

AUDITED CONSOLIDATED FINANCIAL  
STATEMENTS AND OTHER FINANCIAL  
INFORMATION

Care New England Health System and Affiliates  
Years Ended September 30, 2009 and 2008  
With Report of Independent Auditors

# Care New England Health System and Affiliates

## Audited Consolidated Financial Statements and Other Financial Information

Years Ended September 30, 2009 and 2008

### Contents

Independent Auditors' Report.....	1
Audited Consolidated Financial Statements	
Consolidated Balance Sheets .....	2
Consolidated Statements of Operations and Changes in Net Assets .....	4
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	8
Other Financial Information	
Independent Auditors' Report on Other Financial Information .....	42
Details of Consolidated Balance Sheet – 2009 (Care New England Health System) .....	43
Details of Consolidated Statements of Operations and Changes in Net Assets – 2009 (Care New England Health System).....	45
Details of Consolidated Balance Sheet – 2008 (Care New England Health System) .....	47
Details of Consolidated Statements of Operations and Changes in Net Assets – 2008 (Care New England Health System).....	49
Details of Consolidating Schedule for Combined Balance Sheet – 2009 (Women & Infants Corporation).....	51
Details of Consolidating Schedule for Combined Balance Sheet – 2008 (Women & Infants Corporation).....	53
Consolidating Schedule for Combined Statement of Operations and Changes in Net Assets – 2009 (Women & Infants Corporation).....	55
Consolidating Schedule for Combined Statement of Operations and Changes in Net Assets – 2008 (Women & Infants Corporation).....	57
Statements of Cash Flows (Butler Hospital, Kent County Memorial Hospital and Women & Infants Corporation and Affiliates).....	59
Supporting Schedule – Property, Plant and Equipment.....	62
Supporting Schedule – Charity Care.....	63
Supporting Schedule – Investments.....	64
Supporting Schedule – Disproportionate Share.....	65
Supporting Schedule – Licensure Fee.....	66

## 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, 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 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, 2009 and 2008, 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*

January 15, 2010

Care New England Health System and Affiliates  
Consolidated Balance Sheets

	September 30			September 30	
	2009	2008		2009	2008
	<i>(In Thousands)</i>			<i>(In Thousands)</i>	
<b>Assets</b>			<b>Liabilities and net assets</b>		
Current:			Current:		
Cash and cash equivalents	\$ 63,162	\$ 66,642	Accounts payable and accrued expenses	\$ 87,098	\$ 91,838
Investments	1,997	1,735	Current portion of estimated third-party payor settlements and advances	20,178	29,927
Patient accounts receivable, net of allowance for uncollectible accounts of \$30,409 in 2009 and \$28,375 in 2008	79,806	70,356	Current portion of long-term debt and capital leases	6,560	6,351
Other receivables	12,788	14,468	Pension liability	2,024	55
Pledges receivable	2,171	3,354	Other current liabilities	6,752	3,647
Other current assets	8,347	8,477	Total current liabilities	122,612	131,818
Current portion of assets whose use is limited	4,071	12,018	Long-term liabilities:		
Total current assets	172,342	177,050	Self-insurance reserves	102,665	93,833
Assets whose use is limited or restricted as to use:			Long-term portion of estimated third-party payor settlements	22,531	19,193
Endowment funds	34,133	35,177	Long-term debt and capital leases	87,718	94,289
Board-designated funds	69,292	66,152	Pension liability	41,989	7,340
Trustee-held funds	119,282	104,492	Postretirement liability	1,570	1,486
Deferred compensation funds	2,452	2,405	Interest rate swap	6,141	-
	225,159	208,226	Other liabilities	6,310	5,130
			Total long-term liabilities	268,924	221,271
			Commitments and contingencies		
Property, plant, and equipment, net	256,886	236,054	Net assets:		
Pledges receivable, net	2,633	4,762	Unrestricted	225,372	218,132
Investments	22,734	24,125	Temporarily restricted	46,673	46,014
Interest rate swap	-	382	Permanently restricted	17,643	34,946
Other assets	1,470	1,582	Total net assets	289,688	299,092
Total assets	\$681,224	\$652,181	Total liabilities and net assets	\$681,224	\$652,181

See accompanying notes.

Care New England Health System and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

	<b>Year Ended September 30</b>	
	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Revenues and gains:		
Net patient service revenue	<b>\$674,008</b>	\$624,543
Net assets released from restrictions and used for operations	<b>34,806</b>	38,818
Other revenue	<b>57,482</b>	49,238
Total revenues and gains	<b>766,296</b>	712,599
Operating expenses:		
Salaries and benefits	<b>483,373</b>	446,954
Supplies and other expenses	<b>155,827</b>	154,277
Depreciation and amortization	<b>25,554</b>	26,011
Insurance	<b>25,688</b>	19,643
Licensure fee	<b>26,075</b>	15,727
Interest	<b>1,450</b>	2,568
Provision for uncollectible accounts	<b>29,932</b>	28,150
Total operating expenses	<b>747,899</b>	693,330
Income from operations before loss on early extinguishment of debt	<b>18,397</b>	19,269
Loss on early extinguishment of debt	-	(817)
Income from operations	<b>18,397</b>	18,452
Non-operating gains (losses):		
Investment income on assets limited as to use	<b>1,824</b>	2,530
Unrestricted gifts and bequests	<b>495</b>	696
Change in fair value of interest rate swaps	<b>(6,523)</b>	255
Net payments on interest rate swaps	<b>(1,339)</b>	(462)
Change in net unrealized gains (losses) on trading securities	<b>13,888</b>	(14,837)
Non-operating expenditures	<b>(1,964)</b>	(1,544)
Net non-operating gains (losses)	<b>6,381</b>	(13,362)
Excess of revenues and gains over expenses	<b>24,778</b>	5,090

