affiliation agreements provide that Butler and WIH will be the principal academic medical centers for psychiatry and healthcare unique to women and newborns, respectively. Kent is affiliated with the University of New England College of Osteopathic Medicine.

19. Functional Expenses

CNE provides healthcare services to residents within their geographic service areas. Expenses related to providing these services for the years ended September 30 are as follows:

	2011	2010
Healthcare services	\$ 660,293,951	\$ 630,931,072
General and administrative	166,113,749	155,499,660
	<u>\$ 826,407,700</u>	<u>\$ 786,430,732</u>

20. Fair Value of Financial Instruments

The Health System calculates fair value defined in ASC Topic 820 to value its financial assets and liabilities, where applicable. ASC Topic 820 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. Topic 820 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.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

ASC Topic 820 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 Health System 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.

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. Fair value for Level 3 is based upon unobservable inputs for the asset (i.e., supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset (including assumptions about risk).

The Health System's ownership in alternative investments is limited partnership interests in private equity funds. The value of certain alternative investments represents the ownership interest in the Net Asset Value (NAV) of the respective partnership. The NAV of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities related. The Health System has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of September 30.

The fair value of interest rate swap agreements is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, treasury yields, and credit spreads.

Care New England Health System and Affiliates
Notes to Consolidated Financial Statements
September 30, 2011 and 2010

Financial instruments carried at fair value for the System's nonpension plan assets as of September 30, 2011 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 26,995,197	\$ 2,413,681	\$ -	\$ 29,408,878
Fixed income securities	44,964,224	30,501,011	90,901	75,556,136
Equity securities	52,221,158	-	23,685	52,244,843
Alternative investments	-	16,107,216	13,713,965	29,821,181
Auction rate securities	-	-	10,598,691	10,598,691
Mutual funds	31,834,194	53,494,363	-	85,328,557
Other	28,590,839	-	-	28,590,839
	<u>\$ 184,605,612</u>	<u>\$ 102,516,271</u>	<u>\$ 24,427,242</u>	<u>\$ 311,549,125</u>
Liabilities				
Interest rate swap agreements	\$ -	\$ (11,356,534)	\$ -	\$ (11,356,534)

Financial instruments carried at fair value for the System's nonpension plan assets as of September 30, 2010 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 15,247,264	\$ 3,233,538	\$ -	\$ 18,480,802
Fixed income securities	21,937,224	15,643,102	-	37,580,326
Equity securities	67,008,266	-	87,912	67,096,178
Alternative investments	-	-	14,528,650	14,528,650
Auction rate securities	-	-	19,817,913	19,817,913
Mutual funds	81,380,519	1,786,390	-	83,166,909
Other	27,413,827	-	-	27,413,827
	<u>\$ 212,987,100</u>	<u>\$ 20,663,030</u>	<u>\$ 34,434,475</u>	<u>\$ 268,084,605</u>
Liabilities				
Interest rate swap agreements	\$ -	\$ (9,816,848)	\$ -	\$ (9,816,848)

The amounts reported in the financial instruments table exclude certain alternative investments valued at approximately \$5,770,226 as of September 30, 2011 and \$8,524,103 as of September 30, 2010, which are valued at cost (Notes 2 and 5).

Care New England Health System and Affiliates
Notes to Consolidated Financial Statements
September 30, 2011 and 2010

Financial instruments carried at fair value for assets invested in the Defined Benefit Pension Plan as of September 30, 2011 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 4,844,943	\$ 1,026	\$ -	\$ 4,845,969
Fixed income securities	25,899,100	-	-	25,899,100
Equity securities	19,023,296	-	-	19,023,296
Mutual funds	-	-	-	-
Alternative investments	-	41,611,960	77,844,572	119,456,532
	<u>\$ 49,767,339</u>	<u>\$ 41,612,986</u>	<u>\$ 77,844,572</u>	<u>\$ 169,224,897</u>

Financial instruments carried at fair value for the Defined Benefit Pension Plan assets as of September 30, 2010 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 8,715,153	\$ -	\$ -	\$ 8,715,153
Fixed income securities	30,998,418	-	-	30,998,418
Equity securities	19,536,877	-	-	19,536,877
Mutual funds	4,582,447	-	-	4,582,447
Alternative investments	-	40,615,786	66,321,707	106,937,493
	<u>\$ 63,832,895</u>	<u>\$ 40,615,786</u>	<u>\$ 66,321,707</u>	<u>\$ 170,770,388</u>

During the years ended September 30, 2011 and 2010, respectively, the changes in the fair value for the System's financial instruments in the nonpension plan assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	Fixed Income Securities	Equity Securities	Alternative Investments	Auction Rate Securities	Total Investments
Fair value at October 1, 2010	\$ -	\$ 87,912	\$ 14,528,650	\$ 19,817,913	\$ 34,434,475
Total gains (losses)					
Dividends and interest income	3,235	606	236,514	-	240,355
Net realized gains on investments	-	-	339,441	548,826	888,267
Change in net unrealized appreciation on investments	1,123	(6,153)	(2,689,188)	(18,048)	(2,712,266)
Purchases	-	14,976	9,900,000	-	9,914,976
Sales	(28,883)	(15,456)	(10,918,332)	(9,750,000)	(20,712,671)
Transfers in and/or out of Level 3	115,426	(58,200)	2,316,880	-	2,374,106
Fair value at September 30, 2011	<u>\$ 90,901</u>	<u>\$ 23,685</u>	<u>\$ 13,713,965</u>	<u>\$ 10,598,691</u>	<u>\$ 24,427,242</u>

Care New England Health System and Affiliates
Notes to Consolidated Financial Statements
September 30, 2011 and 2010

	Assets Held Under Split-Interest Agreements
Fair value at October 1, 2010	\$ 10,574,465
Unrealized losses	<u>(499,926)</u>
Fair value at September 30, 2011	<u>\$ 10,074,539</u>

	Equity Securities	Alternative Investments	Auction Rate Securities	Total Investments
Fair value at October 1, 2009	\$ 30,152	\$ 10,224,455	\$ 22,735,000	\$ 32,989,607
Total gains (losses)				
Dividends and interest income	-	55,489	-	55,489
Net realized gains on investments	(440)	(4,980)	198,358	192,938
Change in net unrealized appreciation on investments	-	(298,648)	109,556	(189,092)
Purchases		4,096,590	-	4,096,590
Sales	-	35,547	(3,225,001)	(3,189,454)
Transfers in and/or out of Level 3	58,200	420,197	-	478,397
Fair value at September 30, 2010	<u>\$ 87,912</u>	<u>\$ 14,528,650</u>	<u>\$ 19,817,913</u>	<u>\$ 34,434,475</u>

	Assets Held Under Split-Interest Agreements
Fair value at October 1, 2009	\$ 9,840,045
Unrealized gains	<u>734,420</u>
Fair value at September 30, 2010	<u>\$ 10,574,465</u>

During the year ended September 30, 2011 and 2010, the changes in the fair value for the System's financial instruments invested in the System's Defined Benefit Pension Plan assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	2011	2010
Balance at beginning of year	\$ 66,321,707	\$ 62,108,253
Total gains (losses)		
Dividends and interest income	341,450	162,832
Net Realized gains on investments	5,672,999	1,224,135
Change in net unrealized appreciation on investments	(7,099,511)	3,326,487
Purchases	25,848,927	6,500,000
Sales	<u>(13,241,000)</u>	<u>(7,000,000)</u>
Balance at end of year	<u>\$ 77,844,572</u>	<u>\$ 66,321,707</u>

Care New England Health System and Affiliates
Notes to Consolidated Financial Statements
September 30, 2011 and 2010

The Health System uses NAV to determine the fair value of its investments which do not have a readily determinable fair market value. The following table summarizes the key provisions for the Health System's nonpension plan investments as of September 30, 2011, which are valued at NAV. There were no outstanding unfunded commitments at September 30, 2011.

	Net Asset Value	Redemption Terms
Limited Partnership	\$ 869,786	Minimum of \$100,000 on the last day of a fiscal quarter upon 75 day prior written notice, Subject to Early Withdrawal Fees.
Fixed Income	2,397,716	Bi-monthly upon 30 day prior written notice.
Common Collective Trust	1,349,445	Monthly upon 30 day prior written notice.
Common Collective Trust	3,784,534	Bi-monthly upon 5 day prior written notice.
Common Collective Trust	1,567,280	Monthly upon 10 day prior written notice.
International Equity	10,456,762	First day of each month.
Absolute Return	8,815,478	Bi-monthly upon 5 day prior written notice.
Hedge Fund	3,745,205	End of each quarter with 90 day prior written notice
Alternative Investments		
Common Collective Trust	1,214,210	Bi-monthly with a limit of 4% each month. Unredeemed monthly allocations are banked towards future redemptions.
Common Collective Trust	4,436,243	Daily with a minimum of \$25,000 upon written notification by 3PM EST.
	<u>\$ 38,636,659</u>	

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

Accounts payable and accrued expenses: The carrying amount reported in the consolidated balance sheets for accounts payable and accrued expenses approximates its fair value.

Estimated third-party payor settlements: The carrying amount reported in the consolidated balance sheets for estimated third-party payor settlements approximates its fair value.

Long-term debt: The Health System's long-term debt obligations are reported in the accompanying statements of financial position at principal value less unamortized discount or premium, which totaled approximately \$106 million at September 30, 2011, excluding capital leases. The estimated fair value of the Health System's long-term debt as of September 30, 2011 approximated its carrying value.

21. Termination of Affiliation Agreement With Lifespan

In July 2007, Care New England Health System and Lifespan Corporation entered into an Affiliation Agreement under which Care New England and its affiliates would merge into Lifespan Corporation. From the time of the execution of this agreement through early 2010, the parties endeavored to procure regulatory approvals required to consummate this transaction. The parties mutually agreed to terminate the Affiliation Agreement in February 2010.

Care New England Health System and Affiliates
Notes to Consolidated Financial Statements
September 30, 2011 and 2010

22. Subsequent Event

Care New England Health System has assessed the impact of subsequent events through December 22, 2011, the date the audited financial statements were issued and has concluded that there were no such events that require adjustments to the audited financial statements or disclosure in the notes to the audited financial statements.

**Supplementary Consolidating
Financial Statements**

Care New England Health System and Affiliates
Consolidating Balance Sheet
September 30, 2011

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Assets							
Current assets							
Cash and cash equivalents	\$ 16,383,496	\$ 6,759,981	\$ 37,089,536	\$ (13,910,768)	\$ (4,094,056)	\$ -	\$ 42,228,189
Investments	1,645,743	-	1,983,158	26,909,317	-	-	30,538,218
Patient accounts receivable	6,695,474	53,675,679	65,956,627	-	2,063,680	-	128,391,460
Less: Estimated uncollectible	(1,008,034)	(18,023,227)	(13,124,110)	-	(411,843)	-	(32,567,214)
Net patient accounts receivable	5,687,440	35,652,452	52,832,517	-	1,651,837	-	95,824,246
Other receivables	2,486,892	5,561,791	10,819,886	116,676	199,991	-	19,185,236
Pledges receivable, net	183,340	554,200	923,283	-	-	-	1,660,823
Other current assets	836,258	4,554,845	2,438,867	1,617,264	43,002	-	9,490,236
Current portion of assets whose use is limited	679,392	1,109,335	2,281,783	10,021	-	-	4,080,531
Due from affiliates – other	4,071,228	2,620,530	1,547,503	11,493,346	140,399	(19,873,006)	-
Due from affiliates – debt	-	-	-	95,723,122	-	(95,723,122)	-
Total current assets	31,973,789	56,813,134	109,916,533	121,958,978	(2,058,827)	(115,596,128)	203,007,479
Assets whose use is limited or restricted as to use							
Endowment funds	13,944,405	13,715,541	7,333,101	-	-	-	34,993,047
Board-designated funds	3,965,894	20,633,295	55,075,397	-	548,587	-	80,223,173
Trustee-held funds	12,164,645	34,934,344	112,106,857	1,412,230	-	-	160,618,076
Deferred compensation funds	1,793,847	1,070,079	1,113,087	280,212	94,421	-	4,351,646
Total assets limited as to use	31,868,791	70,353,259	175,628,442	1,692,442	643,008	-	280,185,942
Less: Amounts required to meet current obligations	(679,392)	(1,109,335)	(2,281,783)	(10,021)	-	-	(4,080,531)
Noncurrent assets limited as to use	31,189,399	69,243,924	173,346,659	1,682,421	643,008	-	276,105,411
Property, plant and equipment, net	21,815,094	68,277,037	157,203,527	2,685,977	813,908	-	250,795,543
Pledges receivable, net	374,391	1,790,034	798,862	-	-	-	2,963,287
Investments	816,698	-	3,266,796	2,511,697	-	-	6,595,191
Other assets	50,791	1,295,024	314,679	319,060	-	-	1,979,554
Total assets	\$ 86,220,162	\$ 197,419,153	\$ 444,847,056	\$ 129,158,133	\$ (601,911)	\$ (115,596,128)	\$ 741,446,465

Care New England Health System and Affiliates
Consolidating Balance Sheet
September 30, 2011

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Liabilities and Net Assets							
Current liabilities							
Accounts payable and accrued expenses	\$ 10,004,744	\$ 35,845,305	\$ 35,567,640	\$ 11,754,804	\$ 2,144,728	\$ -	\$ 95,317,221
Current portion of estimated third-party payor settlements and advances	869,213	2,827,844	10,568,241	-	243,802	-	14,509,100
Current portion of long-term debt and capital leases	228,748	1,412,303	512,728	3,726,267	33,837	-	5,913,883
Current portion of long-term debt, due to parent	573,324	941,388	2,091,940	-	-	(3,606,652)	-
Pension liability	1,541,469	5,452,964	2,872,294	1,412,335	99,138	-	11,378,200
Interest rate swap	-	-	-	-	-	-	-
Other current liabilities	1,448,665	91,967	5,098,545	-	257,992	-	6,897,169
Due to affiliates	1,943,826	7,903,957	5,452,012	3,755,579	817,632	(19,873,006)	-
Total current liabilities	16,609,989	54,475,728	62,163,400	20,648,985	3,597,129	(23,479,658)	134,015,573
Long term liabilities							
Self-insurance reserves	2,068,466	25,611,122	78,300,993	11,935,955	-	-	117,916,536
Long-term portion of third-party payor settlements and advances	2,007,520	5,063,286	12,585,738	-	-	-	19,656,544
Long-term debt and capital leases	5,003,058	2,886,378	2,406,253	95,607,415	63,221	-	105,966,325
Pension liability	8,497,658	26,656,414	12,839,480	3,835,775	2,697,620	-	54,526,947
Postretirement liability	-	1,973,659	-	-	-	-	1,973,659
Interest rate swaps	-	-	-	11,356,534	-	-	11,356,534
Other liabilities	2,232,278	2,193,627	2,535,715	299,509	195,717	-	7,456,846
Due to parent, long-term debt	15,086,636	26,469,537	50,560,297	-	-	(92,116,470)	-
Total long-term liabilities	34,895,616	90,854,023	159,228,476	123,035,188	2,956,558	(92,116,470)	318,853,391
Net assets							
Unrestricted	15,461,497	34,886,690	194,827,418	(14,526,040)	(7,155,598)	-	223,493,967
Temporarily restricted	16,823,913	5,630,584	24,492,709	-	-	-	46,947,206
Permanently restricted	2,429,147	11,572,128	4,135,053	-	-	-	18,136,328
Total net assets	34,714,557	52,089,402	223,455,180	(14,526,040)	(7,155,598)	-	288,577,501
Total liabilities and net assets	\$ 86,220,162	\$ 197,419,153	\$ 444,847,056	\$ 129,158,133	\$ (601,911)	\$ (115,596,128)	\$ 741,446,465

Care New England Health System and Affiliates
Consolidating Statement of Operations
Year Ended September 30, 2011

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Revenues and gains							
Net patient service revenue	\$ 64,309,852	\$ 299,788,244	\$ 375,106,190	\$ 248,004	\$ 15,792,411	\$ (198,609)	\$ 755,046,092
Net assets released from restrictions and used for operations	515,141	815,162	1,665,083	-	-	-	2,995,386
Research revenue	10,907,545	-	17,549,294	-	-	-	28,456,839
Other revenue	18,188,183	14,698,760	35,014,775	57,227,710	1,088,816	(71,629,729)	54,588,515
Total revenues and gains	93,920,721	315,302,166	429,335,342	57,475,714	16,881,227	(71,828,338)	841,086,832
Operating expenses							
Salaries and benefits	63,515,803	160,979,258	256,541,949	38,377,253	13,896,113	(6,786,722)	526,523,654
Supplies and other expenses	13,469,899	91,868,376	88,806,181	18,991,309	2,059,710	(64,957,616)	150,237,859
Research expenses	10,901,077	-	17,698,440	-	-	-	28,599,517
Depreciation and amortization	3,324,998	8,873,736	14,694,296	399,972	228,710	-	27,521,712
Insurance	1,790,359	12,540,460	14,783,640	76,674	495,989	(84,000)	29,603,122
Licensure fee	-	13,441,647	17,270,751	-	-	-	30,712,398
Interest	429,729	248,035	576,117	9,240	15,229	-	1,278,350
Provision for uncollectible accounts	1,796,158	24,146,955	5,981,694	-	6,281	-	31,931,088
Total operating expenses	95,228,023	312,098,467	416,353,068	57,854,448	16,702,032	(71,828,338)	826,407,700
Income (loss) from operations	(1,307,302)	3,203,699	12,982,274	(378,734)	179,195	-	14,679,132
Nonoperating gains (losses)							
Investment income on assets limited as to use	820,545	483,038	1,692,236	250,316	23	-	3,246,158
Unrestricted gifts and bequests	58,147	1,130	412,125	100,000	74,588	-	645,990
Change in fair value of interest rate swaps	-	-	-	(1,539,686)	-	-	(1,539,686)
Net payments on interest rate swaps	(138,416)	(507,898)	(1,702,116)	(114,620)	-	-	(2,463,050)
Change in net unrealized losses on investments	(354,523)	(3,972,518)	(8,211,568)	(100,014)	(40,680)	-	(12,679,303)
Nonoperating expenditures	(321,469)	(842,322)	(696,783)	-	(25,655)	-	(1,886,229)
Net nonoperating gains (losses)	64,284	(4,838,570)	(8,506,106)	(1,404,004)	8,276	-	(14,676,120)
Excess (deficiency) of revenues and gains over expenses and losses	\$ (1,243,018)	\$ (1,634,871)	\$ 4,476,168	\$ (1,782,738)	\$ 187,471	\$ -	\$ 3,012

Care New England Health System and Affiliates
Consolidating Statement of Changes in Net Assets
Year Ended September 30, 2011

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Unrestricted net assets							
Excess (deficiency) of revenues over expenses	\$ (1,243,018)	\$ (1,634,871)	\$ 4,476,168	\$ (1,782,738)	\$ 187,471	\$ -	\$ 3,012
Pension and postretirement adjustment	(3,118,755)	(9,057,549)	(4,367,310)	(2,216,786)	(595,059)	-	(19,355,459)
Net assets released from restrictions used for purchase of property, plant and equipment	351,935	789,882	2,277,464	-	-	-	3,419,281
Transfers	(8,618)	(27,307)	(37,485)	75,000	(1,590)	-	-
Transfer to deferred revenue	(807,390)	-	(1,834,250)	-	-	-	(2,641,640)
(Decrease) increase in unrestricted net assets	(4,825,846)	(9,929,845)	514,587	(3,924,524)	(409,178)	-	(18,574,806)
Temporarily restricted net assets							
Contributions	1,011,584	3,615,937	2,487,283	-	-	-	7,114,804
Income from investments	197,215	449,984	261,745	-	-	-	908,944
Net realized and unrealized losses from investments	(713,034)	(110,650)	(520,803)	-	-	-	(1,344,487)
Net assets released from restrictions	(867,076)	(1,605,044)	(3,942,547)	-	-	-	(6,414,667)
Increase (decrease) in temporarily restricted net assets	(371,311)	2,350,227	(1,714,322)	-	-	-	264,594
Permanently restricted net assets							
Net realized and unrealized gains (losses) from investments	-	(499,926)	504	-	-	-	(499,422)
Contributions	6,090	15,634	82,356	-	-	-	104,080
Increase (decrease) in permanently restricted net assets	6,090	(484,292)	82,860	-	-	-	(395,342)
Decrease in net assets	(5,191,067)	(8,063,910)	(1,116,875)	(3,924,524)	(409,178)	-	(18,705,554)
Net assets at beginning of year	39,905,624	60,153,312	224,572,055	(10,601,516)	(6,746,420)	-	307,283,055
Net assets at end of year	\$ 34,714,557	\$ 52,089,402	\$ 223,455,180	\$ (14,526,040)	\$ (7,155,598)	\$ -	\$ 288,577,501

Care New England Health System and Affiliates
Consolidating Balance Sheet
September 30, 2010

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Assets							
Current assets							
Cash and cash equivalents	\$ 16,054,008	\$ 9,327,359	\$ 53,094,889	\$ 5,001,310	\$ 1,130,139	\$ (5,700,000)	\$ 78,907,705
Investments	2,539,711	-	-	-	307,286	-	2,846,997
Patient accounts receivable	6,482,983	51,837,116	51,808,602	-	2,199,079	-	112,327,780
Less: Estimated uncollectible	(1,413,776)	(17,868,916)	(11,530,000)	-	(483,353)	-	(31,296,045)
Net patient accounts receivable	5,069,207	33,968,200	40,278,602	-	1,715,726	-	81,031,735
Other receivables	2,178,380	1,264,783	9,027,093	209,647	119,343	-	12,799,246
Pledges receivable, net	96,082	167,476	1,040,201	-	-	-	1,303,759
Other current assets	836,117	4,343,700	2,571,910	1,736,972	15,051	-	9,503,750
Current portion of assets whose use is limited	265,979	2,319,529	692,005	209,250	43,322	-	3,530,085
Due from affiliates—other	3,222,898	862,067	520,043	4,682,521	228,733	(9,516,262)	-
Due from affiliates—debt	-	-	-	70,774,161	-	(70,774,161)	-
Total current assets	30,262,382	52,253,114	107,224,743	82,613,861	3,559,600	(85,990,423)	189,923,277
Assets whose use is limited or restricted as to use							
Endowment funds	14,566,537	14,313,377	7,883,846	-	-	-	36,763,760
Board-designated funds	3,686,272	19,882,178	52,176,060	-	284,496	-	76,029,006
Trustee-held funds	2,055,070	24,972,547	108,443,522	1,739,436	-	-	137,210,575
Deferred compensation funds	1,576,485	872,652	1,132,221	267,215	91,884	-	3,940,457
Total assets limited as to use	21,884,364	60,040,754	169,635,649	2,006,651	376,380	-	253,943,798
Less: Amounts required to meet current obligations	(265,979)	(2,319,529)	(692,005)	(209,250)	(43,322)	-	(3,530,085)
Noncurrent assets limited as to use	21,618,385	57,721,225	168,943,644	1,797,401	333,058	-	250,413,713
Property, plant and equipment, net	22,172,744	69,381,958	157,939,409	2,798,420	934,772	-	253,227,303
Pledges receivable, net	141,601	151,600	992,237	-	-	-	1,285,438
Investments	2,454,147	-	9,816,603	7,547,163	-	-	19,817,913
Other assets	10,708	541,742	341,831	276,637	-	-	1,170,918
Total assets	\$ 76,659,967	\$ 180,049,639	\$ 445,258,467	\$ 95,033,482	\$ 4,827,430	\$ (85,990,423)	\$ 715,838,562

Care New England Health System and Affiliates
Consolidating Balance Sheet
September 30, 2010

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Liabilities and Net Assets							
Current liabilities							
Accounts payable and accrued expenses	\$ 10,403,530	\$ 38,595,953	\$ 41,894,520	\$ 7,895,143	\$ 2,600,367	\$ -	\$ 101,389,513
Current portion of estimated third-party payor settlements and advances	630,976	4,053,726	10,504,700	-	-	-	15,189,402
Current portion of long-term debt and capital leases	299,816	1,858,446	826,384	2,960,000	32,155	-	5,976,801
Current portion of long-term debt, due to parent	139,209	868,642	1,836,868	-	-	(2,844,719)	-
Pension liability	218,898	1,072,008	659,936	164,840	310,870	-	2,426,552
Interest rate swap	-	-	-	1,104,629	-	-	1,104,629
Other current liabilities	501,417	247,747	3,368,848	199,601	316,995	-	4,634,608
Due to affiliates	885,970	4,652,463	2,515,085	963,440	499,304	(9,516,262)	-
Total current liabilities	13,079,816	51,348,985	61,606,341	13,287,653	3,759,691	(12,360,981)	130,721,505
Long term liabilities							
Self-insurance reserves	1,915,003	17,092,337	75,640,868	9,489,352	-	-	104,137,560
Long-term portion of third-party payor settlements	2,293,858	3,537,185	14,882,363	-	-	-	20,713,406
Long-term debt and capital leases	5,227,418	4,298,680	4,873,644	71,540,000	99,764	-	86,039,506
Pension liability	7,627,750	23,744,154	11,841,536	2,315,354	1,912,547	-	47,441,341
Postretirement liability	-	2,396,079	-	-	-	-	2,396,079
Interest rate swaps	-	-	-	8,712,219	-	-	8,712,219
Other liabilities	2,250,538	1,861,663	3,889,422	290,420	101,848	-	8,393,891
Due to parent, long-term debt	4,359,960	15,617,244	47,952,238	-	5,700,000	(73,629,442)	-
Total long-term liabilities	23,674,527	68,547,342	159,080,071	92,347,345	7,814,159	(73,629,442)	277,834,002
Net assets							
Unrestricted	20,287,343	44,816,535	194,312,831	(10,601,516)	(6,746,420)	-	242,068,773
Temporarily restricted	17,195,224	3,280,357	26,207,031	-	-	-	46,682,612
Permanently restricted	2,423,057	12,056,420	4,052,193	-	-	-	18,531,670
Total net assets	39,905,624	60,153,312	224,572,055	(10,601,516)	(6,746,420)	-	307,283,055
Total liabilities and net assets	\$ 76,659,967	\$ 180,049,639	\$ 445,258,467	\$ 95,033,482	\$ 4,827,430	\$ (85,990,423)	\$ 715,838,562

Care New England Health System and Affiliates
Consolidating Statement of Operations
Year Ended September 30, 2010

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Revenues and gains							
Net patient service revenue	\$ 63,737,786	\$ 281,923,304	\$ 369,582,685	\$ 780,465	\$ 15,728,664	\$ (990,785)	\$ 730,762,119
Net assets released from restrictions and used for operations	1,108,724	881,676	5,853,214	-	-	-	7,843,614
Research revenue	12,151,838	-	16,803,138	-	-	-	28,954,976
Other revenue	17,180,542	9,627,941	20,872,675	40,104,308	1,108,359	(51,184,287)	37,709,538
Total revenues and gains	94,178,890	292,432,921	413,111,712	40,884,773	16,837,023	(52,175,072)	805,270,247
Operating expenses							
Salaries and benefits	62,593,473	156,715,351	253,553,449	24,134,223	13,565,627	(7,649,221)	502,912,902
Supplies and other expenses	10,052,640	79,052,629	77,516,696	15,180,947	2,165,300	(44,428,311)	139,539,901
Research expenses	12,158,243	-	16,803,138	-	-	-	28,961,381
Depreciation and amortization	3,162,849	8,477,767	15,319,714	387,292	252,278	-	27,599,900
Insurance	2,474,947	6,921,390	11,902,162	51,073	317,006	(71,000)	21,595,578
Licensure fee	-	12,041,993	15,824,541	-	-	-	27,866,534
Interest	447,197	311,461	494,844	9,142	18,368	(26,540)	1,254,472
Provision for uncollectible accounts	1,826,396	26,706,478	8,104,361	-	62,829	-	36,700,064
Total operating expenses	92,715,745	290,227,069	399,518,905	39,762,677	16,381,408	(52,175,072)	786,430,732
Income from operations	1,463,145	2,205,852	13,592,807	1,122,096	455,615	-	18,839,515
Nonoperating gains (losses)							
Investment income on assets limited as to use	983,035	390,625	929,447	115,358	268	-	2,418,733
Unrestricted gifts and bequests	55,906	-	365,270	-	68,393	-	489,569
Change in fair value of interest rate swaps	-	-	-	(3,675,851)	-	-	(3,675,851)
Net payments on interest rate swaps	(132,918)	(523,906)	(1,710,982)	(110,067)	-	-	(2,477,873)
Change in net unrealized gains on investments	273,351	1,632,397	8,480,064	80,597	23,655	-	10,490,064
Nonoperating expenditures	(306,621)	(491,461)	(727,023)	-	(28,874)	-	(1,553,979)
Net nonoperating gains	872,753	1,007,655	7,336,776	(3,589,963)	63,442	-	5,690,663
Excess (deficiency) of revenues and gains over expenses and losses	\$ 2,335,898	\$ 3,213,507	\$ 20,929,583	\$ (2,467,867)	\$ 519,057	\$ -	\$ 24,530,178

Care New England Health System and Affiliates
Consolidating Statement of Changes in Net Assets
Year Ended September 30, 2010

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Eliminations	Total
Unrestricted net assets							
Excess (deficiency) of revenues over expenses	\$ 2,335,898	\$ 3,213,507	\$ 20,929,583	\$ (2,467,867)	\$ 519,057	\$ -	\$ 24,530,178
Pension and postretirement adjustment	(1,911,386)	(6,366,988)	(3,358,218)	(534,520)	(501,138)	-	(12,672,250)
Net assets released from restrictions used for purchase of property, plant and equipment	406,058	930,067	3,456,066	-	-	-	4,792,191
Transfers	109,500	363,500	505,000	(1,000,000)	22,000	-	-
Others	-	-	47,703	-	-	-	47,703
Increase (decrease) in unrestricted net assets	940,070	(1,859,914)	21,580,134	(4,002,387)	39,919	-	16,697,822
Temporarily restricted net assets							
Contributions	2,442,646	1,716,948	7,229,503	-	-	-	11,389,097
Income from investments	282,144	305,371	121,747	-	-	-	709,262
Net realized and unrealized gains from investments	789,395	218,554	428,612	-	-	-	1,436,561
Net assets released from restrictions	(2,404,167)	(1,811,743)	(9,309,280)	-	-	-	(13,525,190)
Increase (decrease) in temporarily restricted net assets	1,110,018	429,130	(1,529,418)	-	-	-	9,730
Permanently restricted net assets							
Net realized and unrealized gains from investments	-	734,420	547	-	-	-	734,967
Contributions	82,691	8,534	61,410	-	-	-	152,635
Increase in permanently restricted net assets	82,691	742,954	61,957	-	-	-	887,602
Increase (decrease) in net assets	2,132,779	(687,830)	20,112,673	(4,002,387)	39,919	-	17,595,154
Net assets at beginning of year	37,772,845	60,841,142	204,459,382	(6,599,129)	(6,786,339)	-	289,687,901
Net assets at end of year	\$ 39,905,624	\$ 60,153,312	\$ 224,572,055	\$ (10,601,516)	\$ (6,746,420)	\$ -	\$ 307,283,055

CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

Care New England Health System and Affiliates
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

Care New England Health System and Affiliates

Consolidated Financial Statements and
Other Financial Information

Years Ended September 30, 2010 and 2009

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Independent Auditors' Report

The Board of Trustees
Care New England Health System

We have audited the accompanying consolidated balance sheets of Care New England Health System and Affiliates ("Care New England") as of September 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Care New England'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 Care New England'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 Care New England'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 consolidated financial position of Care New England Health System and Affiliates at September 30, 2010 and 2009, and the consolidated results of its operations, changes in net assets, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 8 to the accompanying consolidated financial statements, in 2009, Care New England changed its method of accounting for the appreciation on endowments.

Ernst & Young LLP

December 23, 2010

Care New England Health System and Affiliates
Consolidated Balance Sheets

	September 30		September 30	
	2010	2009	2010	2009
Assets				
Current:				
Cash and cash equivalents	\$78,907,705	\$ 63,161,756		
Investments	2,846,997	1,996,886		
Patient accounts receivable, net of allowance for uncollectible accounts of \$31,296,045 in 2010 and \$30,408,282 in 2009	81,031,735	79,806,323		
Other receivables	12,799,246	12,788,039		
Pledges receivable	1,303,759	2,170,813		
Other current assets	9,503,750	8,346,550		
Current portion of assets whose use is limited	3,530,085	4,070,930		
Total current assets	189,923,277	172,341,297		
Assets whose use is limited or restricted as to use:				
Endowment funds	36,763,760	34,132,423		
Board-designated funds	77,758,793	69,292,876		
Trustee-held funds	133,233,237	119,281,765		
Deferred compensation funds	2,657,923	2,451,142		
	250,413,713	225,158,206		
Property, plant, and equipment, net	253,227,303	256,884,141		
Pledges receivable, net	1,285,438	2,632,837		
Investments	19,817,913	22,735,000		
Other assets	1,170,918	1,470,244		
Total assets	\$715,838,562	\$681,221,725		
Liabilities and net assets				
Current:				
Accounts payable and accrued expenses			\$101,389,513	\$ 87,096,949
Current portion of estimated third-party payor settlements and advances			15,189,402	20,178,186
Current portion of long-term debt and capital leases			5,976,801	6,560,899
Pension liability			2,426,552	2,023,817
Interest rate swap			1,104,629	-
Other current liabilities			4,634,608	6,751,350
Total current liabilities			130,721,505	122,611,201
Long-term liabilities:				
Self-insurance reserves			104,137,560	102,664,793
Long-term portion of estimated third-party payor settlements			20,713,406	21,102,727
Long-term debt and capital leases			86,039,506	87,717,579
Pension liability			47,441,341	41,988,771
Postretirement liability			2,396,079	1,569,705
Interest rate swaps			8,712,219	6,140,997
Other liabilities			8,393,891	7,738,051
Total long-term liabilities			277,834,002	268,922,623
Net assets:				
Unrestricted			242,068,773	225,370,951
Temporarily restricted			46,682,612	46,672,882
Permanently restricted			18,531,670	17,644,068
Total net assets			307,283,055	289,687,901
Total liabilities and net assets			\$715,838,562	\$681,221,725

See accompanying notes.

Care New England Health System and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2010	2009
Revenues and gains:		
Net patient service revenue	\$710,923,699	\$674,008,364
Net assets released from restrictions and used for operations	8,732,999	8,065,697
Other revenue	85,613,549	84,224,122
Total revenues and gains	805,270,247	766,298,183
Operating expenses:		
Salaries and benefits	516,510,229	483,374,592
Supplies and other expenses	154,903,955	155,828,388
Depreciation and amortization	27,599,900	25,553,327
Insurance	21,595,578	25,687,976
Licensure fee	27,866,534	26,074,904
Interest	1,254,472	1,448,528
Provision for uncollectible accounts	36,700,064	29,932,717
Total operating expenses	786,430,732	747,900,432
Income from operations	18,839,515	18,397,751
Non-operating gains (losses):		
Investment income on assets limited as to use	2,418,733	1,823,911
Unrestricted gifts and bequests	489,569	495,243
Change in fair value of interest rate swaps	(3,675,851)	(6,522,654)
Net payments on interest rate swaps	(2,477,873)	(1,338,132)
Change in net unrealized gains on trading securities	10,490,064	13,887,585
Non-operating expenditures	(1,553,979)	(1,964,578)
Net non-operating gains	5,690,663	6,381,375
Excess of revenues and gains over expenses	24,530,178	24,779,126

Care New England Health System and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2010	2009
Unrestricted net assets:		
Excess of revenues and gains over expenses	\$ 24,530,178	\$ 24,779,126
Pension and postretirement adjustment	(12,672,250)	(37,381,351)
Net assets released from restrictions used for purchase of property and equipment	4,792,191	19,843,489
Other	47,703	-
Increase in unrestricted net assets	16,697,822	7,241,264
Temporarily restricted net assets:		
Contributions, research, and grants	11,389,097	11,452,417
Cumulative effect of adopting ASC Topic 958	-	16,305,971
Income from investments	709,262	780,911
Net realized and unrealized gains from investments	1,436,561	27,887
Net assets released from restrictions	(13,525,190)	(27,909,176)
Increase in temporarily restricted net assets	9,730	658,010
Permanently restricted net assets:		
Net realized and unrealized gains (losses) from investments	734,967	(1,560,242)
Cumulative effect of adopting ASC Topic 958	-	(16,305,971)
Contributions	152,635	563,855
Increase (decrease) in permanently restricted net assets	887,602	(17,302,358)
Increase (decrease) in net assets	17,595,154	(9,403,084)
Net assets at beginning of year	289,687,901	299,090,985
Net assets at end of year	\$307,283,055	\$289,687,901

See accompanying notes.

Care New England Health System and Affiliates

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2010	2009
Operating activities		
Change in net assets	\$ 17,595,154	\$ (9,403,084)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension and postretirement adjustment	12,672,250	37,381,351
Depreciation and amortization	27,599,900	25,553,327
Change in fair value of interest rate swaps	3,675,851	6,522,654
Income and gains on assets limited as to use	(2,418,733)	(1,823,911)
Net unrealized gains on trading securities	(10,490,064)	(13,887,585)
Restricted contributions and investment income	(887,602)	996,387
Changes in:		
Patient accounts receivable	(1,225,412)	(9,450,941)
Trading securities	(9,738,889)	8,063,143
Other current and long-term assets	1,345,372	5,237,120
Accounts payable and accrued expenses	14,292,564	(4,739,399)
Estimated third-party payor settlements	(5,378,105)	(7,839,036)
Deferred revenue and other liabilities	(1,460,902)	5,706,613
Net pension liability	(5,990,571)	(679,002)
Self-insurance reserves	1,472,767	8,832,607
Net cash provided by operating activities	<u>41,063,580</u>	<u>50,470,244</u>
Investing activities		
Purchase of property and equipment	(23,943,062)	(46,382,130)
Net cash used in investing activities	<u>(23,943,062)</u>	<u>(46,382,130)</u>
Financing activities		
Proceeds from capital leases	4,899,749	-
Payments on long-term debt and capital leases	(7,161,920)	(6,570,899)
Restricted contributions and investment income	887,602	(996,387)
Net cash used in financing activities	<u>(1,374,569)</u>	<u>(7,567,286)</u>
Net increase (decrease) in cash and cash equivalents	15,745,949	(3,479,172)
Beginning cash and cash equivalents	63,161,756	66,640,928
Ending cash and cash equivalents	<u>\$ 78,907,705</u>	<u>\$ 63,161,756</u>
Supplemental disclosures		
Cash paid for interest	<u>\$ 1,355,785</u>	<u>\$ 1,861,813</u>

See accompanying notes.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

September 30, 2010

1. Description of Organization

Corporate Structure

Care New England Health System (“CNE”, “Care New England”, or the “Health System”), a not-for-profit corporation, was established in February 1996 as the holding company for the development of an integrated delivery network which consists of Butler Hospital, Kent County Memorial Hospital, and Women & Infants Hospital of Rhode Island (collectively, the “Hospitals”), and the Kent County Visiting Nurse Association, d/b/a VNA of Care New England (the “Agency”).

The accompanying consolidated financial statements include the accounts of CNE and its affiliates, over which CNE has corporate governance:

- Butler Hospital (“Butler”) and its affiliate, Carriage House, LLC (“Carriage”)
- Kent County Memorial Hospital (“Kent”) and its affiliates, Kent Hospital Foundation, Kent Ancillary Services, LLC, and Toll Gate Indemnity, Ltd. (“Toll Gate”)
- Women & Infants Corporation (“WIC”) and its affiliates, Women & Infants Development Foundation, Palomar Group, Inc. (“Palomar”), Women & Infants Hospital of Rhode Island (“WIH”), W&I Indemnity, Ltd. (“W&I Indemnity”), WIH Faculty Physicians, Inc., and Women & Infants Ancillary Services, LLC
- Kent County Visiting Nurse Association and its affiliate, Healthtouch, Inc. (together, the “Agency”)
- Care New England Wellness Centers, LLC

Significant intercompany accounts have been eliminated in consolidation.

Mission and Nature of Business

Care New England supports the three Hospitals, the Agency, and other affiliated organizations.

The mission of Butler Hospital is to provide treatment of psychiatric illness in an atmosphere of dignity and respect, and to contribute to knowledge through education and research, while continuously improving the ways Butler serves its patients and the community. Butler is a 117-bed, not-for-profit psychiatric teaching hospital, affiliated with Brown University, providing services for the care of patients from Rhode Island and nearby Massachusetts. As a complement to its role in service and education, Butler actively supports research by members of its staff. Butler is accredited by The Joint Commission (“TJC”).