Care New England Health System and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (continued)

	<b>Year Ended September 30</b>	
	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Unrestricted net assets:		
Excess of revenues and gains over expenses	<b>\$ 24,778</b>	\$ 5,090
Pension and postretirement adjustment	<b>(37,381)</b>	(22,491)
Net assets released from restrictions used for purchase of property and equipment	<b>19,843</b>	6,259
Increase (decrease) in unrestricted net assets	<b>7,240</b>	(11,142)
Temporarily restricted net assets:		
Research and other grants, professional receipts, gifts, pledges, and bequests, net	<b>38,194</b>	45,370
Cumulative effect of adopting ASC Topic 958	<b>16,306</b>	-
Income from investments	<b>780</b>	715
Net realized and unrealized gains (losses) from investments	<b>28</b>	(68)
Net assets released from restrictions	<b>(54,649)</b>	(45,077)
Other	<b>-</b>	100
Increase in temporarily restricted net assets	<b>659</b>	1,040
Permanently restricted net assets:		
Net realized and unrealized losses from investments	<b>(1,561)</b>	(5,661)
Cumulative effect of adopting ASC Topic 958	<b>(16,306)</b>	-
Gifts, bequests, grants, and pledges, net	<b>564</b>	42
Other	<b>-</b>	(100)
Decrease in permanently restricted net assets	<b>(17,303)</b>	(5,719)
Decrease in net assets	<b>(9,404)</b>	(15,821)
Net assets at beginning of year	<b>299,092</b>	314,913
Net assets at end of year	<b>\$289,688</b>	\$299,092

*See accompanying notes.*

# Care New England Health System and Affiliates

## Consolidated Statements of Cash Flows

	Year Ended September 30	
	2009	2008
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Change in net assets	\$ (9,404)	\$(15,822)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on early extinguishment of debt	-	817
Pension and postretirement adjustment	37,381	22,491
Depreciation and amortization	25,554	26,011
Change in fair value of interest rate swaps	6,523	(255)
Income and gains on assets limited as to use	(1,824)	(2,530)
Net unrealized (gains) losses on trading securities	(13,888)	14,837
Restricted contributions and investment income	997	5,621
Changes in:		
Patient accounts receivable	(9,450)	(416)
Trading securities	8,064	(4,063)
Other current and long-term assets	5,234	(1,102)
Accounts payable and accrued expenses	(4,739)	14,025
Estimated third-party payor settlements	(6,411)	(1,303)
Deferred revenue and other liabilities	4,284	830
Pension and long-term benefits payable	-	(487)
Net pension liability	(679)	(1,888)
Self-insurance reserves	8,832	13,202
Net cash provided by operating activities	<u>50,474</u>	<u>69,968</u>
<b>Investing activities</b>		
Purchase of property and equipment	(46,386)	(56,594)
Net cash used in investing activities	<u>(46,386)</u>	<u>(56,594)</u>
<b>Financing activities</b>		
Proceeds from long-term debt	-	84,940
Payments on refunding of long-term debt	-	(55,490)
Payments on long-term debt and capital leases	(6,571)	(6,502)
Payments of long-term debt issuance costs	-	(613)
Restricted contributions and investment income	(997)	(5,620)
Receipts of notes receivable	-	(64)
Net cash (used in) provided by financing activities	<u>(7,568)</u>	<u>16,651</u>
Net (decrease) increase in cash and cash equivalents	(3,480)	30,025
Beginning cash and cash equivalents	66,642	36,617
Ending cash and cash equivalents	<u>\$ 63,162</u>	<u>\$ 66,642</u>
<b>Supplemental disclosures</b>		
Cash paid for interest	<u>\$ 1,862</u>	<u>\$ 1,984</u>

See accompanying notes.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

September 30, 2009

### **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. During 2008, Kent received approval from the American Osteopathic Association to establish two residency programs. In July 2008, Kent welcomed the first group of residents into the Emergency Medicine and Family Practice residency programs. 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 that was incorporated during 2004. 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.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements (continued)

### **2. Significant Accounting Policies (continued)**

Alternative investments consist of limited partnership interests in hedge funds and shares of common collective trust funds. The Health System's policy is to record its ownership interest in these investments of less than 3% at cost. The Health System has no ownership interests 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. Certain of the partnerships may hold some securities without readily determinable fair values, and consequently, the general partner may estimate fair value for such securities. These estimates may differ significantly from the values that would have been used had a ready market existed, and may also differ significantly from the values which such investments may be sold, and the differences may be material.