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Description of Organization (continued)

The mission of Kent County Memorial Hospital is to continually improve the health and well-being of the people and communities it serves, offering its essential services without regard for the ability to pay. Kent is a 359-bed, not-for-profit general hospital providing a full range of services for the acute care of patients principally from Kent County, Rhode Island. Kent currently operates American Osteopathic Association approved residency programs in emergency medicine and family practice, and has been approved to establish an internal medicine residency program and a fellowship program in hyperbaric medicine beginning in 2011. Kent is affiliated with, and provides clinical training to, the students of the University of New England College of Osteopathic Medicine. Kent is accredited by TJC and the Commission on Accreditation of Rehabilitation Facilities. Toll Gate is a wholly owned subsidiary of Kent. Toll Gate insures primary and excess hospital professional and general liability risks for the Hospital and its employees on an occurrence basis. Toll Gate insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from employed physicians' professional liability on an occurrence basis. Toll Gate also insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from community physicians' professional liability on both a claims-made and occurrence basis.

The mission of Women & Infants Corporation is to support Women & Infants Hospital of Rhode Island and all other affiliated organizations. The mission of Women & Infants Hospital of Rhode Island is to improve the health and well-being of women and infants, and to provide essential services regardless of ability to pay. WIH is a 247-bed, not-for-profit regional center for women and infants' care in Rhode Island and environs. It has university affiliations and serves as the tertiary care center for neonatology, as well as obstetrics, maternal fetal medicine, gynecology, and an array of internal medicine services for all of Rhode Island and portions of the neighboring states of Massachusetts and Connecticut. As a complement to its role in service and education, WIH actively supports research by members of its staff. WIH is accredited by TJC. W&I Indemnity is a wholly owned subsidiary of WIH. W&I Indemnity insures excess hospital professional liability risks for the Hospital and its employees on an occurrence basis, and excess hospital professional liability risks for the Care New England Health System solely to the extent not covered by commercial insurance purchased by Care New England, Butler, or Kent. W&I Indemnity insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from employed physicians' and residents' medical malpractice liability on an occurrence basis. W&I Indemnity also insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from community physicians' medical malpractice liability on both a claims-made and occurrence basis.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Description of Organization (continued)

The mission of Kent County Visiting Nurse Association, d/b/a VNA of Care New England, is to provide and administer a comprehensive, multidisciplinary, therapeutic, hospice, and public health nursing program. The Agency is a not-for-profit corporation, providing home care services to the residents of Rhode Island and nearby Massachusetts. Healthtouch, Inc. is a not-for-profit corporation providing private duty nursing and personal care services, primarily to residents of Rhode Island.

2. Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Care New England 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.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, other-than-temporary impairments in the value of securities, interest, and dividends) is included in the excess of revenues and gains over expenses unless the income or loss is restricted by donor or law.

Kent and WIH follow the practice of pooling resources of unrestricted and restricted assets for long-term investment purposes. The investment pool is operated on the market value method whereby each participating fund is assigned a number of units based on the percentage of the pool it owns at the time of entry. Income, gains, and losses of the pool are allocated to the funds based on their respective participation in the pool.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Alternative investments (non-traditional, not readily marketable holdings) include hedge funds and private equity funds. Alternative investment interests generally are structured such that the Health System holds a limited partnership interest. The Health System's ownership structure does not provide for control over the related investees, and the Health System's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. There are no future funding commitments for alternative investments at September 30, 2010.

Individual investment holdings within the alternative investments include non-marketable and market-traded debt and equity securities, and interests in other alternative investments. The Health System may be exposed indirectly to securities lending, short sales of securities, and trading in futures and forward contracts, options, and other derivative products. Alternative investments often have liquidity restrictions under which the Health System's capital may be divested only at specified times. The Health System's liquidity restrictions may be up to 90 days for certain investments. Liquidity restrictions may apply to all or portions of a particular invested amount.

The Health System's policy is to record its ownership interest in alternative investments of less than 3% at cost. The Health System has no ownership interest in excess of 3%, which could require such interests to be reported under the equity method of accounting. Under the equity method, the Health System would recognize its share of the increase or decrease in the investments' fair value in non-operating income.

Financial information used by the Health System to evaluate its alternative investments is provided by the investment manager or general partner, and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Health System's annual financial statement reporting.

There is uncertainty in the valuation for alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, and time lags associated with reporting by investee companies. As a result, there is at least a reasonable possibility that estimates will change in the near term.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Income and realized net gains (losses) on investments of endowments and specific purpose funds are reported as follows:

- Increases (decreases) in permanently restricted net assets if the terms of the gift require that they be added to the principal of permanently restricted net assets;
- Increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income or the income has not yet been appropriated; or
- Increases (decreases) in the unrestricted net assets in all other cases.

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements and insurance programs, deferred compensation arrangements, and designated assets set aside by one or more of the Boards of Trustees (the "Boards"), over which the Boards retain control and may, at their discretion, subsequently use for other purposes. Amounts required to meet current obligations of the Hospitals have been reclassified to current assets.

Inventories

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

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Donated property and equipment is recorded at fair value at the date of receipt. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Installation costs, including labor, benefits, and travel, are capitalized as a component of information systems installations. Depreciation is recorded using the straight-line method based on the estimated useful life of each class of depreciable asset, as recommended by the American Hospital Association.

Gifts of long-lived assets, such as land, buildings, or equipment, are reported as unrestricted support, and are excluded from the excess of revenues 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 those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Pledges

Pledges, less an allowance for uncollectible amounts, are recorded as receivables in the year made. Pledges receivable over a period greater than one year are stated at net present value. Pledges are recorded as additions to the appropriate net asset classification.

Deferred Financing Costs

Expenses related to issuance of bonds are deferred and amortized on a straight-line basis over the period during which the bonds are expected to be outstanding.

Self-Insurance Reserves

The reserves for self-insured programs are estimated based on actuarial studies and the Hospitals' and industry experience. The reserves include estimates of the ultimate cost for both reported claims and claims incurred but not yet reported. The Hospitals have established separate indemnification companies and trust funds for payment of certain self-insured claims.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Care New England is self-insured for losses arising from workers' compensation claims. Loss reserves are estimated based on actuarial studies, and the Health System's and industry experience.

For the employees of the Hospitals and the Agency, with the exclusion of the unionized employees at Women & Infants Hospital, Care New England is self-insured for losses arising from health insurance claims. Self-insured losses for both reported claims and claims incurred but not yet reported are estimated based on actuarial studies and the Health System's actual experience.

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.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues and gains over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues and gains over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, 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), and changes in the pension and postretirement liability.

Net Patient Service Revenue

The Hospitals and the Agency have individual agreements with many third-party payors that provide payments at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments.

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 such things as 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 adjustments.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Other Revenue

Other revenue includes underwriting income, federal research revenues, clinical trial revenues at WIH, rental income, cafeteria sales, laboratory services provided to non-patients, sales of home medical equipment, vendor rebates and discounts, and various services provided to physicians and other organizations.

Charity Care

The Health System provides care to patients who meet certain criteria under their charity care policies without charge or at amounts less than established rates. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient revenue.

Donor-Restricted 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 when the condition is satisfied. 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 operations and changes in net assets as net assets released from restrictions.

Income Taxes

Care New England, the Hospitals, the Agency, Healthtouch, Women & Infants Faculty Physicians, Inc., Women & Infants Corporation, Women & Infants Development Foundation, Palomar, and Kent Hospital Foundation are not-for-profit corporations, and have been recognized as tax exempt on related income pursuant to Section 501(c)(3) of the Internal Revenue Code. W&I Indemnity, Ltd. and Toll Gate Indemnity, Ltd. are foreign corporations with no material tax liability. Other affiliates are single-member limited liability companies which are treated as part of their sole member for tax purposes.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

New Accounting Pronouncements

Postretirement Benefit Plan Assets

In March 2008, the FASB issued ASC Topic 517-20-65-2, *Employers' Disclosures about Postretirement Benefit Plan Assets*. This Topic amends ASC Topic 958-715 to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The Health System adopted the provisions of the Topic beginning with the fiscal year ended September 30, 2010.

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued ASC Topic 815-10-65-1, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of Topic 815-10-50*. ASC Topic 815-10-65-1 builds upon the existing disclosure requirements of ASC Topic 815-10-50, *Accounting for Derivative Instruments and Hedging Activities*, by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under ASC Topic 815-10-50 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Health System adopted ASC Topic 815-10-65-1 for its fiscal year ending September 30, 2010.

Reclassifications

Certain items in the 2009 financial statements have been reclassified to conform to the current year presentation.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

3. Uncompensated Care and Community Services

The Health System maintains records to identify and monitor the level of charity care and community services it provides, including the amount of charges forgone for services and the estimated cost incurred to provide those services. The revenues forgone and estimated costs and expenses incurred to provide charity care for the years ended September 30 are as follows:

	2010	2009
Revenues forgone, based on established rates	\$26,405,197	\$25,494,320
Expenses and costs incurred	\$11,545,773	\$11,293,563

In addition to the above-mentioned medical care rendered, the Hospitals and the Agency provide numerous other services free of charge to the community. These services include such things as transporting patients to the healthcare facilities, interpretation of medical information to various languages; volunteer services to other not-for-profit agencies, emergency and disaster relief services, various health and educational programs, research and teaching facilities, healthcare screening services, therapeutic patient services, and provision of direct services to patients with multiple psychosocial needs.

	2010	2009
Approximated revenues forgone, or cost of the services provided to the community	\$10,095,776	\$8,447,869

The Hospitals and the Agency also provide services to other indigent patients under the Medicaid/Rite Care Program, which reimburses healthcare providers at amounts which are less than the costs of services provided to the recipients. Hospital-employed physicians also render medical services to the community which are not billable, and for which no remuneration is received.

In addition to the cost of charity care and other community service programs, the Hospitals and the Agency provided \$36,700,064 and \$29,932,717 for uncollectible patient accounts during the years ended September 30, 2010 and 2009, respectively.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

4. Pledges Receivable

Unconditional promises to give are recorded at present value as current and long-term assets based on expected time of collection. Future expected collections of these pledges as of September 30 are as follows:

	<u>2010</u>	<u>2009</u>
Within one year	\$ 1,791,872	\$ 3,014,381
One to five years	2,154,974	4,801,554
Beyond five years	10,105	25,075
	<u>3,956,951</u>	<u>7,841,010</u>
Less allowance for uncollectibles	<u>(1,367,754)</u>	<u>(3,037,360)</u>
Pledges receivable, net	<u>\$ 2,589,197</u>	<u>\$ 4,803,650</u>

5. Summary of Investments

Investments at September 30 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Securities, at market:		
Cash and cash equivalents	\$ 18,480,802	\$ 22,020,723
Government securities	7,095,738	5,983,821
Bonds	39,963,898	35,176,592
Common stocks	74,782,078	62,660,185
Mutual funds	80,530,349	68,707,888
Auction rate securities	19,817,913	22,735,000
Alternative investments	8,524,103	7,851,156
Cash surrender value of life insurance	27,413,827	28,825,657
Total	<u>\$276,608,708</u>	<u>\$253,961,022</u>

The cash surrender value of life insurance is included in Board-designated funds.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

5. Summary of Investments (continued)

Investment return for the years ended September 30 consisted of the following (in thousands):

	2010	2009
Interest and dividend income	\$ 2,685,828	\$ 3,297,021
Net realized gains (losses) on sales of investments	2,645,146	(1,778,266)
Net change in unrealized gains and losses	10,490,064	13,887,584
	\$15,821,038	\$15,406,339
Included in operating revenue	\$ 2,912,241	\$ (305,157)
Included in non-operating revenue	12,908,797	15,711,496
	\$15,821,038	\$15,406,339

Care New England, the Hospitals, and the Agency routinely invest their surplus operating funds in various overnight repurchase agreements, money market funds, and fixed income U.S. agency bonds, which are classified as cash and cash equivalents.

Through its consolidated Treasury Management System, Care New England, on behalf of the Health System, has invested surplus operating cash in auction rate securities with varying maturity dates, which are backed by student loans. These loans are guaranteed for repayment by the federal government. During 2008, the auctions at which these securities were sold began to fail, requiring CNE to hold these securities indefinitely. However, payments of interest from the underlying loan pool remain current. As of September 30, 2010 and 2009, these securities are recorded as long-term investments in the consolidated balance sheets and Care New England has recorded an other-than-temporary impairment loss of \$1,182,086 and \$1,490,000, respectively, based on an independent valuation of the securities. During 2010, \$3,225,000 of the auction rate securities were liquidated at face value, resulting in a non-operating gain of \$198,359. During 2009, \$775,000 of the auction rate securities were liquidated at face value, resulting in a non-operating gain of \$27,125.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

6. Property and Equipment

A summary of property and equipment at September 30 follows:

	2010	2009
Land and land improvements	\$ 10,169,616	\$ 9,971,818
Buildings and improvements	334,879,014	327,303,847
Moveable equipment	262,280,466	249,883,603
Total property and equipment	607,329,096	587,159,268
Less accumulated depreciation and amortization	(357,840,698)	(331,916,584)
	249,488,398	255,242,684
Construction and projects in progress	3,738,905	1,641,457
Property and equipment, net	\$ 253,227,303	\$ 256,884,141

During November 2005, WIH received a Certificate of Need approval from the Rhode Island Department of Health to build a five-floor addition to the Hospital. The addition contains 80 neonatal intensive care beds, 30 additional obstetrical services beds, and space for support services. The addition was funded through the issuance of tax-exempt debt, use of equity, and philanthropic donations. The addition became operational on September 16, 2009.

During November 2010, Butler received a Certificate of Need approval from the Rhode Island Department of Health to build a two-story building. The new building will house an updated Patient Assessment Service, and accommodate an increase in Butler's licensed bed complement of inpatient psychiatry beds by twenty-six. The building will be funded through the issuance of tax-exempt debt, use of equity, and philanthropic donations. Total estimated cost of the new building is \$17,823,000.

During May 2010, the Kent received a Certificate of Need approval from the Rhode Island Department of Health to construct and relocate its outpatient surgical suites on one floor of a two-story medical building being built on the campus by a private developer. The Certificate of Need also includes lobby renovations, the construction of a connector to the main hospital building, and the construction of a 10-bed short stay nursing unit in the vacated outpatient surgery space. The project will be funded through the issuance of tax-exempt debt and philanthropic donations. Total estimated cost of the project is \$15,000,000.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

6. Property and Equipment (continued)

As of September 30, 2010, the Health System estimated the total cost of completion of construction and projects in progress to be approximately \$37,112,000. The funding to complete these projects will come from Board-designated funds, philanthropic donations, tax-exempt debt, and operating cash.

WIH leases land for its facility from Rhode Island Hospital (“RIH”), for a nominal annual payment, under a 99-year lease agreement which expires December 31, 2085.

Butler owns approximately 110 acres of land, which was purchased with donated funds in the mid-19th century. This land has a book value of one dollar.

In the late 1940s, Kent acquired 57 acres of land, which is recorded at the acquisition price of \$90,165.

Conditional asset retirement obligations are recorded at \$1,580,875 and \$1,550,322 as of September 30, 2010 and 2009, respectively. These obligations are recorded in other non-current liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2010 and 2009, there were no significant retirement obligations incurred or settled. Accretion expense of \$64,576 and \$61,963 was recorded during the years ended September 30, 2010 and 2009, respectively.

7. Long-Term Debt and Capital Leases

During February 2008, CNE and its other Obligated Group members, Butler, Kent, WIC, and WIH issued a total of \$84,940,000 in RIHEBC Hospital Financing Revenue Bonds (the “Bonds”). These Bonds were issued as CNE 2008 Series A (\$46,730,000) and CNE 2008 Series B (\$38,210,000). The proceeds from the CNE 2008 Series A bonds were used to (1) refund the outstanding CNE 2002 Series A bonds, and (2) pay certain expenses related to the issuance of the CNE 2008 Series A bonds. The proceeds from the CNE 2008 Series B bonds were used to (1) defease a portion of the outstanding CNE 2002 Series B bonds, and (2) finance a portion of WIH’s Certificate of Need project consisting of the construction, equipping, and furnishing of a five-story addition to WIH’s existing hospital building, (3) finance a portion of routine capital improvements, and (4) pay certain expenses related to the issuance of the CNE 2008 Series B bonds. The CNE 2002 Series B bonds were defeased by depositing a portion of the proceeds of the CNE 2008 Series B bond proceeds and money contributed by the Obligated Group in an account held by the trustee for the CNE 2002 Series B bonds to provide funds as and

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

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

when necessary to pay the principal and interest on the CNE 2002 Series B bonds. The refunding trust has sufficient fixed income securities to meet the required payments on the outstanding balance of \$2,763,393 as of September 30, 2010.

A summary of long-term debt at September 30 is as follows:

	<u>2010</u>	<u>2009</u>
Variable rate \$46,730,000 RIHEBC 2008 Series A bonds, mandatory sinking fund redemptions ranging from \$1,330,000 in 2011 to \$2,735,000 in 2032. The bonds bear interest at a daily, weekly, or monthly rate, which is payable on the first business day of each month, and on maturity or redemption dates and the fixed rate conversion date. In no event will the interest rate borne by the bonds exceed 10% per annum. Since issuance in 2008, the bonds have borne a weekly interest rate. CNE has pledged gross receipts backed by a bank letter of credit which expires on February 1, 2015. The Series A bonds are subject to tender at the option of the owners thereof. To the extent the tendered bonds are not able to be remarketed, the letter of credit bank has committed to purchase the bonds. Amounts advanced by the bank to pay the purchase price on bonds being purchased and not reimbursed to the bank on the date of such drawing will be converted to a credit agreement loan and amortized over three years. CNE, Butler, Kent, WIC, and WIH are jointly and severally liable for repayment.	\$42,985,000	\$44,270,000

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

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

	<u>2010</u>	<u>2009</u>
<p>Variable rate \$38,210,000 RIHEBC 2008 Series B bonds, mandatory sinking fund redemptions ranging from \$1,630,000 in 2011 to \$660,000 in 2013, with a final payment of \$1,810,000 in 2037. The bonds bear interest at a daily, weekly, or monthly rate, which is payable on the first business day of each month, and on maturity or redemption dates and the fixed rate conversion date. In no event will the interest rate borne by the bonds exceed 10% per annum. Since issuance in 2008, the bonds have borne a weekly interest rate. CNE has pledged gross receipts backed by a bank letter of credit which expires on February 1, 2015. The Series B bonds are subject to tender at the option of the owners thereof. To the extent the tendered bonds are not able to be remarketed, the letter of credit bank has committed to purchase the bonds. Amounts advanced by the bank to pay the purchase price on bonds being purchased and not reimbursed to the bank on the date of such drawing will be converted to a credit agreement loan and amortized over three years. CNE, Butler, Kent, WIC, and WIH are jointly and severally liable for repayment.</p>	\$31,515,000	\$33,765,000
<p>Term, \$340,000 RIHEBC Equipment Note due March 2003 through February 2010, in monthly installments of \$4,687 at a fixed interest rate of 4.25%. Collateralized by the equipment purchased with the proceeds by the Agency and guaranteed by the Health System.</p>	-	23,186
<p>Term, \$300,000 RIHEBC Equipment Note due July 1, 2004 through June 1, 2014, in monthly installments of \$3,141 at a fixed interest rate of 4.72%. Collateralized by the equipment purchased with the proceeds by the Agency and guaranteed by the Health System.</p>	131,919	162,610
<p>Term, \$2,250,000 BankRI mortgage note due July 2005 through June 2015, in monthly installments of \$14,538 with a final payment of \$1,734,954 due June 2015, at a fixed interest rate of 6.03%. Collateralized by the real estate purchased.</p>	2,006,936	2,057,006

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

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

	<u>2010</u>	<u>2009</u>
Term, \$3,750,000 Bank of America mortgage note due August 2005 through July 2015, in monthly installments ranging from \$33,837 on August 1, 2005 to \$24,193 on May 5, 2015, with a final payment of \$1,890,625 due June 2015, at a fixed interest rate of 5.64%. Collateralized by the real estate purchased.	\$ 2,781,250	\$ 2,968,750
Term, \$4,000,000 Time Insurance Company mortgage note due October 2007 through September 2027, in monthly installments of \$25,261 with a final payment of \$1,338,527 due September 2027, at a fixed interest rate of 5.79%. Collateralized by real estate.	3,759,163	3,842,019
Capital lease obligations	8,837,039	7,189,907
Total long-term debt and capital lease obligations	92,016,307	94,278,478
Less current portion of long-term debt and capital lease obligations	(5,976,801)	(6,560,899)
Long-term debt and capital lease obligations, excluding current portion	\$ 86,039,506	\$ 87,717,579

Under the terms of the revenue bonds, CNE and the Hospitals are required to make periodic debt service payments with a trustee, which are included with assets limited as to use. The revenue bond indenture and letter of credit agreement also places limits on the incurrence of additional borrowings, and require that the Obligated Group satisfy certain measures of financial performance as long as the bonds are outstanding. The Health System has been, and remains, compliant with these terms.

In 2004, CNE entered into an interest rate swap agreement with Bank of America Investments, effectively converting the \$50,000,000 RIHEBC CNE 2002 Series A variable rate debt to a fixed rate of 2.99% for the period of October 1, 2005 through August 1, 2011.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

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

As part of the refinancing, CNE has (1) maintained the interest rate swap agreement that was entered into in 2004 with Bank of America Investments which effectively converts \$45,400,000 of the RIHEBC CNE 2008 Series A variable rate bonds to a fixed rate of 3.02% for the period of February 1, 2008 through August 1, 2011, (2) entered into an interest rate swap agreement with Deutsche Bank Group which effectively converts all of the RIHEBC CNE 2008 Series A variable rate bonds to a fixed rate of 4.216% for the period of August 1, 2011 through July 1, 2032, and (3) entered into an interest rate swap agreement with Morgan Stanley Capital Services which effectively converts all of the RIHEBC CNE 2008 Series B variable rate bonds to a fixed rate of 3.857% for the period of February 1, 2008 through August 31, 2037.

The Health System uses the interest rate swap agreements in order to manage its interest rate risk associated with its outstanding debt. These swaps effectively convert interest rates on variable rate bonds to fixed rates. The interest rate swap agreements meet the definition of derivative instruments. However, the change in the market value and cash flow impact of the derivative instruments were accounted for as a non-operating activity. The swaps, while serving as an economic hedge, do not qualify as an accounting hedge.

The following table summarizes the 2008 Series A and B debt activity for the fiscal years ended September 30:

	2010	2009
Debt outstanding:		
October 1 – August 31	\$78,035,000	\$81,440,000
September 1 – September 30	\$74,500,000	\$78,035,000
Weighted-average bonds outstanding	\$77,740,417	\$81,156,000
Interest payments to bondholders plus letter of credit fees paid to bank	\$ 461,610	\$ 889,552
Net cash payments on interest rate swaps:		
Non-capitalized interest	2,477,873	1,338,132
Capitalized interest	-	854,663
	\$ 2,477,873	\$ 2,192,795
Total	\$ 2,939,483	\$ 3,082,347
Effective interest rate	3.78%	3.80%
Market value of swap agreements at September 30	\$ (9,816,848)	\$ (6,140,997)
Change in market value of swap agreements	\$ (3,675,851)	\$ (6,522,654)

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

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

Scheduled principal repayments on long-term debt are as follows for the years ended September 30:

2011	\$ 3,319,289
2012	3,063,850
2013	2,469,786
2014	2,550,130
2015	6,163,983
Thereafter	65,612,230
Total	<u>\$83,179,268</u>

Care New England had available \$15,000,000 during 2010 and 2009 through a line of credit with a financial institution. There were no outstanding balances on the lines of credit as of September 30, 2010 and 2009.

The Hospitals classify certain non-cancelable leases as capital leases, and include the property under lease in their property and equipment. Amortization expense for these assets is included in depreciation and amortization expenses in the consolidated statements of operations and changes in net assets. Ownership of the leased property converts to the Hospitals at the end of the lease term. Assets and related accumulated depreciation under the capital leases are included in property and equipment (Note 6).

Future minimum lease payments due under capital lease arrangements at September 30, 2010 are as follows:

2011	\$ 3,116,022
2012	2,237,099
2013	1,901,368
2014	1,314,344
2015	721,600
Thereafter	1,510,235
Total minimum lease payments	<u>10,800,668</u>
Less amount representing interest	<u>1,963,629</u>
Present value of net minimum lease payments	<u>\$ 8,837,039</u>

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods at September 30:

	2010	2009
Healthcare services	\$17,360,187	\$17,411,820
Healthcare research	6,816,908	6,429,171
General purposes	7,761,408	7,253,954
Indigent care	2,617,636	2,444,727
Health education	2,000,500	1,926,910
Plant replacement and expansion	3,887,073	4,993,477
Endowment	3,550,816	3,048,426
Other	2,688,084	3,164,397
Total temporarily restricted net assets	\$46,682,612	\$46,672,882

Permanently restricted net assets at September 30 are restricted investments to be held in perpetuity.

	2010	2009
Plant replacement and expansion	\$10,574,465	\$ 9,840,045
Indigent care	874,506	874,507
General purposes	1,603,481	1,603,481
Research	554,191	471,500
Healthcare services	3,918,334	3,853,379
Health education	1,006,693	1,001,156
Total permanently restricted net assets	\$18,531,670	\$17,644,068

The Health System follows the requirements of the Rhode Island enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 as they relate to its permanently restricted endowments. The Health System's endowments consist of numerous individual funds established for a variety of purposes. Its endowments consist solely of donor-restricted endowment funds. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Temporarily and Permanently Restricted Net Assets (continued)

The Health System classifies restricted donor funds in accordance with the laws of the State of Rhode Island and generally accepted accounting principles. The Health System classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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 Health System 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 Health System 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 Health System.

For the year ended September 30, 2010, the Health System had the following changes in the endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$21,172,035	\$7,804,023	\$28,976,058
Investment return:			
Investment income	416,852	547	417,399
Net appreciation (realized and unrealized)	1,554,990	-	1,554,990
Total investment return	1,971,842	547	1,972,389
Contributions	2,394,766	152,635	2,547,401
Appropriation of endowment assets for expenditure	(2,535,646)	-	(2,535,646)
Endowment net assets at end of year	<u>\$23,002,997</u>	<u>\$7,957,205</u>	<u>\$30,960,202</u>

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Temporarily and Permanently Restricted Net Assets (continued)

For the year ended September 30, 2009, the Health System had the following changes in the endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	\$ 4,779,080	\$ 24,816,595	\$29,595,675
Net asset reclassification based on change in law	<u>16,308,977</u>	<u>(16,308,977)</u>	-
Endowment net assets after reclassification	21,088,057	8,507,618	29,595,675
Investment return:			
Investment income	291,557	729,936	1,021,493
Net depreciation (realized and unrealized)	<u>(34,938)</u>	<u>(1,281,569)</u>	<u>(1,316,507)</u>
Total investment return	256,619	(551,633)	(295,014)
Contributions	2,312,155	566,861	2,879,016
Appropriation of endowment assets for expenditure	<u>(2,484,796)</u>	<u>(718,823)</u>	<u>(3,203,619)</u>
Endowment net assets at end of year	<u>\$21,172,035</u>	<u>\$ 7,804,023</u>	<u>\$28,976,058</u>

In addition to permanently restricted endowments, Kent is an income beneficiary of various trusts. On September 30, 2010 and 2009, the market value of the trust assets, which are recorded as permanently restricted net assets, totaled \$10,574,465 and \$9,840,045, respectively. Distributions of income are made at the discretion of the trustees.

It is the policy of the Health System that any appropriations from the appreciation in endowment funds are periodically requested of and approved by the Board of Trustees.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Health System to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets are immaterial as of September 30, 2010 and 2009. These deficiencies resulted from unfavorable market fluctuations. The individual donor-restricted endowment funds with deficiencies will retain future income and appreciation to restore the required fair value of the assets.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Temporarily and Permanently Restricted Net Assets (continued)

During fiscal 2010 and 2009, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	2010	2009
Healthcare services	\$ 5,771,899	\$ 4,524,387
Healthcare research	1,118,390	1,624,335
Plant replacement and expansion	4,792,191	19,843,489
Other	1,520,773	1,629,027
Health education	213,630	170,791
Indigent care	108,307	117,157
Total net assets released from restrictions	\$13,525,190	\$27,909,186

9. Pension Plans

The Health System has two separate pension plans. One plan covers the employees of CNE and the Hospitals, with the exception of the unionized employees of WIH (who are covered under a multiemployer union plan) and certain WIH-employed physicians. The other plan covers the employees of the Agency.

Care New England Pension Plan

The Care New England Pension Plan (the "Plan"), established on October 1, 1998, is a defined benefit cash balance plan that covers all of the employees of CNE, and all of the Hospitals' employees, with the exception of the unionized employees and certain employed physicians at WIH. The benefits for the unionized employees at Butler are computed under a separate formula that was in effect when the Butler plan was a stand-alone non-contributory defined benefit plan. The Hospitals incur and fund their respective pension plan expenses within the guidelines established by the Employee Retirement Income Security Act of 1974.

Included in changes in unrestricted net assets at September 30, 2010 that has not yet been recognized in net periodic pension cost is an unrecognized actuarial loss of \$52,006,974. Included in changes in unrestricted net assets at September 30, 2009 that has not yet been recognized in net periodic pension cost is an unrecognized prior service credit of \$3,923,131, and an unrecognized actuarial loss of \$44,084,451.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plans (continued)

The actuarial loss included as changes in unrestricted net assets and expected to be recognized in net periodic pension cost during the fiscal year ended September 30, 2011 is \$1,000,000.

Net periodic pension cost includes the following components at September 30:

	<u>2010</u>	<u>2009</u>
Service cost	\$ 10,360,836	\$ 8,014,630
Interest cost	10,601,834	11,953,769
Expected return on plan assets	(13,150,540)	(13,529,952)
Amortization of prior service cost	(728,403)	(728,403)
Amortization of unrecognized loss	1,906,636	-
Net periodic pension expense	<u>\$ 8,990,363</u>	<u>\$ 5,710,044</u>

The assumptions used to determine net periodic benefit cost for the years ended September 30 are as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	5.50%	7.60%
Expected return on assets	8.25	8.75
Rate of compensation increase	4.00	4.50

The following table presents a reconciliation of the beginning and ending balances of the plan projected benefit obligations, fair value of plan assets, and funded status of the plan as of September 30:

	<u>2010</u>	<u>2009</u>
Changes in benefit obligations		
Projected benefit obligations at beginning of year	\$197,178,743	\$162,076,141
Service cost	10,360,836	8,014,630
Interest cost	10,601,834	11,953,769
Actuarial loss	13,714,782	25,125,910
Benefits and expenses paid	(13,608,066)	(9,991,707)
Plan change	(1,948,949)	-
Projected benefit obligations at end of year	<u>\$216,299,180</u>	<u>\$197,178,743</u>

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plans (continued)

	<u>2010</u>	<u>2009</u>
Changes in plan assets		
Fair value of plan assets at beginning of period	\$156,816,240	\$155,084,371
Actual return on plan assets	15,087,214	3,723,576
Employer contributions	12,475,000	8,000,000
Benefits and expenses paid	(13,608,066)	(9,991,707)
Fair value of plan assets at end of period	<u>\$170,770,388</u>	<u>\$156,816,240</u>
Funded status		
Total pension liability	<u>\$(45,528,792)</u>	<u>\$ (40,362,503)</u>
Accumulated benefit obligation	<u>\$214,765,024</u>	<u>\$194,279,697</u>

The assumptions used to develop the projected benefit obligation as of September 30 are as follows:

	<u>2010</u>	<u>2009</u>
Measurement date	September 30	September 30
Discount rate	5.3%	5.5%
Rate of compensation increase	4.0	4.0

Plan Assets

The Plan's investment objectives are to achieve long-term growth in excess of inflation, and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets. In order to minimize risk, the Plan attempts to minimize the variability in yearly returns. The Plan diversifies its holdings among sectors, industries, and companies. No more than 6% of the Plan's portfolio (measured on market value) may be held in an individual company's stocks or bonds.

To develop the expected long-term rate of return on plan assets assumption, the Health System considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plans (continued)

The Health System's pension plan asset allocations (based on market value) at September 30, by asset category, are as follows:

<u>Asset Category</u>	2010	
	Target	Actual
Alternative investments	28%	26%
Fixed income securities	20	30
Equity securities	52	44
Total	100%	100%

Contributions

The Health System contributed \$12,475,000 and \$8,000,000 to the Plan in 2010 and 2009, respectively. The Health System expects to contribute \$15,325,000 to the Plan in 2011.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<u>Fiscal Year</u>	<u>Pension Benefits</u>
2011	\$15,000,000
2012	13,000,000
2013	13,500,000
2014	13,800,000
2015	14,000,000
Years 2016 – 2020	71,900,000

The Care New England Board of Trustees voted, on September 23, 2010, to freeze the Plan effective December 31, 2010. Effective December 31, 2010, compensation paid to a participant shall be disregarded for plan purposes, except for purposes related to determining benefits for the unionized employees at Butler. In addition, a participant's cash balance account will only increase annually for interest credit. As a result, the System realized a gain on the curtailment of the Plan in the fiscal year ending September 30, 2010 of \$3,194,728, which is recorded in pension expense. In connection with the Plan freeze, the Health System will enhance contributions to the Care New England 403(b) Match and Savings Plan.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plans (continued)

Care New England 403(b) Match and Savings Plan

As a result of the Pension Plan Protection legislation, regulatory changes impacting matching credits previously recorded in the CNE Pension Plan were discontinued effective January 1, 2009. As a result, CNE established the Care New England 403(b) Plan to account for future matching credits. The plan covers employees that meet certain eligibility requirements. For the period of October 1, 2009 through September 30, 2010, the Health System recorded an expense of \$2,776,391. For the period of January 1, 2009 to September 30, 2009, the Health System recorded an expense of \$1,996,552. In the fiscal year that ended September 30, 2010, the Health System funded \$2,657,261 to the plan for the calendar year 2009 matching credits, and will fund the calendar year 2010 matching credits during fiscal year 2011.

Effective January 1, 2011, in connection with the freeze of the Care New England Pension Plan, the Health System will provide a non-elective contribution to participant accounts, as defined in the Plan document. Non-elective contributions will be allocated to each eligible participant based on a percentage of salary based on a combination of the recipients age and years of service, and will be credited to each such participant as of the first day of the Plan year, as further described in the Plan document.

WIH Union Plan

Payments to a multiemployer pension plan covering union employees at WIH for the years ended September 30, 2010 and 2009 were \$7,535,000 and \$6,493,000, respectively.

Kent County Visiting Nurse Association Pension Plan

The Agency has a non-contributory defined benefit pension plan covering all employees who have satisfied certain eligibility requirements that was frozen effective December 31, 2007, and replaced with a contributory retirement savings plan. Benefits under the defined benefit plan were based on years of service and employee's compensation levels.

Included in the charge to net assets at September 30, 2010 is an unrecognized actuarial loss of \$2,708,723. The actuarial loss expected to be recognized in net periodic pension cost during the fiscal year ended September 30, 2011 is \$216,583.

The Agency's pension expense (income) was \$165,914 in 2010 and \$(24,000) in 2009.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plans (continued)

Actuarial liabilities and pension costs were determined using actuarial assumptions consistent with the CNE plan. To develop the expected long-term rate of return on plan assets assumption, the Agency considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Plan assets, valued at fair value, consist of 1% cash and cash equivalents and 99% mutual funds.

The Agency made required contributions to the Plan of \$97,165 and \$398,989 in 2010 and 2009, respectively. The Agency is expected to make \$310,870 in contributions to the Plan during 2011. Benefit payments, which reflect expected future services, are expected to be paid as follows:

<u>Fiscal Year</u>	<u>Pension Benefits</u>
2011	\$205,000
2012	212,000
2013	223,000
2014	234,000
2015	278,000
Years 2016 – 2020	2,174,000

Effective January 1, 2008, the Agency established a 403(b) Retirement Savings Plan that covers employees who have met certain eligibility requirements. Discretionary contributions to the plan are based on years of service and compensation levels. For the fiscal years that ended September 30, 2010 and 2009, respectively, the Agency recorded an expense of \$227,728 and \$232,457.

10. Patient Service Revenue

For the majority of the System's revenue, the Hospitals and the Agency have agreements with third-party payors that provide for payments to the Hospitals and the Agency at amounts different from their established rates. At the time of rendering service to the patients, the Hospitals and the Agency obtain assignment of benefits payable under the patient's health insurance program, plan, or policy (e.g., Medicaid, Blue Cross, health

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

10. Patient Service Revenue (continued)

maintenance organizations, commercial insurance, Medicare, and others). The following is a breakdown of gross patient service revenue by payor type for the years ended September 30:

	2010	2009
Medicare and Medicare Managed Care	31%	30%
Medicaid and Medicaid Managed Care	20	21
Blue Cross	26	26
Managed care	11	11
Self-pay	4	4
Other third-party payors	8	8
	100%	100%

CNE, on behalf of the Hospitals and the Agency, is in the process of negotiations with United Health Plan for renewal of a payment agreement representing a significant portion of the System's revenues. This agreement is set to expire on December 31, 2010. To date, there has been no agreement with respect to new contract terms.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there will always be a possibility that the recorded estimates of net revenue could change by a significant amount in the future. The Hospitals and the Agency believe they are in compliance with all applicable laws and regulations. Cost reports filed annually with third-party payors are subject to audit prior to final settlement. The Hospitals and the Agency are compliant with all reimbursement filings. A summary of cost report activity as of September 30, 2010 is as follows:

Medicare: Cost reports for the Hospitals and the Agency have been filed through 2009 and settled through 2009 for the Agency, 2008 for Butler, and 2006 for Kent and WIH.

State of Rhode Island (Medicaid): Cost reports have been filed for Butler and WIH through 2009, and Kent through 2008, and settled through 2006 for Butler and Kent, and 2003 for WIH.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

10. Patient Service Revenue (continued)

The filing of these cost reports and associated settlements require the use of estimates. Net patient service revenue was increased by \$4,411,454 and \$6,110,000 in 2010 and 2009, respectively, to reflect changes in the estimated settlements for certain prior years. There were no changes in other prior year estimates during 2010. In 2009, the change in other prior year estimates increased operating expenses by approximately \$4,000,000 in 2009.

11. Disproportionate Share

The government has long recognized the financial burdens which are borne by hospitals which serve an unusually large number, or “disproportionate share”, of low-income patients. Kent and WIH received disproportionate share payments of \$24,190,258 and \$25,016,538 from the State of Rhode Island’s Medicaid program for the years ended September 30, 2010 and 2009, respectively. Kent and WIH also recorded disproportionate share payments of \$4,952,000 and \$4,617,926 from Medicare during 2010 and 2009, respectively.

12. Concentration of Credit Risk

As of September 30, 2010 and 2009, Care New England, the Hospitals, and the Agency had cash and cash equivalents in excess of Federal Depository Insurance limits at major financial institutions. These financial institutions have a strong credit rating, and management believes that credit risks related to these deposits are minimal.

The Hospitals and the Agency receive a significant portion of its payment for services rendered from a limited number of governmental and commercial third-party payors, including Medicare, Medicaid, and Blue Cross. The organization has not historically incurred any significant concentrated credit losses in the normal course of business.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

12. Concentration of Credit Risk (continued)

In addition, the organizations routinely grant credit to patients without requiring collateral or other security. The mix of receivables, net of contractual allowances, from patients and third-party payors at September 30, 2010 and 2009, was as follows:

	<u>2010</u>	<u>2009</u>
Medicare and Medicare Managed Care	11%	11%
Medicaid and Medicaid Managed Care	30	27
Blue Cross	16	17
Managed care	9	10
Self-pay	19	21
Other third-party payors	15	14
	<u>100%</u>	<u>100%</u>

The Health System provides an allowance for uncollectible accounts to address the risks of non-payment of accounts receivable.

13. Postretirement Plans

Kent sponsors unfunded non-contributory defined benefit postretirement plans that provide medical and dental benefits to certain salaried and non-salaried employees. In 1996, Kent amended the plans to eliminate benefits for all employees, except for certain employees with at least 25 years of service at that date.

Included in the charge to net assets are the following amounts that have not yet been recognized in net periodic postretirement benefit cost as of September 30, 2010 and 2009, respectively: unrecognized net transition obligation of \$451,750 and \$548,750 and unrecognized actuarial loss (gain) of \$278,826 and \$(143,634). The unrecognized net transition obligation and actuarial gain expected to be recognized in net periodic postretirement costs during the fiscal year ended September 30, 2011 are \$97,000 and \$2,619, respectively.