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 professional and general liability claims 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, 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**

##### *Accounting Standards Codification*

In June 2009, the Financial Accounting Standards Board (“FASB”) issued The FASB Accounting Standards Codification (the “Codification”). The Codification is the single source of authoritative non-governmental U.S. generally accepted accounting principles, and is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Health System adopted the Codification as of September 30, 2009. The adoption of the Codification was not material to the Health System’s consolidated balance sheet as of September 30, 2009, or its consolidated statement of operations and changes in net assets for the year ended September 30, 2009.

##### *Fair Value Measurements*

In September 2006, the FASB issued Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements and Disclosures* (“Topic 820”). Topic 820 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosure about fair value measurements. Topic 820 is effective for fiscal years beginning after November 15, 2007. The adoption of Topic 820 did not have a material effect on the Health System’s consolidated balance sheets as of October 1, 2008, or September 30, 2009, or on the consolidated statements of operations and changes in net assets or cash flows for the year ended September 30, 2009. See Note 20 for related fair value disclosures. In February 2009, the FASB issued Topic 820-10-55-23B, which delayed the effective date of Topic 820 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, until fiscal years beginning after November 15, 2008. Accordingly, the Health System will apply the provisions of Topic 820 to non-financial assets and liabilities beginning with the fiscal year ended September 30, 2010.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements (continued)

### **2. Significant Accounting Policies (continued)**

#### *Endowment*

In August 2008, the FASB issued ASC Topic 958-205-05-10, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (“Topic 958-205-05-10”). This Topic provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to a state-enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”), and requires additional disclosures for the endowment funds of all not-for-profit organizations. Based on the effective date of the Rhode Island version of UPMIFA, and in relation to the effective date of Topic 958-205-05-10, the Health System adopted this Topic for the year ended September 30, 2009. The adoption of Topic 958-205-05-10 resulted in a cumulative effect adjustment, which increased temporarily restricted net assets and decreased permanently restricted net assets by \$16,306,000 at September 30, 2009. See Note 8 for related Topic 958-205-05-10 disclosures.

#### *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 Topic 958-715-50-1 to provide guidance on an employer’s disclosures about plan assets of a defined benefit pension or other postretirement plan. The Health System is required to adopt 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* (“Topic 815-10-65-1”). Topic 815-10-65-1 builds upon the existing disclosure requirements of ASC Topic 815-10-50, *Accounting for Derivative Instruments and Hedging Activities* (“Topic 815-10-50”), by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under 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 is required to adopt Topic 815-10-65-1 for its fiscal year ending September 30, 2010.



# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### *Subsequent Events*

In May 2009, the FASB issued ASC Topic 855, *Subsequent Events* (“Topic 855”). Topic 855 establishes general standards of accounting and disclosure requirements for subsequent events, events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date based on the requirements of Topic 855. The Health System adopted the provisions of Topic 855 as of September 30, 2009, and evaluated the impact of subsequent events through January 15, 2010, representing the date at which the financial statements were issued. No material subsequent events occurred.

#### **Reclassifications**

Certain items in the 2008 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:

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Revenues forgone, based on established rates	<u>\$25,494</u>	<u>\$20,011</u>
Expenses and costs incurred	<u>\$11,294</u>	<u>\$ 8,777</u>

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.

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements (continued)

#### 3. Uncompensated Care and Community Services (continued)

	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Approximated revenues forgone, or cost of the services provided to the community	<b>\$8,448</b>	\$7,010

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 approximately \$29,932,000 and \$28,150,000 for uncollectible patient accounts during the years ended September 30, 2009 and 2008, 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:

	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Within one year	<b>\$ 3,014</b>	\$ 4,207
One to five years	<b>4,802</b>	5,811
Beyond five years	<b>25</b>	135
	<b>7,841</b>	10,153
Less allowance for uncollectibles	<b>(3,037)</b>	(2,037)
Pledges receivable, net	<b>\$ 4,804</b>	\$ 8,116

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements (continued)

#### 5. Summary of Investments

Investments at September 30 are summarized as follows:

	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Securities, at market:		
Cash and cash equivalents	<b>\$ 21,909</b>	\$ 35,297
Government securities	<b>5,984</b>	7,159
Bonds	<b>35,176</b>	30,045
Common stocks	<b>62,661</b>	63,580
Mutual funds	<b>68,819</b>	53,909
Auction rate securities	<b>22,734</b>	24,125
Alternative investments	<b>7,852</b>	8,023
Cash surrender value of life insurance	<b>28,826</b>	23,966
<b>Total</b>	<b>\$253,961</b>	\$246,104

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 (in thousands):

	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Interest and dividend income	<b>\$ 3,209</b>	\$ 4,137
Net realized (losses) gains on sales of investments	<b>(1,690)</b>	1,502
Net change in unrealized gains and losses	<b>13,888</b>	(14,837)
	<b>\$ 15,407</b>	\$ (9,198)
Included in operating revenue	<b>\$ (305)</b>	\$ 3,109
Included in non-operating revenue	<b>15,712</b>	(12,307)
	<b>\$ 15,407</b>	\$ (9,198)

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 current investments.

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements (continued)

#### 5. Summary of Investments (continued)

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, 2009 and 2008, 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 \$1,517,125 and \$875,000, respectively, based on an independent valuation of the securities. During 2009, \$775,000 of the auction rate securities was liquidated at face value. As a result of the liquidation, the Health System recognized a non-operating gain of \$27,125. Care New England intends to hold the remaining securities until such time as the auctions resume.

#### 6. Property and Equipment

A summary of property and equipment at September 30 follows:

	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Land and land improvements	\$ 9,972	\$ 9,602
Buildings and improvements	327,304	249,111
Moveable equipment	249,886	235,143
Total property and equipment	<b>587,162</b>	493,856
Less accumulated depreciation and amortization	<b>(331,917)</b>	(308,963)
	<b>255,245</b>	184,893
Construction and projects in progress	<b>1,641</b>	51,161
Property and equipment, net	<b>\$ 256,886</b>	\$ 236,054

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. The total cost of the addition was approximately \$76,835,000.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements (continued)

### **6. Property and Equipment (continued)**

As of September 30, 2009, the Health System estimates the total cost of completion of construction and projects in progress to be approximately \$8,840,000. 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 recorded amounted to \$1,550,000 and \$1,503,000 as of September 30, 2009 and 2008, 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 2009 and 2008, there were no significant retirement obligations incurred or settled. Accretion expense of \$62,000 and \$55,000 was recorded during the years ended September 30, 2009 and 2008, 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 \$4,850,000 as of September 30, 2009.

As a result of the refunding of the CNE 2002 Series A bonds and the defeasance of the CNE 2002 Series B bonds, the Health System recognized a loss of approximately \$817,000 in the fiscal year ending September 30, 2008.

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

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Variable rate \$46,730,000 RIHEBC 2008 Series A bonds, mandatory sinking fund redemptions ranging from \$1,250,000 in 2009 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.	<b>\$44,270</b>	<b>\$45,520</b>

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements (continued)

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

	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Variable rate \$38,210,000 RIHEBC 2008 Series B bonds, mandatory sinking fund redemptions ranging from \$2,250,000 in 2009 to \$660,000 in 2013. 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.	<b>\$33,765</b>	\$35,920
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.	<b>23</b>	77
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.	<b>163</b>	192
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.	<b>2,057</b>	2,104

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements (continued)

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

	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
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.	<b>\$ 2,969</b>	\$ 3,156
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.	<b>3,842</b>	3,920
Capital lease obligations	<b>7,189</b>	9,751
Total long-term debt and capital lease obligations	<b>94,278</b>	100,640
Less current portion of long-term debt and capital lease obligations	<b>(6,560)</b>	(6,351)
Long-term debt and capital lease obligations, excluding current portion	<b>\$ 87,718</b>	\$ 94,289

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.

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

	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Debt outstanding:		
October 1 – January 31	<b>\$81,440</b>	\$46,610
February 1 – August 31	<b>\$81,440</b>	\$84,940
September 1 – September 30	<b>\$78,035</b>	\$81,440
Weighted-average bonds outstanding	<b>\$81,156</b>	\$71,872
Interest payments to bondholders plus letter of credit fees paid to bank	<b>\$ 890</b>	\$ 2,042
Net cash payments on interest rate swaps:		
Non-capitalized interest	<b>1,339</b>	462
Capitalized interest	<b>854</b>	331
	<b>\$ 2,193</b>	793
Total	<b>\$ 3,083</b>	\$ 2,835
Effective interest rate	<b>3.80%</b>	3.94%
Market value of swap agreements at September 30	<b>\$ (6,141)</b>	\$ 382
Change in market value of swap agreements	<b>\$ (6,523)</b>	\$ 255

## 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:

2010	\$ 3,901
2011	3,319
2012	3,064
2013	2,470
2014	2,293
Thereafter	<u>72,042</u>
Total	<u><u>\$87,089</u></u>

Care New England had available \$15,000,000 during 2009 and \$10,000,000 during 2008 through a line of credit with a financial institution. There were no outstanding balances on the lines of credit as of September 30, 2009 and 2008.

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, 2009 are as follows:

2010	\$ 3,050
2011	2,115
2012	1,162
2013	817
2014	222
Thereafter	<u>1,732</u>
Total minimum lease payments	<u>9,098</u>
Less amount representing interest	<u>1,909</u>
Present value of net minimum lease payments	<u><u>\$ 7,189</u></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:

	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Healthcare services	<b>\$17,412</b>	\$13,332
Healthcare research	<b>6,429</b>	7,582
General purposes	<b>7,254</b>	-
Indigent care	<b>2,445</b>	-
Health education	<b>1,927</b>	1,244
Plant replacement and expansion	<b>4,993</b>	21,573
Endowment	<b>3,048</b>	-
Other	<b>3,165</b>	2,283
Total temporarily restricted net assets	<b>\$46,673</b>	\$46,014

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

	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Plant replacement and expansion	<b>\$ 9,840</b>	\$10,130
Indigent care	<b>875</b>	3,520
General purposes	<b>1,603</b>	9,735
Research	<b>472</b>	-
Healthcare services	<b>3,853</b>	6,761
Health education	<b>1,000</b>	1,755
Pledges	-	319
Accumulated net gains	-	2,726
Total permanently restricted net assets	<b>\$17,643</b>	\$34,946