The postretirement benefit cost for these plans was \$759,771 in 2010 and \$191,907 in 2009. Included in the benefit cost for the plan in 2010 is \$581,795 related to the costs of the special event, the offering of an early retirement program.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

14. Commitments and Contingencies

Operating Leases

Care New England, the Hospitals, and the Agency have entered into operating lease agreements with several vendors for the lease of certain equipment and office space. Future minimum lease payments under non-cancelable operating leases as of September 30, 2010 are:

Year Ending September 30:	
2011	\$ 5,704,776
2012	4,773,973
2013	4,164,512
2014	3,652,393
2015	3,008,689
Later years	<u>42,052,314</u>
Total minimum lease payments	<u>\$63,356,657</u>

Total rent expense for operating leases for the years ended September 30, 2010 and 2009 amounted to \$5,545,102 and \$3,791,000, respectively.

Butler has entered into several agreements with various parties, mostly non-profit organizations, to lease space on the Butler campus. Rental income in the amount of \$2,939,233 and \$3,026,139 for the fiscal years ending September 30, 2010 and 2009, respectively, is included in other operating revenues in the statements of operations.

Litigation

CNE, the Affiliates, and the Agency have been individually named as codefendants in several complaints. It is the opinion of management that the liability, if any, to CNE, the Affiliates, and the Agency in excess of insurance coverage will have no material adverse effect on the consolidated financial position of Care New England.

Collective Bargaining Agreements

At September 30, 2010, approximately 40% of the Health System's employees were covered by collective bargaining agreements. The collective bargaining agreement covering 27% of Kent Hospital employees will expire on June 30, 2011, and be subject to negotiation. The remaining bargaining agreements will be in effect through 2011.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

15. Professional and General Liability Claims

Due to strategic and economic issues, as well as the potential for limited availability of commercial insurance policies, the Care New England entities have moved over time to covering the majority of their professional and general liability insurance to self-insured approaches. The adequacy of the coverage provided, reserves, and the funding levels are evaluated annually by independent actuaries who review the soundness of the programs and recommend future funding levels. Potential losses are estimated based on industry as well as entity experience, and a provision for these losses is recorded.

Butler annually contributes to its self-insurance trust fund to provide for risks relating to its existing actuarially calculated primary level of professional and general liabilities, as well as the tail liability related to prior claims-made coverage. Butler's professional liability coverage for claims in excess of its primary coverage limits is provided by W&I Indemnity.

Kent Hospital established Toll Gate Indemnity in September 2004, as an off-shore captive insurance entity to insure primary and excess hospital professional and general liability risks, as well as to supply indemnification coverage for certain eligible medical staff.

WIH annually contributes to its self-insurance trust fund to provide for risks relating to its existing actuarially calculated primary level of professional and general liabilities, as well as the tail liability related to prior claims-made coverage.

In addition to the trust fund, WIH established W&I Indemnity, as an off-shore captive insurance entity to provide coverage for claims in excess of its underlying policy, as well as to insure the contractual liability arising from indemnification agreements with certain eligible medical staff.

The provisions for anticipated losses were based upon expected undiscounted values. Trust fund and captive assets are available for the payment of claims.

CNE Wellness Centers, LLC and the Agency purchase general and professional liability insurance from Toll Gate Indemnity.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

16. Other Self-Insurance Reserves

Care New England has established a workers' compensation trust fund to cover all past and future self-insured claims of workers' compensation activity for CNE, the Hospitals, and the Agency. The reserve for workers' compensation losses is based on an actuarial study and actual experience. At September 30, 2010 and 2009, the amounts accrued for estimated self-insurance costs have not been discounted.

CNE, on behalf of itself, the Hospitals, and the Agency, has entered into a self-insurance program for health insurance risks. This program covers the health insurance claims for all of CNE's, the Hospitals', and the Agency's employees, with the exception of the unionized employees at WIH. The provisions for health insurance losses are based on actuarial assumptions and actual claims experience.

17. Affiliation with Rhode Island Hospital

In 1981, RIH and WIH approved an agreement providing for the affiliation of the two Hospitals. The affiliation agreement provides for a program of shared medical services, thereby greatly increasing the scope of comprehensive acute-care services available to WIH in maternal, gynecological, and neonatal care. In accordance with the agreement, the Hospital relocated to the property of RIH.

18. Affiliation with Accredited Medical Schools

Butler and WIH are affiliated with Brown University. The affiliation agreements provide that Butler and WIH will be the principal academic medical centers for psychiatry and healthcare unique to women and newborns, respectively. Kent is affiliated with the University of New England College of Osteopathic Medicine.

19. Functional Expenses

CNE provides healthcare services to residents within their geographic service areas. Expenses related to providing these services for the years ended September 30 are as follows:

	<u>2010</u>	<u>2009</u>
Healthcare services	\$630,931,072	\$603,727,191
General and administrative	155,499,660	144,173,241
	<u>\$786,430,732</u>	<u>\$747,900,432</u>

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

20. Fair Value of Financial Instruments

The Health System calculates fair value defined in ASC Topic 820 to value its financial assets and liabilities, where applicable. ASC Topic 820 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. Topic 820 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 Topic 820 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 Health System uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, and considers non-performance risk in its assessment of fair value.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

20. Fair Value Measurements (continued)

Financial instruments carried at fair value for the System's non-pension plan assets as of September 30, 2010 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 15,247,264	\$ -	\$ -	\$ 15,247,264
Institutional money market	-	3,233,538	-	3,233,538
U.S. government notes and bonds	21,937,224	-	-	21,937,224
Fixed income securities	-	15,643,102	2,000,698	17,643,800
Equity securities	67,008,266	-	12,615,864	79,624,130
Auction rate securities	-	-	19,817,913	19,817,913
Mutual funds	81,266,455	1,786,390	-	83,052,845
Other	27,527,891	-	-	27,527,891
	<u>\$212,987,100</u>	<u>\$20,663,030</u>	<u>\$34,434,475</u>	<u>\$268,084,605</u>
Liabilities				
Interest rate swap agreements	\$ -	\$ (9,816,848)	\$ -	\$ (9,816,848)

Financial instruments carried at fair value for the System's non-pension plan assets as of September 30, 2009 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 19,371,928	\$ -	\$ -	\$ 19,371,928
Institutional money market	-	2,649,000	-	2,649,000
U.S. government notes and bonds	20,721,298	-	-	20,721,298
Fixed income securities	-	12,814,417	-	12,814,417
Equity securities	57,142,158	-	10,254,607	67,396,765
Auction rate securities	-	-	22,735,000	22,735,000
Mutual funds	69,879,453	1,644,000	-	71,523,453
Other	28,897,884	-	-	28,897,884
	<u>\$196,012,721</u>	<u>\$17,107,417</u>	<u>\$32,989,607</u>	<u>\$246,109,745</u>
Liabilities				
Interest rate swap agreements	\$ -	\$ (6,140,997)	\$ -	\$ (6,140,997)

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

20. Fair Value Measurements (continued)

The amounts reported in the financial instruments table exclude alternative investments valued at approximately \$8,524,103 as of September 30, 2010 and \$7,852,000 as of September 30, 2009 (Note 5).

Financial instruments carried at fair value for assets invested in the Defined Benefit Pension Plan as of September 30, 2010 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 8,715,153	\$ -	\$ -	\$ 8,715,153
Fixed income securities	30,998,418	-	-	30,998,418
Equity securities	19,536,877	-	-	19,536,877
Mutual funds	4,582,447	-	-	4,582,447
Alternative investments	-	40,615,786	66,321,707	106,937,493
	<u>\$63,832,895</u>	<u>\$40,615,786</u>	<u>\$66,321,707</u>	<u>\$170,770,388</u>

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

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 671,648	\$ -	\$ -	\$ 671,648
Fixed income securities	28,600,790	-	-	28,600,790
Equity securities	21,356,772	-	-	21,356,772
Mutual funds	2,122,967	-	-	2,122,967
Alternative investments	271,465	41,684,345	62,108,253	104,064,063
	<u>\$53,023,642</u>	<u>\$41,684,345</u>	<u>\$62,108,253</u>	<u>\$156,816,240</u>

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. Fair value for Level 3 is based upon unobservable inputs for the asset (i.e., supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset (including assumptions about risk).

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

20. Fair Value Measurements (continued)

The fair value of interest rate swap agreements is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, Treasury yields, and credit spreads.

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

Accounts payable and accrued expenses: The carrying amount reported in the consolidated balance sheets for accounts payable and accrued expenses approximates its fair value.

Estimated third-party payor settlements: The carrying amount reported in the consolidated balance sheets for estimated third-party payor settlements approximates its fair value.

Long-term debt: The Health System's long-term debt obligations are reported in the accompanying statements of financial position at principal value less unamortized discount or premium, which totaled approximately \$83 million at September 30, 2010, excluding capital leases. The estimated fair value of the Health System's long-term debt as of September 30, 2010 approximated its carrying value.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

20. Fair Value Measurements (continued)

During the years ended September 30, 2010 and 2009, respectively, the changes in the fair value for the System's financial instruments in the non-pension plan assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Beginning balance (at October 1, 2008):	\$32,815,588
Total realized and unrealized gains (losses):	
Included in income from operations	75,034
Included in non-operating gains	63,020
Included in changes in net assets	(36,638)
Purchases, issuances, and settlements	132,637
Transfers in and/or out of Level 3	(60,034)
Ending balance (at September 30, 2009)	<u>\$32,989,607</u>
Beginning balance (at October 1, 2009):	\$32,989,607
Total realized and unrealized gains (losses):	
Included in income from operations	50,482
Included in non-operating losses	(17,310)
Included in changes in net assets	26,163
Purchases, issuances, and settlements	907,136
Transfers in and/or out of Level 3	478,397
Ending balance (at September 30, 2010)	<u>\$34,434,475</u>

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements (continued)

20. Fair Value Measurements (continued)

During the year ended September 30, 2010, the changes in the fair value for the System's financial instruments invested in the System's Defined Benefit Pension Plan assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Beginning balance (at October 1, 2009):	\$62,108,253
Total unrealized gains (losses):	
Included in changes in net assets	3,326,465
Purchases, issuances, and settlements	886,989
Ending balance (at September 30, 2010)	\$66,321,707

21. Termination of Affiliation Agreement with Lifespan

In July 2007, Care New England Health System and Lifespan Corporation entered into an Affiliation Agreement under which Care New England and its affiliates would merge into Lifespan Corporation. From the time of the execution of this agreement through early 2010, the parties endeavored to procure regulatory approvals required to consummate this transaction. The parties mutually agreed to terminate the Affiliation Agreement in February 2010.

22. Subsequent Event

By November 23, 2010, the Care New England Board of Directors and the Board of Directors of Butler, Kent, and Women and Infants Hospitals voted to approve one or more series of Rhode Island Health and Educational Building Corporation fixed interest tax exempt financing bonds in aggregate, principal amount not to exceed \$40,000,000 to finance (1) approximately \$10,000,000 in construction, equipping and furnishing of a two-story addition to Butler's existing hospital facility, (2) approximately \$12,000,000 for (a) renovation, equipping, and furnishing of existing hospital space to house a 10-bed, short-stay unit and (b) equipping and furnishing of a 30,000 square foot ambulatory surgical center to Kent's existing hospital facility, (3) refinancing of (a) commercial mortgage between Women and Infants Hospital and Bank of America, NA and (b) commercial mortgage between Women and Infants Hospital and Bank Rhode Island (c) capital lease between Butler and Harbor Group Home, LLC, (4) reimbursing and financing a portion of the fiscal years ending 2010 through 2013 routine capital upgrades, (5) debt service associated with the bonds, and (6) issuance costs and capitalized interest. It is expected that the bonds, will be issued during the Health System's fiscal year ending September 30, 2011.



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Independent Auditors' Report on Other Financial Information

The Board of Trustees
Care New England Health System

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating balance sheets, statements of operations and changes in net assets, and statements of cash flows and supplemental schedules requested by the Rhode Island Department of Health are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

December 23, 2010

Care New England Health System and Affiliates

Details of Consolidated Balance Sheet

September 30, 2010

	Butler	Kent	WIC	Care New England	The Agency	Eliminations	Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 16,054,008	\$ 9,327,359	\$ 53,094,889	\$ 5,001,310	\$ 1,130,139	\$ (5,700,000)	\$ 78,907,705
Investments	2,539,711	-	-	-	307,286	-	2,846,997
Patient accounts receivable	6,482,983	51,837,116	51,808,602	-	2,199,079	-	112,327,780
Less estimated uncollectibles	1,413,776	17,868,916	11,530,000	-	483,353	-	31,296,045
Net patient accounts receivable	5,069,207	33,968,200	40,278,602	-	1,715,726	-	81,031,735
Other receivables	2,178,380	1,264,783	9,027,093	209,647	119,343	-	12,799,246
Pledges receivable, net	96,082	167,476	1,040,201	-	-	-	1,303,759
Other current assets	836,117	4,343,700	2,571,910	1,736,972	15,051	-	9,503,750
Current portion of assets whose use is limited	265,979	2,319,529	692,005	209,250	43,322	-	3,530,085
Due from affiliates – other	3,222,898	862,067	520,043	4,682,521	228,733	(9,516,262)	-
Due from affiliates – debt	-	-	-	70,774,161	-	(70,774,161)	-
Total current assets	30,262,382	52,253,114	107,224,743	82,613,861	3,559,600	(85,990,423)	189,923,277
Assets whose use is limited or restricted as to use:							
Endowment funds	14,566,537	14,313,377	7,883,846	-	-	-	36,763,760
Board-designated funds	3,686,272	19,882,178	52,176,060	1,729,787	284,496	-	77,758,793
Trustee-held funds	2,043,381	22,900,765	108,289,091	-	-	-	133,233,237
Deferred compensation funds	1,322,195	624,905	594,647	67,614	48,562	-	2,657,923
Total assets limited as to use	21,618,385	57,721,225	168,943,644	1,797,401	333,058	-	250,413,713
Property, plant, and equipment, net	22,172,744	69,381,958	157,939,409	2,798,420	934,772	-	253,227,303
Pledges receivable, net	141,601	151,600	992,237	-	-	-	1,285,438
Investments	2,454,147	-	9,816,603	7,547,163	-	-	19,817,913
Other assets	10,708	541,742	341,831	276,637	-	-	1,170,918
Total assets	\$ 76,659,967	\$ 180,049,639	\$ 445,258,467	\$ 95,033,482	\$ 4,827,430	\$ (85,990,423)	\$ 715,838,562

Care New England Health System and Affiliates

Details of Consolidated Balance Sheet (continued)

September 30, 2010

	Butler	Kent	WIC	Care New England	The Agency	Eliminations	Total
Liabilities and net assets							
Current liabilities:							
Accounts payable and accrued expenses	\$ 10,403,530	\$ 38,595,953	\$ 41,894,520	\$ 7,895,143	\$ 2,600,367	\$ -	\$ 101,389,513
Current portion of estimated third-party payor settlements and advances	630,976	4,053,726	10,504,700	-	-	-	15,189,402
Current portion of long-term debt and capital leases	299,816	1,858,446	826,384	2,960,000	32,155	-	5,976,801
Current portion of long-term debt, due to parent	139,209	868,642	1,836,868	-	-	(2,844,719)	-
Pension liability	218,898	1,072,008	659,936	164,840	310,870	-	2,426,552
Interest rate swap	-	-	-	1,104,629	-	-	1,104,629
Other current liabilities	501,417	247,747	3,368,848	199,601	316,995	-	4,634,608
Due to affiliates	885,970	4,652,463	2,515,085	963,440	499,304	(9,516,262)	-
Total current liabilities	13,079,816	51,348,985	61,606,341	13,287,653	3,759,691	(12,360,981)	130,721,505
Long term liabilities:							
Self-insurance reserves	1,915,003	17,092,337	75,640,868	9,489,352	-	-	104,137,560
Long-term portion of third-party payor settlements	2,293,858	3,537,185	14,882,363	-	-	-	20,713,406
Long-term debt and capital leases	5,227,418	4,298,680	4,873,644	71,540,000	99,764	-	86,039,506
Pension liability	7,627,750	23,744,154	11,841,536	2,315,354	1,912,547	-	47,441,341
Postretirement liability	-	2,396,079	-	-	-	-	2,396,079
Interest rate swap	-	-	-	8,712,219	-	-	8,712,219
Other liabilities	2,250,538	1,861,663	3,889,422	290,420	101,848	-	8,393,891
Due to parent, long-term debt	4,359,960	15,617,244	47,952,238	-	5,700,000	(73,629,442)	-
Total long-term liabilities	23,674,527	68,547,342	159,080,071	92,347,345	7,814,159	(73,629,442)	277,834,002
Net assets:							
Unrestricted	20,287,343	44,816,535	194,312,831	(10,601,516)	(6,746,420)	-	242,068,773
Temporarily restricted	17,195,224	3,280,357	26,207,031	-	-	-	46,682,612
Permanently restricted	2,423,057	12,056,420	4,052,193	-	-	-	18,531,670
Total net assets	39,905,624	60,153,312	224,572,055	(10,601,516)	(6,746,420)	-	307,283,055
Total liabilities and net assets	\$ 76,659,967	\$ 180,049,639	\$ 445,258,467	\$ 95,033,482	\$ 4,827,430	\$ (85,990,423)	\$ 715,838,562

Care New England Health System and Affiliates

Details of Consolidated Statements of Operations and Changes in Net Assets

Year Ended September 30, 2010

	Butler	Kent	WIC	Care New England	The Agency	Eliminations	Total
Unrestricted revenues and gains:							
Net patient service revenue	\$ 63,737,786	\$ 281,923,304	\$ 349,744,265	\$ 780,465	\$ 15,728,664	\$ (990,785)	\$ 710,923,699
Net assets released from restrictions and used for operations	1,998,109	881,676	5,853,214	-	-	-	8,732,999
Other revenue	28,442,995	9,627,941	57,514,233	40,104,308	1,108,359	(51,184,287)	85,613,549
Total unrestricted revenues and gains	94,178,890	292,432,921	413,111,712	40,884,773	16,837,023	(52,175,072)	805,270,247
Operating expenses:							
Salaries and benefits	67,580,100	156,715,351	262,164,149	24,134,223	13,565,627	(7,649,221)	516,510,229
Supplies and other expenses	17,224,256	79,052,629	85,709,134	15,180,947	2,165,300	(44,428,311)	154,903,955
Depreciation and amortization	3,162,849	8,477,767	15,319,714	387,292	252,278	-	27,599,900
Insurance	2,474,947	6,921,390	11,902,162	51,073	317,006	(71,000)	21,595,578
Licensure fee	-	12,041,993	15,824,541	-	-	-	27,866,534
Interest	447,197	311,461	494,844	9,142	18,368	(26,540)	1,254,472
Provision for uncollectible accounts	1,826,396	26,706,478	8,104,361	-	62,829	-	36,700,064
Total operating expenses	92,715,745	290,227,069	399,518,905	39,762,677	16,381,408	(52,175,072)	786,430,732
Income from operations	1,463,145	2,205,852	13,592,807	1,122,096	455,615	-	18,839,515
Non-operating gains and (losses):							
Investment income on assets limited as to use	983,035	390,625	929,447	115,358	268	-	2,418,733
Unrestricted gifts and bequests	55,906	-	365,270	-	68,393	-	489,569
Change in fair value of interest rate swaps	-	-	-	(3,675,851)	-	-	(3,675,851)
Net payments on interest rate swaps	(132,918)	(523,906)	(1,710,982)	(110,067)	-	-	(2,477,873)
Change in net unrealized gains on trading securities	273,351	1,632,397	8,480,064	80,597	23,655	-	10,490,064
Non-operating expenditures	(306,621)	(491,461)	(727,023)	-	(28,874)	-	(1,553,979)
Net non-operating gains	872,753	1,007,655	7,336,776	(3,589,963)	63,442	-	5,690,663
Excess (deficiency) of revenues and gains over expenses	2,335,898	3,213,507	20,929,583	(2,467,867)	519,057	-	24,530,178

Care New England Health System and Affiliates

Details of Consolidated Statements of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2010

	Butler	Kent	WIC	Care New England	The Agency	Eliminations	Total
Unrestricted net assets:							
Excess (deficiency) of revenues and gains over expenses	\$ 2,335,898	\$ 3,213,507	\$ 20,929,583	\$ (2,467,867)	\$ 519,057	\$ -	\$ 24,530,178
Pension and postretirement adjustments	(1,911,386)	(6,366,988)	(3,358,218)	(534,520)	(501,138)	-	(12,672,250)
Net assets released from restrictions used for purchase of property and equipment	406,058	930,067	3,456,066	-	-	-	4,792,191
Other	-	-	47,703	-	-	-	47,703
Transfers	109,500	363,500	505,000	(1,000,000)	22,000	-	-
(Decrease) increase in unrestricted net assets	940,070	(1,859,914)	21,580,134	(4,002,387)	39,919	-	16,697,822
Temporarily restricted net assets:							
Contributions, research and grants	2,442,646	1,716,948	7,229,503	-	-	-	11,389,097
Income from investments	282,144	305,371	121,747	-	-	-	709,262
Net realized and unrealized gain (loss) from investments	-	-	-	-	-	-	-
investments	789,395	218,554	428,612	-	-	-	1,436,561
Net assets released from restrictions	(2,404,167)	(1,811,743)	(9,309,280)	-	-	-	(13,525,190)
Increase (decrease) in temporarily restricted net assets	1,110,018	429,130	(1,529,418)	-	-	-	9,730
Permanently restricted net assets:							
Net realized and unrealized loss from investments	-	734,420	547	-	-	-	734,967
Contributions	82,691	8,534	61,410	-	-	-	152,635
Decrease in permanently restricted net assets	82,691	742,954	61,957	-	-	-	887,602
(Decrease) increase in net assets	2,132,779	(687,830)	20,112,673	(4,002,387)	39,919	-	17,595,154
Net assets at beginning of year	37,772,845	60,841,142	204,459,382	(6,599,129)	(6,786,339)	-	289,687,901
Net assets at end of year	\$ 39,905,624	\$ 60,153,312	\$ 224,572,055	\$ (10,601,516)	\$ (6,746,420)	\$ -	\$ 307,283,055

Care New England Health System and Affiliates

Details of Consolidated Balance Sheet

September 30, 2009

	Butler	Kent	WIC	Care New England	The Agency	Eliminations	Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 16,034,386	\$ (439,636)	\$ 49,763,621	\$ 3,039,880	\$ 763,505	\$ (6,000,000)	\$ 63,161,756
Investments	1,689,850	-	-	-	307,036	-	1,996,886
Patient accounts receivable	6,411,370	50,641,719	50,748,371	-	2,413,145	-	110,214,605
Less estimated uncollectibles	1,716,114	18,082,505	10,145,000	-	464,663	-	30,408,282
Net patient accounts receivable	4,695,256	32,559,214	40,603,371	-	1,948,482	-	79,806,323
Other receivables	1,817,556	1,939,307	8,466,369	406,362	158,445	-	12,788,039
Pledges receivable, net	87,935	274,296	1,808,582	-	-	-	2,170,813
Other current assets	712,609	4,277,609	2,234,981	1,102,657	18,694	-	8,346,550
Current portion of assets whose use is limited	474,444	391,511	3,088,093	67,139	49,743	-	4,070,930
Due from affiliates – other	3,065,369	797,692	828,697	4,905,754	28,300	(9,625,812)	-
Due from affiliates – debt	-	-	-	74,197,781	-	(74,197,781)	-
Total current assets	28,577,405	39,799,993	106,793,714	83,719,573	3,274,205	(89,823,593)	172,341,297
Assets whose use is limited or restricted as to use:							
Endowment funds	13,623,764	13,351,869	7,156,790	-	-	-	34,132,423
Board-designated funds	3,384,836	18,164,356	47,477,432	-	266,252	-	69,292,876
Trustee-held funds	2,311,688	22,131,333	93,850,147	988,597	-	-	119,281,765
Deferred compensation funds	1,393,310	464,512	489,516	67,092	36,712	-	2,451,142
Total assets limited as to use	20,713,598	54,112,070	148,973,885	1,055,689	302,964	-	225,158,206
Property, plant, and equipment, net	22,447,526	72,748,542	157,579,857	3,098,576	1,009,640	-	256,884,141
Pledges receivable, net	224,501	147,399	2,260,937	-	-	-	2,632,837
Investments	2,815,386	-	11,261,550	8,658,064	-	-	22,735,000
Other assets	11,195	729,267	383,237	346,545	-	-	1,470,244
Total assets	\$ 74,789,611	\$ 167,537,271	\$ 427,253,180	\$ 96,878,447	\$ 4,586,809	\$ (89,823,593)	\$ 681,221,725

Care New England Health System and Affiliates

Details of Consolidated Balance Sheet (continued)

September 30, 2009

	Butler	Kent	WIC	Care New England	The Agency	Eliminations	Total
Liabilities and net assets							
Current liabilities:							
Accounts payable and accrued expenses	\$ 11,622,137	\$ 25,140,693	\$ 40,824,098	\$ 6,923,140	\$ 2,586,881	\$ -	\$ 87,096,949
Current portion of estimated third-party payor settlements and advances	1,157,757	5,512,930	13,507,499	-	-	-	20,178,186
Current portion of long-term debt and capital leases	421,861	1,478,715	1,071,445	3,535,000	53,878	-	6,560,899
Current portion of long-term debt, due to parent	134,499	1,521,771	1,767,350	-	-	(3,423,620)	-
Pension liability	200,497	1,002,415	597,640	196,000	27,265	-	2,023,817
Other current liabilities	553,195	265,952	5,533,008	57,817	341,378	-	6,751,350
Due to affiliates	1,095,212	4,842,341	2,338,172	797,779	552,308	(9,625,812)	-
Total current liabilities	15,185,158	39,764,817	65,639,212	11,509,736	3,561,710	(13,049,432)	122,611,201
Long term liabilities:							
Self-insurance reserves	1,251,982	19,801,095	72,703,772	8,907,944	-	-	102,664,793
Long-term portion of third-party payor settlements	2,648,136	3,615,182	14,839,409	-	-	-	21,102,727
Long-term debt and capital leases	5,247,021	2,137,723	5,700,917	74,500,000	131,918	-	87,717,579
Pension liability	5,995,355	21,486,725	10,804,054	2,076,372	1,626,265	-	41,988,771
Postretirement liability	-	1,569,705	-	-	-	-	1,569,705
Interest rate swap	-	-	-	6,140,997	-	-	6,140,997
Other liabilities	2,189,945	1,834,996	3,317,328	342,527	53,255	-	7,738,051
Due to parent, long-term debt	4,499,169	16,485,886	49,789,106	-	6,000,000	(76,774,161)	-
Total long-term liabilities	21,831,608	66,931,312	157,154,586	91,967,840	7,811,438	(76,774,161)	268,922,623
Net assets:							
Unrestricted	19,347,273	46,676,449	172,732,697	(6,599,129)	(6,786,339)	-	225,370,951
Temporarily restricted	16,085,206	2,851,227	27,736,449	-	-	-	46,672,882
Permanently restricted	2,340,366	11,313,466	3,990,236	-	-	-	17,644,068
Total net assets	37,772,845	60,841,142	204,459,382	(6,599,129)	(6,786,339)	-	289,687,901
Total liabilities and net assets	\$ 74,789,611	\$ 167,537,271	\$ 427,253,180	\$ 96,878,447	\$ 4,586,809	\$ (89,823,593)	\$ 681,221,725

Care New England Health System and Affiliates

Details of Consolidated Statements of Operations and Changes in Net Assets

Year Ended September 30, 2009

	Butler	Kent	WIC	Care New England	The Agency	Eliminations	Total
Unrestricted revenues and gains:							
Net patient service revenue	\$ 57,728,907	\$ 274,520,829	\$ 325,965,093	\$ 996,070	\$ 15,347,014	\$ (549,549)	\$ 674,008,364
Net assets released from restrictions and used for operations	2,047,350	789,187	5,229,160	-	-	-	8,065,697
Other revenue	28,416,999	8,762,016	57,896,890	39,067,030	1,205,807	(51,124,620)	84,224,122
Total unrestricted revenues and gains	88,193,256	284,072,032	389,091,143	40,063,100	16,552,821	(51,674,169)	766,298,183
Operating expenses:							
Salaries and benefits	62,800,645	154,142,225	238,033,286	23,768,507	12,946,886	(8,316,957)	483,374,592
Supplies and other expenses	16,835,212	77,497,898	87,751,314	14,719,654	2,312,711	(43,288,401)	155,828,388
Depreciation and amortization	3,111,677	8,890,745	12,871,572	423,891	255,442	-	25,553,327
Insurance	1,238,725	9,656,917	14,496,080	21,024	340,230	(65,000)	25,687,976
Licensure fee	-	11,376,116	14,698,788	-	-	-	26,074,904
Interest	477,667	317,580	606,859	28,620	21,613	(3,811)	1,448,528
Provision for uncollectible accounts	1,789,361	21,155,403	6,890,996	-	96,957	-	29,932,717
Total operating expenses	86,253,287	283,036,884	375,348,895	38,961,696	15,973,839	(51,674,169)	747,900,432
Income from operations	1,939,969	1,035,148	13,742,248	1,101,404	578,982	-	18,397,751
Non-operating gains and (losses):							
Investment income on assets limited as to use	623,027	384,617	755,059	59,097	2,111	-	1,823,911
Unrestricted gifts and bequests	64,053	386	356,879	-	73,925	-	495,243
Change in fair value of interest rate swaps	-	-	-	(6,522,654)	-	-	(6,522,654)
Net payments on interest rate swaps	(118,193)	(494,497)	(627,569)	(97,873)	-	-	(1,338,132)
Change in net unrealized (losses) gains on trading securities	(194,644)	3,243,643	11,101,961	(246,865)	(16,510)	-	13,887,585
Non-operating expenditures	(308,111)	(498,495)	(1,137,039)	-	(20,933)	-	(1,964,578)
Net non-operating gains and (losses)	66,132	2,635,654	10,449,291	(6,808,295)	38,593	-	6,381,375
Excess (deficiency) of revenues and gains over expenses	2,006,101	3,670,802	24,191,539	(5,706,891)	617,575	-	24,779,126

Care New England Health System and Affiliates

Details of Consolidated Statements of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2009

	Butler	Kent	WIC	Care New England	The Agency	Eliminations	Total
Unrestricted net assets:							
Excess (deficiency) of revenues and gains over expenses	\$ 2,006,101	\$ 3,670,802	\$ 24,191,539	\$ (5,706,891)	\$ 617,575	\$ -	\$ 24,779,126
Pension and postretirement adjustments	(5,394,305)	(18,903,424)	(9,619,076)	(1,789,091)	(1,675,455)	-	(37,381,351)
Net assets released from restrictions used for purchase of property and equipment	437,446	1,443,538	17,962,505	-	-	-	19,843,489
Transfers	197,356	684,073	893,892	(1,819,196)	43,875	-	-
(Decrease) increase in unrestricted net assets	(2,753,402)	(13,105,011)	33,428,860	(9,315,178)	(1,014,005)	-	7,241,264
Temporarily restricted net assets:							
Contributions, research and grants	2,312,155	1,697,926	7,442,336	-	-	-	11,452,417
Transfer from permanently restricted net assets	11,222,148	2,038,403	3,045,420	-	-	-	16,305,971
Income from investments	291,557	477,279	12,075	-	-	-	780,911
Net realized and unrealized loss from investments	(34,938)	-	62,825	-	-	-	27,887
Net assets released from restrictions	(2,484,796)	(2,232,725)	(23,191,655)	-	-	-	(27,909,176)
Increase (decrease) in temporarily restricted net assets	11,306,126	1,980,883	(12,628,999)	-	-	-	658,010
Permanently restricted net assets:							
Net realized and unrealized loss from investments	(1,293,106)	(268,122)	986	-	-	-	(1,560,242)
Transfer to temporarily restricted net assets	(11,222,148)	(2,038,403)	(3,045,420)	-	-	-	(16,305,971)
Contributions	471,500	1,050	91,305	-	-	-	563,855
Decrease in permanently restricted net assets	(12,043,754)	(2,305,475)	(2,953,129)	-	-	-	(17,302,358)
(Decrease) increase in net assets	(3,491,030)	(13,429,603)	17,846,732	(9,315,178)	(1,014,005)	-	(9,403,084)
Net assets at beginning of year	41,263,875	74,270,745	186,612,650	2,716,049	(5,772,334)	-	299,090,985
Net assets at end of year	\$ 37,772,845	\$ 60,841,142	\$ 204,459,382	\$ (6,599,129)	\$ (6,786,339)	\$ -	\$ 289,687,901

**MEMORIAL HOSPITAL OF RHODE ISLAND
CONSOLIDATED BALANCE SHEETS**

	<u>UNAUDITED</u> 12/31/12	<u>UNAUDITED</u> 11/30/12	<u>UNAUDITED</u> 09/30/12
<u>ASSETS</u>			
<u>CURRENT ASSETS:</u>			
CASH AND CASH EQUIVALENTS	\$1,024,993	\$1,445,135	\$311,840
CURRENT PORTION OF ASSETS LIMITED AS TO USE	2,006,212	1,998,703	1,832,994
PATIENT ACCOUNTS RECEIVABLE, NET	29,152,572	29,553,367	30,268,038
OTHER ACCOUNTS RECEIVABLE	1,390,943	545,780	894,410
ESTIMATED THIRD PARTY SETTLEMENTS	186,983	246,844	676,423
INVENTORIES	809,351	815,038	688,676
PREPAID EXPENSES	1,244,134	1,143,147	932,265
	<u>35,815,188</u>	<u>35,748,014</u>	<u>35,604,646</u>
TOTAL CURRENT ASSETS			
<u>ASSETS LIMITED AS TO USE:</u>			
BY THE BOARD FOR DESIGNATED PURPOSES	6,054,816	3,932,914	5,641,495
BY THE BOARD FOR DESIGNATED PURPOSES - DEBT REDUCTION	1,819,083	1,771,315	1,824,166
PLEDGES RECEIVABLE	3,430	7,180	7,180
HELD BY TRUSTEE UNDER LOAN AGREEMENT	519,384	519,384	0
BY DONORS FOR SPECIFIC PURPOSES	1,327,477	1,302,808	1,562,926
BY DONORS FOR PERMANENT ENDOWMENT	3,104,224	3,124,220	3,124,216
BY EXTERNALLY ADMINISTERED TRUSTS	7,082,322	7,043,723	7,115,306
DEFERRED COMPENSATION TRUST	0	0	0
	<u>19,910,736</u>	<u>17,701,544</u>	<u>19,275,289</u>
LESS AMOUNT REQUIRED TO MEET CURRENT OBLIGATIONS	<u>(2,006,212)</u>	<u>(1,998,703)</u>	<u>(1,832,994)</u>
	17,904,524	15,702,841	17,442,295
PROPERTY & EQUIPMENT, NET	29,987,571	30,323,123	30,584,725
OTHER ASSETS	173,886	176,115	180,574
	<u>83,881,169</u>	<u>81,950,093</u>	<u>\$83,812,240</u>
TOTAL ASSETS			

**MEMORIAL HOSPITAL OF RHODE ISLAND
CONSOLIDATED BALANCE SHEETS**

	UNAUDITED 12/31/12	UNAUDITED 11/30/12	UNAUDITED 09/30/12
<u>LIABILITIES AND NET ASSETS</u>			
<u>CURRENT LIABILITIES:</u>			
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	\$24,281,327	\$22,287,915	\$21,479,468
ACCRUED INTEREST PAYABLE	256,085	213,559	128,135
CURRENT PORTION OF L-T DEBT AND CAP LEASE OBLIGATIONS	1,570,596	1,568,731	1,587,385
NET DUE TO/FROM	3	165	0
LINE OF CREDIT	0	0	0
TOTAL CURRENT LIABILITIES	26,108,011	24,070,370	23,194,988
ADDITIONAL MINIMUM PENSION LIABILITY	62,365,446	62,365,446	63,145,467
DEFERRED REVENUE	(142,600)	39,652	0
LONG-TERM DEBT, NET OF CURRENT PORTION	9,529,906	9,533,637	9,518,714
CAPITAL LEASE OBLIGATIONS	0	0	0
ESTIMATED SELF-INSURANCE AND OTHER LIABILITIES	1,607,329	1,635,929	1,663,316
OTHER LONG TERM LIABILITIES	0	0	0
TOTAL LIABILITIES	99,468,092	97,645,034	97,522,485
<u>NET ASSETS:</u>			
UNRESTRICTED	(27,100,946)	(27,165,692)	(25,512,693)
TEMPORARILY RESTRICTED	1,327,477	1,302,808	1,562,926
PERMANENTLY RESTRICTED	10,186,546	10,167,943	10,239,522
TOTAL NET ASSETS	(15,586,923)	(15,694,941)	(13,710,245)
TOTAL LIABILITIES AND NET ASSETS	\$83,881,169	81,950,093	\$83,812,240

**MEMORIAL HOSPITAL OF RHODE ISLAND
CONSOLIDATED STATEMENTS OF INCOME**

	UNAUDITED THREE MONTHS ENDED 12/31/12	UNAUDITED TWO MONTHS ENDED 11/30/12	UNAUDITED TWELVE MONTHS ENDED 09/30/12
<u>UNRESTRICTED REVENUE, GAINS AND OTHER SUPPORT:</u>			
NET PATIENT SERVICE REVENUE	\$37,895,273	\$25,617,878	\$163,661,600
OTHER REVENUE	2,501,781	1,872,254	8,146,479
ASSETS RELEASED FROM RESTRICTIONS FOR OPERATIONS	5,771	3,807	25,331
	<u>40,402,825</u>	<u>27,493,939</u>	<u>171,833,410</u>
<u>EXPENSES</u>			
SALARIES AND WAGES	21,137,004	13,899,307	84,123,553
EMPLOYEE BENEFITS	7,010,296	4,805,109	32,394,744
SUPPLIES, PURCHASED SERVICES AND OTHER	10,674,700	7,235,981	43,044,039
PROVISION FOR BAD DEBTS	3,882,878	2,568,653	15,130,585
DEPRECIATION AND AMORTIZATION	1,068,877	712,585	3,938,536
LICENSING FEE	0	0	7,568,922
INTEREST	173,064	115,471	909,945
	<u>43,946,819</u>	<u>29,337,105</u>	<u>187,110,324</u>
(LOSS)/GAIN FROM OPERATIONS	(3,543,994)	(1,843,166)	(15,276,914)
INVESTMENT INCOME	177,316	148,460	(131,722)
REALIZED GAINS AND LOSSES ON SALES OF INVESTMENTS	3,135,579	61,055	1,292,568
UNRESTRICTED DONATIONS	48,070	15,090	90,255
INCOME ON ASSETS HELD IN TRUST	68,079	53,347	302,388
	<u>3,429,044</u>	<u>277,952</u>	<u>1,553,489</u>
TOTAL NONOPERATING GAINS	3,429,044	277,952	1,553,489
EXCESS OF REVENUE OVER EXPENSES BEFORE CHANGE IN APPRECIATION OF INVESTMENTS	(114,950)	(1,565,214)	(13,723,425)
CHANGE IN APPRECIATION OF INVESTMENTS	(1,555,485)	(144,965)	631,257
EXCESS OF REVENUE OVER EXPENSES	<u>(1,670,435)</u>	<u>(1,710,179)</u>	<u>(13,092,168)</u>