The Health System follows the requirements of the Rhode Island enacted version of the UPMIFA 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 State of Rhode Island requires the preservation of the purchasing power of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Health 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) 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, 2009, the Health System had the following changes in the endowment net assets:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at beginning of year	\$ 4,779	\$ 24,816	\$ 29,595
Net asset reclassification based on change in law	16,306	(16,306)	-
Endowment net assets after reclassification	21,085	8,510	29,595
Investment return:			
Investment income	291	730	1,021
Net depreciation (realized and unrealized)	(35)	(1,281)	(1,316)
Total investment return	256	(551)	(295)
Contributions	13,292	564	13,856
Appropriation of endowment assets for expenditure	(13,464)	(720)	(14,184)
Endowment net assets at end of year	\$ 21,169	\$ 7,803	\$ 28,972

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements (continued)

#### 8. Temporarily and Permanently Restricted Net Assets (continued)

In addition to permanently restricted endowments, Kent is an income beneficiary of various trusts. On September 30, 2009 and 2008, the market value of the trust assets, which are recorded as permanently restricted net assets, totaled \$9,840,045 and \$10,129,831, 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, 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.

During fiscal 2009 and 2008, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Healthcare services	<b>\$ 4,524</b>	\$12,406
Healthcare research	<b>28,366</b>	24,772
Plant replacement and expansion	<b>19,843</b>	6,259
Other	<b>1,629</b>	1,247
Health education	<b>170</b>	279
Indigent care	<b>117</b>	114
Total net assets released from restrictions	<b><u>\$54,649</u></b>	<b><u>\$45,077</u></b>

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements (continued)

#### 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, 2009 and 2008 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credit of \$3,923,131 and \$4,651,534, and unrecognized actuarial loss of \$44,084,451 and \$9,152,165.

The prior service credit and 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, 2010 is \$728,403 and \$1,906,636, respectively.

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

	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Service cost	<b>\$ 8,015</b>	\$ 9,988
Interest cost	<b>11,954</b>	10,996
Expected return on plan assets	<b>(13,531)</b>	(16,268)
Amortization of prior service cost	<b>(728)</b>	(418)
Amortization of unrecognized gain	-	(1,249)
Net periodic pension expense	<b>\$ 5,710</b>	\$ 3,049

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements (continued)

#### 9. Pension Plans (continued)

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

	2009	2008
Discount rate	7.60%	6.50%
Expected return on assets	8.75	8.75
Rate of compensation increase	4.50	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:

	2009	2008
	<i>(In Thousands)</i>	
<b>Changes in benefit obligations</b>		
Projected benefit obligations at beginning of year	\$162,076	\$174,008
Service cost	8,015	9,988
Interest cost	11,954	10,996
Actuarial loss (gain)	25,126	(16,627)
Benefits and expenses paid	(9,992)	(12,855)
Plan change	-	(3,434)
Projected benefit obligations at end of year	\$197,179	\$162,076
<b>Changes in plan assets</b>		
Fair value of plan assets at beginning of period	\$155,084	\$188,059
Actual return on plan assets	3,724	(25,120)
Employer contributions	8,000	5,000
Benefits and expenses paid	(9,992)	(12,855)
Fair value of plan assets at end of period	\$156,816	\$155,084
<b>Funded status</b>		
Total pension liability	\$ (40,363)	\$ (6,992)
Accumulated benefit obligation	\$194,280	\$160,476

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements (continued)

### 9. Pension Plans (continued)

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

	<u>2009</u>	<u>2008</u>
Measurement date	<b>September 30</b>	September 30
Discount rate	<b>5.5%</b>	7.60%
Rate of compensation increase	<b>4.0</b>	4.50

### 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:

<u>Asset Category</u>	<b>2009</b>	
	<b>Target</b>	<b>Actual</b>
Cash and cash equivalents	0.0%	0.4%
Alternative investments	25.0	27.0
Fixed income securities	24.0	24.8
Equity securities	51.0	47.8
Total	<u>100.0%</u>	<u>100.0%</u>



## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements (continued)

#### 9. Pension Plans (continued)

##### Contributions

The Health System contributed \$8,000,000 and \$5,000,000 to the Plan in 2009 and 2008, respectively. The Health System expects to contribute \$12,475,000 to the Plan in 2010.

##### 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>
2010	\$12,070
2011	13,321
2012	14,623
2013	15,711
2014	16,532
Years 2015 – 2019	98,372

##### *Care New England 403(b) 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 January 1, 2009 to September 30, 2009, the Health System recorded an expense of \$1,997,000.

##### *WIH Union Plan*

Payments to a multiemployer pension plan covering union employees at WIH for the years ended September 30, 2009 and 2008 were \$6,493,000 and \$6,003,000, respectively.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements (continued)

### 9. Pension Plans (continued)

#### *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, 2009 is an unrecognized actuarial loss of \$2,208,000. The actuarial loss expected to be recognized in net periodic pension cost during the fiscal year ended September 30, 2010 is \$0.

The Agency's pension (income) expense was (\$24,000) in 2009 and \$260,000 in 2008.

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 equivalents and 99% mutual funds.