**MEMORIAL HOSPITAL OF RHODE ISLAND
STATEMENTS OF CHANGES IN NET ASSETS**

	UNAUDITED THREE MONTHS ENDED 12/31/12	UNAUDITED TWO MONTHS ENDED 11/30/12	UNAUDITED TWELVE MONTHS ENDED 09/30/12
UNRESTRICTED NET ASSETS:			
EXCESS OF REVENUES OVER EXPENSES	(1,670,435)	(1,710,179)	(13,092,168)
CONTRIBUTIONS FOR CAPITAL EXPENDITURES	0	0	183,490
ADDITIONAL MINIMUM PENSION LIABILITY	0	0	(14,070,072)
CUMMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE	0	0	0
ASSETS REALEASED FROM RESTRICTIONS FOR PURCHASES PP&E	107,182	107,182	119,024
NET ASSETS RELEASED FROM RESTRICTIONS	0	0	0
INTERCOMPANY TRANSFER	(75,000)	(50,000)	(300,000)
DECREASE IN UNRESTRICTED NET ASSETS	(1,638,253)	(1,652,997)	(27,159,726)
TEMPORARILY RESTRICTED NET ASSETS:			
CONTRIBUTIONS	36,527	15,656	184,839
NET APPRECIATION (REALIZED AND UNREALIZED)	0	0	301,722
INVESTMENT INCOME	(1,233)	(6,995)	(77,234)
NET ASSETS RELEASED FROM RESTRICTION	(5,771)	(3,807)	(144,355)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	29,523	4,854	264,972
PERMANENTLY RESTRICTED NET ASSETS:			
NET APPRECIATION ON ASSETS HELD IN EXTERNALLY ADMINISTERED TRUSTS	(32,984)	(71,583)	770,168
REALIZED GAINS HELD TO MAINTAIN PURCHASING POWER	0	0	0
RESTRICTED DONATIONS	9	0	0
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	(32,975)	(71,583)	770,168
DECREASE IN NET ASSETS	(1,641,705)	(1,719,726)	(26,124,586)
NET ASSETS, BEGINNING OF YEAR	(13,710,245)	(13,710,245)	12,414,341
NET ASSETS, END OF YEAR	(\$15,351,950)	(\$15,429,971)	(\$13,710,245)

MEMORIAL HOSPITAL OF RHODE ISLAND
STATISTICAL HIGHLIGHTS
DECEMBER 2012

INPATIENT		MONTH			YEAR			
		ACTUAL	BUDGET	VARIANCE	ACTUAL	BUDGET	VARIANCE	
<u>PATIENT DAYS</u>								
	<u>BEDS</u>							
	MEDICAL & SURGICAL	213	1,392	1,679	(287)	4,329	5,166	(837)
	ICU/CCU	18	219	291	(72)	624	814	(190)
	PEDIATRICS	21	6	14	(8)	22	44	(22)
	MATERNITY	26	106	109	(3)	334	319	15
	REHAB	16	295	330	(35)	870	966	(96)
	TOTAL	294	2,018	2,423	(405)	6,179	7,309	(1,130)
<u>ADMISSIONS</u>								
	-ADULT M & S		349	361	(12)	1,055	1,111	(56)
	-ICU/CCU		64	60	4	189	168	21
	-PEDIATRICS		6	7	(1)	16	22	(6)
	-MATERNITY		34	42	(8)	127	123	4
	-REHAB		22	27	(5)	64	79	(15)
	TOTAL		475	497	(22)	1,451	1,503	(52)
<u>LENGTH OF STAY</u>								
	-ADULT M & S		3.99	4.65	(0.66)	4.10	4.65	(0.55)
	-ICU/CCU		3.42	4.85	(1.43)	3.30	4.85	(1.54)
	-PEDIATRICS		1.00	2.00	(1.00)	1.38	2.00	(0.63)
	-MATERNITY		3.12	2.60	0.52	2.63	2.59	0.04
	-REHAB		13.41	12.22	1.19	13.59	12.23	1.37
	OVERALL		4.25	4.88	(0.63)	4.26	4.86	(0.60)
<u>OCCUPANCY %</u>								
	-ADULT M & S		21.08%	25.43%	-4.35%	22.09%	26.36%	-4.27%
	-ICU/CCU		39.25%	52.15%	-12.90%	37.68%	49.15%	-11.47%
	-PEDIATRICS		0.92%	2.15%	-1.23%	1.14%	2.28%	-1.14%
	-MATERNITY		13.15%	13.52%	-0.37%	13.96%	13.34%	0.63%
	-REHAB		59.48%	66.53%	-7.06%	59.10%	65.63%	-6.52%
	OVERALL		22.14%	26.59%	-4.44%	22.84%	27.02%	-4.18%
<u>MEDICARE DISCHARGES</u>								
	DRG PATIENTS		138	169	(31)	442	517	(75)
	REHAB PATIENTS		12	10	2	25	30	(5)
	HMO PATIENTS		88	86	2	268	257	11
	HMO REHAB PATIENTS		5	7	(2)	16	18	(2)
	TOTAL		243	272	(29)	751	822	(71)
<u>OUTPATIENT</u>								
	E.R. VISITS CHARGED		3,010	2,815	195	8,373	8,375	(2)
	CLINIC VISITS							
	FAMILY CARE		1,954	2,111	(157)	5,980	6,265	(285)
	INTERNAL MEDICINE		220	248	(28)	734	832	(98)
	N.D. AMBY		755	715	40	2,314	2,276	38
	ALL OTHER		1,473	1,838	(365)	5,017	6,166	(1,149)
	TOTAL		4,402	4,912	(510)	14,045	15,539	(1,494)
	TOTAL HOME CARE VISITS		4,284	4,061	223	13,510	13,617	(107)

MEMORIAL HOSPITAL OF RHODE ISLAND
INCOME STATEMENT VARIANCE REPORT
PERIOD ENDED DECEMBER 31, 2012

	CURRENT MONTH ACTUAL	CURRENT MONTH BUDGET	VARIANCE	YEAR TO DATE ACTUAL	YEAR TO DATE BUDGET	VARIANCE
GROSS REVENUE - PATIENTS						
INPATIENT						
ROUTINE	3,886,834	4,722,937	(836,103)	11,783,494	14,097,954	(2,314,460)
ANCILLARY	6,605,267	7,737,972	(1,132,705)	20,194,169	23,347,176	(3,153,007)
	10,492,101	12,460,909	(1,968,808)	31,977,663	37,445,130	(5,467,467)
OUTPATIENT						
ROUTINE	3,243,056	3,144,860	98,196	9,682,846	9,782,100	(99,254)
ANCILLARY	10,834,914	10,658,679	176,235	34,938,512	35,335,018	(396,506)
	14,077,970	13,803,539	274,431	44,621,358	45,117,118	(495,760)
TOTAL GROSS REVENUE	24,570,071	26,264,448	(1,694,377)	76,599,021	82,562,248	(5,963,227)
CONTRACTUAL ALLOWANCES	(12,676,635)	(13,725,167)	1,048,532	(39,972,214)	(43,333,424)	3,361,210
FREE CARE AND BAD DEBTS	(1,898,147)	(1,909,885)	11,738	(5,509,350)	(6,073,361)	564,011
TOTAL REVENUE DEDUCTIONS	(14,574,782)	(15,635,052)	1,060,270	(45,481,564)	(49,406,785)	3,925,221
NET REVENUE - PATIENTS	9,995,289	10,629,396	(634,107)	31,117,457	33,155,463	(2,038,006)
OTHER OPERATING REVENUE	422,654	431,171	(8,517)	1,575,419	1,581,046	(5,627)
TOTAL REVENUE	10,417,943	11,060,567	(642,624)	32,692,876	34,736,509	(2,043,633)
OPERATING EXPENSES						
SALARIES AND WAGES	6,427,801	6,587,780	159,979	18,788,102	19,236,986	448,884
FRINGE BENEFITS	2,236,995	2,369,458	132,463	6,789,319	7,095,620	306,301
SUPPLIES	1,485,948	1,586,310	100,362	4,551,500	4,990,182	438,682
OTHER DIRECT EXPENSES	1,577,497	1,553,488	(24,009)	4,818,326	4,797,149	(21,177)
RENTAL/LEASE	36,103	34,589	(1,514)	226,342	228,117	1,775
DEPRECIATION	354,427	354,427	0	1,063,281	1,063,281	0
TOTAL EXPENSES	12,118,771	12,486,052	367,281	36,236,870	37,411,335	1,174,465
LICENSING FEE	0	0	0	0	0	0
NET INCOME (LOSS)	(1,700,828)	(1,425,485)	(275,343)	(3,543,994)	(2,674,826)	(869,168)

**SOUTHEASTERN HEALTHCARE SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS**

	<u>UNAUDITED</u> 09/30/12	<u>AUDITED</u> 09/30/11
<u>Assets</u>		
<u>Current assets:</u>		
Cash and cash equivalents	\$1,489,550	\$1,921,664
Current portion of assets whose use is limited	1,832,994	1,908,648
Patient accounts receivable - Net	30,346,048	33,269,225
Other accounts receivable - Net	1,167,971	1,209,686
Estimated settlements with third-party payors	676,423	1,695,156
Inventories	695,501	744,597
Prepaid expenses and other	938,908	899,383
	<u>37,147,395</u>	<u>41,648,359</u>
 <u>Assets whose use is limited or restricted</u>		
By the Board for designated purposes	7,761,816	19,634,907
Held by trustee under indenture agreement	0	0
Pledges Receivable	7,180	56,325
By donors for specific purposes	1,562,926	1,297,954
By donors for permanent endowment	3,124,216	3,124,215
By externally administered trusts	7,115,306	6,345,138
Deferred compensation trust	0	0
	<u>19,571,444</u>	<u>30,458,539</u>
Less amount required to meet current obligations	<u>(1,832,994)</u>	<u>(1,908,648)</u>
Noncurrent assets whose use is limited	17,738,450	28,549,891
Property & equipment - Net	31,076,995	33,558,383
Other assets	180,574	207,326
	<u>\$86,143,414</u>	<u>\$103,963,959</u>

**SOUTHEASTERN HEALTHCARE SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS**

	<u>UNAUDITED</u> <u>09/30/12</u>	<u>AUDITED</u> <u>09/30/11</u>
<u>Liabilities and Net Assets</u>		
<u>Current liabilities:</u>		
Accounts payable and accrued expenses	\$21,922,338	\$22,610,478
Estimated settlements with third-party payors	0	0
Accrued interest payable	128,135	143,784
Current portion of long-term debt and capital lease obligations	1,587,385	1,587,385
Line of credit	0	5,000,000
	<hr/>	<hr/>
Total current liabilities	23,637,858	29,341,647
Additional minimum pension liability	64,921,724	48,295,374
Long-term debt - Net of current portion	9,518,714	11,106,099
Capital lease obligations - Net of current portion	0	0
Insurance reserves	1,663,316	977,468
Deferred compensation liability	0	0
	<hr/>	<hr/>
Total liabilities	99,741,612	89,720,588
<u>Net assets:</u>		
Unrestricted	(25,400,646)	3,476,064
Temporarily restricted	1,562,926	1,297,954
Permanently restricted	10,239,522	9,469,353
	<hr/>	<hr/>
Total net assets	(13,598,198)	14,243,371
	<hr/>	<hr/>
Total liabilities and net assets	\$86,143,414	\$103,963,959

**SOUTHEASTERN HEALTHCARE SYSTEM, INC.
CONSOLIDATED STATEMENTS OF INCOME**

	UNAUDITED TWELVE MONTHS ENDED 09/30/12	AUDITED TWELVE MONTHS ENDED 09/30/11
<u>Unrestricted revenue and other support:</u>		
Net patient service revenue	\$164,315,881	\$169,647,204
Other revenue	10,187,127	10,833,097
Net assets released from restrictions for operations	25,331	22,437
	<hr/>	<hr/>
Total unrestricted revenue and other support	174,528,339	180,502,738
<u>Expenses:</u>		
Salaries and wages	85,355,241	85,146,873
Employee benefits	32,739,957	30,440,944
Supplies, purchased services and other	44,280,528	44,306,769
Provision for bad debts - Net	15,147,513	16,371,134
Depreciation and amortization	4,043,873	4,280,101
Licensing fee	7,568,922	7,549,028
Interest	909,945	1,143,902
	<hr/>	<hr/>
Total expenses	190,045,979	189,238,751
	<hr/>	<hr/>
(Loss)/gain from operations	(15,517,640)	(8,736,013)
<u>Other income, gains and losses:</u>		
Investment income	(131,722)	314,262
Net realized gains on sales of investments	1,292,568	2,357,007
Unrestricted donations	90,255	104,252
Write-off of investment	0	0
Income on assets held in trust	302,388	303,954
	<hr/>	<hr/>
Total nonoperating gains	1,553,489	3,079,475
	<hr/>	<hr/>
Excess of revenue over expenses before change in appreciation of investments	(13,964,151)	(5,656,538)
	<hr/>	<hr/>
Change in appreciation of investments	631,257	-2,513,288
	<hr/>	<hr/>
Excess of revenue over expenses	(13,332,894)	(8,169,826)

**SOUTHEASTERN HEALTHCARE SYSTEM, INC.
STATEMENTS OF CHANGES IN NET ASSETS**

	UNAUDITED TWELVE MONTHS ENDED 09/30/12	AUDITED TWELVE MONTHS ENDED 09/30/11
<u>Change in unrestricted net assets:</u>		
Excess of revenue over expenses	(13,332,894)	(8,169,826)
Additional minimum pension liability	(15,846,329)	(12,124,629)
Contributions for capital expenditures	183,490	0
Net assets released from restrictions	<u>119,023</u>	<u>208,279</u>
Increase in unrestricted net assets	(28,876,710)	(20,086,176)
<u>Change in temporarily restricted net assets:</u>		
Contributions	184,839	12,508
Investment income	(77,234)	144,467
Realized gains held to maintain purchasing power	301,722	356,423
Net assets released from restrictions used for purchase of PP&E	<u>(144,354)</u>	<u>(230,716)</u>
(Decrease)/Increase in temporarily restricted net assets	264,973	282,682
<u>Change in permanently restricted net assets:</u>		
Net appreciation on assets held in externally administered trusts	770,168	(243,837)
Restricted donations	<u>0</u>	<u>23</u>
Increase in permanently restricted net assets	770,168	(243,814)
Increase in net assets	(27,841,569)	(20,047,308)
Net assets, beginning of year	<u>14,243,371</u>	<u>34,290,679</u>
Net assets, end of year	<u>(13,598,198)</u>	<u>14,243,371</u>

SOUTHEASTERN HEALTHCARE SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS
09/30/12

	MEMORIAL HOSPITAL	R. S. REALTY	SHS VENTURES	CONSOLIDATING ENTRIES	TOTAL MEMORIAL AND SUBS	PCCNE	BLACKSTONE HEALTH	SHS	TOTAL	CONSOLIDATING ENTRIES	TOTAL SOUTHEASTERN HEALTHCARE SYSTEM, INC.
Assets											
Current assets:											
Cash and cash equivalents	\$311,840	\$355,717	\$29,468	-	\$697,025	\$3,525	\$260,607	\$528,393	\$1,489,550	-	\$1,489,550
Assets limited as to use	1,832,994	-	-	-	1,832,994	-	-	-	1,832,994	-	1,832,994
Patient accounts receivable, net	30,268,038	-	75,552	-	30,343,590	2,458	-	-	30,346,048	-	30,346,048
Other accounts receivable	894,410	26,115	18,776	0	939,301	50,914	220,990	-	1,211,205	(43,234)	1,167,971
Estimated third party settlements	676,423	-	-	-	676,423	-	-	-	676,423	-	676,423
Inventories	688,676	-	6,825	-	695,501	-	-	-	695,501	-	695,501
Prepaid expenses	932,265	611	0	-	932,876	-	6,032	-	938,908	-	938,908
Total current assets	35,604,646	382,443	130,621	0	36,117,710	56,897	487,629	528,393	37,190,629	(43,234)	37,147,395
Assets limited as to use:											
By the Board for designated purposes	5,641,495	-	-	(214,241)	5,427,254	512,716	-	-	5,939,970	(2,320)	5,937,650
By the Board for designated purposes - DRF	1,824,166	-	-	-	1,824,166	-	-	-	1,824,166	-	1,824,166
Pledges Receivable	7,180	-	-	-	7,180	-	-	-	7,180	-	7,180
Held by Trustee under Loan Agreement	0	-	-	-	0	-	-	-	0	-	0
By donors for specific purposes	1,562,926	-	-	-	1,562,926	-	-	-	1,562,926	-	1,562,926
By donors for permanent endowment	3,124,216	-	-	-	3,124,216	-	-	-	3,124,216	-	3,124,216
By externally administered trusts	7,115,306	-	-	-	7,115,306	-	-	-	7,115,306	-	7,115,306
Deferred Compensation Trust	0	-	-	-	0	-	-	-	0	-	0
	19,275,289	0	0	(214,241)	19,061,048	512,716	0	0	19,573,764	(2,320)	19,571,444
Less amount required to meet current obligations	(1,832,994)	-	-	-	(1,832,994)	-	-	-	(1,832,994)	-	(1,832,994)
	17,442,295	0	0	(214,241)	17,228,054	512,716	0	0	17,740,770	(2,320)	17,738,450
Property & equipment, net	30,584,725	476,322	2,546	0	31,063,593	-	13,402	-	31,076,995	-	31,076,995
Deferred financing costs, net	180,574	-	-	-	180,574	-	-	-	180,574	-	180,574
Total assets	\$83,812,240	\$858,765	\$133,167	(\$214,241)	\$84,589,931	\$569,613	\$501,031	\$528,393	\$86,188,968	(\$45,554)	\$86,143,414

SOUTHEASTERN HEALTHCARE SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS
09/30/12

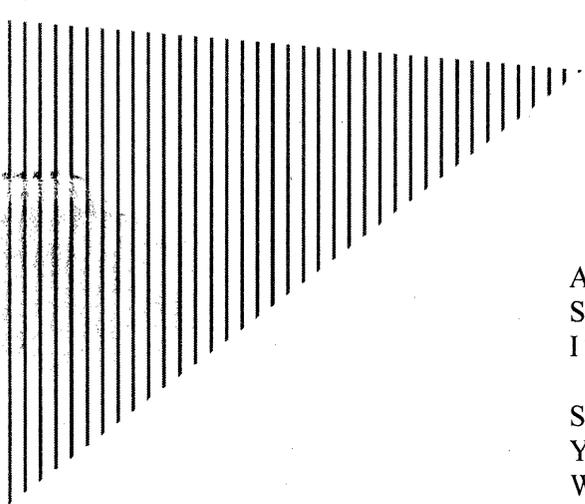
	MEMORIAL HOSPITAL	R. S. REALTY	SHS VENTURES	CONSOLIDATING ENTRIES	TOTAL MEMORIAL AND SUBS	PCCNE	BLACKSTONE HEALTH	SHS	TOTAL TOTAL	CONSOLIDATING ENTRIES	TOTAL SOUTHEASTERN HEALTHCARE SYSTEM, INC.
Liabilities and Net Assets											
Current liabilities:											
Accounts payable and accrued expenses	21,479,468	151,484	322,783	(214,241)	21,739,494	26,742	82,852	-	21,849,088	(45,554)	21,803,534
Estimated third party settlements	0	-	-	-	0	-	-	-	0	-	0
Accrued interest payable	128,135	-	-	-	128,135	-	-	-	128,135	-	128,135
Current portion of long-term debt and capital lease obligations	1,587,385	-	-	-	1,587,385	-	-	-	1,587,385	-	1,587,385
Line of credit	0	-	-	-	0	-	-	-	0	-	0
Total current liabilities	23,194,988	151,484	322,783	(214,241)	23,455,014	26,742	82,852	0	23,564,608	(45,554)	23,519,054
Additional minimum pension liability	64,921,724	-	-	-	64,921,724	-	-	-	64,921,724	-	64,921,724
Deferred revenue	0	-	-	-	0	-	118,804	-	118,804	-	118,804
Long-term debt, net of current portion	9,518,714	-	-	-	9,518,714	-	-	-	9,518,714	-	9,518,714
Capital lease obligations	0	-	-	-	0	-	-	-	0	-	0
Estimated self-insurance and other liabilities	1,663,316	-	-	-	1,663,316	-	-	-	1,663,316	-	1,663,316
Other long-term liabilities	0	-	-	-	0	-	-	-	0	-	0
Total liabilities	99,298,742	151,484	322,783	(214,241)	99,558,768	26,742	201,656	0	99,787,166	(45,554)	99,741,612
Net assets:											
Unrestricted	(27,288,950)	707,281	(189,616)	-	(26,771,285)	542,871	299,375	528,393	(25,400,646)	-	(25,400,646)
Temporarily restricted	1,562,926	-	-	-	1,562,926	-	-	-	1,562,926	-	1,562,926
Permanently restricted	10,239,522	-	-	-	10,239,522	-	-	-	10,239,522	-	10,239,522
Total net assets	(15,486,502)	707,281	(189,616)	0	(14,968,837)	542,871	299,375	528,393	(13,598,198)	0	(13,598,198)
Total liabilities and net assets	\$83,812,240	\$858,765	\$133,167	(\$214,241)	\$84,589,931	\$569,613	\$501,031	\$528,393	\$86,188,968	(\$45,554)	\$86,143,414

SOUTHEASTERN HEALTHCARE SYSTEM, INC.
CONSOLIDATED STATEMENTS OF INCOME
TWELVE MONTHS ENDED 09/30/12

	MEMORIAL HOSPITAL	R. S. REALTY	SHS VENTURES	CONSOLIDATING ENTRIES	MEMORIAL AND SUBS	PCCNE	BLACKSTONE HEALTH	SHS	TOTAL	CONSOLIDATING ENTRIES	SOUTHEASTERN HEALTHCARE SYSTEM, INC.
<u>Unrestricted revenue, gains and other support:</u>											
Net patient service revenue	\$163,661,600		\$654,281		\$164,315,881				\$164,315,881	\$0	\$164,315,881
Other revenue	8,146,479	755,685	24,221	(201,381)	8,725,004	5,000	1,456,633	60,490	10,247,127	(60,000)	10,187,127
Assets released from restrictions for operations	25,331				25,331				25,331		25,331
Total revenue, gains and other support	171,833,410	755,685	678,502	(201,381)	173,066,216	5,000	1,456,633	60,490	174,588,339	(60,000)	174,528,339
<u>Expenses:</u>											
Salaries and wages	84,123,553		632,597	166,099	84,922,249	-	395,912	-	85,318,161	37,080	85,355,241
Employee benefits	32,394,744		182,594	-	32,577,338	-	162,619	-	32,739,957	-	32,739,957
Supplies, purchased services and other	43,044,039	626,413	218,923	(367,480)	43,521,895	4,581	791,087	60,045	44,377,508	(97,080)	44,280,528
Provision for bad debts	15,130,585		16,928	-	15,147,513	-	-	-	15,147,513	-	15,147,513
Depreciation and amortization	3,938,536	95,650	1,537	-	4,035,723	0	8,150	-	4,043,873	-	4,043,873
Licensing fee	7,568,922		-	-	7,568,922	-	-	-	7,568,922	-	7,568,922
Interest	909,945		-	-	909,945	-	-	-	909,945	-	909,945
Total expenses	187,110,324	722,063	1,052,579	(201,381)	188,683,585	4,581	1,357,768	60,045	190,105,979	(60,000)	190,045,979
(Loss)/gain from operations	(15,276,914)	33,622	(374,077)	0	(15,617,369)	419	98,865	445	(15,517,640)	0	(15,517,640)
<u>Other income, gains and losses:</u>											
Investment income	(131,722)	-	-	-	(131,722)	-	-	-	(131,722)	-	(131,722)
Net realized gains on sales of investments	1,292,568	-	-	-	1,292,568	-	-	-	1,292,568	-	1,292,568
Unrestricted donations	90,255	-	-	-	90,255	-	-	-	90,255	-	90,255
Income on assets held in trust	302,388	-	-	-	302,388	-	-	-	302,388	-	302,388
Write-off of investment	-	-	-	-	0	-	-	-	0	-	0
Total nonoperating gains	1,553,489	0	0	0	1,553,489	0	0	0	1,553,489	0	1,553,489
Excess of revenues over expenses before change in appreciation of investments	(13,723,425)	33,622	(374,077)	0	(14,063,880)	419	98,865	445	(13,964,151)	0	(13,964,151)
Change in appreciation of investments	631,257				631,257				631,257		631,257
Excess of revenues over expenses	(13,092,168)	33,622	(374,077)	0	(13,432,623)	419	98,865	445	(13,332,894)	0	(13,332,894)

SOUTHEASTERN HEALTHCARE SYSTEM, INC.
STATEMENTS OF CHANGES IN NET ASSETS
TWELVE MONTHS ENDED 09/30/12

	MEMORIAL HOSPITAL	R. S. REALTY	SHS VENTURES	CONSOLIDATING ENTRIES	MEMORIAL AND SUBS	PCCNE	BLACKSTONE HEALTH	SHS	TOTAL	CONSOLIDATING ENTRIES	SOUTHEASTERN HEALTHCARE SYSTEM, INC.
<u>Change in unrestricted net assets:</u>											
Excess of revenues over expenses	(13,092,168)	33,622	(374,077)	0	(13,432,623)	419	98,865	445	(13,332,894)	0	(13,332,894)
Additional minimum pension liability	(15,846,329)	-	-	-	(15,846,329)	-	-	-	(15,846,329)	-	(15,846,329)
Cummulative effect of a change in accounting principle	0	-	-	-	0	-	-	-	0	-	0
Intercompany Transfer	(300,000)	0	300,000	0	0	-	0	-	0	0	0
Contributions for capital expenditures	183,490	-	-	-	183,490	-	-	-	183,490	-	183,490
Net assets released from restrictions	0	-	-	-	0	-	-	-	0	-	0
Net assets released from restrictions used for purchase of PP&E	119,024	-	-	-	119,024	-	-	-	119,024	-	119,024
Increase in unrestricted net assets	(28,935,983)	33,622	(74,077)	0	(28,976,438)	419	98,865	445	(28,876,709)	0	(28,876,709)
<u>Change in temporarily restricted net assets:</u>											
Contributions	184,839	-	-	-	184,839	-	-	-	184,839	-	184,839
Investment income	(77,234)	-	-	-	(77,234)	-	-	-	(77,234)	-	(77,234)
Realized gains held to maintain purchasing power	301,722	-	-	-	301,722	-	-	-	301,722	-	301,722
Net assets released from restriction	(144,355)	-	-	-	(144,355)	-	-	-	(144,355)	-	(144,355)
Increase in temporarily restricted net assets	264,972	0	0	0	264,972	0	0	0	264,972	0	264,972
<u>Change in permanently restricted net assets:</u>											
Restricted donations	0	-	-	-	0	-	-	-	0	-	0
Net appreciation on assets held in externally administered trusts	770,168	-	-	-	770,168	-	-	-	770,168	-	770,168
Increase in permanently restricted net assets	770,168	0	0	0	770,168	0	0	0	770,168	0	770,168
Increase in net assets	(27,900,843)	33,622	(74,077)	0	(27,941,298)	419	98,865	445	(27,841,569)	0	(27,841,569)
Net assets, beginning of year	12,414,341	673,659	(115,539)	-	12,972,461	542,452	200,510	527,948	14,243,371	-	14,243,371
Net assets, end of year	-\$15,486,502	\$707,281	(\$189,616)	\$0	-\$14,968,837	\$542,871	\$299,375	\$528,393	-\$13,598,198	\$0	-\$13,598,198



AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

Southeastern Healthcare System, Inc. and Affiliates
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Southeastern Healthcare System, Inc. and Affiliates

Audited Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2011 and 2010

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Report of Independent Auditors

Board of Trustees
Southeastern Healthcare System, Inc.

We have audited the accompanying consolidated balance sheets of Southeastern Healthcare System, Inc. and Affiliates (the System) as of September 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 System'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 System'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 consolidated financial position of the Southeastern Healthcare System, Inc. and Affiliates as of September 30, 2011 and 2010, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

March 9, 2012

Ernst & Young LLP

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Balance Sheets

	September 30	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,921,664	\$ 1,501,838
Current portion of assets whose use is limited	1,908,648	2,936,344
Accounts receivable for services to patients, net of allowance for doubtful accounts and charity care of approximately \$10,431,000 in 2011 and \$9,772,000 in 2010	33,269,225	32,509,340
Other accounts receivable	1,209,686	1,503,613
Estimated settlements with third-party payors	1,695,156	2,466,273
Inventories	744,597	808,863
Prepaid expenses and other	899,383	862,032
Total current assets	41,648,359	42,588,303
Assets whose use is limited:		
By the Board for designated purposes	19,634,907	31,081,199
Pledges receivable	56,325	202,392
By donors for designated purposes	1,297,954	1,015,273
By donors for permanent endowment	3,124,215	3,124,192
By externally administered trusts	6,345,138	6,588,975
	30,458,539	42,012,031
Less amount required to meet current obligations	(1,908,648)	(2,936,344)
	28,549,891	39,075,687
Property and equipment, net	33,558,383	34,541,070
Deferred financing costs, net	207,326	234,078
Total assets	\$ 103,963,959	\$ 116,439,138

	September 30	
	2011	2010
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 22,610,478	\$ 25,057,378
Accrued interest payable	143,784	159,384
Current portion of long-term debt and capital lease obligations	1,587,385	1,582,385
Line of credit	5,000,000	5,000,000
Total current liabilities	<u>29,341,647</u>	<u>31,799,147</u>
Long-term pension liability	48,295,374	36,591,747
Long-term debt, net of current portion	11,106,099	12,693,483
Estimated self-insurance liabilities and other liabilities	977,468	981,582
Deferred compensation liability	—	82,500
Total liabilities	<u>89,720,588</u>	<u>82,148,459</u>
Commitments and contingencies		
Net assets:		
Unrestricted	3,476,064	23,562,239
Temporarily restricted	1,297,954	1,015,273
Permanently restricted	9,469,353	9,713,167
Total net assets	<u>14,243,371</u>	<u>34,290,679</u>
Total liabilities and net assets	<u><u>\$ 103,963,959</u></u>	<u><u>\$ 116,439,138</u></u>

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2011	2010
Operating revenues:		
Net patient service revenue	\$ 169,647,204	\$ 173,318,865
Other revenue	10,833,097	10,241,484
Net assets released from restrictions for operations	22,437	108,887
Total operating revenues	180,502,738	183,669,236
Operating expenses:		
Salaries and wages	85,146,873	84,425,033
Employee benefits	30,440,944	29,257,213
Supplies, purchased services, and other	44,306,769	45,794,792
Provision for bad debts	16,371,134	15,657,416
Depreciation and amortization	4,280,101	4,183,905
Licensing fee	7,549,028	7,178,101
Interest	1,143,902	1,287,152
Total operating expenses	189,238,751	187,783,612
Loss from operations	(8,736,013)	(4,114,376)
Nonoperating gains:		
Investment income	314,262	350,807
Net realized gains on sales of investments	2,357,007	715,584
Unrestricted donations	104,252	233,654
Income on assets held in externally administered trusts	303,954	285,654
Total nonoperating gains	3,079,475	1,585,699
Deficiency of revenue over expenses before change in fair value of investments	(5,656,538)	(2,528,677)
Change in fair value of investments	(2,513,288)	817,068
Deficiency of revenues over expenses	(8,169,826)	(1,711,609)

Continued on next page.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2011	2010
Deficiency of revenue over expenses (continued)	\$ (8,169,826)	\$ (1,711,609)
Change in pension liability	(12,124,629)	(281,586)
Net assets released from restrictions	208,280	62,638
Contribution of long-lived assets	—	5,370
Decrease in unrestricted net assets	(20,086,175)	(1,925,187)
Change in temporarily restricted net assets:		
Contributions	12,508	217,146
Investment income	144,467	166,402
Net appreciation (realized and unrealized)	356,423	111,935
Net assets released from restrictions	(230,717)	(171,525)
Increase in temporarily restricted net assets	282,681	323,958
Change in permanently restricted net assets:		
Change in unrealized (depreciation) appreciation on assets held in externally administered trusts	(243,837)	352,119
Permanently restricted endowment contributions	23	34
(Decrease) increase in permanently restricted net assets	(243,814)	352,153
Decrease in net assets	(20,047,308)	(1,249,076)
Net assets at beginning of year	34,290,679	35,539,755
Net assets at end of year	\$ 14,243,371	\$ 34,290,679

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2011	2010
Operating activities		
Decrease in net assets	\$ (20,047,308)	\$ (1,249,076)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and nonoperating gains:		
Depreciation and amortization	4,280,101	4,183,905
Provision for bad debts	16,371,134	15,657,416
Amortization of bond premium	(22,384)	(22,385)
Change in pension liability	12,124,629	281,586
Unrealized depreciation (appreciation) on assets held in externally administered trusts	243,837	(352,119)
Change in:		
Patient accounts receivable	(17,131,019)	(13,416,137)
Other accounts receivable	293,927	(289,846)
Estimated settlements with third-party payors	771,117	596,423
Inventories	64,266	(49,598)
Prepaid expenses and other	(37,351)	255,829
Investments classified as trading	11,152,657	1,629,393
Accounts payable, accrued expenses and long-term pension liability	(2,867,902)	(80,026)
Accrued interest payable	(15,600)	(15,600)
Estimated self-insurance liabilities and other liabilities	(4,114)	(173,170)
Deferred compensation liability	(82,500)	(2,317,225)
Net cash provided by operating activities and nonoperating gains	5,093,490	4,639,370
Investing activities		
Purchases of property and equipment, net	(3,270,662)	(3,753,089)
Net cash used in investing activities	(3,270,662)	(3,753,089)
Financing activities		
Restricted contributions and investment income	156,998	383,582
Repayments of long-term debt and additional financing costs	(1,560,000)	(1,560,000)
Net cash used in financing activities	(1,403,002)	(1,176,418)
Net increase (decrease) in cash and cash equivalents	419,826	(290,137)
Cash and cash equivalents at beginning of year	1,501,838	1,791,975
Cash and cash equivalents at end of year	\$ 1,921,664	\$ 1,501,838

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

September 30, 2011

1. Organization and Summary of Significant Accounting Policies

Organization

Southeastern Healthcare System, Inc. (SHSI), formed in 1997, is the sole corporate member or shareholder of Memorial Hospital of Rhode Island (the Hospital), Primary Care Centers of New England, Inc. (PCCNE), and Blackstone Health, Inc. (BHI) (collectively referred to as the System). The Hospital is the sole corporate member of R.S. Realty Company (RSR) and SHS Ventures, Inc. (Ventures).

The Hospital is a 294-bed, acute care, not-for-profit community teaching and research hospital located in Pawtucket, Rhode Island, and is affiliated with Brown University School of Medicine. RSR owns and leases apartments and office space primarily to Hospital employees. PCCNE provides staffing to Ventures and the Hospital. Ventures consists of Massachusetts-based physician practices. BHI receives and administers certain grant funds, and provides services to elderly and disabled residents in the local area.

Principles of Consolidation

The accompanying consolidated financial statements include the assets of SHSI and its controlled affiliates. The assets of any one of the members of the consolidated group may not be available to meet the obligations of other entities in the group. Intercompany balances and transactions between the organizations have been eliminated in consolidation.

Consolidated Statements of Operations and Changes in Net Assets

The consolidated statements of operations and changes in net assets include the deficiency of revenue over expenses. Changes in unrestricted net assets, which are excluded from the deficiency of revenue over expenses, consistent with industry practice, include contributions of long-lived assets, including assets acquired using contributions which, by donor restrictions, were to be used for the purpose of acquiring such assets, change in net assets related to pension, and net assets released from restrictions used to purchase property and equipment.

For presentation purposes, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and operating expenses. Other transactions not considered major or central to the provision of health care services are reported as nonoperating gains and losses, which primarily consist of investment income and unrestricted donations.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Net Patient Service Revenue

The System has entered into payment agreements with Medicare, Medicaid, and various commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under those agreements includes prospectively determined rates per discharge, discounts from established charges, costs (subject to limits), fee screens, prospectively determined per diem rates, and capitation fees earned on a per-member-per-month basis. Net patient service revenue is reported at the estimated net realizable amounts due 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 reimbursements are subject to negotiation, audit, and final determination by the third-party payors. 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. During fiscal years 2011 and 2010, the System recorded increases in net patient service revenue of \$771,118 and \$225,478, respectively, related to changes in previously estimated third-party settlements.

Grant Revenue

The Hospital receives grants from agencies of the federal government and other sources to perform medical research and educational projects. Revenue related to these grants is recognized as the related costs are incurred. Grant revenues included in other revenue amounted to \$5,704,174 and \$4,861,889 for the years ended September 30, 2011 and 2010, respectively. Deferred revenues which relate to grant funds received prior to costs being incurred are included in accounts payable and accrued expenses and amounted to \$800,260 and \$1,079,789 at September 30, 2011 and 2010, respectively.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Expenses

Substantially all expenses in the accompanying consolidated statements of operations and changes in net assets are related to the delivery of health care services and the performance of medical research and educational projects.

Disproportionate Share Program

The Hospital is a participant in the State of Rhode Island's Disproportionate Share Program, which was established in 1995 to assist hospitals that provide a disproportionate amount of uncompensated care. Under the program, the Hospital receives federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. Payments to the Hospital under the Disproportionate Share Program of \$5,757,941 and \$8,489,049 for the years ended September 30, 2011 and 2010, respectively, are included in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

Assessments

The state of Rhode Island assesses a licensing fee to all Rhode Island hospitals based upon each hospital's gross patient service revenue as reported on filed cost reports. The Hospital's licensing fee amounted to \$7,549,028 and \$7,178,101 for the years ended September 30, 2011 and 2010, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of amounts restricted by donors for specific purposes. Permanently restricted net assets have been restricted by donors and are to be maintained by the System in perpetuity. Also included in permanently restricted net assets are assets held in externally administered irrevocable trusts which are not under the System's control. The System is the income beneficiary of certain perpetual trusts and has recognized its share of the fair value of the perpetual trusts as a permanently restricted asset. The System's share represents the percentage of interest the System has in the perpetual trust's income distributions. The System's share of the increase or decrease in fair value of the perpetual trusts is reported as an increase or decrease in permanently restricted net assets.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the System 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 gift is received. Gifts are reported as either temporarily or permanently restricted net assets 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 to unrestricted net assets and reported in the consolidated statements of operations and 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 donations.

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 assets whose use is limited or restricted.

Accounts Receivable

Patient accounts receivable result from the health care services provided by the System. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators.

Inventories

Inventories are stated at the lower of cost or market, cost being determined on a weighted-average basis, except for the pharmacy and central processing departments, which utilize the first-in, first-out basis.

Assets Whose Use Is Limited

Resources set aside for board-designated purposes or limited under terms of loan agreements are considered to be assets whose use is limited. Assets whose use is limited that are required for obligations classified as current liabilities are classified as current assets.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Assets whose use is limited by donors for designated purposes consist of amounts contributed for the design and renovation of the Hospital's facility. Assets whose use is limited by donors for permanent endowment funds contain a donor-imposed restriction stipulating that these resources be maintained permanently. However, the restriction permits the Hospital to use or expend all of the income and net gains derived from the donated assets. Accordingly, investment income on the assets is unrestricted. Rhode Island general law allows organizations to permanently restrict investment earnings on permanently restricted funds to maintain the purchasing power of the original dollar value of the funds. The law also allows the governing board to expend such funds as permitted under other laws, the terms of the applicable gift instrument, or the charter of the institution. Each year, the Board of Trustees has designated all income of permanently restricted assets, other than externally administered trusts, for future Hospital use and, therefore, the income has been classified as unrestricted.

The Hospital is the beneficiary of the income from assets held in externally administered trusts, which are not under its control. Income from these trusts is unrestricted, and the annual distributions received by the Hospital are reported as nonoperating gains in the consolidated statements of operations and changes in net assets.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is generally determined based on quoted market price. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the deficiency of revenue over expenses.

Property and Equipment

Property and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in income from operations. Depreciation of property and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives ranging from 3 to 50 years. The cost of additions and improvements are capitalized and expenditures for repairs and maintenance, including the cost of replacing minor items not considered substantial enhancements, are expensed as incurred.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted contributions and are excluded from the deficiency 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 contributions. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of debt, which are being amortized over the term of the related debt issue. Amortization expense amounted to \$26,752 and \$26,751 for the years ended September 30, 2011 and 2010, respectively.

Tax Status

SHSI, the Hospital, Ventures and BHI have been recognized as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the Code). RSR has been recognized as a tax-exempt organization under Section 501(c)(2) of the Code. Those organizations are, therefore, exempt from federal taxes on related income pursuant to Section 501(a) of the Code. PCCNE is organized as a for-profit corporation and is, therefore, subject to tax. The provision for income taxes on the earnings of PCCNE is immaterial to the consolidated financial statements.

As of September 30, 2011, PCCNE has net operating loss carryforwards of approximately \$600,000 for income tax purposes. These carryforwards resulted from PCCNE incurring operating losses in prior years. A deferred tax asset for these losses of approximately \$240,000 is offset by a corresponding valuation allowance of the same amount.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Standards

In August 2010, the Financial Accounting Standards Board (FASB) issued amended guidance relating to measuring charity care for disclosures. The amended guidance requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. Separate disclosure of the amount of any cash reimbursements received for providing charity care must also be disclosed. The amended guidance is effective for fiscal years beginning after December 15, 2010. SHSI will adopt the disclosures required by the amended guidance in fiscal 2012.