The Agency made required contributions to the Plan of \$399,000 and \$392,000 in 2009 and 2008, respectively. The Agency is expected to make \$27,000 in contributions to the Plan during 2010. The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

<b><u>Fiscal Year</u></b>	<b><u>Pension Benefits</u></b>
	<i>(In Thousands)</i>
2010	\$ 186
2011	196
2012	204
2013	214
2014	229
Years 2015 – 2019	1,869

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements (continued)

### 9. Pension Plans (continued)

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 period of October 1, 2008 through September 30, 2009, the Agency recorded an expense of \$233,000, and for the period of January 1, 2008 through September 30, 2008, the Agency recorded an expense of \$185,000.

### 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 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:

	<u>2009</u>	<u>2008</u>
Medicare and Medicare Managed Care	<b>30%</b>	30%
Medicaid and Medicaid Managed Care	<b>21</b>	20
Blue Cross	<b>26</b>	29
Managed care	<b>11</b>	11
Self-pay	<b>4</b>	4
Other third-party payors	<b>8</b>	6
	<u><b>100%</b></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, 2009 is as follows:

*Medicare:* Cost reports for the Hospitals and the Agency have been filed through 2008 and settled through 2007 for the Agency, and 2006 for Butler and Kent, and 2005 for WIH.

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements (continued)

#### **10. Patient Service Revenue (continued)**

*State of Rhode Island (Medicaid):* Cost reports have been filed for Kent and WIH through 2008, and Butler through 2007, and settled through 2006 for Butler and Kent, and 2003 for WIH.

The filing of these cost reports and associated settlements require the use of estimates. Net patient service revenue was increased by \$6,110,000 and \$4,670,000 in 2009 and 2008, respectively, to reflect changes in the estimated settlements for certain prior years. Changes in other prior year estimates increased operating expenses by approximately \$4,000,000 in 2009 and \$1,900,000 in 2008.

#### **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 \$25,017,000 and \$21,393,000 from the State of Rhode Island’s Medicaid program for the years ended September 30, 2009 and 2008, respectively. Kent and WIH also recorded disproportionate share payments of \$4,618,000 and \$4,125,000 from Medicare during 2009 and 2008, respectively.

#### **12. Concentration of Credit Risk**

As of September 30, 2009 and 2008, 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, 2009 and 2008, was as follows:

	<u>2009</u>	<u>2008</u>
Medicare and Medicare Managed Care	<b>11%</b>	12%
Medicaid and Medicaid Managed Care	<b>27</b>	28
Blue Cross	<b>17</b>	17
Managed care	<b>10</b>	10
Self-pay	<b>21</b>	21
Other third-party payors	<b>14</b>	12
	<u><b>100%</b></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 two unfunded non-contributory defined benefit postretirement plans that cover certain salaried and non-salaried employees. One plan provides medical and dental benefits, and the other provides for the payment of life insurance premiums. 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, 2009 and 2008, respectively: unrecognized net transition obligation of \$549,000 and \$646,000 and unrecognized actuarial gain of \$144,000 and \$286,000. The unrecognized net transition obligation and actuarial gain expected to be recognized in net periodic postretirement costs during the fiscal year ended September 30, 2010 are \$97,000 and \$0, respectively.

The postretirement benefit cost for these plans was \$192,000 in 2009 and \$179,000 in 2008.

# 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, 2009 are:

Year Ending September 30:	
2010	\$ 5,118
2011	4,112
2012	3,564
2013	3,105
2014	2,711
Later years	<u>35,316</u>
Total minimum lease payments	<u><u>\$ 53,926</u></u>

Total rent expense for operating leases for the years ended September 30, 2009 and 2008 amounted to \$3,791,000 and \$3,320,000, 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 \$3,026,000 and \$2,982,000 for the fiscal years ending September 30, 2009 and 2008, respectively, is included in other operating revenues in the statements of operations.

#### Litigation

CNE and the Hospitals have been individually named as codefendants in several complaints. It is the opinion of management that the liability, if any, to CNE and the Hospitals 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, 2009, approximately 40% of the Health System's employees were covered by collective bargaining agreements. Collective bargaining agreements covering all such employees are in effect through 2010.

## 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, 2009 and 2008, 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:

	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
Healthcare services	<b>\$602,502</b>	\$557,356
General and administrative	<b>145,398</b>	135,974
	<b>\$747,900</b>	<b>\$693,330</b>



# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements (continued)

### **20. Fair Value of Financial Instruments**

As described in Note 2, on October 1, 2008, the Health System adopted the methods of calculating fair value defined in Topic 820 to value its financial assets and liabilities, where applicable. 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.

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 as of September 30, 2009 are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 19,260	\$ -	\$ -	\$ 19,260
Institutional money market	-	2,649	-	2,649
U.S. government notes and bonds	20,721	-	-	20,721
Fixed income securities	-	12,814	-	12,814
Equity securities	57,215	-	10,255	67,470
Auction rate securities	-	-	22,734	22,734
Mutual funds	69,991	1,644	-	71,635
Other	28,826	-	-	28,826
	\$ 196,013	\$ 17,107	\$ 32,989	\$ 246,109
<b>Liabilities</b>				
Interest rate swap agreements	\$ -	\$ 6,141	\$ -	\$ 6,141

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.

The amounts reported in the table above exclude alternative investments valued at approximately \$7,852,000 as of September 30, 2009, and assets invested in the Health System's defined benefit pension plan (Notes 5 and 9).

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.

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements (continued)

#### 20. Fair Value Measurements (continued)

*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 \$87 million at September 30, 2009, excluding capital leases. The estimated fair value of the Health System's long-term debt as of September 30, 2009 approximated its carrying value.

During the year ended September 30, 2009, the changes in the fair value of the financial instruments measured using significant unobservable inputs (Level 3) were comprised of the following:

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>
	<i>(In Thousands)</i>
Beginning balance (at October 31, 2008):	\$ 32,816
Total unrealized gains (losses):	
Included in income from operations	75
Included in non-operating gains	63
Included in changes in net assets	(37)
Purchases, issuances, and settlements	126
Transfers in and/or out of Level 3	(54)
Ending balance (at September 30, 2009)	<u>\$ 32,989</u>

#### 21. Proposed Affiliation with Lifespan

On July 26, 2007, Care New England Health System and Lifespan Corporation entered into an Affiliation Agreement. Under the Agreement, Care New England Health System would merge into Lifespan Corporation. Lifespan Corporation is an integrated healthcare delivery system, established in August 1994, which includes Rhode Island Hospital, The Miriam Hospital, Emma Pendleton Bradley Hospital, Newport Healthcare Corporation, and their related affiliates. The merger requires the approval of the Federal Trade Commission, the Rhode Island Department of Health, and the Rhode Island Attorney General. This process is currently on-going, and management is presently unable to predict an outcome or estimated date of completion.

## 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*

January 15, 2010

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
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 16,034	\$ (440)	\$ 49,764	\$ 3,040	\$ 764	\$ (6,000)	\$ 63,162
Investments	1,690	-	-	-	307	-	1,997
Patient accounts receivable	6,411	50,643	50,748	-	2,413	-	110,215
Less estimated uncollectibles	1,716	18,083	10,145	-	465	-	30,409
Net patient accounts receivable	4,695	32,560	40,603	-	1,948	-	79,806
Other receivables	1,818	1,939	8,466	406	159	-	12,788
Pledges receivable, net	88	274	1,809	-	-	-	2,171
Other current assets	713	4,277	2,235	1,103	19	-	8,347
Current portion of assets whose use is limited	474	392	3,088	67	50	-	4,071
Due from affiliates – other	3,065	798	829	4,905	28	(9,625)	-
Due from affiliates – debt	-	-	-	74,198	-	(74,198)	-
Total current assets	28,577	39,800	106,794	83,719	3,275	(89,823)	172,342
Assets whose use is limited or restricted as to use:							
Endowment funds	13,624	13,352	7,157	-	-	-	34,133
Board-designated funds	3,385	18,164	47,477	-	266	-	69,292
Trustee-held funds	2,312	22,131	93,850	989	-	-	119,282
Deferred compensation funds	1,393	465	490	67	37	-	2,452
Total assets limited as to use	20,714	54,112	148,974	1,056	303	-	225,159
Property, plant, and equipment, net	22,448	72,749	157,580	3,099	1,010	-	256,886
Pledges receivable, net	225	147	2,261	-	-	-	2,633
Investments	2,815	-	11,261	8,658	-	-	22,734
Other assets	11	729	384	346	-	-	1,470
Total assets	\$ 74,790	\$ 167,537	\$ 427,254	\$ 96,878	\$ 4,588	\$ (89,823)	\$ 681,224

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
<b>Liabilities and net assets</b>							
Current liabilities:							
Accounts payable and accrued expenses	\$ 11,623	\$ 25,141	\$ 40,824	\$ 6,924	\$ 2,587	\$ -	\$ 87,099
Current portion of estimated third-party payor settlements and advances	1,158	5,513	13,507	-	-	-	20,178
Current portion of long-term debt and capital leases	422	1,478	1,071	3,535	54	-	6,560
Current portion of long-term debt, due to parent	134	1,522	1,768	-	-	(3,424)	-
Pension liability	200	1,002	598	196	27	-	2,023
Other current liabilities	553	266	5,533	58	342	-	6,752
Due to affiliates	1,095	4,842	2,338	798	552	(9,625)	-
Total current liabilities	15,185	39,764	65,639	11,511	3,562	(13,049)	122,612
Long term liabilities:							
Self-insurance reserves	1,252	19,801	72,704	8,908	-	-	102,665
Long-term portion of third-party payor settlements	2,648	3,615	16,268	-	-	-	22,531
Long-term debt and capital leases	5,247	2,138	5,701	74,500	132	-	87,718
Pension liability	5,996	21,487	10,804	2,077	1,626	-	41,990
Postretirement liability	-	1,570	-	-	-	-	1,570
Interest rate swap	-	-	-	6,141	-	-	6,141
Other	2,190	1,835	1,889	341	54	-	6,309
Due to parent, long-term debt	4,499	16,486	49,789	-	6,000	(76,774)	-
Total long-term liabilities	21,832	66,932	157,155	91,967	7,812	(76,774)	268,924
Net assets:							
Unrestricted	19,347	46,677	172,733	(6,600)	(6,786)	-	225,371
Temporarily restricted	16,086	2,851	27,737	-	-	-	46,674
Permanently restricted	2,340	11,313	3,990	-	-	-	17,643
Total net assets	37,773	60,841	204,460	(6,600)	(6,786)	-	289,688
Total liabilities and net assets	\$ 74,790	\$ 167,537	\$ 427,254	\$ 96,878	\$ 4,588	\$ (89,823)	\$ 681,224