In August 2010, the FASB issued amended guidance related to the presentation of insurance claims and related insurance recoveries. Under the new guidance, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the balance sheet. The guidance is effective for fiscal years beginning after December 15, 2010. SHSI will adopt the presentation changes to the balance sheet in fiscal 2012.

In July 2011, the FASB issued new guidance, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*. The guidance requires certain health care entities to present the bad debt expense associated with the patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than operating expense. The guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 31, 2011, with early adoption permitted.

2. Accounts Receivable for Patients and Net Patient Service Revenue

During fiscal years 2011 and 2010, the Hospital's net revenues from services to patients were 31% and 34% from Medicare and 19% and 17% from Medicaid, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital 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. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Accounts Receivable for Patients and Net Patient Service Revenue (continued)

Net revenues from services to patients are 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. 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, reviews, and investigations.

Patient accounts receivable and revenues are recorded when patient services are performed. The Hospital has agreements with certain third-party payors, including health maintenance organizations, that provide for payments to the Hospital at amounts different from the Hospital's established billing rates. These differences are accounted for as allowances. Under those agreements, the Hospital receives reimbursement based on a number of different arrangements.

3. Uncompensated Care and Community Benefit

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The following table displays the level of charity care provided during the years ended September 30:

	<u>2011</u>	<u>2010</u>
Charges forgone, based on established rates	<u>\$ 6,888,579</u>	<u>\$ 6,076,412</u>
Estimated costs and expenses incurred to provide charity care	<u>\$ 3,002,479</u>	<u>\$ 2,823,790</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

3. Uncompensated Care and Community Benefit (continued)

In addition to the above-mentioned medical care rendered, the Hospital provides numerous other services to the community for which charges are not generated. These services include translation of medical information into various languages, physician referral services, health care screenings (including those done at employer sites), community support groups, health educational programs, physician services, and general community benefit services such as disaster relief. In addition, volunteer services are provided by Hospital staff to the community on their own time.

The Hospital also provides services to other indigent patients under the Medicaid program, which reimburses health care providers at amounts which are, in total, estimated to be less than the cost of services provided. The differences between the cost of services provided to indigent patients and the expected reimbursement are also considered to be charitable services by the Hospital but they have not been included in the amounts disclosed above.

In addition to the cost of charity care and other community service programs, the Hospital provided \$16,371,134 and \$15,657,416 for uncollectible patient accounts during the years ended September 30, 2011 and 2010, respectively.

4. Assets Whose Use is Limited

Assets whose use is limited consist of the following at fair value at September 30:

	<u>2011</u>	<u>2010</u>
Interest and other receivables	\$ 1,207,623	\$ 1,211,400
Pledges receivable	56,325	202,392
Assets held in externally administered trusts	6,345,138	6,588,975
Cash and money market investments	3,244,820	6,748,812
Marketable securities	19,604,633	27,260,452
	<u>\$ 30,458,539</u>	<u>\$ 42,012,031</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

4. Assets Whose Use is Limited (continued)

Marketable securities consist of the following at fair value at September 30:

	<u>2011</u>	<u>2010</u>
U.S. government obligations	\$ 4,513,646	\$ 6,069,919
International fixed income mutual funds	558,483	605,123
Equity securities	12,544,637	16,815,587
International equity mutual funds	—	1,163,650
U.S. equity mutual funds	1,854,348	2,589,766
Real estate investment trusts	133,519	16,407
	<u>\$ 19,604,633</u>	<u>\$ 27,260,452</u>

The System's unrestricted investment income for the years ended September 30 consisted of the following:

	<u>2011</u>	<u>2010</u>
Interest income	\$ 314,262	\$ 350,807
Net realized gains on sales of investments	2,357,007	715,584
Income on assets held in externally administered trusts	303,954	285,654
	<u>2,975,223</u>	<u>1,352,045</u>
Change in fair value of investments	<u>(2,513,288)</u>	<u>817,068</u>
	<u>\$ 461,935</u>	<u>\$ 2,169,113</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

5. Endowment

The System follows the requirements of the Rhode Island enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as they relate to its permanently restricted endowments. The System's endowments consist of numerous individual funds established for a variety of purposes. Its endowments consist solely of donor-restricted endowment funds held by the System. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported on the existence or absence of donor-imposed restrictions.

The System classifies restricted donor funds in accordance with the state of Rhode Island and generally accepted accounting principles. The System 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) the accumulation of 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 fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by the state laws of Rhode Island and UPMIFA. The System 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 purposes of the System 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; (6) other resources of the System; and (7) the investment and spending policies of the System.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

For the years ended September 30, 2011 and 2010, the System had the following changes in the endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, October 1, 2009	\$ —	\$ 3,124,158	\$ 3,124,158
Investment returns:			
Investment income	657,837	—	657,837
Net appreciation (realized and unrealized)	111,935	—	111,935
Total investment return	769,772	—	769,772
Appropriation of endowment assets for expenditure	(657,837)	—	(657,837)
Permanently restricted endowment contributions	—	34	34
Endowment net assets, September 30, 2010	111,935	3,124,192	3,236,127
Investment returns:			
Investment income	620,084	—	620,084
Net appreciation (realized and unrealized)	356,423	—	356,423
Total investment return	976,507	—	976,507
Appropriation of endowment assets for expenditure	(620,084)	—	(620,084)
Permanently restricted endowment contributions	—	23	23
Endowment net assets, September 30, 2011	<u>\$ 468,358</u>	<u>\$ 3,124,215</u>	<u>\$ 3,592,573</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

It is the policy of the System that any appropriations from the appreciation in endowment funds be periodically requested of and approved by the Board of Trustees.

From time to time, the fair value of the assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. There are no deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2011.

6. Line of Credit

The Hospital has an unsecured revolving line of credit with a bank which provides for borrowings of up to \$5,000,000 for both fiscal 2011 and 2010. Interest accrues at an effective rate of LIBOR plus 3.5% (4.75% at September 30, 2011).

7. Property and Equipment

Property and equipment consisted of the following at September 30:

	2011	2010
Property and equipment:		
Land	\$ 1,912,714	\$ 1,912,714
Land improvements	1,585,672	1,561,672
Buildings and improvements	49,732,041	48,598,011
Equipment	62,133,700	60,915,758
	115,364,127	112,988,155
Less accumulated depreciation	(82,583,239)	(78,447,085)
	32,780,888	34,541,070
Construction in progress	777,495	-
	\$ 33,558,383	\$ 34,541,070

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt

Long-term debt consists of the following at September 30:

	2011	2010
Rhode Island Health and Educational Building Corporation Hospital Financing Revenue Refunding Bonds	\$ 12,520,000	\$ 14,080,000
Add premium	173,484	195,868
	12,693,484	14,275,868
Less current portion	(1,587,385)	(1,582,385)
Long-term debt	\$ 11,106,099	\$ 12,693,483

In December 2003, the Rhode Island Health and Educational Building Corporation (RIHEBC) issued \$25,000,000 of Series 2003 Hospital Financing Revenue Refunding Bonds (the Bonds) on behalf of the Hospital. RIHEBC loaned the proceeds of the Bonds to the Hospital pursuant to the Loan and Trust Agreement (the Agreement) dated December 1, 2003. The terms of the Agreement stipulate that interest will be paid at fixed rates ranging from 4.00% to 5.25% per annum (weighted-average rate at September 30, 2011 and 2010, was 4.59% and 4.53%, respectively), with principal installments commencing July 1, 2004, and ending July 1, 2019.

The Bonds are issued under and collateralized by the Agreement. The terms of the Agreement require that the Hospital make quarterly payments to the trustee which are sufficient to provide for payment of principal and interest due on the Bonds. The Bonds are collateralized by a lien on the Hospital's gross receipts. Additional debt collateralized on a parity with the Bonds may only be incurred by the Hospital in accordance with restrictions of the Agreement.

As required by the Agreement, the bonds are secured by a letter of credit from a commercial bank. Accordingly, the Hospital has entered into a Reimbursement Agreement, dated December 1, 2003 (Reimbursement Agreement), and an Unrestricted Endowment Account Control Agreement dated July 31, 2009 (Account Control Agreement). Under the terms of the Reimbursement Agreement the Hospital must meet the requirements of certain covenants. The Account Control Agreement grants the bank a security interest in certain investments held by the Hospital. For the year ended September 30, 2011, the Hospital was not in compliance with the required minimum cash flow coverage ratio covenant required by the Reimbursement Agreement. Under the terms of an Amendment to the Reimbursement Agreement dated February 29, 2012 (Amendment), the required minimum cash flow coverage ratio covenant was

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

waived for each of the 4 quarters ending September 30, 2011 and December 31, 2011. In addition, the requirement to provide annual audited financial statements to the trustee by February 27, 2012 was also waived. The amendment to the reimbursement agreement amends certain sections of the original reimbursement agreement and requires the Hospital to: fund a debt service fund in an amount equal to the monthly pro-rata portion of the annual debt service on the bonds; release funds to repay the existing line of credit and fund operating losses; and meet certain transaction milestones in fiscal year 2013. The Amendment also limits the amount of monthly losses from operations. As of September 30, 2011, December 31, 2011 and March 8, 2012 the Hospital was in compliance with the terms of the amended Reimbursement Agreement.

The aggregate maturities of long-term debt (prior to amortization of premium) for the next five fiscal years ending September 30 and thereafter are approximately as follows:

2012	\$ 1,565,000
2013	1,565,000
2014	1,565,000
2015	1,565,000
2016	1,565,000
Thereafter	4,695,000

Cash paid for interest on all borrowings during the years ended September 30, 2011 and 2010, was approximately \$1,182,000 and \$1,325,000, respectively.

The fair value of long-term debt is reported in the accompanying consolidated balance sheets at principal value, plus unamortized premium, which totaled \$12,693,484 at September 30, 2011. The fair value of these obligations at September 30, 2011, as estimated based on quoted market prices for similar bonds, totaled \$12,967,120.

9. Pension Plan

The Hospital has a defined benefit pension plan (the Plan) covering substantially all of its employees. The plan benefits are based on years of service and employees' compensation during the last five years of covered employment. The Hospital makes annual contributions to the Plan, which approximates the amount of net periodic pension cost. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

The following table sets forth the status of the Plan as of September 30:

	<u>2011</u>	<u>2010</u>
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 117,225,365	\$ 107,433,658
Service cost	3,983,898	3,657,470
Interest cost	6,493,864	6,134,459
Benefits paid	(3,380,071)	(3,116,215)
Actuarial loss	6,700,716	3,115,993
Projected benefit obligation at end of year	<u>131,023,772</u>	<u>117,225,365</u>
Change in plan assets		
Fair value of plan assets at beginning of year	80,633,618	70,534,801
Actual return on plan assets	(483,104)	6,938,041
Contributions and transfers	5,957,955	6,276,991
Benefits paid	(3,380,071)	(3,116,215)
Fair value of plan assets at end of year	<u>82,728,398</u>	<u>80,633,618</u>
Unfunded status	<u>\$ (48,295,374)</u>	<u>\$ (36,591,747)</u>

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic benefit cost:

	<u>2011</u>	<u>2010</u>
Unrecognized actuarial loss	\$ 47,573,253	\$ 35,457,212
Unrecognized prior service credit	(43,390)	(51,978)
	<u>\$ 47,529,863</u>	<u>\$ 35,405,234</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

The actuarial loss and prior service credit included in unrestricted net assets at September 30, 2011, and expected to be recognized in net periodic benefit cost during the year ending September 30, 2012, are as follows:

Unrecognized actuarial loss	\$ 3,565,188
Unrecognized prior service credit	<u>(11,020)</u>
	<u>\$ 3,554,168</u>

Components of net periodic pension cost are as follows for the years ended September 30:

	2011	2010
Service cost – benefits earned during the year	\$ 3,983,898	\$ 3,657,470
Interest cost on projected benefit obligation	6,493,864	6,134,459
Actual return on plan assets	(7,353,230)	(6,461,353)
Net amortization and deferral	2,412,421	2,149,489
Net periodic pension cost	<u>\$ 5,536,953</u>	<u>\$ 5,480,065</u>

Assumptions

Weighted-average assumptions used to determine benefit obligations and net periodic pension cost at September 30, 2011 and 2010, and for the years then ended are as follows:

	Benefit Obligations		Net Periodic Pension Cost	
	2011	2010	2011	2010
Discount rate	5.40%	5.63%	5.63%	5.80%
Expected rate of return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	2.00%	2.00%	2.00%	2.00%

The expected rate of return on plan assets was determined by the expected return on each asset class based on a model that considers historical and expected future performance.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

The accumulated benefit obligation was \$120,867,716 and \$106,313,277 at September 30, 2011 and 2010, respectively.

Plan Assets

The Plan weighted-average asset allocations as of September 30, by asset category, are as follows:

	Target Allocation	2011	2010
Equity securities	33%	30%	34%
Annuities	50	52	47
Debt securities	13	13	12
Alternative investments	4	2	2
Cash equivalents	0	3	5
Total	100%	100%	100%

The goals of the Plan are to provide a secure retirement benefit for plan participants and to manage plan assets for the exclusive benefit of the participants. The invested assets will be managed on a long-term total return basis and measured against established benchmarks for each asset class. Risk management is achieved by limiting the size of asset class and individual security positions to achieve adequate diversification. The Plan will maintain a funded level sufficient to ensure benefit security.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

Financial instruments in the Plan, carried at fair value as of September 30, 2011, are classified in the following table in the following categories (see Note 14 for a description):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,522,006	\$ —	\$ —	\$ 2,522,006
U.S. government fixed income	1,915,474	—	—	1,915,474
U.S. government asset backed fixed income	2,188,533	—	—	2,188,533
U.S. fixed income mutual funds	2,079,734	—	—	2,079,734
International fixed income mutual funds	4,585,669	—	—	4,585,669
Equity securities:				
Consumer goods	4,509,776	—	—	4,509,776
Energy	1,721,414	—	—	1,721,414
Financials	2,762,042	—	—	2,762,042
Health care	3,737,057	—	—	3,737,057
Industrials	1,951,437	—	—	1,951,437
Information technology	4,142,975	—	—	4,142,975
Materials	653,178	—	—	653,178
Telecommunication services	437,620	—	—	437,620
Utilities	764,083	—	—	764,083
Total equity securities	20,679,583	—	—	20,679,583
International equity mutual funds	2,317,637	—	—	2,317,637
U.S. equity mutual funds	2,118,733	—	—	2,118,733
Real estate investment trusts	1,269,466	—	—	1,269,466
Investments at fair value	<u>\$ 39,676,836</u>	<u>\$ —</u>	<u>\$ —</u>	<u>39,676,836</u>
Investments not at fair value – guaranteed annuity contracts				<u>43,051,562</u>
Total investments				<u>\$ 82,728,398</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

Financial instruments in the Plan, carried at fair value as of September 30, 2010, are classified in the following table in the following categories (see Note 14 for a description):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,787,989	\$ —	\$ —	\$ 2,787,989
U.S. government fixed income	2,506,359	—	—	2,506,359
U.S. government asset backed fixed income	1,106,642	—	—	1,106,642
U.S. fixed income mutual funds	4,215,221	—	—	4,215,221
International fixed income mutual funds	2,174,770	—	—	2,174,770
Equity securities:				
Consumer goods	4,658,347	—	—	4,658,347
Energy	2,237,292	—	—	2,237,292
Financials	2,944,568	—	—	2,944,568
Health care	4,347,529	—	—	4,347,529
Industrials	2,082,547	—	—	2,082,547
Information technology	5,296,819	—	—	5,296,819
Materials	1,052,634	—	—	1,052,634
Telecommunication services	479,340	—	—	479,340
Utilities	767,062	—	—	767,062
Total equity securities	23,866,138	—	—	23,866,138
International equity mutual funds	2,620,520	—	—	2,620,520
U.S. equity mutual funds	2,533,313	—	—	2,533,313
Real estate investment trusts	1,374,645	—	—	1,374,645
Investments at fair value	<u>\$ 43,185,597</u>	<u>\$ —</u>	<u>\$ —</u>	<u>43,185,597</u>
Investments not at fair value – guaranteed annuity contracts				37,448,021
Total investments				<u>\$ 80,633,618</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

Cash Flows

Contributions

The Hospital funds the Plan in accordance with guidelines prescribed by the Employee Retirement Income Security Act of 1974 (ERISA). The Plan's contribution requirement is not yet known. Actual contributions for the fiscal year ending September 30, 2012, will be based on the contribution requirement and other factors, including the September 30, 2012, disclosure status.

Estimated Future Benefit Payments

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

2012	\$ 4,720,000
2013	5,028,000
2014	5,332,000
2015	5,596,000
2016	6,090,000
2017 – 2021	37,923,000

10. Estimated Self-Insurance Liabilities

Professional Liability Insurance

Effective July 1, 2004, professional liability insurance coverage was provided on an occurrence basis. Such coverage was provided on a claims-made basis through June 30, 2004. The claims-made policies cover only claims made during the terms of the policies and not those occurrences for which claims may be made after expiration of the policies. The System is self-insured with respect to incurred but not reported (IBNR) claims incurred prior to July 1, 2004. Accordingly, the System has established a liability for such IBNR exposure of \$579,313 and \$582,000 at September 30, 2011 and 2010, respectively.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

10. Estimated Self-Insurance Liabilities (continued)

Workers' Compensation Insurance

The System is self-insured with respect to workers' compensation risks up to a maximum of \$350,000 per claim. The provision for estimated self-insured workers' IBNR compensation claims includes estimates of the ultimate costs for both reported claims and claims. The estimates incorporate the System's past experience, as well as other considerations.

11. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The percentage of accounts receivable from patients and various third-party payors was as follows at September 30:

	2011	2010
Medicare	28%	26%
Blue Cross	17	19
Medicaid	13	18
Other third-party payors	26	24
Patients	16	13
	100%	100%

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at September 30:

	2011	2010
General activities	\$ 741,145	\$ 805,860
Research	88,451	97,478
Net appreciation (realized and unrealized)	468,358	111,935
	\$ 1,297,954	\$ 1,015,273

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

12. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets consist of the following at September 30:

	<u>2011</u>	<u>2010</u>
Principal portion of contributions restricted in perpetuity by donors	\$ 3,124,215	\$ 3,124,192
Assets held in externally administered trusts	6,345,138	6,588,975
	<u>\$ 9,469,353</u>	<u>\$ 9,713,167</u>

13. Commitments and Contingencies

The System is a defendant in several lawsuits, which are in various stages of progress or discovery. Management believes that its insurance coverage is adequate to cover claims made under all such lawsuits and, accordingly, no provision for loss has been reflected in the accompanying consolidated financial statements.

14. Fair Value Measurement

The System applies the methods of calculating fair value defined in Accounting Standards Codification (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.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurement (continued)

ASC 820 establishes a three-tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.

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

Level 3: Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

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 System 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.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurement (continued)

Financial assets, excluding assets held in the Plan, carried at fair value as of September 30, 2011, are classified in the following table in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 3,244,820	\$ —	\$ —	\$ 3,244,820
U.S. government fixed income	632,308	—	—	632,308
U.S. government asset backed fixed income	491,089	—	—	491,089
U.S. fixed income mutual funds	3,390,249	—	—	3,390,249
International fixed income mutual funds	558,483	—	—	558,483
Equity securities:				
Consumer goods	1,734,679	—	—	1,734,679
Energy	960,040	—	—	960,040
Financials	1,461,567	—	—	1,461,567
Health care	1,520,878	—	—	1,520,878
Industrials	1,568,441	—	—	1,568,441
Information technology	2,273,925	—	—	2,273,925
Materials	330,008	—	—	330,008
Telecommunication services	249,729	—	—	249,729
Utilities	273,392	—	—	273,392
Other	442,572	—	—	442,572
Real estate	1,729,406	—	—	1,729,406
U.S. equity mutual funds	1,854,348	—	—	1,854,348
Real estate investment trusts	133,519	—	—	133,519
Common collective trusts	—	6,345,138	—	6,345,138
Investments at fair value	<u>\$ 22,849,453</u>	<u>\$ 6,345,138</u>	<u>\$ —</u>	<u>29,194,591</u>
Interest and other receivables				1,207,623
Pledge receivable				<u>56,325</u>
Total cash and cash equivalents and investments				<u>\$ 30,458,539</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurement (continued)

Financial assets carried at fair value as of September 30, 2010, are classified in the following table in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 6,748,811	\$ —	\$ —	\$ 6,748,811
U.S. government fixed income	631,504	—	—	631,504
U.S. government asset backed fixed income	1,013,848	—	—	1,013,848
U.S. fixed income mutual funds	4,424,567	—	—	4,424,567
International fixed income mutual funds	605,123	—	—	605,123
Equity securities:				
Consumer goods	2,437,634	—	—	2,437,634
Energy	1,169,031	—	—	1,169,031
Financials	2,265,342	—	—	2,265,342
Health care	2,108,055	—	—	2,108,055
Industrials	2,588,240	—	—	2,588,240
Information technology	2,958,926	—	—	2,958,926
Materials	701,779	—	—	701,779
Telecommunication services	285,393	—	—	285,393
Utilities	289,241	—	—	289,241
Other	681,677	—	—	681,677
Real estate	1,330,269	—	—	1,330,269
U.S. equity mutual funds	2,589,766	—	—	2,589,766
International equity mutual funds	1,163,650	—	—	1,163,650
Real estate investment trusts	16,407	—	—	16,407
Common collective trusts	—	6,588,975	—	6,588,975
Investments at fair value	<u>\$ 34,009,263</u>	<u>\$ 6,588,975</u>	<u>\$ —</u>	<u>40,598,238</u>
Interest and other receivables				1,211,401
Pledge receivable				<u>202,392</u>
Total cash and cash equivalents and investments				<u>\$ 42,012,031</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurement (continued)

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 assets is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers. The valuation for alternative investments included in Level 2 are stated at fair value, as estimated in an unquoted market. Fair value for alternative investments is determined for each investment using net asset values as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

15. Subsequent Events

In accordance with ASC 855-10, *Subsequent Events*, management has evaluated subsequent events through March 9, 2012, which is the date the consolidated financial statements were issued. No events have occurred that require disclosure or adjustment of the consolidated financial statements.

Other Financial Information



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Report of Independent Auditors on Other Financial Information

Board of Trustees
Southeastern Healthcare System, Inc.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

March 9, 2012

Southeastern Healthcare System, Inc.

Consolidating Balance Sheet

September 30, 2011

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 789,126	\$ 374,867	\$ 2,366	\$ -	\$ 1,166,359	\$ 14,361	\$ 212,996	\$ 527,948	\$ 1,921,664	\$ -	\$ 1,921,664
Current portion of assets whose use is limited	1,908,648	-	-	-	1,908,648	-	-	-	1,908,648	-	1,908,648
Accounts receivable for services to patients, net of allowance for doubtful accounts and charity care of approximately \$10,431,000 in 2011	33,188,335	-	78,432	-	33,266,767	2,458	-	-	33,269,225	-	33,269,225
Other accounts receivable	1,091,996	10,358	5,105	-	1,107,459	35,359	98,671	-	1,241,489	(31,803)	1,209,686
Estimated settlements with third-party payors	1,695,156	-	-	-	1,695,156	-	-	-	1,695,156	-	1,695,156
Inventories	737,772	-	6,825	-	744,597	-	-	-	744,597	-	744,597
Prepaid expenses and other	876,596	7,693	-	-	884,289	-	15,094	-	899,383	-	899,383
Total current assets	40,287,629	392,918	92,728	-	40,773,275	52,178	326,761	527,948	41,680,162	(31,803)	41,648,359
Assets limited as to use:											
By the Board for designated purposes	17,814,556	-	-	(225,022)	17,589,534	512,716	-	-	18,102,250	6,557	18,108,807
By the Board for designated purposes – Littlefield	1,526,100	-	-	-	1,526,100	-	-	-	1,526,100	-	1,526,100
Pledges receivable	56,325	-	-	-	56,325	-	-	-	56,325	-	56,325
By donors for designated purposes	1,297,954	-	-	-	1,297,954	-	-	-	1,297,954	-	1,297,954
By donors for permanent endowment	3,124,215	-	-	-	3,124,215	-	-	-	3,124,215	-	3,124,215
By externally administered trusts	6,345,138	-	-	-	6,345,138	-	-	-	6,345,138	-	6,345,138
	30,164,288	-	-	(225,022)	29,939,266	512,716	-	-	30,451,982	6,557	30,458,539
Less amount required to meet current obligations	(1,908,648)	-	-	-	(1,908,648)	-	-	-	(1,908,648)	-	(1,908,648)
	28,255,640	-	-	(225,022)	28,030,618	512,716	-	-	28,543,334	6,557	28,549,891
Property and equipment, net	33,011,001	525,029	4,083	-	33,540,113	-	18,270	-	33,558,383	-	33,558,383
Deferred financing costs, net	207,326	-	-	-	207,326	-	-	-	207,326	-	207,326
Total assets	\$ 101,761,596	\$ 917,947	\$ 96,811	\$ (225,022)	\$ 102,551,332	\$ 564,894	\$ 345,031	\$ 527,948	\$ 103,989,205	\$ (25,246)	\$ 103,963,959

Southeastern Healthcare System, Inc.

Consolidating Balance Sheet (continued)

September 30, 2011

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 22,237,145	\$ 244,288	\$ 212,350	\$ (225,022)	\$ 22,468,761	\$ 22,442	\$ 89,717	\$ -	\$ 22,580,920	\$ (25,246)	\$ 22,555,674
Deferred revenue	-	-	-	-	-	-	54,804	-	54,804	-	54,804
Accrued interest payable	143,784	-	-	-	143,784	-	-	-	143,784	-	143,784
Current portion of long-term debt and capital lease obligations	1,587,385	-	-	-	1,587,385	-	-	-	1,587,385	-	1,587,385
Line of credit	5,000,000	-	-	-	5,000,000	-	-	-	5,000,000	-	5,000,000
Total current liabilities	28,968,314	244,288	212,350	(225,022)	29,199,930	22,442	144,521	-	29,366,893	(25,246)	29,341,647
Long-term pension liability	48,295,374	-	-	-	48,295,374	-	-	-	48,295,374	-	48,295,374
Long-term debt, net of current portion	11,106,099	-	-	-	11,106,099	-	-	-	11,106,099	-	11,106,099
Estimated self-insurance liabilities and other liabilities	977,468	-	-	-	977,468	-	-	-	977,468	-	977,468
Total liabilities	89,347,255	244,288	212,350	(225,022)	89,578,871	22,442	144,521	-	89,745,834	(25,246)	89,720,588
Net assets:											
Unrestricted	1,647,034	673,659	(115,539)	-	2,205,154	542,452	200,510	527,948	3,476,064	-	3,476,064
Temporarily restricted	1,297,954	-	-	-	1,297,954	-	-	-	1,297,954	-	1,297,954
Permanently restricted	9,469,353	-	-	-	9,469,353	-	-	-	9,469,353	-	9,469,353
Total net assets	12,414,341	673,659	(115,539)	-	12,972,461	542,452	200,510	527,948	14,243,371	-	14,243,371
Total liabilities and net assets	\$ 101,761,596	\$ 917,947	\$ 96,811	\$ (225,022)	\$ 102,551,332	\$ 564,894	\$ 345,031	\$ 527,948	\$ 103,989,205	\$ (25,246)	\$ 103,963,959

Southeastern Healthcare System, Inc.

Consolidating Balance Sheet

September 30, 2010

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 337,609	\$ 370,642	\$ 14,926	\$ -	\$ 723,177	\$ 6,856	\$ 254,673	\$ 517,132	\$ 1,501,838	\$ -	\$ 1,501,838
Current portion of assets whose use is limited	2,936,344	-	-	-	2,936,344	-	-	-	2,936,344	-	2,936,344
Accounts receivable for services to patients, net of allowance for doubtful accounts and charity care of approximately \$9,772,000 in 2010	32,482,006	-	24,876	-	32,506,882	2,458	-	-	32,509,340	-	32,509,340
Other accounts receivable	1,375,803	5,299	6,671	-	1,387,773	31,146	102,101	10,000	1,531,020	(27,407)	1,503,613
Estimated settlements with third-party payors	2,466,273	-	-	-	2,466,273	-	-	-	2,466,273	-	2,466,273
Inventories	802,038	-	6,825	-	808,863	-	-	-	808,863	-	808,863
Prepaid expenses and other	843,458	10,798	1,058	-	855,314	-	6,718	-	862,032	-	862,032
Total current assets	41,243,531	386,739	54,356	-	41,684,626	40,460	363,492	527,132	42,615,710	(27,407)	42,588,303
Assets limited as to use:											
By the Board for designated purposes	29,326,415	-	-	(213,804)	29,112,611	512,716	-	-	29,625,327	16,739	29,642,066
By the Board for designated purposes - Littlefield	1,439,133	-	-	-	1,439,133	-	-	-	1,439,133	-	1,439,133
Pledges receivable	202,392	-	-	-	202,392	-	-	-	202,392	-	202,392
By donors for designated purposes	1,015,273	-	-	-	1,015,273	-	-	-	1,015,273	-	1,015,273
By donors for permanent endowment	3,124,192	-	-	-	3,124,192	-	-	-	3,124,192	-	3,124,192
By externally administered trusts	6,588,975	-	-	-	6,588,975	-	-	-	6,588,975	-	6,588,975
Deferred compensation	-	-	-	-	-	-	-	-	-	-	-
	41,696,380	-	-	(213,804)	41,482,576	512,716	-	-	41,995,292	16,739	42,012,031
Less amount required to meet current obligations	(2,936,344)	-	-	-	(2,936,344)	-	-	-	(2,936,344)	-	(2,936,344)
	38,760,036	-	-	(213,804)	38,546,232	512,716	-	-	39,058,948	16,739	39,075,687
Property and equipment, net	33,908,209	600,775	6,796	-	34,515,780	-	25,290	-	34,541,070	-	34,541,070
Deferred financing costs, net	234,078	-	-	-	234,078	-	-	-	234,078	-	234,078
Total assets	\$ 114,145,854	\$ 987,514	\$ 61,152	\$ (213,804)	\$ 114,980,716	\$ 553,176	\$ 388,782	\$ 527,132	\$ 116,449,806	\$ (10,668)	\$ 116,439,138

Southeastern Healthcare System, Inc.
Consolidating Balance Sheet (continued)

September 30, 2010

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 24,669,860	\$ 298,255	\$ 165,284	\$ (213,804)	\$ 24,919,595	\$ 12,849	\$ 91,769	\$ —	\$ 25,024,213	\$ (10,668)	\$ 25,013,545
Deferred revenue	—	—	—	—	—	—	43,833	—	43,833	—	43,833
Accrued interest payable	159,384	—	—	—	159,384	—	—	—	159,384	—	159,384
Current portion of long-term debt and capital lease obligations	1,582,385	—	—	—	1,582,385	—	—	—	1,582,385	—	1,582,385
Line of credit	5,000,000	—	—	—	5,000,000	—	—	—	5,000,000	—	5,000,000
Total current liabilities	31,411,629	298,255	165,284	(213,804)	31,661,364	12,849	135,602	—	31,809,815	(10,668)	31,799,147
Long-term pension liability	36,591,747	—	—	—	36,591,747	—	—	—	36,591,747	—	36,591,747
Long-term debt, net of current portion	12,693,483	—	—	—	12,693,483	—	—	—	12,693,483	—	12,693,483
Estimated self-insurance liabilities and other liabilities	981,582	—	—	—	981,582	—	—	—	981,582	—	981,582
Other long-term liabilities	82,500	—	—	—	82,500	—	—	—	82,500	—	82,500
Total liabilities	81,760,941	298,255	165,284	(213,804)	82,010,676	12,849	135,602	—	82,159,127	(10,668)	82,148,459
Net assets:											
Unrestricted	21,656,473	689,259	(104,132)	—	22,241,600	540,327	253,180	527,132	23,562,239	—	23,562,239
Temporarily restricted	1,015,273	—	—	—	1,015,273	—	—	—	1,015,273	—	1,015,273
Permanently restricted	9,713,167	—	—	—	9,713,167	—	—	—	9,713,167	—	9,713,167
Total net assets	32,384,913	689,259	(104,132)	—	32,970,040	540,327	253,180	527,132	34,290,679	—	34,290,679
Total liabilities and net assets	\$ 114,145,854	\$ 987,514	\$ 61,152	\$ (213,804)	\$ 114,980,716	\$ 553,176	\$ 388,782	\$ 527,132	\$ 116,449,806	\$ (10,668)	\$ 116,439,138

Southeastern Healthcare System, Inc.
Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2011

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Operating revenues:														
Net patient service revenue	\$ 149,274,990	\$ 7,411,065	\$ 12,184,977	\$ 168,871,032	\$ -	\$ 776,172	\$ -	\$ 169,647,204	\$ -	\$ -	\$ -	\$ 169,647,204	\$ -	\$ 169,647,204
Other revenue	8,930,250	-	-	8,930,250	761,079	26,370	(245,840)	9,471,859	5,002	1,355,420	60,816	10,893,097	(60,000)	10,833,097
Net assets released from restrictions for operations	22,437	-	-	22,437	-	-	-	22,437	-	-	-	22,437	-	22,437
Total operating revenues	158,227,677	7,411,065	12,184,977	177,823,719	761,079	802,542	(245,840)	179,141,500	5,002	1,355,420	60,816	180,562,738	(60,000)	180,502,738
Operating expenses:														
Salaries and wages	71,312,913	5,192,191	7,430,763	83,935,867	-	651,131	146,154	84,733,152	-	377,721	-	85,110,873	36,000	85,146,873
Employee benefits	27,604,158	1,713,423	795,886	30,113,467	-	170,318	-	30,283,785	-	157,159	-	30,440,944	-	30,440,944
Supplies, purchased services and other	39,905,572	425,808	2,794,301	43,125,681	569,476	271,422	(391,994)	43,574,585	2,877	765,307	60,000	44,402,769	(96,000)	44,306,769
Provision for bad debts	15,132,284	-	1,220,485	16,352,769	-	18,365	-	16,371,134	-	-	-	16,371,134	-	16,371,134
Depreciation and amortization	4,162,282	-	-	4,162,282	107,203	2,713	-	4,472,198	-	7,903	-	4,280,101	-	4,280,101
Licensing fee	7,549,028	-	-	7,549,028	-	-	-	7,549,028	-	-	-	7,549,028	-	7,549,028
Interest	1,143,902	-	-	1,143,902	-	-	-	1,143,902	-	-	-	1,143,902	-	1,143,902
Total expenses	166,810,139	7,331,422	12,241,435	186,382,996	676,679	1,113,949	(245,840)	187,927,784	2,877	1,308,090	60,000	189,298,751	(60,000)	189,238,751
(Loss) gain from operations	(8,582,462)	79,643	(56,458)	(8,559,277)	84,400	(311,407)	-	(8,786,284)	2,125	47,330	816	(8,736,013)	-	(8,736,013)
Nonoperating gains (losses):														
Investment income	314,262	-	-	314,262	-	-	-	314,262	-	-	-	314,262	-	314,262
Net realized gains on sales of investments	2,357,007	-	-	2,357,007	-	-	-	2,357,007	-	-	-	2,357,007	-	2,357,007
Unrestricted donations	104,252	-	-	104,252	-	-	-	104,252	-	-	-	104,252	-	104,252
Income on externally administered trusts	303,954	-	-	303,954	-	-	-	303,954	-	-	-	303,954	-	303,954
Total nonoperating gains	3,079,475	-	-	3,079,475	-	-	-	3,079,475	-	-	-	3,079,475	-	3,079,475
(Deficiency) excess of revenue over expenses before change in appreciation of investments	(5,502,987)	79,643	(56,458)	(5,479,802)	84,400	(311,407)	-	(5,706,809)	2,125	47,330	816	(5,656,538)	-	(5,656,538)
Change in fair value of investments	(2,513,288)	-	-	(2,513,288)	-	-	-	(2,513,288)	-	-	-	(2,513,288)	-	(2,513,288)
(Deficiency) excess of revenue over expenses	\$ (8,016,275)	\$ 79,643	\$ (56,458)	\$ (7,993,090)	\$ 84,400	\$ (311,407)	\$ -	\$ (8,220,097)	\$ 2,125	\$ 47,330	\$ 816	\$ (8,169,826)	\$ -	\$ (8,169,826)

Southeastern Healthcare System, Inc.

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2011

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
(Deficiency) excess of revenues over expenses	\$ (7,993,090)	\$ 84,400	\$ (311,407)	\$ -	\$ (8,220,097)	\$ 2,125	\$ 47,330	\$ 816	\$ (8,169,826)	\$ -	\$ (8,169,826)
Change in pension liability	(12,124,629)	-	-	-	(12,124,629)	-	-	-	(12,124,629)	-	(12,124,629)
Cumulative effect of a change in accounting principle											
Intercompany transfer	(100,000)	(100,000)	300,000	-	100,000	-	(100,000)	-	-	-	-
Contribution of long-lived assets											
Net assets released from restrictions	155,906	-	-	-	155,906	-	-	-	155,906	-	155,906
Net assets released from restrictions used for purchase of property, plant and equipment	52,374	-	-	-	52,374	-	-	-	52,374	-	52,374
(Decrease) increase in unrestricted net assets	(20,009,439)	(15,600)	(11,407)	-	(20,036,446)	2,125	(52,670)	816	(20,086,175)	-	(20,086,175)
Change in temporarily restricted net assets:											
Contributions	12,508	-	-	-	12,508	-	-	-	12,508	-	12,508
Investment income	144,467	-	-	-	144,467	-	-	-	144,467	-	144,467
Net appreciation (realized and unrealized)	356,423	-	-	-	356,423	-	-	-	356,423	-	356,423
Net assets released from restrictions	(230,717)	-	-	-	(230,717)	-	-	-	(230,717)	-	(230,717)
Increase in temporarily restricted net assets	282,681	-	-	-	282,681	-	-	-	282,681	-	282,681
Change in permanently restricted net assets:											
Restricted donations	23	-	-	-	23	-	-	-	23	-	23
Net depreciation on assets held in externally administered trusts	(243,837)	-	-	-	(243,837)	-	-	-	(243,837)	-	(243,837)
Increase in permanently restricted net assets	(243,814)	-	-	-	(243,814)	-	-	-	(243,814)	-	(243,814)
(Decrease) increase in net assets	(19,970,572)	(15,600)	(11,407)	-	(19,997,579)	2,125	(52,670)	816	(20,047,308)	-	(20,047,308)
Net assets, beginning of year	32,384,913	689,259	(104,132)	-	32,970,040	540,327	253,180	527,132	34,290,679	-	34,290,679
Net assets, end of year	\$ 12,414,341	\$ 673,659	\$ (115,539)	\$ -	\$ 12,972,461	\$ 542,452	\$ 200,510	\$ 527,948	\$ 14,243,371	\$ -	\$ 14,243,371

Southeastern Healthcare System, Inc.
Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2010

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Operating revenues:														
Net patient service revenue	\$ 153,671,942	\$ 7,157,061	\$ 11,781,163	\$ 172,610,166	\$ —	\$ 708,699	\$ —	\$ 173,318,865	\$ —	\$ —	\$ —	\$ 173,318,865	\$ —	\$ 173,318,865
Other revenue	8,181,027	—	—	8,181,027	792,381	50,840	(261,094)	8,763,154	5,004	1,473,320	60,006	10,301,484	(60,000)	10,241,484
Net assets released from restrictions for operations	108,887	—	—	108,887	—	—	—	108,887	—	—	—	108,887	—	108,887
Total operating revenues	161,961,856	7,157,061	11,781,163	180,900,080	792,381	759,539	(261,094)	182,190,906	5,004	1,473,320	60,006	183,729,236	(60,000)	183,669,236
Operating expenses:														
Salaries and wages	71,194,286	4,955,029	7,095,175	83,244,490	—	614,676	153,730	84,012,896	—	376,137	—	84,389,033	36,000	84,425,033
Employee benefits	26,508,509	1,635,161	784,828	28,928,498	—	174,785	—	29,103,283	—	153,930	—	29,257,213	—	29,257,213
Supplies, purchased services and other	41,256,370	464,134	2,808,782	44,529,286	570,642	305,607	(414,824)	44,990,711	5,771	834,274	60,036	45,890,792	(96,000)	45,794,792
Provision for bad debts	14,281,122	—	1,355,452	15,636,574	—	20,842	—	15,657,416	—	—	—	15,657,416	—	15,657,416
Depreciation and amortization	4,064,590	—	—	4,064,590	107,318	2,807	—	4,174,715	—	9,190	—	4,183,905	—	4,183,905
Licensing fee	7,178,101	—	—	7,178,101	—	—	—	7,178,101	—	—	—	7,178,101	—	7,178,101
Interest	1,287,152	—	—	1,287,152	—	—	—	1,287,152	—	—	—	1,287,152	—	1,287,152
Total expenses	165,770,130	7,054,324	12,044,237	184,868,691	677,960	1,118,717	(261,094)	186,404,274	5,771	1,373,531	60,036	187,843,612	(60,000)	187,783,612
(Loss) gain from operations	(3,808,274)	102,737	(263,074)	(3,968,611)	114,421	(359,178)	—	(4,213,368)	(767)	99,789	(30)	(4,114,376)	—	(4,114,376)
Nonoperating gains (losses):														
Investment income	500,621	—	—	500,621	—	—	150,000	350,621	—	186	500,000	850,807	(500,000)	350,807
Net realized gains on sales of investments	715,584	—	—	715,584	—	—	—	715,584	—	—	—	715,584	—	715,584
Unrestricted donations	233,654	—	—	233,654	—	—	—	233,654	—	—	—	233,654	—	233,654
Income on externally administered trusts	285,654	—	—	285,654	—	—	—	285,654	—	—	—	285,654	—	285,654
Total nonoperating gains	1,735,513	—	—	1,735,513	—	—	(150,000)	1,585,513	—	186	500,000	2,085,699	(500,000)	1,585,699
(Deficiency) excess of revenue over expenses before change in appreciation of investments	(2,072,761)	102,737	(263,074)	(2,233,098)	114,421	(359,178)	(150,000)	(2,627,855)	(767)	99,975	499,970	(2,028,677)	(500,000)	(2,528,677)
Change in fair value of investments														
(Deficiency) excess of revenue over expenses	817,068	—	—	817,068	—	—	—	817,068	—	—	—	817,068	—	817,068
\$ (1,255,693)	\$ 102,737	\$ (263,074)	\$ (1,416,030)	\$ 114,421	\$ (359,178)	\$ (150,000)	\$ (1,810,787)	\$ (767)	\$ 99,975	\$ 499,970	\$ (1,211,609)	\$ (500,000)	\$ (1,711,609)	

Southeastern Healthcare System, Inc.

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2010

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
(Deficiency) excess of revenues over expenses	\$ (1,416,030)	\$ 114,421	\$ (359,178)	\$ (150,000)	\$ (1,810,787)	\$ (767)	\$ 99,975	\$ 499,970	\$ (1,211,609)	\$ (500,000)	\$ (1,711,609)
Change in pension liability	(281,586)	-	-	-	(281,586)	-	-	-	(281,586)	-	(281,586)
Cumulative effect of a change in accounting principle	-	-	-	-	-	-	-	-	-	-	-
Intercompany transfer	(360,000)	(150,000)	360,000	150,000	-	-	(500,000)	-	(500,000)	500,000	-
Contribution of long-lived assets	5,370	-	-	-	5,370	-	-	-	5,370	-	5,370
Net assets released from restrictions	5,707	-	-	-	5,707	-	-	-	5,707	-	5,707
Net assets released from restrictions used for purchase of property, plant and equipment	56,931	-	-	-	56,931	-	-	-	56,931	-	56,931
(Decrease) increase in unrestricted net assets	(1,989,608)	(35,579)	822	-	(2,024,365)	(767)	(400,025)	499,970	(1,925,187)	-	(1,925,187)
Change in temporarily restricted net assets:											
Contributions	217,146	-	-	-	217,146	-	-	-	217,146	-	217,146
Investment income	166,402	-	-	-	166,402	-	-	-	166,402	-	166,402
Net appreciation (realized and unrealized)	111,935	-	-	-	111,935	-	-	-	111,935	-	111,935
Net assets released from restrictions	(171,525)	-	-	-	(171,525)	-	-	-	(171,525)	-	(171,525)
Increase in temporarily restricted net assets	323,958	-	-	-	323,958	-	-	-	323,958	-	323,958
Change in permanently restricted net assets:											
Restricted donations	34	-	-	-	34	-	-	-	34	-	34
Net appreciation on assets held in externally administered trusts	352,119	-	-	-	352,119	-	-	-	352,119	-	352,119
Increase in permanently restricted net assets	352,153	-	-	-	352,153	-	-	-	352,153	-	352,153
(Decrease) increase in net assets	(1,313,497)	(35,579)	822	-	(1,348,254)	(767)	(400,025)	499,970	(1,249,076)	-	(1,249,076)
Net assets, beginning of year	33,698,410	724,838	(104,954)	-	34,318,294	541,094	653,205	27,162	35,539,755	-	35,539,755
Net assets, end of year	\$ 32,384,913	\$ 689,259	\$ (104,132)	\$ -	\$ 32,970,040	\$ 540,327	\$ 253,180	\$ 527,132	\$ 34,290,679	\$ -	\$ 34,290,679

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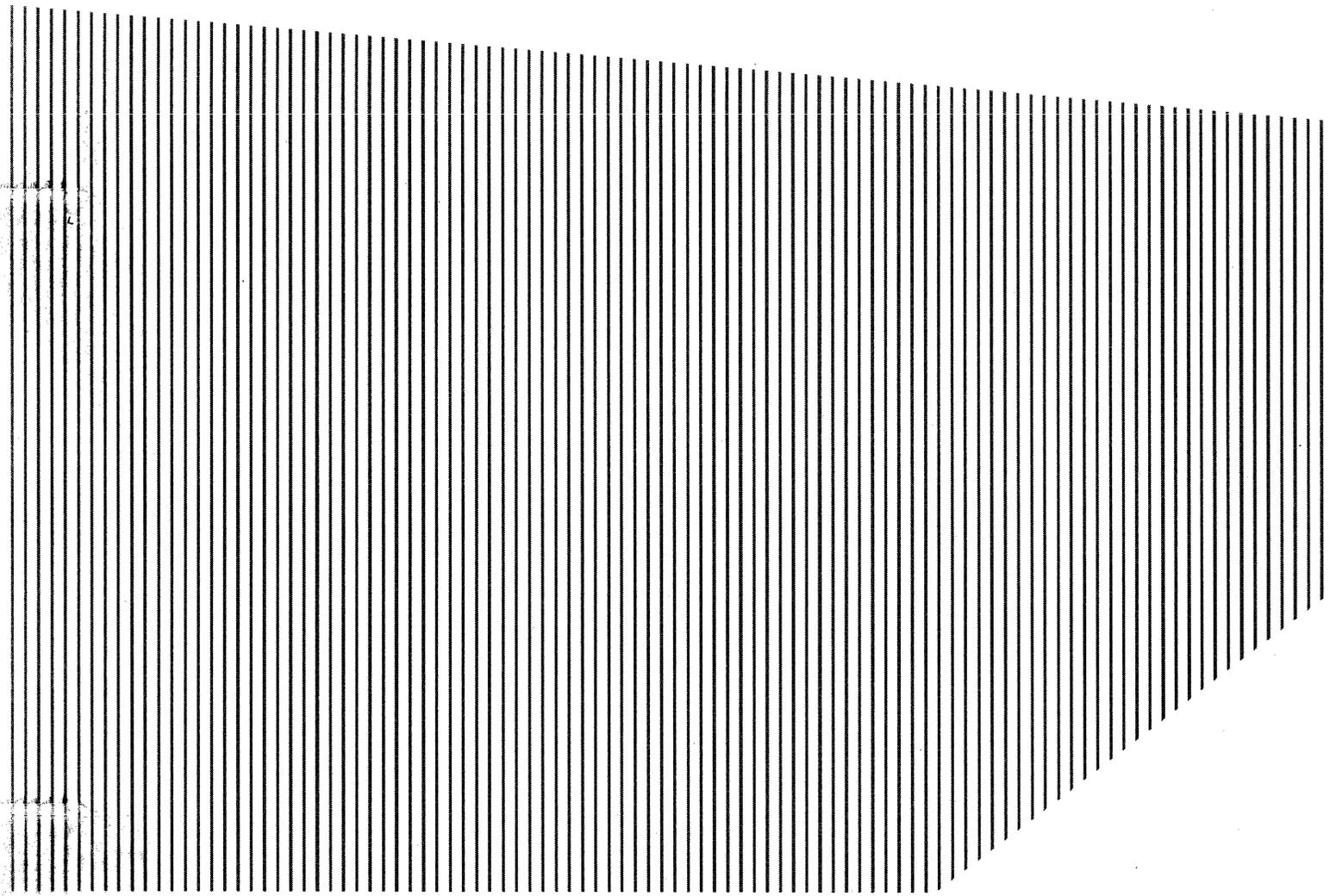
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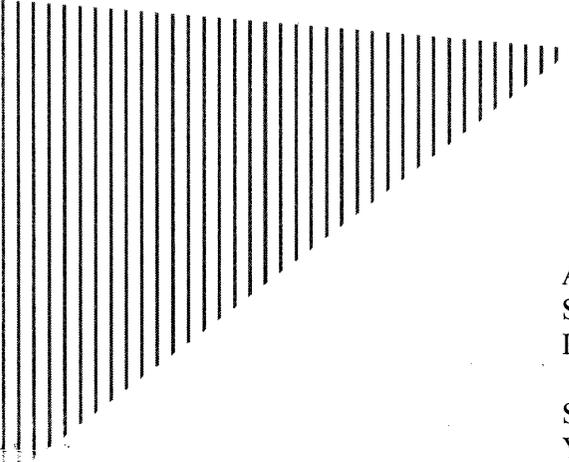
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AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

Southeastern Healthcare System, Inc. and Affiliates
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

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Southeastern Healthcare System, Inc. and Affiliates

Audited Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2010 and 2009

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Report of Independent Auditors

Board of Trustees
Southeastern Healthcare System, Inc.

We have audited the accompanying consolidated balance sheets of Southeastern Healthcare System, Inc. and Affiliates (the System) as of September 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 Organization'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 Organization'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 consolidated financial position of the System as of September 30, 2010 and 2009, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

February 25, 2011

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Balance Sheets

	September 30	
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,501,838	\$ 1,791,975
Current portion of assets whose use is limited	2,936,344	1,789,391
Accounts receivable for services to patients, net of allowance for doubtful accounts and charity care of approximately \$9,772,000 in 2010 and \$8,270,000 in 2009	32,509,340	34,750,619
Other accounts receivable	1,503,613	1,213,767
Estimated settlements with third-party payors	2,466,273	3,062,696
Inventories	808,863	759,265
Prepaid expenses and other	862,032	1,117,861
Total current assets	42,588,303	44,485,574
Assets whose use is limited:		
By the Board for designated purposes	31,081,199	30,817,515
Pledges receivable	202,392	403,319
By donors for designated purposes	1,015,273	691,314
By donors for permanent endowment	3,124,192	3,124,158
By externally administered trusts	6,588,975	6,236,856
Deferred compensation	-	2,399,725
	42,012,031	43,672,887
Less amount required to meet current obligations	(2,936,344)	(1,789,391)
	39,075,687	41,883,496
Property and equipment, net	34,541,070	34,945,135
Deferred financing costs, net	234,078	260,829
Total assets	\$ 116,439,138	\$ 121,575,034

	September 30	
	2010	2009
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 25,057,378	\$ 24,667,002
Accrued interest payable	159,384	174,984
Current portion of long-term debt and capital lease obligations	1,582,385	1,582,385
Line of credit	5,000,000	5,000,000
Total current liabilities	<u>31,799,147</u>	<u>31,424,371</u>
Long-term pension liability	36,591,747	36,780,563
Long-term debt, net of current portion	12,693,483	14,275,868
Estimated self-insurance liabilities and other liabilities	981,582	1,154,752
Deferred compensation liability	82,500	2,399,725
Total liabilities	<u>82,148,459</u>	<u>86,035,279</u>
Commitments and contingencies		
Net assets:		
Unrestricted	23,562,239	25,487,427
Temporarily restricted	1,015,273	691,314
Permanently restricted	9,713,167	9,361,014
Total net assets	<u>34,290,679</u>	<u>35,539,755</u>
Total liabilities and net assets	<u>\$ 116,439,138</u>	<u>\$ 121,575,034</u>

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2010	2009
Operating revenues:		
Net patient service revenue	\$ 173,318,865	\$ 168,605,400
Other revenue	10,241,484	7,818,184
Net assets released from restrictions for operations	108,887	60,434
Total operating revenues	183,669,236	176,484,018
Operating expenses:		
Salaries and wages	84,425,033	84,391,373
Employee benefits	29,257,213	27,434,032
Supplies, purchased services, and other	45,794,792	44,243,266
Provision for bad debts	15,657,416	12,688,221
Depreciation and amortization	4,183,905	4,302,288
Licensing fee	7,178,101	7,303,539
Interest	1,287,152	1,219,502
Total operating expenses	187,783,612	181,582,221
Loss from operations	(4,114,376)	(5,098,203)
Non-operating gains (losses):		
Investment income	350,807	321,158
Net realized gains (losses) on sales of investments	715,584	(3,115,944)
Unrestricted donations	233,654	368,144
Income on assets held in externally administered trusts	285,654	245,442
Total nonoperating gains (losses)	1,585,699	(2,181,200)
Deficiency of revenue over expenses before change in fair value of investments	(2,528,677)	(7,279,403)
Change in fair value of investments	817,068	3,314,461
Deficiency of revenue over expenses	(1,711,609)	(3,964,942)

Continued on next page.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2010	2009
Deficiency of revenue over expenses (continued)	(1,711,609)	(3,964,942)
Change in pension liability	(281,586)	(21,789,804)
Effect of early measurement date (ASC No. 715)	-	(882,733)
Net assets released from restrictions	62,638	57,218
Contribution of long-lived assets	5,370	33,253
Decrease in unrestricted net assets	(1,925,187)	(26,547,008)
Change in temporarily restricted net assets:		
Contributions	217,146	87,147
Investment income (loss)	166,402	(35,707)
Net appreciation (realized and unrealized)	111,935	-
Net assets released from restrictions	(171,525)	(117,652)
Increase (decrease) in temporarily restricted net assets	323,958	(66,212)
Change in permanently restricted net assets:		
Change in unrealized appreciation (depreciation) on assets held in externally administered trusts	352,119	(77,646)
Permanently restricted endowment contributions	34	-
Increase (decrease) in permanently restricted net assets	352,153	(77,646)
Decrease in net assets	(1,249,076)	(26,690,866)
Net assets at beginning of year	35,539,755	62,230,621
Net assets at end of year	\$ 34,290,679	\$ 35,539,755

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2010	2009
Operating activities		
Decrease in net assets	\$ (1,249,076)	\$ (26,690,866)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and non-operating gains:		
Depreciation and amortization	4,183,905	4,302,288
Provision for bad debts	15,657,416	12,688,221
Amortization of bond premium	(22,385)	(22,385)
Change in pension liability	281,586	22,672,537
Unrealized (appreciation) depreciation on assets held in externally administered trusts	(352,119)	(77,646)
Change in:		
Patient accounts receivable	(13,416,137)	(12,274,739)
Other accounts receivable	(289,846)	(328,972)
Estimated settlements with third-party payors	596,423	(416,139)
Inventories	(49,598)	181,338
Prepaid expenses and other	255,829	(361,180)
Investments classified as trading	1,629,393	2,629,336
Accounts payable and accrued expenses	(80,026)	(339,017)
Accrued interest payable	(15,600)	(12,675)
Estimated self-insurance liabilities and other liabilities	(173,170)	220,487
Deferred compensation liability	(2,317,225)	23,171
Net cash provided by operating activities and non-operating gains	4,639,370	2,193,759
Investing activities		
Purchases of property and equipment, net	(3,753,089)	(1,598,905)
Net cash used in investing activities	(3,753,089)	(1,598,905)
Financing activities		
Restricted contributions and investment income	383,582	51,440
Repayments of long-term debt and additional financing costs	(1,560,000)	(1,560,000)
Net cash used in financing activities	(1,176,418)	(1,508,560)
Net decrease in cash and cash equivalents	(290,137)	(913,706)
Cash and cash equivalents at beginning of year	1,791,975	2,705,681
Cash and cash equivalents at end of year	\$ 1,501,838	\$ 1,791,975

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

September 30, 2010

1. Organization and Summary of Significant Accounting Policies

Organization

Southeastern Healthcare System, Inc. (SHSI), formed in 1997, is the sole corporate member or shareholder of Memorial Hospital of Rhode Island (the Hospital), Primary Care Centers of New England, Inc. (PCCNE), and Blackstone Health, Inc. (BHI) (collectively referred to as the System). The Hospital is the sole corporate member of R.S. Realty Company (RSR) and SHS Ventures, Inc. (Ventures).

The Hospital is a 294-bed, acute care, not-for-profit community teaching and research hospital located in Pawtucket, Rhode Island, and is affiliated with Brown University School of Medicine. RSR owns and leases apartments and office space primarily to Hospital employees. PCCNE provides staffing to Ventures and the Hospital. Ventures consists of Massachusetts-based physician practices. BHI receives and administers certain grant funds, and provides services to elderly and disabled residents in the local area.

Principles of Consolidation

The accompanying consolidated financial statements include the assets of SHSI and its controlled affiliates. The assets of any one of the members of the consolidated group may not be available to meet the obligations of other entities in the group. Intercompany balances and transactions between the organizations have been eliminated in consolidation.

Consolidated Statements of Operations and Changes in Net Assets

The consolidated statements of operations and changes in net assets include the deficiency of revenue over expenses. Changes in unrestricted net assets, which are excluded from the deficiency of revenue over expenses, consistent with industry practice, include contributions of long-lived assets, including assets acquired using contributions which, by donor restrictions, were to be used for the purpose of acquiring such assets, change in net assets related to pension, and net assets released from restrictions used to purchase property and equipment.

For presentation purposes, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and operating expenses. Other transactions not considered major or central to the provision of health care services are reported as non-operating gains and losses, which primarily consist of investment income and unrestricted donations.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Net Patient Service Revenue

The System has entered into payment agreements with Medicare, Medicaid, and various commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under those agreements includes prospectively determined rates per discharge, discounts from established charges, costs (subject to limits), fee screens, prospectively determined per diem rates, and capitation fees earned on a per-member-per-month basis. Net patient service revenue is reported at the estimated net realizable amounts due 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 reimbursements are subject to negotiation, audit, and final determination by the third-party payors. 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. During fiscal years 2010 and 2009, the System recorded increases in net patient service revenue of \$225,478 and \$923,712, respectively, related to changes in previously estimated third-party settlements.

Grant Revenue

The Hospital receives grants from agencies of the federal government and other sources to perform medical research and educational projects. Revenue related to these grants is recognized as the related costs are incurred. Grant revenues included in other revenue amounted to \$4,861,889 and \$3,333,161 for the years ended September 30, 2010 and 2009, respectively. Deferred revenues which relate to grant funds received prior to costs being incurred are included in accounts payable and accrued expenses and amounted to \$1,079,789 and \$910,973 at September 30, 2010 and 2009, respectively.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Expenses

Substantially all expenses in the accompanying consolidated statements of operations and changes in net assets are related to the delivery of health care services and the performance of medical research and educational projects.

Disproportionate Share Program

The Hospital is a participant in the State of Rhode Island's Disproportionate Share Program, which was established in 1995 to assist hospitals that provide a disproportionate amount of uncompensated care. Under the program, the Hospital receives federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. Payments to the Hospital under the Disproportionate Share Program of \$8,489,049 and \$8,346,204 for the years ended September 30, 2010 and 2009, respectively, are included in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

Assessments

The State of Rhode Island assesses a licensing fee to all Rhode Island hospitals based upon each hospital's gross patient service revenue as reported on filed cost reports. The Hospital's licensing fee amounted to \$7,178,101 and \$7,303,539 for the years ended September 30, 2010 and 2009, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of amounts restricted by donors for specific purposes. Permanently restricted net assets have been restricted by donors and are to be maintained by the System in perpetuity. Also included in permanently restricted net assets are assets held in externally administered irrevocable trusts which are not under the System's control. The System is the income beneficiary of certain perpetual trusts and has recognized its share of the fair value of the perpetual trusts as a permanently restricted asset. The System's share represents the percentage of interest the System has in the perpetual trust's income distributions. The System's share of the increase or decrease in fair value of the perpetual trusts is reported as an increase or decrease in permanently restricted net assets.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the System 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 gift is received. Gifts are reported as either temporarily or permanently restricted net assets 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 to unrestricted net assets and reported in the consolidated statements of operations and 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 donations.

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 assets whose use is limited or restricted.

Accounts Receivable

Patient accounts receivable result from the health care services provided by the System. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators.

Inventories

Inventories are stated at the lower of cost or market, cost being determined on a weighted-average basis, except for the pharmacy and central processing departments, which utilize the first-in, first-out basis.

Assets Whose Use Is Limited

Resources set aside for board-designated purposes or limited under terms of loan agreements are considered to be assets whose use is limited. Assets whose use is limited that are required for obligations classified as current liabilities are classified as current assets.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Assets whose use is limited by donors for designated purposes consist of amounts contributed for the design and renovation of the Hospital's facility. Assets whose use is limited by donors for permanent endowment funds contain a donor-imposed restriction stipulating that these resources be maintained permanently. However, the restriction permits the Hospital to use or expend all of the income and net gains derived from the donated assets. Accordingly, investment income on the assets is unrestricted. Rhode Island general law allows organizations to permanently restrict investment earnings on permanently restricted funds to maintain the purchasing power of the original dollar value of the funds. The law also allows the governing board to expend such funds as permitted under other laws, the terms of the applicable gift instrument, or the charter of the institution. Each year, the Board of Trustees has designated all income of permanently restricted assets, other than externally administered trusts, for future Hospital use and, therefore, the income has been classified as unrestricted.

The Hospital is the beneficiary of the income from assets held in externally administered trusts, which are not under its control. Income from these trusts is unrestricted, and the annual distributions received by the Hospital are reported as non-operating gains in the consolidated statements of operations and changes in net assets.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is generally determined based on quoted market price. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the deficiency of revenue over expenses.

Property and Equipment

Property and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in income from operations. Depreciation of property and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives ranging from 3 to 50 years. The cost of additions and improvements are capitalized and expenditures for repairs and maintenance, including the cost of replacing minor items not considered substantial enhancements, are expensed as incurred.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted contributions and are excluded from the deficiency 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 contributions. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of debt, which are being amortized over the term of the related debt issue. Amortization expense amounted to \$26,751 and \$26,751 for the years ended September 30, 2010 and 2009, respectively.

Fair Value of Financial Instruments

The fair value of the System's financial instruments approximates the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, receivables, and payables. See Note 14 for the fair value of investments and assets whose use is limited and Note 8 for the fair value of long-term debt.

Deficiency of Revenue over Expenses

In the accompanying consolidated statements of operations and changes in net assets, deficiency of revenue over expenses is the performance indicator. Peripheral or incidental transactions are included in deficiency of revenue over expenses. Those gains and losses deemed by management to be closely related to ongoing operations are included in other revenue; other gains and losses are classified as non-operating.

Consistent with industry practice, contributions of, or restricted to, property and equipment, transfers of assets to and from affiliates for other than goods and services, net assets released from restrictions used for purchase of property and equipment, and changes in pension liabilities are excluded from the performance indicator but are included in the change in net assets.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Tax Status

SHSI, the Hospital, Ventures and BHI have been recognized as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the Code). RSR has been recognized as a tax-exempt organization under Section 501(c)(2) of the Code. Those organizations are, therefore, exempt from federal taxes on related income pursuant to Section 501(a) of the Code. PCCNE is organized as a for-profit corporation and is, therefore, subject to tax. The provision for income taxes on the earnings of PCCNE is immaterial to the consolidated financial statements.

As of September 30, 2010, PCCNE has net operating loss carryforwards of approximately \$1,380,000 for income tax purposes. These carryforwards resulted from PCCNE incurring operating losses in prior years. A deferred tax asset for these losses of approximately \$552,000 is offset by a corresponding valuation allowance of the same amount.

Adoption of New Accounting Standards

In August 2010 (ASU), the Financial Accounting Standards Board (FASB) issued Accounting Standard Update 2010-24, *Topic 954 – Presentation of Insurance Claims and Related Insurance Recoveries* (“ASU 2010-24”). The amendments in this update clarify that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The amendments in this update permit retrospective application and are effective for fiscal years beginning after December 15, 2010. The System has not yet determined the effect that the adoption of ASU 2010-24 will have on its consolidated financial statements.

In December 2008, the FASB issued additional authoritative guidance regarding an employer’s disclosures about postretirement benefit plan assets, currently included in Accounting Standards Codification (ASC) 715, *Compensation — Retirement Benefits*. This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. The adoption of this guidance did not have a significant impact on the System’s consolidated financial statements for the year ended September 30, 2010.

In January 2010, the FASB issued Accounting Standards Update ASU 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amended ASC 820 to clarify certain

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each "class" of assets and liabilities measured at fair value, and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2, and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances, and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 becomes effective for reporting periods beginning after December 15, 2009. Management is currently evaluating the effect that the provisions of ASU 2010-06 will have on the consolidated financial statements.

2. Accounts Receivable for Patients and Net Patient Service Revenue

During fiscal years 2010 and 2009, the Hospital's net revenues from services to patients were 34% and 32% from Medicare and 17% and 17% from Medicaid, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital 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. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

Net revenues from services to patients 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. 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, reviews, and investigations. Third-party payor receivables included in accounts receivable for services to patients were \$2.5 million and \$3.1 million at September 30, 2010 and 2009, respectively.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Accounts Receivable for Patients and Net Patient Service Revenue (continued)

Patient accounts receivable and revenues are recorded when patient services are performed. The Hospital has agreements with certain third-party payors, including health maintenance organizations, that provide for payments to the Hospital at amounts different from the Hospital's established billing rates. These differences are accounted for as allowances. Under those agreements, the Hospital receives reimbursement based on a number of different arrangements.

The Hospital 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. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

3. Uncompensated Care and Community Benefit

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The following table displays the level of charity care provided during the years ended September 30:

	<u>2010</u>	<u>2009</u>
Charges forgone, based on established rates	<u>\$ 6,076,412</u>	<u>\$ 4,851,732</u>
Estimated costs and expenses incurred to provide charity care	<u>\$ 2,823,790</u>	<u>\$ 2,374,879</u>

In addition to the above-mentioned medical care rendered, the Hospital provides numerous other services to the community for which charges are not generated. These services include translation of medical information into various languages, physician referral services, health care screenings (including those done at employer sites), community support groups, health educational programs, physician services, and general community benefit services such as disaster relief. In addition, volunteer services are provided by Hospital staff to the community on their own time.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

3. Uncompensated Care and Community Benefit (continued)

The Hospital also provides services to other indigent patients under the Medicaid program, which reimburses health care providers at amounts which are, in total, estimated to be less than the cost of services provided. The differences between the cost of services provided to indigent patients and the expected reimbursement is also considered to be charitable services by the Hospital but they have not been included in the amounts disclosed above.

In addition to the cost of charity care and other community service programs, the Hospital provided \$15,657,416 and \$12,688,221 for uncollectible patient accounts during the years ended September 30, 2010 and 2009, respectively.

4. Assets Whose Use is Limited

Assets whose use is limited consists of the following at fair value at September 30:

	2010	2009
Interest and other receivables	\$ 1,211,400	\$ 1,282,145
Pledges receivable	202,392	403,319
Deferred compensation trust	-	2,399,725
Assets held in externally administered trusts	6,588,975	6,236,856
Cash and money market investments	6,748,812	6,810,242
Marketable securities	27,260,452	26,540,600
	\$ 42,012,031	\$ 43,672,887

Marketable securities consist of the following at fair value at September 30:

	2010	2009
Equity securities	\$ 16,815,587	\$ 16,172,893
Corporate bonds	5,029,690	4,134,555
Mutual funds	3,769,823	3,707,015
U.S. government obligations	1,645,352	2,526,137
	\$ 27,260,452	\$ 26,540,600

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

4. Assets Whose Use is Limited (continued)

The System's unrestricted investment income for the years ended September 30 consisted of the following:

	2010	2009
Interest income	\$ 350,807	\$ 321,158
Net realized gains (losses) on sales of investments	715,584	(3,115,944)
Income on assets held in externally administered trusts	285,654	245,442
	1,352,045	(2,549,344)
Change in fair value of investments	817,068	3,314,461
	\$ 2,169,113	\$ 765,117

5. Endowment

The System follows the requirements of the Rhode Island enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as they relate to its permanently restricted endowments. The System's endowments consist of numerous individual funds established for a variety of purposes. Its endowments consist solely of donor-restricted endowment funds held by the System. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported on the existence or absence of donor-imposed restrictions.

The System classifies restricted donor funds in accordance with the State of Rhode Island and generally accepted accounting principles. The System 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) the accumulation of 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 fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by the state laws of Rhode Island and UPMIFA. The System 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 purposes of the System 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; (6) other resources of the System; and (7) the investment and spending policies of the System.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

For the year ended September 30, 2010, the System had the following changes in the endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 3,124,158	\$ 3,124,158
Investment returns:			
Investment income	657,837	-	657,837
Net appreciation (realized and unrealized)	111,935	-	111,935
Total investment return	769,772	-	769,772
Appropriation of endowment assets for expenditure	(657,837)	-	(657,837)
Permanently restricted endowment contributions		34	34
Endowment net assets, end of year	<u>\$ 111,935</u>	<u>\$ 3,124,192</u>	<u>\$ 3,236,127</u>

It is the policy of the System that any appropriations from the appreciation in endowment funds be periodically requested of and approved by the Board of Trustees.

From time to time, the fair value of the assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. There are no deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2010.

6. Line of Credit

The Hospital has an unsecured revolving line of credit with a bank which provides for borrowings of up to \$5,000,000 for both fiscal 2010 and 2009. Interest accrues at an effective rate of LIBOR plus 3.5% (4.75% at September 30, 2010).

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

7. Property and Equipment

Property and equipment consisted of the following at September 30:

	<u>2010</u>	<u>2009</u>
Property and equipment:		
Land	\$ 1,912,714	\$ 1,912,714
Land improvements	1,561,672	1,539,572
Buildings and improvements	48,598,011	48,444,254
Equipment	60,915,758	57,003,672
	<u>112,988,155</u>	<u>108,900,212</u>
Less accumulated depreciation	(78,447,085)	(74,358,061)
	<u>34,541,070</u>	<u>34,542,151</u>
Construction in progress	-	402,984
	<u>\$ 34,541,070</u>	<u>\$ 34,945,135</u>

8. Long-Term Debt

Long-term debt consists of the following at September 30:

	<u>2010</u>	<u>2009</u>
Rhode Island Health and Educational Building Corporation Hospital Financing Revenue Refunding Bonds	\$ 14,080,000	\$ 15,640,000
Add premium	195,868	218,253
Less current portion	(1,582,385)	(1,582,385)
Long-term debt	<u>\$ 12,693,483</u>	<u>\$ 14,275,868</u>

In December 2003, the Rhode Island Health and Educational Building Corporation (RIHEBC) issued \$25,000,000 of Series 2003 Hospital Financing Revenue Refunding Bonds (the Bonds) on behalf of the Hospital. RIHEBC loaned the proceeds of the Bonds to the Hospital pursuant to the Loan and Trust Agreement (the Agreement) dated December 1, 2003. The terms of the Agreement stipulate that interest will be paid at fixed rates ranging from 2.00% to 5.25% per annum (weighted-average rate at September 30, 2010 and 2009 was 4.53% and 4.48%, respectively), with principal installments commencing July 1, 2004 and ending July 1, 2019.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

The Bonds are issued under and collateralized by the Agreement. The terms of the Agreement require that the Hospital make quarterly payments to the trustee which are sufficient to provide for payment of principal and interest due on the Bonds. The Bonds are collateralized by a lien on the Hospital's gross receipts. Additional debt collateralized on a parity with the Bonds may only be incurred by the Hospital in accordance with restrictions of the Agreement.

As security for the payment of the principal amount of the Bonds, a bank letter of credit was issued under the terms of a Reimbursement Agreement between the Hospital and the bank dated December 31, 2003 (Reimbursement Agreement). Section 7 of the Reimbursement Agreement contains various covenants with which the Hospital must comply. As of September 30, 2010 and 2009, the Hospital was in compliance with all its covenants.

The aggregate maturities of long-term debt (prior to amortization of premium) for the next five fiscal years ending September 30 and thereafter are approximately as follows:

2011	\$ 1,560,000
2012	1,565,000
2013	1,565,000
2014	1,565,000
2015	1,565,000
Thereafter	6,260,000

Cash paid for interest on all borrowings during the years ended September 30, 2010 and 2009 was approximately \$1,325,000 and \$1,255,000, respectively.

9. Pension Plan

The Hospital has a defined benefit pension plan (the Plan) covering substantially all of its employees. The plan benefits are based on years of service and employees' compensation during the last five years of covered employment. The Hospital makes annual contributions to the Plan, which approximates the amount of net periodic pension cost. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

On September 29, 2006, the FASB issued 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 123(R)* (hereafter referred to as ASC 715). In 2009, the System adopted the measurement date provisions of ASC 715. ASC 715 required the System to measure defined benefit plan assets and obligations as of September 30, the date of its fiscal year-end consolidated balance sheet. Prior to the implementation of this change, the measurement date for the System's pension and postretirement benefit plans was June 30. The adjustment to unrestricted net assets at adoption represents a decrease to net assets of \$882,733 and an increase to accrued pension obligation.

The following table sets forth the status of the Plan as of September 30:

	2010	2009
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 107,433,658	\$ 90,314,749
Service cost	3,657,470	4,329,294
Interest cost	6,134,459	7,512,867
Benefits paid	(3,116,215)	(2,712,676)
Actuarial gain	3,115,993	7,989,424
Projected benefit obligation at end of year	117,225,365	107,433,658
Change in plan assets		
Fair value of plan assets at beginning of year	70,534,801	72,078,175
Actual return on plan assets	6,938,041	(3,744,785)
Contributions and transfers	6,276,991	4,914,087
Benefits paid	(3,116,215)	(2,712,676)
Fair value of plan assets at end of year	80,633,618	70,534,801
Unfunded status	\$ (36,591,747)	\$ (36,898,857)

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic benefit cost:

	2010	2009
Unrecognized actuarial loss	\$ 35,457,212	\$ 34,975,731
Unrecognized prior service credit	(51,978)	(60,313)
	\$ 35,405,234	\$ 34,915,418

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

The actuarial loss and prior service credit included in unrestricted net assets at September 30, 2010, and expected to be recognized in net periodic benefit cost during the year ending September 30, 2011, are as follows:

Unrecognized actuarial loss	\$ 2,380,609
Unrecognized prior service credit	<u>(8,335)</u>
	<u>\$ 2,372,274</u>

Components of net periodic pension cost are as follows for the years ended September 30:

	2010	2009
Service cost – benefits earned during the year	\$ 3,657,470	\$ 4,329,294
Interest cost on projected benefit obligation	6,134,459	7,512,867
Actual return on plan assets	(6,461,353)	(8,217,105)
Net amortization and deferral	2,149,489	823,294
Net periodic pension cost	<u>\$ 5,480,065</u>	<u>\$ 4,448,350</u>

In 2009, the adoption of ASC 715 resulted in an additional three months of net periodic pension costs. The additional expense of \$882,733 as a result of the adoption was recognized as a reduction of unrestricted net assets. The remaining \$3,565,617 of expense is included within employee benefits expense.

Assumptions

Weighted-average assumptions used to determine benefit obligations and net periodic pension cost at September 30, 2010 and 2009 and for the years then ended are as follows:

	Benefit Obligations		Net Periodic Pension Cost	
	2010	2009	2010	2009
Discount rate	5.63%	5.80%	5.80%	6.75%
Expected rate of return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	2.00%	2.00%	2.00%	2.00%

The expected rate of return on plan assets was determined by the expected return on each asset class based on a model that considers historical and expected future performance.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

The accumulated benefit obligation was \$106,313,277 and \$96,899,855 at September 30, 2010 and 2009, respectively.

Plan Assets

The Plan weighted-average asset allocations as of September 30, by asset category, are as follows:

	Target Allocation	2010	2009
Equity securities	38%	34%	34%
Annuities	42	47	47
Debt securities	20	12	12
Alternative investments	—	2	—
Cash equivalents	—	5	7
Total	100%	100%	100%

The goals of the Plan are to provide a secure retirement benefit for plan participants and to manage plan assets for the exclusive benefit of the participants. The invested assets will be managed on a long-term total return basis and measured against established benchmarks for each asset class. Risk management is achieved by limiting the size of asset class and individual security positions to achieve adequate diversification. The Plan will maintain a funded level sufficient to ensure benefit security.

Financial assets carried at fair value as of September 30, 2010 are classified in the following table in the following categories (see Note 14 for a description):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 4,373,639	\$ —	\$ —	\$ 4,373,639
Common stock	27,434,321	—	—	27,434,321
Fixed income	10,002,992	—	—	10,002,992
Alternative investments	—	—	1,374,645	1,374,645
Investments at fair value	\$ 41,810,952	\$ —	\$ 1,374,645	43,185,597
Investments not at fair value - annuities				37,448,021
Total investments				\$ 80,633,618

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

The following is a rollforward of the plan assets classified as Level 3 of the valuation hierarchy as described in Note 14:

	<u>Level 3</u>
Fair value at September 30, 2009	\$ -
2010 Unrealized gains, net	(12,162)
2010 Purchases, sales, transfers, issuances and settlements, net	<u>1,386,807</u>
Fair value at September 30, 2010	<u>\$ 1,374,645</u>

Cash Flows

Contributions

The Hospital funds the Plan in accordance with guidelines prescribed by the Employee Retirement Income Security Act of 1974 (ERISA). The Hospital expects to contribute \$5,496,807 to the Plan in fiscal 2011.

Estimated Future Benefit Payments

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

2011	\$ 3,911,000
2012	4,432,000
2013	4,792,000
2014	5,109,000
2015	5,352,000
2016 – 2020	33,922,000

10. Estimated Self-Insurance Liabilities

Professional Liability Insurance

Effective July 1, 2004, professional liability insurance coverage was provided on an occurrence basis. Such coverage was provided on a claims-made basis through June 30, 2004. The claims-made policies cover only claims made during the terms of the policies and not those occurrences for which claims may be made after expiration of the policies. The System is self-insured with respect to incurred but not reported (IBNR) claims incurred prior to July 1, 2004. Accordingly, the System has established a liability of \$582,000 for such IBNR exposure.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

10. Estimated Self-Insurance Liabilities (continued)

Workers' Compensation Insurance

The System is self-insured with respect to workers' compensation risks up to a maximum of \$350,000 per claim. The provision for estimated self-insured workers' IBNR compensation claims includes estimates of the ultimate costs for both reported claims and claims. The estimates incorporate the System's past experience, as well as other considerations.

11. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The percentage of accounts receivable from patients and various third-party payors was as follows at September 30:

	2010	2009
Medicare	34%	32%
Blue Cross	26	30
Medicaid	17	17
Other third-party payors	17	15
Patients	6	6
	100%	100%

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at September 30:

	2010	2009
General activities	\$ 805,860	\$ 559,977
Research	97,478	131,337
Net appreciation (realized and unrealized)	111,935	-
	\$1,015,273	\$ 691,314

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

12. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets consist of the following at September 30:

	2010	2009
Principal portion of contributions restricted in perpetuity by donors	\$ 3,124,192	\$ 3,124,158
Assets held in externally administered trusts	6,588,975	6,236,856
	\$ 9,713,167	\$ 9,361,014

13. Commitments and Contingencies

The System is a defendant in several lawsuits, which are in various stages of progress or discovery. Management believes that its insurance coverage is adequate to cover claims made under all such lawsuits and, accordingly, no provision for loss has been reflected in the accompanying consolidated financial statements.

14. Fair Value Measurement

The System has adopted the methods of calculating fair value as defined in ASC 820 to value its financial assets and liabilities, where applicable. ASC 820 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.

ASC 820 establishes a three-tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.

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

Level 3: Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

In determining fair value, the System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The System also considers nonperformance risk in the overall assessment of fair value.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurement (continued)

Financial assets, excluding assets held in the Plan, carried at fair value as of September 30, 2010 are classified in the following table in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 8,250,649	\$ —	\$ —	\$ 8,250,649
Mutual funds	3,769,823	—	—	3,769,823
Equity securities	16,815,587	—	—	16,815,587
U.S. government obligations	1,645,352	—	—	1,645,352
Corporate bonds	5,029,690	—	—	5,029,690
Common collective trusts	—	6,588,975	—	6,588,975
Investments at fair value	<u>\$ 35,511,101</u>	<u>\$ 6,588,975</u>	<u>\$ —</u>	<u>42,100,076</u>
Interest and other receivables				1,211,401
Pledge receivable				<u>202,392</u>
Total cash and cash equivalents and investments				<u>\$ 43,513,869</u>

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

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 8,602,217	\$ —	\$ —	\$ 8,602,217
Mutual funds	3,707,015	—	—	3,707,015
Equity securities	16,172,893	—	—	16,172,893
U.S. government obligations	2,526,137	—	—	2,526,137
Corporate bonds	4,134,555	—	—	4,134,555
Common collective trusts	—	8,636,581	—	8,636,581
Investments at fair value	<u>\$ 35,142,817</u>	<u>\$ 8,636,581</u>	<u>\$ —</u>	<u>43,779,398</u>
Interest and other receivables				1,282,145
Pledge receivable				<u>403,319</u>
Total cash and cash equivalents and investments				<u>\$ 45,464,862</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

15. Subsequent Events

In accordance with ASC 855-10, *Subsequent Events*, management has evaluated subsequent events through February 25, 2011, which is the date the consolidated financial statements were available to be issued. No events have occurred that require disclosure or adjustment of the consolidated financial statements.

Other Financial Information



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Report of Independent Auditors on Other Financial Information

Board of Trustees
Southeastern Healthcare System, Inc.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

February 25, 2011

Southeastern Healthcare System, Inc.

Consolidating Balance Sheet

September 30, 2010

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 337,609	\$ 370,642	\$ 14,926	\$ -	\$ 723,177	\$ 6,856	\$ 254,673	\$ 517,132	\$ 1,501,838	\$ -	\$ 1,501,838
Current portion of assets whose use is limited	2,936,344	-	-	-	2,936,344	-	-	-	2,936,344	-	2,936,344
Accounts receivable for services to patients, net of allowance for doubtful accounts and charity care of approximately \$9,772,000 in 2010	32,482,006	-	24,876	-	32,506,882	2,458	-	-	32,509,340	-	32,509,340
Other accounts receivable	1,375,803	5,299	6,671	-	1,387,773	31,146	102,101	10,000	1,531,020	(27,407)	1,503,613
Estimated settlements with third-party payors	2,466,273	-	-	-	2,466,273	-	-	-	2,466,273	-	2,466,273
Inventories	802,038	-	6,825	-	808,863	-	-	-	808,863	-	808,863
Prepaid expenses and other	843,458	10,798	1,058	-	855,314	-	6,718	-	862,032	-	862,032
Total current assets	41,243,531	386,739	54,356	-	41,684,626	40,460	363,492	527,132	42,615,710	(27,407)	42,588,303
Assets limited as to use:											
By the Board for designated purposes	29,326,415	-	-	(213,804)	29,112,611	512,716	-	-	29,625,327	16,739	29,642,066
By the Board for designated purposes - Littlefield	1,439,133	-	-	-	1,439,133	-	-	-	1,439,133	-	1,439,133
Pledges receivable	202,392	-	-	-	202,392	-	-	-	202,392	-	202,392
By donors for designated purposes	1,015,273	-	-	-	1,015,273	-	-	-	1,015,273	-	1,015,273
By donors for permanent endowment	3,124,192	-	-	-	3,124,192	-	-	-	3,124,192	-	3,124,192
By externally administered trusts	6,588,975	-	-	-	6,588,975	-	-	-	6,588,975	-	6,588,975
Deferred compensation	-	-	-	-	-	-	-	-	-	-	-
	41,696,380	-	-	(213,804)	41,482,576	512,716	-	-	41,995,292	16,739	42,012,031
Less amount required to meet current obligations											
	(2,936,344)	-	-	-	(2,936,344)	-	-	-	(2,936,344)	-	(2,936,344)
	38,760,036	-	-	(213,804)	38,546,232	512,716	-	-	39,058,948	16,739	39,075,687
Property and equipment, net	33,908,209	600,775	6,796	-	34,515,780	-	25,290	-	34,541,070	-	34,541,070
Deferred financing costs, net	234,078	-	-	-	234,078	-	-	-	234,078	-	234,078
Total assets	\$ 114,145,854	\$ 987,514	\$ 61,152	\$ (213,804)	\$ 114,980,716	\$ 553,176	\$ 388,782	\$ 527,132	\$ 116,449,806	\$ (10,668)	\$ 116,439,138

Southeastern Healthcare System, Inc.

Consolidating Balance Sheet (continued)

September 30, 2010

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 24,669,860	\$ 298,255	\$ 165,284	\$ (213,804)	\$ 24,919,595	\$ 12,849	\$ 91,769	\$ -	\$ 25,024,213	\$ (10,668)	\$ 25,013,545
Deferred revenue	-	-	-	-	-	-	43,833	-	43,833	-	43,833
Accrued interest payable	159,384	-	-	-	159,384	-	-	-	159,384	-	159,384
Current portion of long-term debt and capital lease obligations	1,582,385	-	-	-	1,582,385	-	-	-	1,582,385	-	1,582,385
Line of credit	5,000,000	-	-	-	5,000,000	-	-	-	5,000,000	-	5,000,000
Total current liabilities	31,411,629	298,255	165,284	(213,804)	31,661,364	12,849	135,602	-	31,809,815	(10,668)	31,799,147
Long-term pension liability	36,591,747	-	-	-	36,591,747	-	-	-	36,591,747	-	36,591,747
Long-term debt, net of current portion	12,693,483	-	-	-	12,693,483	-	-	-	12,693,483	-	12,693,483
Estimated self-insurance liabilities and other liabilities	981,582	-	-	-	981,582	-	-	-	981,582	-	981,582
Other long-term liabilities	82,500	-	-	-	82,500	-	-	-	82,500	-	82,500
Total liabilities	81,760,941	298,255	165,284	(213,804)	82,010,676	12,849	135,602	-	82,159,127	(10,668)	82,148,459
Net assets:											
Unrestricted	21,656,473	689,259	(104,132)	-	22,241,600	540,327	253,180	527,132	23,562,239	-	23,562,239
Temporarily restricted	1,015,273	-	-	-	1,015,273	-	-	-	1,015,273	-	1,015,273
Permanently restricted	9,713,167	-	-	-	9,713,167	-	-	-	9,713,167	-	9,713,167
Total net assets	32,384,913	689,259	(104,132)	-	32,970,040	540,327	253,180	527,132	34,290,679	-	34,290,679
Total liabilities and net assets	\$ 114,145,854	\$ 987,514	\$ 61,152	\$ (213,804)	\$ 114,980,716	\$ 553,176	\$ 388,782	\$ 527,132	\$ 116,449,806	\$ (10,668)	\$ 116,439,138

Southeastern Healthcare System, Inc.

Consolidating Balance Sheet

September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 588,412	\$ 491,194	\$ 8,533	\$ -	\$ 1,088,139	\$ 21,323	\$ 655,351	\$ 27,162	\$ 1,791,975	\$ -	\$ 1,791,975
Current portion of assets whose use is limited	1,789,391	-	-	-	1,789,391	-	-	-	1,789,391	-	1,789,391
Accounts receivable for services to patients, net of allowance for doubtful accounts and charity care of approximately \$8,270,000 in 2009	34,705,649	-	42,512	-	34,748,161	2,458	-	-	34,750,619	-	34,750,619
Other accounts receivable	972,639	6,820	27,516	-	1,006,975	51,849	209,367	-	1,268,191	(54,424)	1,213,767
Estimated settlements with third-party payors	3,062,696	-	-	-	3,062,696	-	-	-	3,062,696	-	3,062,696
Inventories	752,440	-	6,825	-	759,265	-	-	-	759,265	-	759,265
Prepaid expenses and other	1,081,771	13,343	11,174	-	1,106,288	-	11,573	-	1,117,861	-	1,117,861
Total current assets	42,952,998	511,357	96,560	-	43,560,915	75,630	876,291	27,162	44,539,998	(54,424)	44,485,574
Assets limited as to use:											
By the Board for designated purposes	29,271,022	-	-	(200,000)	29,071,022	512,716	-	-	29,583,738	-	29,583,738
By the Board for designated purposes - Littlefield	1,233,777	-	-	-	1,233,777	-	-	-	1,233,777	-	1,233,777
Pledges receivable	403,319	-	-	-	403,319	-	-	-	403,319	-	403,319
By donors for designated purposes	691,314	-	-	-	691,314	-	-	-	691,314	-	691,314
By donors for permanent endowment	3,124,158	-	-	-	3,124,158	-	-	-	3,124,158	-	3,124,158
By externally administered trusts	6,236,856	-	-	-	6,236,856	-	-	-	6,236,856	-	6,236,856
Deferred compensation	2,399,725	-	-	-	2,399,725	-	-	-	2,399,725	-	2,399,725
	43,360,717	-	-	(200,000)	43,160,717	512,716	-	-	43,672,887	-	43,672,887
Less amount required to meet current obligations	(1,789,391)	-	-	-	(1,789,391)	-	-	-	(1,789,391)	-	(1,789,391)
	41,570,780	-	-	(200,000)	41,370,780	512,716	-	-	41,883,496	-	41,883,496
Property and equipment, net	34,324,599	586,063	9,603	-	34,920,265	-	24,870	-	34,945,135	-	34,945,135
Deferred financing costs, net	260,829	-	-	-	260,829	-	-	-	260,829	-	260,829
Total assets	\$ 119,109,206	\$ 1,097,420	\$ 106,163	\$ (200,000)	\$ 120,112,789	\$ 588,346	\$ 901,161	\$ 27,162	\$ 121,629,458	\$ (54,424)	\$ 121,575,034

Southeastern Healthcare System, Inc.

Consolidating Balance Sheet (continued)

September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 24,042,519	\$ 372,582	\$ 211,117	\$ (200,000)	\$ 24,426,218	\$ 47,252	\$ 132,917	\$ -	\$ 24,606,387	\$ (54,424)	\$ 24,551,963
Deferred revenue	-	-	-	-	-	-	115,039	-	115,039	-	115,039
Accrued interest payable	174,984	-	-	-	174,984	-	-	-	174,984	-	174,984
Current portion of long-term debt and capital lease obligations	1,582,385	-	-	-	1,582,385	-	-	-	1,582,385	-	1,582,385
Line of credit	5,000,000	-	-	-	5,000,000	-	-	-	5,000,000	-	5,000,000
Total current liabilities	30,799,888	372,582	211,117	(200,000)	31,183,587	47,252	247,956	-	31,478,795	(54,424)	31,424,371
Long-term pension liability	36,780,563	-	-	-	36,780,563	-	-	-	36,780,563	-	36,780,563
Long-term debt, net of current portion	14,275,868	-	-	-	14,275,868	-	-	-	14,275,868	-	14,275,868
Estimated self-insurance liabilities and other liabilities	1,154,752	-	-	-	1,154,752	-	-	-	1,154,752	-	1,154,752
Deferred compensation liability	2,399,725	-	-	-	2,399,725	-	-	-	2,399,725	-	2,399,725
Total liabilities	85,410,796	372,582	211,117	(200,000)	85,794,495	47,252	247,956	-	86,089,703	(54,424)	86,035,279
Net assets:											
Unrestricted	23,646,082	724,838	(104,954)	-	24,265,966	541,094	653,205	27,162	25,487,427	-	25,487,427
Temporarily restricted	691,314	-	-	-	691,314	-	-	-	691,314	-	691,314
Permanently restricted	9,361,014	-	-	-	9,361,014	-	-	-	9,361,014	-	9,361,014
Total net assets	33,698,410	724,838	(104,954)	-	34,318,294	541,094	653,205	27,162	35,539,755	-	35,539,755
Total liabilities and net assets	\$ 119,109,206	\$ 1,097,420	\$ 106,163	\$ (200,000)	\$ 120,112,789	\$ 588,346	\$ 901,161	\$ 27,162	\$ 121,629,458	\$ (54,424)	\$ 121,575,034

Southeastern Healthcare System, Inc.
Consolidating Statement of Operations and Changes in Net Assets
Year Ended September 30, 2010

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Operating revenues:														
Net patient service revenue	\$ 153,671,942	\$ 7,157,061	\$ 11,781,163	\$ 172,610,166	\$ -	\$ 708,699	\$ -	\$ 173,318,865	\$ -	\$ -	\$ -	\$ 173,318,865	\$ -	\$ 173,318,865
Other revenue	8,181,027	-	-	8,181,027	792,381	50,840	(261,094)	8,763,154	5,004	1,473,320	60,006	10,301,484	(60,000)	10,241,484
Net assets released from restrictions for operations	108,887	-	-	108,887	-	-	-	108,887	-	-	-	108,887	-	108,887
Total operating revenues	161,961,856	7,157,061	11,781,163	180,900,080	792,381	759,539	(261,094)	182,190,906	5,004	1,473,320	60,006	183,729,236	(60,000)	183,669,236
Operating expenses:														
Salaries and wages	71,194,286	4,955,029	7,095,175	83,244,490	-	614,676	153,730	84,012,896	-	376,137	-	84,389,033	36,000	84,425,033
Employee benefits	26,508,509	1,635,161	784,828	28,928,498	-	174,785	-	29,103,283	-	153,930	-	29,257,213	-	29,257,213
Supplies, purchased services and other	41,256,370	464,134	2,808,782	44,529,286	570,642	305,607	(414,824)	44,990,711	5,771	834,274	60,036	45,890,792	(96,000)	45,794,792
Provision for bad debts	14,281,122	-	1,355,452	15,636,574	-	20,842	-	15,657,416	-	-	-	15,657,416	-	15,657,416
Depreciation and amortization	4,064,590	-	-	4,064,590	107,318	2,807	-	4,174,715	-	9,190	-	4,183,905	-	4,183,905
Licensing fee	7,178,101	-	-	7,178,101	-	-	-	7,178,101	-	-	-	7,178,101	-	7,178,101
Interest	1,287,152	-	-	1,287,152	-	-	-	1,287,152	-	-	-	1,287,152	-	1,287,152
Total expenses	165,770,130	7,054,324	12,044,237	184,868,691	677,960	1,118,717	(261,094)	186,404,274	5,771	1,373,531	60,036	187,843,612	(60,000)	187,783,612
(Loss) gain from operations	(3,808,274)	102,737	(263,074)	(3,968,611)	114,421	(359,178)	-	(4,213,368)	(767)	99,789	(30)	(4,114,376)	-	(4,114,376)
Non-operating gains (losses):														
Investment income	500,621	-	-	500,621	-	-	150,000	350,621	-	186	500,000	850,807	(500,000)	350,807
Net realized gains on sales of investments	715,584	-	-	715,584	-	-	-	715,584	-	-	-	715,584	-	715,584
Unrestricted donations	233,654	-	-	233,654	-	-	-	233,654	-	-	-	233,654	-	233,654
Income on externally administered trusts	285,654	-	-	285,654	-	-	-	285,654	-	-	-	285,654	-	285,654
Total nonoperating gains	1,735,513	-	-	1,735,513	-	-	(150,000)	1,585,513	-	186	500,000	2,085,699	(500,000)	1,585,699
(Deficiency) excess of revenue over expenses before change in appreciation of investments	(2,072,761)	102,737	(263,074)	(2,233,098)	114,421	(359,178)	(150,000)	(2,627,855)	(767)	99,975	499,970	(2,028,677)	(500,000)	(2,528,677)
Change in fair value of investments	817,068	-	-	817,068	-	-	-	817,068	-	-	-	817,068	-	817,068
(Deficiency) excess of revenue over expenses	\$ (1,255,693)	\$ 102,737	\$ (263,074)	\$ (1,416,030)	\$ 114,421	\$ (359,178)	\$ (150,000)	\$ (1,810,787)	\$ (767)	\$ 99,975	\$ 499,970	\$ (1,211,609)	\$ (500,000)	\$ (1,711,609)

Southeastern Healthcare System, Inc.

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2010

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
(Deficiency) excess of revenues over expenses	\$ (1,416,030)	\$ 114,421	\$ (359,178)	\$ (150,000)	\$ (1,810,787)	\$ (767)	\$ 99,975	\$ 499,970	\$ (1,211,609)	\$ (500,000)	\$ (1,711,609)
Change in pension liability	(281,586)	-	-	-	(281,586)	-	-	-	(281,586)	-	(281,586)
Cumulative effect of a change in accounting principle	-	-	-	-	-	-	-	-	-	-	-
Intercompany transfer	(360,000)	(150,000)	360,000	150,000	-	-	(500,000)	-	(500,000)	500,000	-
Contribution of long-lived assets	5,370	-	-	-	5,370	-	-	-	5,370	-	5,370
Net assets released from restrictions	5,707	-	-	-	5,707	-	-	-	5,707	-	5,707
Net assets released from restrictions used for purchase of property, plant and equipment	56,931	-	-	-	56,931	-	-	-	56,931	-	56,931
(Decrease) increase in unrestricted net assets	(1,989,608)	(35,579)	822	-	(2,024,365)	(767)	(400,025)	499,970	(1,925,187)	-	(1,925,187)
Change in temporarily restricted net assets:											
Contributions	217,146	-	-	-	217,146	-	-	-	217,146	-	217,146
Investment income	166,402	-	-	-	166,402	-	-	-	166,402	-	166,402
Net appreciation (realized and unrealized)	111,935	-	-	-	111,935	-	-	-	111,935	-	111,935
Net assets released from restrictions	(171,525)	-	-	-	(171,525)	-	-	-	(171,525)	-	(171,525)
Increase in temporarily restricted net assets	323,958	-	-	-	323,958	-	-	-	323,958	-	323,958
Change in permanently restricted net assets:											
Restricted donations	34	-	-	-	34	-	-	-	34	-	34
Net appreciation on assets held in externally administered trusts	352,119	-	-	-	352,119	-	-	-	352,119	-	352,119
Increase in permanently restricted net assets	352,153	-	-	-	352,153	-	-	-	352,153	-	352,153
(Decrease) increase in net assets	(1,313,497)	(35,579)	822	-	(1,348,254)	(767)	(400,025)	499,970	(1,249,076)	-	(1,249,076)
Net assets, beginning of year	33,698,410	724,838	(104,954)	-	34,318,294	541,094	653,205	27,162	35,539,755	-	35,539,755
Net assets, end of year	\$ 32,384,913	\$ 689,259	\$ (104,132)	\$ -	\$ 32,970,040	\$ 540,327	\$ 253,180	\$ 527,132	\$ 34,290,679	\$ -	\$ 34,290,679

Southeastern Healthcare System, Inc.

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2009

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Operating revenues:														
Net patient service revenue	\$ 150,788,168	\$ 6,611,666	\$ 10,359,442	\$ 167,759,276	\$ -	\$ 846,124	\$ -	\$ 168,605,400	\$ -	\$ -	\$ -	\$ 168,605,400	\$ -	\$ 168,605,400
Other revenue	6,069,366	-	-	6,069,366	780,811	96,470	(268,286)	6,678,361	72,505	1,257,709	60,008	8,068,583	(250,399)	7,818,184
Net assets released from restrictions for operations	60,434	-	-	60,434	-	-	-	60,434	-	-	-	60,434	-	60,434
Total operating revenues	156,917,968	6,611,666	10,359,422	173,889,076	780,811	942,594	(268,286)	175,344,195	72,505	1,257,709	60,008	176,734,417	(250,399)	176,484,018
Operating expenses:														
Salaries and wages	71,080,045	4,819,219	7,265,060	83,163,324	-	669,085	120,290	83,952,699	62,000	376,674	-	84,391,373	-	84,391,373
Employee benefits	24,731,991	1,590,342	730,744	27,053,077	-	233,053	-	27,286,130	5,029	142,873	-	27,434,032	-	27,434,032
Supplies, purchased services and other	40,162,863	172,673	2,875,296	43,210,832	817,319	356,134	(588,576)	43,795,709	3,824	634,132	60,000	44,493,665	(250,399)	44,243,266
Provision for bad debts	12,654,073	-	-	12,654,073	-	34,148	-	12,688,221	-	-	-	12,688,221	-	12,688,221
Depreciation and amortization	4,183,525	-	-	4,183,525	100,825	2,854	-	4,287,204	-	15,084	-	4,302,288	-	4,302,288
Licensing fee	7,303,539	-	-	7,303,539	-	-	-	7,303,539	-	-	-	7,303,539	-	7,303,539
Interest	1,219,502	-	-	1,219,502	-	-	-	1,219,502	-	-	-	1,219,502	-	1,219,502
Total operating expenses	161,335,538	6,582,234	10,870,100	178,787,872	918,144	1,295,274	(468,286)	180,533,004	70,853	1,168,763	60,000	181,832,620	(250,399)	181,582,221
(Loss) gain from operations	(4,417,570)	29,432	(510,658)	(4,898,796)	(137,333)	(352,680)	200,000	(5,188,809)	1,652	88,946	8	(5,098,203)	-	(5,098,203)
Non-operating gains (losses):														
Investment income	521,158	-	-	521,158	-	-	(200,000)	321,158	-	-	-	321,158	-	321,158
Net realized gains on sales of investments	(3,115,944)	-	-	(3,115,944)	-	-	-	(3,115,944)	-	-	-	(3,115,944)	-	(3,115,944)
Unrestricted donations	368,144	-	-	368,144	-	-	-	368,144	-	-	-	368,144	-	368,144
Income on externally administered trusts	245,442	-	-	245,442	-	-	-	245,442	-	-	-	245,442	-	245,442
Total nonoperating losses	(1,981,200)	-	-	(1,981,200)	-	-	(200,000)	(2,181,200)	-	-	-	(2,181,200)	-	(2,181,200)
(Deficiency) excess of revenue over expenses before change in fair value of investments	(6,879,996)	-	-	(6,879,996)	(137,333)	(352,680)	-	(7,370,009)	1,652	88,946	8	(7,279,403)	-	(7,279,403)
Change in fair value of investments	3,314,461	-	-	3,314,461	-	-	-	3,314,461	-	-	-	(3,314,461)	-	3,314,461
(Deficiency) excess of revenue over expenses	\$ (3,565,535)	\$ -	\$ -	\$ (3,565,535)	\$ (137,333)	\$ (352,680)	\$ -	\$ (4,055,548)	\$ 1,652	\$ 88,946	\$ 8	\$ (3,964,942)	\$ -	\$ (3,964,942)

Southeastern Healthcare System, Inc.

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
(Deficiency) excess of revenue over expenses	\$ (3,565,535)	\$ (137,333)	\$ (352,680)	\$ —	\$ (4,055,548)	\$ 1,652	\$ 88,946	\$ 8	\$ (3,964,942)	\$ —	\$ (3,964,942)
Additional minimum pension liability	(21,789,804)	—	—	—	(21,789,804)	—	—	—	(21,789,804)	—	(21,789,804)
Cumulative effect of a change in accounting principle	(882,733)	—	—	—	(882,733)	—	—	—	(882,733)	—	(882,733)
Intercompany transfer	(225,000)	—	225,000	—	—	—	—	—	—	—	—
Contributions for capital expenditures	33,253	—	—	—	33,253	—	—	—	33,253	—	33,253
Net assets released from restrictions	(37,907)	—	—	—	(37,907)	—	—	—	(37,907)	—	(37,907)
Net assets released from restrictions used for purchase of property, plant and equipment	95,125	—	—	—	95,125	—	—	—	95,125	—	95,125
(Decrease) increase in unrestricted net assets	(26,372,601)	(137,333)	(127,680)	—	(26,637,614)	1,652	88,946	8	(26,547,008)	—	(26,547,008)
Change in temporarily restricted net assets:											
Contributions	87,147	—	—	—	87,147	—	—	—	87,147	—	87,147
Investment loss	(35,707)	—	—	—	(35,707)	—	—	—	(35,707)	—	(35,707)
Net assets released from restrictions	(117,652)	—	—	—	(117,652)	—	—	—	(117,652)	—	(117,652)
Decrease in temporarily restricted net assets	(66,212)	—	—	—	(66,212)	—	—	—	(66,212)	—	(66,212)
Change in permanently restricted net assets:											
Restricted donations	—	—	—	—	—	—	—	—	—	—	—
Investment income	—	—	—	—	—	—	—	—	—	—	—
Net depreciation on assets held in externally administered trusts	(77,646)	—	—	—	(77,646)	—	—	—	(77,646)	—	(77,646)
Decrease in permanently restricted net assets	(77,646)	—	—	—	(77,646)	—	—	—	(77,646)	—	(77,646)
(Decrease) increase in net assets	(26,516,459)	(137,333)	(127,680)	—	(26,781,472)	1,652	88,946	8	(26,690,866)	—	(26,690,866)
Net assets, beginning of year	60,214,869	862,171	22,726	—	61,099,766	539,442	564,259	27,154	62,230,621	—	62,230,621
Net assets, end of year	\$ 33,698,410	\$ 724,838	\$ (104,954)	\$ —	\$ 34,318,294	\$ 541,094	\$ 653,205	\$ 27,162	\$ 35,539,755	\$ —	\$ 35,539,755

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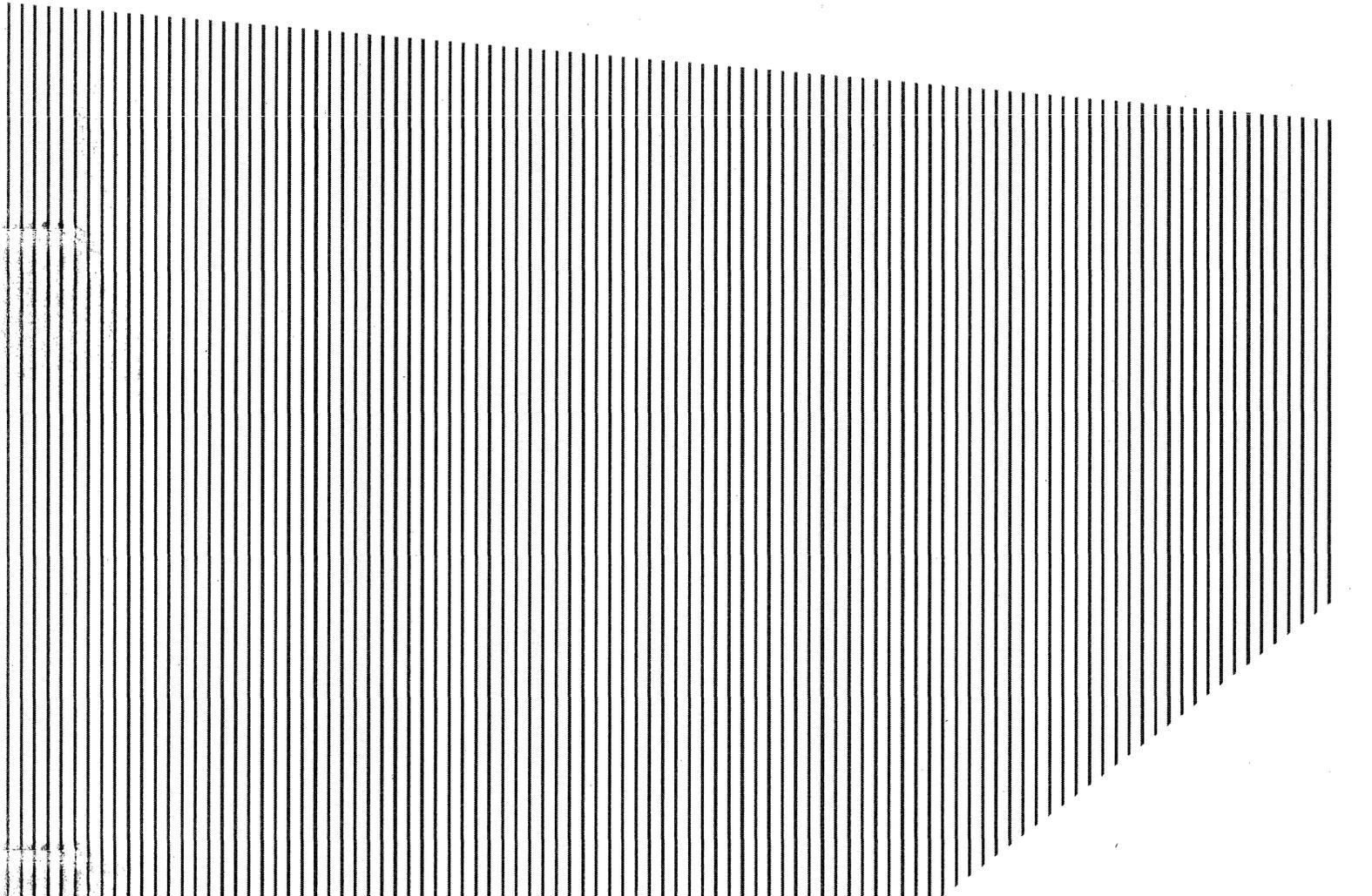
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AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

Southeastern Healthcare System, Inc. and Affiliates
Years Ended September 30, 2009 and 2008
With Report of Independent Auditors

Southeastern Healthcare System, Inc. and Affiliates

Audited Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2009 and 2008

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Report of Independent Auditors

Board of Trustees
Southeastern Healthcare System, Inc. and Affiliates

We have audited the accompanying consolidated balance sheets of Southeastern Healthcare System, Inc. and Affiliates (the System) as of September 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of SHSI'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 System'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 System'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 consolidated financial position of Southeastern Healthcare System, Inc. and Affiliates at September 30, 2009 and 2008, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 1, 2010

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Balance Sheets

	September 30	
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,791,975	\$ 2,705,681
Current portion of assets whose use is limited	1,789,391	2,409,152
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$8,270,000 and \$7,730,000 for 2009 and 2008, respectively	34,750,619	35,164,101
Other accounts receivable	1,213,767	884,795
Estimated settlements with third-party payors	3,062,696	2,646,557
Inventories	759,265	940,603
Prepaid expenses and other	1,117,861	756,681
Total current assets	44,485,574	45,507,570
Assets whose use is limited:		
By the Board for designated purposes	30,817,515	32,447,532
Held by trustee under indenture agreement	-	788,320
Pledges receivable	403,319	467,425
By donors for designated purposes	691,314	757,526
By donors for permanent endowment	3,124,158	3,124,158
By externally administered trusts	6,236,856	6,314,502
Deferred compensation	2,399,725	2,376,554
	43,672,887	46,276,017
Less amount required to meet current obligations	(1,789,391)	(2,409,152)
Total non-current assets whose use is limited	41,883,496	43,866,865
Property and equipment, net	34,945,135	37,621,766
Other assets, net	260,829	287,581
Total assets	\$ 121,575,034	\$ 127,283,782

	September 30	
	2009	2008
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 24,667,002	\$ 25,897,424
Accrued interest payable	174,984	187,659
Current portion of long-term debt and capital lease obligations	1,582,385	1,582,385
Line of credit	5,000,000	5,000,000
Total current liabilities	<u>31,424,371</u>	<u>32,667,468</u>
Long-term pension liability	36,780,563	13,216,621
Long-term debt, net of current portion	14,275,868	15,858,253
Estimated self-insurance liabilities and other liabilities	1,154,752	934,265
Deferred compensation liability	2,399,725	2,376,554
Total liabilities	<u>86,035,279</u>	<u>65,053,161</u>
Net assets:		
Unrestricted	25,487,427	52,034,435
Temporarily restricted	691,314	757,526
Permanently restricted	9,361,014	9,438,660
Total net assets	<u>35,539,755</u>	<u>62,230,621</u>
Total liabilities and net assets	<u><u>\$ 121,575,034</u></u>	<u><u>\$ 127,283,782</u></u>

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Operations and Changed in Net Assets

	Year Ended September 30	
	2009	2008
Operating revenues:		
Net patient service revenue	\$ 168,605,400	\$ 165,491,224
Other revenue	7,818,184	8,524,051
Net assets released from restrictions for operations	60,434	202,724
Total operating revenues	176,484,018	174,217,999
Operating expenses:		
Salaries and wages	84,391,373	86,954,079
Employee benefits	27,434,032	25,528,232
Supplies, purchased services, and other	44,243,266	46,429,117
Provision for bad debts	12,688,221	12,397,208
Depreciation and amortization	4,302,288	4,425,073
Licensing fee	7,303,539	4,567,793
Interest	1,219,502	1,256,611
Total operating expenses	181,582,221	181,558,113
Loss from operations	(5,098,203)	(7,340,114)
Non-operating (losses) gains:		
Investment income	321,158	800,262
Net realized (losses) gains on sales of investments	(3,115,944)	2,536,900
Unrestricted donations	368,144	761,039
Income on assets held in trust	245,442	256,679
Total nonoperating (losses) gains	(2,181,200)	4,354,880
Deficiency of revenue over expenses before change in appreciation (depreciation) of investments	(7,279,403)	(2,985,234)
Change in appreciation (depreciation) of investments	3,314,461	(10,382,330)
Deficiency of revenue over expenses	(3,964,942)	(13,367,564)

(Continued on next page)

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2009	2008
Change in unrestricted net assets (continued):		
Deficiency of revenue over expenses	(3,964,942)	(13,367,564)
Change in pension liability	(21,789,804)	(1,772,482)
Effect of change in measurement date for pension liability	(882,733)	-
Net assets released from restrictions	(37,907)	-
Contribution of long-lived assets	33,253	13,000
Net assets released from restrictions used for purchase of property and equipment	95,125	1,783,180
Decrease in unrestricted net assets	(26,547,008)	(13,343,866)
Change in temporarily restricted net assets:		
Contributions	87,147	484,594
Investment income	(35,707)	871,944
Net assets released from restrictions	(117,652)	(1,985,904)
Decrease in temporarily restricted net assets	(66,212)	(629,366)
Change in permanently restricted net assets:		
Change in unrealized depreciation on assets held in externally administered trusts	(77,646)	(1,009,236)
Permanently restricted contributions to externally administered trusts	-	69
Decrease in permanently restricted net assets	(77,646)	(1,009,167)
Decrease in net assets	(26,690,866)	(14,982,399)
Net assets at beginning of year	62,230,621	77,213,020
Net assets at end of year	\$ 35,539,755	\$ 62,230,621

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2009	2008
Operating activities		
Decrease in net assets	\$ (26,690,866)	\$ (14,982,399)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and non-operating gains:		
Depreciation and amortization	4,302,288	4,425,073
Provision for bad debts	12,688,221	12,397,208
Amortization of bond premium	(22,385)	(22,385)
Change in pension liability and effect of change in measurement date for pension liability	22,672,537	1,772,482
Restricted contributions and investment income	(51,440)	(1,356,607)
Change in:		
Patient accounts receivable	(12,274,739)	(12,923,389)
Other accounts receivable	(328,972)	(341,911)
Estimated settlements with third-party payors	(416,139)	(1,838,674)
Inventories	181,338	149,282
Prepaid expenses and other	(361,180)	100,874
Investments classified as trading	2,603,130	17,241,787
Accounts payable, accrued expenses and pension	(339,017)	2,738,281
Accrued interest payable	(12,675)	(15,600)
Estimated self-insurance liabilities and other liabilities	220,487	240,078
Deferred compensation liability	23,171	(279,125)
Net cash provided by operating activities and non-operating gains	2,193,759	7,304,975
Investing activities		
Purchases of property and equipment, net	(1,598,905)	(6,127,166)
Net cash used in investing activities	(1,598,905)	(6,127,166)
Financing activities		
Restricted contributions and investment income	51,440	1,356,607
Repayments of long-term debt and additional financing costs	(1,560,000)	(1,560,000)
Borrowings on line of credit, net	-	406,000
Net cash (used) provided by financing activities	(1,508,560)	202,607
Net (decrease) increase in cash and cash equivalents	(913,706)	1,380,416
Cash and cash equivalents at beginning of year	2,705,681	1,325,265
Cash and cash equivalents at end of year	\$ 1,791,975	\$ 2,705,681

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

September 30, 2009

1. Summary of Significant Accounting Policies

Organization

Southeastern Healthcare System, Inc. (SHSI), formed in 1997, is the sole corporate member or shareholder of Memorial Hospital of Rhode Island (the Hospital), Primary Care Centers of New England, Inc. (PCCNE), and Blackstone Health, Inc. (BHI) (collectively referred to as the System). The Hospital is the sole corporate member of R.S. Realty Company (RSR) and SHS Ventures, Inc. (Ventures).

The Hospital is a 294-bed, acute care, not-for-profit community teaching and research hospital located in Pawtucket, Rhode Island, and is affiliated with Brown University School of Medicine. RSR owns and leases apartments and office space primarily to Hospital employees. PCCNE provides staffing to Ventures and the Hospital. Ventures consists of Massachusetts-based physician practices. BHI receives and administers certain grant funds, and provides services to elderly and disabled residents in the local area.

Principles of Consolidation

The accompanying consolidated financial statements include the assets of SHSI and its controlled affiliates. The assets of any one of the members of the consolidated group may not be available to meet the obligations of other entities in the group. Intercompany balances and transactions between the organizations have been eliminated in consolidation.

Use of Estimates

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

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue

The System has entered into payment agreements with Medicare, Medicaid, and various commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under those agreements includes prospectively determined rates per discharge, discounts from established charges, costs (subject to limits), fee screens, prospectively determined per diem rates, and capitation fees earned on a per-member-per-month basis. Net patient service revenue is reported at the estimated net realizable amounts due 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 are subject to negotiation, audit, and final determination by the third-party payors. 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. During fiscal year 2009 and 2008, the System recorded a change in estimate of \$923,712 and \$ (12,188), respectively.

Consolidated Statements of Operations

The consolidated statements of operations include the excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets, including assets acquired using contributions which, by donor restrictions, were to be used for the purpose of acquiring such assets, change in pension liability, the effect of change in measurement date for pension liability, and net assets released from restrictions used to purchase property and equipment.

For presentation purposes, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and operating expenses. Other transactions not considered major or central to the provision of health care services are reported as non-operating gains and losses, which primarily consist of investment income and unrestricted donations.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Grant Revenue

The Hospital receives grants from agencies of the federal government and other sources to perform medical research and educational projects. Revenue related to the grants is recognized as the related costs are incurred. Grant revenues included in other revenue amounted to \$3,333,161 and \$3,891,994 for the years ended September 30, 2009 and 2008, respectively. Deferred revenues which relate to grant funds received prior to costs being incurred are included in accounts payable and accrued expenses and amounted to \$910,973 and \$755,538 at September 30, 2009 and 2008, respectively.

Functional Expenses

Substantially all expenses in the accompanying consolidated statements of operations are related to the delivery of health care services and the performance of medical research and educational projects.

Disproportionate Share Program

The Hospital is a participant in the State of Rhode Island's Disproportionate Share Program, which was established in 1995 to assist hospitals that provide a disproportionate amount of uncompensated care. Under the program, the Hospital receives federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. Payments to the Hospital under the Disproportionate Share Program of \$8,346,204 and \$6,349,608 for the years ended September 30, 2009 and 2008, respectively, are included in net patient service revenue in the accompanying consolidated statements of operations.

Assessments

The State of Rhode Island assesses a licensing fee to all Rhode Island hospitals based upon each hospital's gross patient service revenue as reported on filed cost reports. The Hospital's licensing fee amounted to \$7,303,539 and \$4,567,793 for the years ended September 30, 2009 and 2008, respectively.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of amounts restricted by donors for specific purposes. Permanently restricted net assets have been restricted by donors and are to be maintained by the System in perpetuity. Also included in permanently restricted net assets are assets held in externally administered irrevocable trusts which are not under the System's control. The System is the income beneficiary of certain perpetual trusts and has recognized its share of the fair value of the perpetual trusts as a permanently restricted asset. The System's share represents the percentage of interest the System has in the perpetual trust's income distributions. The System's share of the increase or decrease in fair value of the perpetual trusts is reported as an increase or decrease in permanently restricted net assets.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the System 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 gift is received. Gifts are reported as either temporarily or permanently restricted net assets 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 to unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted donations.

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 assets whose use is limited or restricted.

Inventories

Inventories are stated at the lower of cost or market, cost being determined on a weighted-average basis, except for the pharmacy and central processing department, which utilize the first-in, first-out basis.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Assets Whose Use Is Limited

Resources set aside for board-designated purposes or limited under terms of loan agreements are considered to be assets whose use is limited. Assets whose use is limited that are required for obligations classified as current liabilities are classified as current assets.

Assets whose use is limited by donors for designated purposes consist of amounts contributed for the design and renovation of the Hospital's facility. Assets whose use is limited by donors for permanent endowment funds contain a donor-imposed restriction stipulating that these resources be maintained permanently. However, the restriction permits the Hospital to use or expend all of the income and net gains derived from the donated assets. Accordingly, investment income on the assets is unrestricted. Rhode Island general law allows organizations to permanently restrict investment earnings on permanently restricted funds to maintain the purchasing power of the original dollar value of the funds. The law also allows the governing board to expend such funds as permitted under other laws, the terms of the applicable gift instrument, or the charter of the institution. Each year, the Board of Trustees has designated all income of permanently restricted assets, other than externally administered trusts, for future Hospital use and, therefore, the income has been classified as unrestricted.

The Hospital is the beneficiary of the income from externally administered trusts, which are not under its control. Income from these trusts is unrestricted, and the annual distributions received by the Hospital are reported as non-operating gains in the consolidated statements of operations.

Investments and Investment Income

The Hospital has designated its investment portfolio as trading. Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is generally determined based on quoted market price. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses, net of investment expenses.

Property and Equipment

Property and equipment are 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 using the straight-line method over the shorter of the period of the lease term or the estimated useful life of the equipment. Such amortization of capitalized leases is included with depreciation expense in the accompanying consolidated statements of operations.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted contributions 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 contributions. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expiration of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of debt, which are being amortized over the term of the related debt issue. Amortization expense amounted to \$26,753 and \$26,753 for the years ended September 30, 2009 and 2008, respectively.

Fair Value of Financial Instruments

The fair value of the System's financial instruments approximates the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, receivables, and payables. See Note 13 for the fair value of investments and assets whose use is limited and Note 6 for the fair value of long-term debt.

Tax Status

SHSI, the Hospital, Ventures and BHI have been recognized as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the Code). RSR has been recognized as a tax-exempt organization under Section 501(c)(2) of the Code. Those organizations are, therefore, exempt from federal taxes on related income pursuant to Section 501(a) of the Code. PCCNE is organized as a for-profit corporation and is, therefore, subject to tax. The provision for income taxes on the earnings of PCCNE is immaterial to the consolidated financial statements.

As of September 30, 2009, PCCNE has net operating loss carryforwards of approximately \$1,380,000 for income tax purposes. These carryforwards resulted from PCCNE incurring operating losses in prior years. A deferred tax asset for these losses of approximately \$552,000 is offset by a corresponding valuation allowance of the same amount.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (Statement 168). Statement 168 establishes the FASB Accounting Standards Codification (ASC, also collectively known as the Codification) as the single source of authoritative GAAP to be applied by nongovernmental entities. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. Statement 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The System has adopted Statement 168 for its year ended September 30, 2009. Accounting references have been updated and replaced with ASC references.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*, (hereafter referred to as ASC No. 820) which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosure about fair value measurements. The System adopted ASC No. 820 effective October 1, 2008. The effect of adopting ASC No. 820 was not material to the System's financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (hereafter referred to as ASC No. 825) which 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. The System adopted ASC No. 825 effective October 1, 2008. The System did not elect the option to value any other assets or liabilities at fair value.

In June 2009, the FASB issued a Statement on Subsequent Events. This statement provides authoritative accounting guidance and disclosure requirements for material events occurring subsequent to the balance sheet date and prior to the issuance of the financial statements. This statement is effective for the System for the year ended September 30, 2009. The System has evaluated the impact of subsequent events through March 1, 2010, representing the date at which the financial statements were issued.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2008 balances previously reported in the balance sheets in order to conform with the year ended September 30, 2009 presentation.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Revenues from Services to Patients and Uncompensated Care

During fiscal years 2009 and 2008, the Hospital's net revenues from services to patients were 32% and 33% from Medicare and 17% and 16% from Medicaid, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital 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. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

Patient accounts receivable and revenues are recorded when patient services are performed. The Hospital has agreements with certain third-party payors, including health maintenance organizations, that provide for payments to the Hospital at amounts different from the Hospital's established billing rates. These differences are accounted for as allowances. Under those agreements, the Hospital receives reimbursement based on a number of different payment arrangements.

Net revenues from services to patients 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. 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, reviews, and investigations.

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition to the above-mentioned medical care rendered, the Hospital provides numerous other services to the community for which charges are not generated. These services include translation of medical information into various languages, physician referral services, health care screenings (including those done at employer sites), community support groups, health educational programs, physician services, and general community benefit services such as disaster relief. In addition, volunteer services are provided by Hospital staff to the community on their own time.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Revenues from Services to Patients and Uncompensated Care (continued)

The Hospital also provides services to other indigent patients under the Medicaid program, which reimburses health care providers at amounts which are, in total, estimated to be less than the cost of services provided. The differences between the cost of services provided to indigent patients and the expected reimbursement is also considered to be charitable services by the Hospital but they have not been included in the amounts disclosed above.

In addition to the cost of charity care and other community service programs, the Hospital provided \$12,688,221 and \$12,397,208 for uncollectible patient accounts during the years ended September 30, 2009 and 2008, respectively.

3. Assets Whose Use is Limited

Assets whose use is limited consists of the following at fair value at September 30:

	2009	2008
Interest and other receivables	\$ 1,282,145	\$ 1,219,524
Pledges receivable	403,319	467,425
Deferred compensation trust	2,399,725	2,376,554
Assets held in externally administered trusts	6,236,856	6,314,502
Cash and money market investments	6,810,242	6,357,090
Marketable securities	26,540,600	29,540,922
	\$ 43,672,887	\$ 46,276,017

Marketable securities consist of the following at fair value at September 30:

	2009	2008
Equity securities	\$ 16,172,893	\$ 15,658,736
Corporate bonds	4,134,555	5,076,358
Mutual funds	3,707,015	4,597,555
U.S. government obligations	2,526,137	4,208,273
	\$ 26,540,600	\$ 29,540,922

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

3. Assets Whose Use is Limited (continued)

The System's unrestricted investment return for the years ended September 30 consisted of the following:

	2009	2008
Interest income	\$ 321,158	\$ 800,262
Net realized (losses) gains on sales of investments	(3,115,944)	2,536,900
Income on assets held in trust	245,442	256,679
	(2,549,344)	3,593,841
Interest and dividend income on trustee funds included in other operating revenue	-	37,783
Change in (depreciation) appreciation of investments	3,314,461	(10,382,330)
	\$ 765,117	\$ (6,750,706)

4. Endowment

The System has interpreted the Rhode Island Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value 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, beginning in fiscal year 2010, the System will classify 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 related to the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the System 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 purposes of the System 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; (6) other resources of the System; and (7) the investment and spending policies of the System.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

4. Endowment (continued)

The System's endowment consists of funds established for a variety of purposes. The endowment includes donor-restricted endowment funds. The System's net asset composition by fund type as of September 30, 2009 includes:

Changes in endowment net asset for the year ended September 30, 2009 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 9,438,660	\$ 9,438,660
Change in value of beneficial interest trust	-	(77,646)	(77,646)
Endowment net assets, end of year	\$ -	\$ 9,361,014	\$ 9,361,014

From time to time, the fair value of assets associated with permanently restricted endowment funds may fall below the level determined under UPMIFA.

The System has adopted investment practices for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment. To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

5. Property and Equipment

Property and equipment consisted of the following at September 30:

	2009	2008
Land	\$ 1,912,714	\$ 1,912,714
Land improvements	1,539,572	1,539,572
Buildings and improvements	48,444,254	48,332,401
Equipment	57,003,672	66,912,616
Construction-in-progress	402,984	257,610
	109,303,196	118,954,913
Less accumulated depreciation and amortization	(74,358,061)	(81,333,147)
Property and equipment, net	\$ 34,945,135	\$ 37,621,766

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

6. Line of Credit

The Hospital has an unsecured revolving line of credit with a bank which provides for borrowings of up to \$5,000,000 for both fiscal 2009 and 2008. Interest accrues at the effective LIBOR rate of LIBOR plus 3.5% (4.75% at September 30, 2009).

7. Long-term Debt

Long-term debt consists of the following at September 30:

	2009	2008
Rhode Island Health and Educational Building Corporation Hospital Financing Revenue Refunding Bonds	\$ 15,640,000	\$ 17,200,000
Add premium	218,253	240,638
Less current portion	(1,582,385)	(1,582,385)
Long-term debt	\$ 14,275,868	\$ 15,858,253

In December 2003, the Rhode Island Health and Educational Building Corporation (RIHEBC) issued \$25,000,000 of Series 2003 Hospital Financing Revenue Refunding Bonds (the Bonds) on behalf of the Hospital. RIHEBC loaned the proceeds of the Bonds to the Hospital pursuant to the Loan and Trust Agreement (the Agreement) dated December 1, 2003. The terms of the Agreement stipulate that interest will be paid at fixed rates ranging from 2.00% to 5.25% per annum (weighted-average rate at September 30, 2008 and 2009 was 4.36% and 4.48%, respectively), with principal installments commencing July 1, 2004 and ending July 1, 2019.

The Bonds are issued under and collateralized by the Agreement. The terms of the Agreement require that the Hospital makes quarterly payments to the trustee, which are sufficient to provide for payment of principal and interest due on the Bonds. The Bonds are collateralized by a lien on the Hospital's gross receipts. Additional debt collateralized on a parity with the Bonds may only be incurred by the Hospital in accordance with restrictions of the Agreement.

As security for the payment of the principal amount of the bonds, a bank letter of credit was issued under the terms of a Reimbursement Agreement between the Hospital and the bank dated December 31, 2003 (Reimbursement Agreement). Section 7 of the Reimbursement Agreement contains various covenants with which the Hospital must comply.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

7. Long-term Debt (continued)

At September 30, 2008 the Hospital was not in compliance with Section 7(k) of the Reimbursement Agreement which relates to leverage. This situation was primarily due to the deterioration of the financial markets and the related decline in the Hospital's investment portfolio. On March 13, 2009 the Hospital received a waiver from the bank whereby the bank agreed to waive such defaults as of September 30, 2008. On July 31, 2009 the Hospital received an amendment, which modified several terms of the Reimbursement Agreement, including certain financial ratios. At September 30, 2009 the Hospital was in compliance with all covenants contained in the Reimbursement Agreement. The aggregate maturities of long-term debt (prior to amortization of premium) for the next five fiscal years ending September 30 and thereafter are approximately as follows:

2010	\$ 1,560,000
2011	1,560,000
2012	1,560,000
2013	1,560,000
2014	1,560,000
Thereafter	7,840,000

Cash paid for interest on all borrowings during the years ended September 30, 2009 and 2008 was approximately \$1,255,000 and \$1,295,000, respectively.

8. Pension Plan

The Hospital has a defined benefit pension plan (the Plan) covering substantially all of its employees. The plan benefits are based on years of service and employees' compensation during the last five years of covered employment. The Hospital makes annual contributions to the Plan, which approximates the amount of net periodic pension cost. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

On September 29, 2006, the FASB issued Statement No., 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, and amendment of FASB Statements No. 87, 88, 106 and 123(R)* (hereafter referred to as ASC No. 715). In 2009, the System adopted the measurement date provisions of ASC No. 715. ASC No. 715 required the System to measure defined benefit plan assets and obligations as of September 30, the date of its fiscal year end statement of financial position. Prior to the implementation of this change, the measurement date for the System's pension and postretirement benefit plans was June 30. The adjustment to unrestricted net assets at adoption represents a decrease to net assets of \$882,733 and an increase to accrued pension obligation. The adoption of the measurement date provision of ASC No. 715 had no effect on the System's financial results for fiscal 2009 or any prior period presented. It will not affect the System's operating results in future periods.

The following table sets forth the status of the retirement plan as of September 30:

	2009	2008
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 90,314,749	\$ 86,998,357
Service cost	4,329,294	3,449,380
Interest cost	7,512,867	5,566,320
Benefits paid	(2,712,676)	(2,405,638)
Actuarial gain (loss)	7,989,424	(3,293,670)
Projected benefit obligation at end of year	107,433,658	90,314,749
Change in plan assets		
Fair value of plan assets at beginning of year	72,078,175	73,104,188
Actual return on plan assets	(3,626,491)	(1,425,712)
Contributions and transfers	4,914,087	2,805,337
Benefits paid	(2,712,676)	(2,405,638)
Fair value of plan assets at end of year	70,653,095	72,078,175
Unfunded status	\$ (36,780,563)	\$ (18,236,574)

Accrued pension cost included in accounts payable and accrued expenses as of September 30, 2008 was \$5,019,953.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

Components of net periodic pension cost are as follows for the years ended September 30:

	<u>2009</u>	<u>2008</u>
Service cost – benefits earned during the year	\$ 4,329,294	\$ 3,449,380
Interest cost on projected benefit obligation	7,512,867	5,566,320
Actual return on plan assets	(8,217,105)	(6,599,179)
Net amortization and deferral	823,294	387,964
Net periodic pension cost	<u>\$ 4,448,350</u>	<u>\$ 2,804,485</u>

The adoption of ASC No. 715 resulted in an addition three months of net periodic pension costs. Costs of \$882,733 as a result of the adoption were recognized as a reduction of unrestricted net assets. The remaining \$3,565,617 of expense is included within employee benefits expense.

Assumptions

Weighted-average assumptions used to determine benefit obligations and net cost at September 30, 2009 and 2008 and the years then ended are as follows:

	Benefit Obligations		Net Periodic Pension Cost	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Discount rate	5.80%	6.75%	6.75%	6.50%
Expected rate of return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	2.00%	4.00%	2.00%	4.00%

The expected rate of return on plan assets was determined by the expected return on each asset class based on a model that considers historical and expected future performance.

The accumulated benefit obligation was \$96,899,855 and \$77,673,717 at September 30, 2009 and 2008, respectively.

The measurement date for determining plan assets and obligations is September 30.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

Plan Assets

The pension plan weighted-average asset allocations as of September 30, 2009 and 2008, by asset category, are as follows:

	Target Allocation	2009	2008
Equity securities	38%	34%	37%
Annuities	42	47	41
Debt securities	20	12	16
Cash equivalents	-	7	6
Total	100%	100	100%

The goals of the pension plan are to provide a secure retirement benefit for pension plan participants and to manage pension plan assets for the exclusive benefit of the participants. The invested assets will be managed on a long-term total return basis and measured against established benchmarks for each asset class. Risk management is achieved by limiting the size of asset class and individual security positions to achieve adequate diversification. The Plan will maintain a funded level sufficient to ensure benefit security.

Cash Flows

Contributions

The Hospital funds its pension plan in accordance with guidelines prescribed by the Employee Retirement Income Security Act of 1974 (ERISA). The Hospital expects to contribute \$5,480,065 to its pension plan in fiscal 2010.

Estimated Future Benefit Payments

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

2010	\$ 3,544,000
2011	3,690,000
2012	4,215,000
2013	4,640,000
2014	4,963,000
2015 – 2019	30,721,000

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Estimated Self-Insurance Liabilities

Professional Liability Insurance

Effective July 1, 2004, professional liability insurance coverage was provided on an occurrence basis. Such coverage was provided on a claims-made basis through June 30, 2004. The claims-made policies cover only claims made during the terms of the policies and not those occurrences for which claims may be made after expiration of the policies. The System is self-insured with respect to incurred but not reported (IBNR) claims incurred prior to July 1, 2004. Accordingly, the System has recorded a liability of \$444,037 at September 30, 2009 for such IBNR exposure.

Workers' Compensation Insurance

The System is self-insured with respect to workers' compensation risks up to a maximum of \$350,000 per claim. The provision for estimated self-insured workers' IBNR compensation claims includes estimates of the ultimate costs for both reported claims and claims. The estimates incorporate the System's past experience, as well as other considerations.

10. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The percentage of accounts receivable from patients and various third-party payors was as follows at September 30:

	<u>2009</u>	<u>2008</u>
Medicare	32%	33%
Blue Cross	30	31
Medicaid	17	16
Other third-party payors	15	15
Patients	6	5
	<u>100%</u>	<u>100%</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at September 30:

	<u>2009</u>	<u>2008</u>
General activities	\$ 559,977	\$ 604,235
Research	<u>131,337</u>	<u>153,292</u>
	<u>\$ 691,314</u>	<u>\$ 757,527</u>

Permanently restricted net assets consist of the following at September 30:

	<u>2009</u>	<u>2008</u>
Principal portion of contributions restricted in perpetuity by donors	\$ 3,124,158	\$ 3,124,158
Assets held in externally administered trusts	<u>6,236,856</u>	<u>6,314,502</u>
	<u>\$ 9,361,014</u>	<u>\$ 9,438,660</u>

12. Commitments and Contingencies

The System is a defendant in several lawsuits, which are in various stages of progress or discovery. Management believes that its insurance coverage is adequate to cover claims made under all such lawsuits and, accordingly, no provision for loss has been reflected in the accompanying consolidated financial statements.

13. Fair Value Measurement

The System has adopted the methods of calculating fair value as defined in ASC No. 820 to value its financial assets and liabilities, where applicable. ASC No. 820 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.

ASC No. 820 establishes a three tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

13. Fair Value Measurement (continued)

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

Level 3: Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

In determining fair value, the System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The System also considers nonperformance risk in the overall assessment of fair value.

Financial assets carried at fair value as of September 30, 2009 are classified in the following table in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 8,602,217	\$ —	\$ —	\$ 8,602,217
Mutual Funds	3,707,015	—	—	3,707,015
Equity securities	16,172,893	—	—	16,172,893
U.S. government obligations	2,526,137	—	—	2,526,137
Corporate bonds	4,134,555	—	—	4,134,555
Common collective trusts	—	8,636,581	—	8,636,581
Investments at fair value	<u>\$ 35,142,817</u>	<u>\$ 8,636,581</u>	<u>\$ —</u>	<u>43,779,398</u>
Interest and other receivables				1,282,145
Pledge receivable				403,319
Total investments				<u>\$ 45,464,862</u>

The fair value of long-term debt, which is not required to be carried at fair value, is approximately \$16,172,000 and 16,419,000 at September 30, 2009 and 2008, respectively. Fair value of long-term debt is based on current borrowing rate for similar types of debt using undiscounted cash flow analysis.

Other Financial Information



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Report of Independent Auditors on Other Financial Information

Board of Trustees
Southeastern Healthcare System, Inc. and Affiliates

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst + Young LLP

March 1, 2010

Southeastern Healthcare System, Inc.

Consolidating Balance Sheets

September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 588,412	\$ 491,194	\$ 8,533	\$ -	\$ 1,088,139	\$ 21,323	\$ 655,351	\$ 27,162	\$ 1,791,975	\$ -	\$ 1,791,975
Assets limited as to use	1,789,391	-	-	-	1,789,391	-	-	-	1,789,391	-	1,789,391
Patient accounts receivable, net	34,705,649	-	42,512	-	34,748,161	2,458	-	-	34,750,619	-	34,750,619
Other accounts receivable	972,639	6,820	27,516	-	1,006,975	51,849	209,367	-	1,268,191	(54,424)	1,213,767
Estimated third party settlements	3,062,696	-	-	-	3,062,696	-	-	-	3,062,696	-	3,062,696
Inventories	752,440	-	6,825	-	759,265	-	-	-	759,265	-	759,265
Prepaid expenses	1,081,771	13,343	11,174	-	1,106,288	-	11,573	-	1,117,861	-	1,117,861
Total current assets	42,952,998	511,357	96,560	-	43,560,95	75,630	876,291	27,162	44,539,998	(54,424)	44,485,574
Assets limited as to use:											
By the Board for designated purposes	29,271,022	-	-	(200,000)	29,071,022	512,716	-	-	29,583,738	-	29,583,738
By the Board for designated purposes - Littlefield	1,233,777	-	-	-	1,233,777	-	-	-	1,233,777	-	1,233,777
Pledges receivable	403,319	-	-	-	403,319	-	-	-	403,319	-	403,319
By donors for specific purposes	691,314	-	-	-	691,314	-	-	-	691,314	-	691,314
By donors for permanent endowment	3,124,158	-	-	-	3,124,158	-	-	-	3,124,158	-	3,124,158
By externally administered trusts	6,236,856	-	-	-	6,236,856	-	-	-	6,236,856	-	6,236,856
Deferred compensation trust	2,399,725	-	-	-	2,399,725	-	-	-	2,399,725	-	2,399,725
	43,360,717	-	-	(200,000)	43,160,717	512,716	-	-	43,672,887	-	43,672,887
Less amount required to meet current obligations	(1,789,391)	-	-	-	(1,789,391)	-	-	-	(1,789,391)	-	(1,789,391)
	41,570,780	-	-	(200,000)	41,370,780	512,716	-	-	41,883,496	-	41,883,496
Property and equipment, net	34,324,599	586,063	9,603	-	34,920,265	-	24,870	-	34,945,135	-	34,945,135
Deferred financing costs, net	260,829	-	-	-	260,829	-	-	-	260,829	-	260,829
Total assets	\$ 119,109,206	\$ 1,097,420	\$ 106,163	\$ (200,000)	\$ 120,112,789	\$ 588,346	\$ 901,161	\$ 27,162	\$ 121,629,458	\$ (54,424)	\$ 121,575,034

Southeastern Healthcare System, Inc.
Consolidating Balance Sheets (continued)

September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 24,042,519	\$ 372,582	\$ 211,117	\$ (200,000)	\$ 24,426,218	\$ 47,252	\$ 132,917	\$ —	\$ 24,606,387	\$ (54,424)	\$ 24,551,963
Deferred revenue	—	—	—	—	—	—	115,039	—	115,039	—	115,039
Estimated third party settlements	—	—	—	—	—	—	—	—	—	—	—
Accrued interest payable	174,984	—	—	—	174,984	—	—	—	174,984	—	174,984
Current portion of long-term debt and capital lease obligations	1,582,385	—	—	—	1,582,385	—	—	—	1,582,385	—	1,582,385
Line of credit	5,000,000	—	—	—	5,000,000	—	—	—	5,000,000	—	5,000,000
Total current liabilities	30,799,888	372,582	211,117	(200,000)	31,183,587	47,252	247,956	—	31,478,795	(54,424)	31,424,371
Additional minimum pension liability	36,780,563	—	—	—	36,780,563	—	—	—	36,780,563	—	36,780,563
Long-term debt, net of current portion	14,275,868	—	—	—	14,275,868	—	—	—	14,275,868	—	14,275,868
Capital lease obligations	—	—	—	—	—	—	—	—	—	—	—
Estimated self-insurance and other liabilities	1,154,752	—	—	—	1,154,752	—	—	—	1,154,752	—	1,154,752
Other long-term liabilities	2,399,725	—	—	—	2,399,725	—	—	—	2,399,725	—	2,399,725
Total liabilities	85,410,796	372,582	211,117	(200,000)	85,794,495	47,252	247,956	—	86,089,703	(54,424)	86,035,279
Net assets:											
Unrestricted	23,646,082	724,838	(104,954)	—	24,265,966	541,094	653,205	27,162	25,487,427	—	25,487,427
Temporarily restricted	691,314	—	—	—	691,314	—	—	—	691,314	—	691,314
Permanently restricted	9,361,014	—	—	—	9,361,014	—	—	—	9,361,014	—	9,361,014
Total net assets	33,698,410	724,838	(104,954)	—	34,318,294	541,094	653,205	27,162	35,539,755	—	35,539,755
Total liabilities and net assets	\$ 119,109,206	\$ 1,097,420	\$ 106,163	\$ (200,000)	\$ 120,112,789	\$ 588,346	\$ 901,161	\$ 27,162	\$ 121,629,458	\$ (54,424)	\$ 121,575,034

Southeastern Healthcare System, Inc.

Consolidating Balance Sheets

September 30, 2008

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 1,791,014	\$ 320,255	\$ 382	\$ -	\$ 2,111,651	\$ 19,701	\$ 547,175	\$ 27,154	\$ 2,705,681	\$ -	\$ 2,705,681
Assets limited as to use	2,409,152	-	-	-	2,409,152	-	-	-	2,409,152	-	2,409,152
Patient accounts receivable, net	35,109,474	-	52,169	-	35,161,643	2,458	-	-	35,164,101	-	35,164,101
Other accounts receivable	697,696	19,214	15,339	-	732,250	49,238	144,091	-	925,579	(40,784)	884,795
Estimated third party settlements	2,646,557	-	-	-	2,646,557	-	-	-	2,646,557	-	2,644,557
Inventories	933,778	-	6,825	-	940,603	-	-	-	940,603	-	940,603
Prepaid expenses	720,208	21,386	9,330	-	750,924	-	5,757	-	756,681	-	756,681
Total current assets	44,307,880	360,855	84,045	-	44,752,780	71,397	697,023	27,154	45,548,354	(40,784)	45,507,570
Assets limited as to use:											
By the Board for designated purposes	31,273,038	-	-	-	31,273,038	512,716	-	-	31,785,754	-	31,785,754
By the Board for designated purposes – Littlefield	1,129,203	-	-	-	1,129,203	-	-	-	1,129,203	-	1,129,203
Held by trustee under loan agreement	788,320	-	-	-	788,320	-	-	-	788,320	-	788,320
By donors for specific purposes	757,526	-	-	-	757,526	-	-	-	757,526	-	757,526
By donors for permanent endowment	3,124,158	-	-	-	3,124,158	-	-	-	3,124,158	-	3,124,158
By externally administered trusts	6,314,502	-	-	-	6,314,502	-	-	-	6,314,502	-	6,314,502
Deferred compensation trust	2,376,554	-	-	-	2,376,554	-	-	-	2,376,554	-	2,376,554
	45,763,301	-	-	-	45,763,301	512,716	-	-	46,276,017	-	46,276,017
Less amount required to meet current obligations											
	(2,409,152)	-	-	-	(2,409,152)	-	-	-	(2,409,152)	-	(2,409,152)
	43,354,149	-	-	-	43,354,149	512,716	-	-	43,866,865	-	43,866,865
Property and equipment, net	36,921,702	648,162	12,457	-	37,582,321	-	39,445	-	37,621,766	-	37,621,766
Deferred financing costs, net	287,581	-	-	-	287,581	-	-	-	287,581	-	287,581
Total assets	\$ 124,871,312	\$ 1,009,017	\$ 96,502	\$ -	\$ 125,976,831	\$ 584,113	\$ 736,468	\$ 27,154	\$ 127,324,566	\$ (40,784)	\$ 127,283,782

Southeastern Healthcare System, Inc.
Consolidating Balance Sheets (continued)

September 30, 2008

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 25,500,706	\$ 146,846	\$ 73,776	\$ -	\$ 25,721,328	\$ 44,671	\$ 104,714	\$ -	\$ 25,870,713	\$ (40,784)	\$ 25,829,929
Deferred revenue	-	-	-	-	-	-	67,495	-	67,495	-	67,495
Estimated third party settlements	-	-	-	-	-	-	-	-	-	-	-
Accrued interest payable	187,659	-	-	-	187,659	-	-	-	187,659	-	187,659
Current portion of long-term debt and capital lease obligations	1,582,385	-	-	-	1,582,385	-	-	-	1,582,385	-	1,582,385
Line of credit	5,000,000	-	-	-	5,000,000	-	-	-	5,000,000	-	5,000,000
Total current liabilities	32,270,750	146,846	73,776	-	32,491,372	44,671	172,209	-	32,708,252	(40,784)	32,667,468
Additional minimum pension liability	13,216,621	-	-	-	13,216,621	-	-	-	13,216,621	-	13,216,621
Long-term debt, net of current portion	15,858,253	-	-	-	15,858,253	-	-	-	15,858,253	-	15,858,253
Capital lease obligations	-	-	-	-	-	-	-	-	-	-	-
Estimated self-insurance and other liabilities	934,265	-	-	-	934,265	-	-	-	934,265	-	934,265
Other long-term liabilities	2,376,554	-	-	-	2,376,554	-	-	-	2,376,554	-	2,376,554
Total liabilities	64,656,443	146,846	73,776	-	64,877,065	44,671	172,209	-	65,093,945	(40,784)	65,053,161
Net assets:											
Unrestricted	50,018,683	862,171	22,726	-	50,903,580	539,442	564,259	27,154	52,034,435	-	52,034,435
Temporarily restricted	757,526	-	-	-	757,526	-	-	-	757,526	-	757,526
Permanently restricted	9,438,660	-	-	-	9,438,660	-	-	-	9,438,660	-	9,438,660
Total net assets	60,214,869	862,171	22,726	-	61,099,766	539,442	564,259	27,154	62,230,621	-	62,230,621
Total liabilities and net assets	\$ 124,871,312	\$ 1,009,017	\$ 96,502	\$ -	\$ 125,976,831	\$ 584,113	\$ 736,468	\$ 27,154	\$ 127,324,566	\$ (40,784)	\$ 127,283,782

Southeastern Healthcare System, Inc.

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2009

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Unrestricted revenue, gains and other support:														
Net patient service revenue	\$ 150,788,168	\$ 6,611,666	\$ 10,359,442	\$ 167,759,276	\$ --	\$ 846,124	\$ --	\$ 168,605,400	\$ --	\$ --	\$ --	\$ 168,605,400	\$ --	\$ 168,605,400
Other revenue	6,069,366	--	--	6,069,366	780,811	96,470	(268,286)	6,678,361	72,505	1,257,709	60,008	8,068,583	(250,399)	7,818,184
Assets released from restrictions for operations	60,434	--	--	60,434	--	--	--	60,434	--	--	--	60,434	--	60,434
Total revenue, gains and other support	156,917,968	6,611,666	10,359,442	173,889,076	780,811	942,594	(268,286)	175,344,195	72,505	1,257,709	60,008	176,734,417	(250,399)	176,484,018
Expenses:														
Salaries and wages	71,080,045	4,819,219	7,264,060	83,163,324	--	669,085	120,290	83,952,699	62,000	376,674	--	84,391,373	--	84,391,373
Employee benefits	24,731,991	1,590,342	730,744	27,053,077	--	233,053	--	27,286,130	5,029	142,873	--	27,434,032	--	27,434,032
Supplies, purchased services and other	40,162,863	172,673	2,875,296	43,210,832	817,319	356,134	(588,576)	43,795,709	3,824	634,132	60,000	44,493,665	(250,399)	44,243,266
Provision for bad debts	12,654,073	--	--	12,654,073	--	34,148	--	12,688,221	--	--	--	12,688,221	--	12,688,221
Depreciation and amortization	4,183,525	--	--	4,183,525	100,825	2,854	--	4,287,204	--	15,084	--	4,302,288	--	4,302,288
Licensing fee	7,303,539	--	--	7,303,539	--	--	--	7,303,539	--	--	--	7,303,539	--	7,303,539
Interest	1,219,502	--	--	1,219,502	--	--	--	1,219,502	--	--	--	1,219,502	--	1,219,502
Total expenses	161,335,538	6,582,234	10,870,100	178,787,872	918,144	1,295,274	(468,286)	180,533,004	70,853	1,168,763	60,000	181,832,620	(250,399)	181,582,221
(Loss) gain from operations	(4,417,570)	29,432	(510,658)	(4,898,796)	(137,333)	(352,680)	200,000	(5,188,809)	1,652	88,946	8	(5,098,203)	--	(5,098,203)
Other income, gains and losses:														
Investment income	521,158	--	--	521,158	--	--	(200,000)	321,158	--	--	--	321,158	--	321,158
Net realized gains on sales of investments	(3,115,944)	--	--	(3,115,944)	--	--	--	(3,115,944)	--	--	--	(3,115,944)	--	(3,115,944)
Unrestricted donations	368,144	--	--	368,144	--	--	--	368,144	--	--	--	368,144	--	368,144
Income on assets held in trust	245,442	--	--	245,442	--	--	--	245,442	--	--	--	245,442	--	245,442
Write-off of investment	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Total nonoperating gains	(1,981,200)	--	--	(1,981,200)	--	--	(200,000)	(2,181,200)	--	--	--	(2,181,200)	--	(2,181,200)
Excess of revenues over expenses before change in appreciation of investments	(6,879,996)	--	--	(6,879,996)	(137,333)	(352,680)	--	(7,370,009)	1,652	88,946	8	(7,279,403)	--	(7,279,403)
Change in appreciation of investments	3,314,461	--	--	3,314,461	--	--	--	3,314,461	--	--	--	3,314,461	--	3,314,461
Excess of revenues over expenses	\$ (3,565,535)	\$ --	\$ --	(3,565,535)	(137,333)	(352,680)	--	(4,055,548)	1,652	88,946	8	(3,964,942)	--	(3,964,942)

Southeastern Healthcare System, Inc.

Consolidating Statements of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
Excess (deficiency) of revenues over expenses	(3,565,535)	62,667	(352,680)	(200,000)	(4,055,548)	1,652	88,946	8	(3,964,942)	-	(3,964,942)
Change in pension liability	(21,789,804)	-	-	-	(21,789,804)	-	-	-	(21,789,804)	-	(21,789,804)
Effect of a change in measurement date for pension liability	(882,733)	-	-	-	(882,733)	-	-	-	(882,733)	-	(882,733)
Intercompany transfer	(225,000)	(200,000)	225,000	200,000	-	-	-	-	-	-	-
Contributions for capital expenditures	33,253	-	-	-	33,253	-	-	-	33,253	-	33,253
Net assets released from restrictions	(37,907)	-	-	-	(37,907)	-	-	-	(37,907)	-	(37,907)
Net assets released from restrictions used for purchase of property, plant and equipment	95,125	-	-	-	95,125	-	-	-	95,125	-	95,125
Decrease in unrestricted net assets	(26,372,601)	(137,333)	(127,680)	-	(26,637,614)	1,652	88,946	8	(26,557,008)	-	(26,557,008)
Change in temporarily restricted net assets:											
Contributions	87,147	-	-	-	87,147	-	-	-	87,147	-	87,147
Investment income	(35,707)	-	-	-	(35,707)	-	-	-	(35,707)	-	(35,707)
Net assets released from restrictions	(117,652)	-	-	-	(117,652)	-	-	-	(117,652)	-	(117,652)
Decrease in temporarily restricted net assets	(66,212)	-	-	-	(66,212)	-	-	-	(66,212)	-	(66,212)
Change in permanently restricted net assets:											
Restricted donations	-	-	-	-	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-	-	-	-	-
Net appreciation on assets held in externally administered trusts	(77,646)	-	-	-	(77,646)	-	-	-	(77,646)	-	(77,646)
Decrease in permanently restricted net assets	(77,646)	-	-	-	(77,646)	-	-	-	(77,646)	-	(77,646)
Decrease in net assets	(26,516,459)	(137,333)	(127,680)	-	(26,781,472)	1,652	88,946	8	(26,690,866)	-	(26,690,866)
Net assets, beginning of year	60,214,869	862,171	22,726	-	61,099,766	539,442	564,259	27,154	62,230,62	-	62,230,621
Net assets, end of year	\$ 33,698,410	\$ 724,838	\$ (104,954)	\$ -	\$ 34,318,294	\$ 541,094	\$ 653,205	\$ 27,162	\$ 35,539,755	\$ -	\$ 35,539,755

Southeastern Healthcare System, Inc.
 Consolidating Statements of Operations and Changes in Net Assets
 Year Ended September 30, 2008

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Unrestricted revenue, gains and other support:														
Net patient service revenue	\$ 146,809,770	\$ 6,451,734	\$ 10,273,524	\$ 163,535,028	\$ —	\$ 1,956,196	\$ —	\$ 165,491,224	\$ —	\$ —	\$ —	\$ 165,491,224	\$ —	\$ 165,491,224
Other revenue	6,910,922			6,910,922	761,291	85,694	(302,187)	7,455,720	72,512	1,186,202	60,016	8,774,450	(250,399)	8,524,051
Assets released from restrictions for operations	202,724			202,724	—	—	—	202,724	—	—	—	202,724	—	202,724
Total revenue, gains and other support	153,923,416	6,451,734	10,273,524	170,648,674	761,291	2,041,890	(302,187)	173,149,668	72,512	1,186,202	60,016	174,468,398	(250,399)	174,217,999
Expenses:														
Salaries and wages	73,476,266	4,401,203	7,653,036	85,530,505	—	894,621	102,925	86,528,051	62,000	364,028	—	86,954,079	—	86,954,079
Employee benefits	22,943,799	1,452,397	752,746	25,148,942	—	236,115	—	25,385,057	13,647	129,528	—	25,528,232	—	25,528,232
Supplies, purchased services and other	41,946,573	429,843	2,969,533	45,345,949	592,518	466,305	(405,112)	45,999,660	4,563	615,293	60,000	46,679,516	(250,399)	46,429,117
Provision for bad debts	11,730,714			11,730,714	—	666,494	—	12,397,208	—	—	—	12,397,208	—	12,397,208
Depreciation and amortization	4,295,785			4,295,785	104,288	2,976	—	4,403,049	—	22,024	—	4,425,073	—	4,425,073
Licensing fee	4,567,793			4,567,793	—	—	—	4,567,793	—	—	—	4,567,793	—	4,567,793
Interest	1,256,611			1,256,611	—	—	—	1,256,611	—	—	—	1,256,611	—	1,256,611
Total expenses	160,217,541	6,283,443	11,375,315	177,876,299	696,806	2,266,511	(302,187)	180,537,429	80,210	1,130,873	60,000	181,808,512	(250,399)	181,558,113
(Loss) gain from operations	(6,294,125)	168,291	(1,101,791)	(7,227,625)	64,485	(224,621)	—	(7,387,761)	(7,698)	55,329	16	(7,340,114)	—	(7,340,114)
Other income, gains and losses:														
Investment income				800,262	—	—	—	800,262	—	—	—	800,262	—	800,262
Net realized gains on sales of investments				2,536,900	—	—	—	2,536,900	—	—	—	2,536,900	—	2,536,900
Unrestricted donations				761,039	—	—	—	761,039	—	—	—	761,039	—	761,039
Income on assets held in trust				256,679	—	—	—	256,679	—	—	—	256,679	—	256,679
Write-off of investment				—	—	—	—	—	—	—	—	—	—	—
Total nonoperating gains				4,354,880	—	—	—	4,354,880	—	—	—	4,354,880	—	4,354,880
Excess of revenues over expenses before change in appreciation of investments				(2,872,745)	64,485	(224,621)	—	(3,032,881)	(7,698)	55,329	16	(2,985,234)	—	(2,985,234)
Change in appreciation of investments				(10,382,330)	—	—	—	(10,382,330)	—	—	—	(10,382,330)	—	(10,382,330)
Excess of revenues over expenses	\$	\$	\$	(13,255,075)	64,485	(224,621)	—	(13,415,211)	(7,698)	55,329	16	(13,367,564)	—	(13,367,564)

Southeastern Healthcare System, Inc.

Consolidating Statements of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2008

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
Excess (deficiency) of revenues over expenses	(13,255,075)	64,485	(224,621)	-	(13,415,211)	(7,698)	55,329	16	(13,367,564)	-	(13,367,564)
Additional minimum pension liability	(1,772,482)	-	-	-	(1,772,482)	-	-	-	(1,772,482)	-	(1,772,482)
Cumulative effect of a change in accounting principle	-	-	-	-	-	-	-	-	-	-	-
Intercompany transfer	(120,000)	-	120,000	-	-	-	-	-	-	-	-
Contributions for capital expenditures	13,000	-	-	-	13,000	-	-	-	13,000	-	13,000
Net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions used for purchase of property, plant and equipment	1,783,180	-	-	-	1,783,180	-	-	-	1,783,180	-	1,783,180
Increase in unrestricted net assets	(13,351,377)	64,485	(104,621)	-	(13,391,513)	(7,698)	55,329	16	(13,343,866)	-	(13,343,866)
Change in temporarily restricted net assets:											
Contributions	484,594	-	-	-	485,594	-	-	-	485,594	-	484,594
Investment income	871,944	-	-	-	871,944	-	-	-	871,944	-	871,944
Net assets released from restrictions	(1,985,904)	-	-	-	(1,985,904)	-	-	-	(1,985,904)	-	(1,985,904)
Increase in temporarily restricted net assets	(629,366)	-	-	-	(629,366)	-	-	-	(629,366)	-	(629,366)
Change in permanently restricted net assets:											
Restricted donations	69	-	-	-	69	-	-	-	69	-	69
Investment income	-	-	-	-	-	-	-	-	-	-	-
Net appreciation on assets held in externally administered trusts	(1,009,236)	-	-	-	(1,009,236)	-	-	-	(1,009,236)	-	(1,009,236)
Increase in permanently restricted net assets	(1,009,167)	-	-	-	(1,009,167)	-	-	-	(1,009,167)	-	(1,009,167)
Increase in net assets	(14,989,910)	64,485	(104,621)	-	(15,030,046)	(7,698)	55,329	16	(14,982,399)	-	(14,982,399)
Net assets, beginning of year	75,204,779	797,686	127,347	-	76,129,812	547,140	508,930	27,138	77,213,020	-	77,213,020
Net assets, end of year	\$ 60,214,869	\$ 862,171	\$ 23,726	\$ -	\$ 61,099,766	\$ 539,442	\$ 564,259	\$ 27,154	\$ 62,230,621	\$ -	\$ 62,230,621