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	\$ 57,729	\$ 274,521	\$ 325,965	\$ 996	\$ 15,347	\$ (550)	\$ 674,008
Net assets released from restrictions and used for operations	13,027	789	20,990	-	-	-	34,806
Other revenue	17,437	8,762	42,135	39,067	1,206	(51,125)	57,482
Total unrestricted revenues and gains	88,193	284,072	389,090	40,063	16,553	(51,675)	766,296
Operating expenses:							
Salaries and benefits	62,800	154,142	238,033	23,768	12,947	(8,317)	483,373
Supplies and other expenses	16,835	77,498	87,750	14,720	2,313	(43,289)	155,827
Depreciation and amortization	3,112	8,891	12,872	424	255	-	25,554
Insurance	1,239	9,657	14,496	21	340	(65)	25,688
Licensure fee	-	11,376	14,699	-	-	-	26,075
Interest	478	318	607	29	22	(4)	1,450
Provision for uncollectible accounts	1,789	21,155	6,891	-	97	-	29,932
Total operating expenses	86,253	283,037	375,348	38,962	15,974	(51,675)	747,899
Income from operations before							
loss on early extinguishment of debt	1,940	1,035	13,742	1,101	579	-	18,397
Loss on early extinguishment of debt	-	-	-	-	-	-	-
Income from operations	1,940	1,035	13,742	1,101	579	-	18,397
Non-operating gains and (losses):							
Investment income on assets limited as to use	623	385	755	59	2	-	1,824
Unrestricted gifts and bequests	64	-	357	-	74	-	495
Change in fair value of interest rate swaps	-	-	-	(6,523)	-	-	(6,523)
Net payments on interest rate swaps	(118)	(495)	(628)	(98)	-	-	(1,339)
Change in net unrealized (losses) gains on trading securities	(195)	3,244	11,102	(247)	(16)	-	13,888
Non-operating expenditures	(308)	(498)	(1,137)	-	(21)	-	(1,964)
Net non-operating gains and (losses)	66	2,636	10,449	(6,809)	39	-	6,381
Excess (deficiency) of revenues and gains over expenses	2,006	3,671	24,191	(5,708)	618	-	24,778

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	\$ 3,671	\$ 24,191	\$ (5,708)	\$ 618	\$ -	\$ 24,778
Pension and postretirement adjustments	(5,394)	(18,903)	(9,619)	(1,789)	(1,676)	-	(37,381)
Net assets released from restrictions used for purchase of property and equipment	437	1,443	17,963	-	-	-	19,843
Transfers	197	684	894	(1,819)	44	-	-
(Decrease) increase in unrestricted net assets	(2,754)	(13,105)	33,429	(9,316)	(1,014)	-	7,240
Temporarily restricted net assets:							
Research and other grants, professional receipts, gifts, pledges, and bequests, net	13,292	1,698	23,204	-	-	-	38,194
Transfer from permanently restricted net assets	11,223	2,038	3,045	-	-	-	16,306
Income from investments	291	477	12	-	-	-	780
Net realized and unrealized loss from investments	(35)	-	63	-	-	-	28
Net assets released from restrictions	(13,464)	(2,232)	(38,953)	-	-	-	(54,649)
Increase (decrease) in temporarily restricted net assets	11,307	1,981	(12,629)	-	-	-	659
Permanently restricted net assets:							
Net realized and unrealized loss from investments	(1,293)	(269)	1	-	-	-	(1,561)
Transfer to temporarily restricted net assets	(11,223)	(2,038)	(3,045)	-	-	-	(16,306)
Gifts, bequests, grants, and pledges, net	472	1	91	-	-	-	564
Decrease in permanently restricted net assets	(12,044)	(2,306)	(2,953)	-	-	-	(17,303)
(Decrease) increase in net assets	(3,491)	(13,430)	17,847	(9,316)	(1,014)	-	(9,404)
Net assets at beginning of year	41,264	74,271	186,613	2,716	(5,772)	-	299,092
Net assets at end of year	\$ 37,773	\$ 60,841	\$ 204,460	\$ (6,600)	\$ (6,786)	\$ -	\$ 289,688



Care New England Health System and Affiliates

Details of Consolidated Balance Sheet

September 30, 2008

	Butler	Kent	WIC	Care New England	The Agency	Eliminations	Total
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 12,261	\$ 2,542	\$ 55,402	\$ 2,228	\$ 809	\$ (6,600)	\$ 66,642
Investments	1,532	-	-	-	203	-	1,735
Patient accounts receivable	5,863	46,257	44,365	-	2,245	-	98,730
Less estimated uncollectibles	1,795	17,002	9,150	-	427	-	28,374
Net patient accounts receivable	4,068	29,255	35,215	-	1,818	-	70,356
Other receivables	2,378	1,722	9,770	377	221	-	14,468
Pledges receivable, net	20	178	3,156	-	-	-	3,354
Other current assets	692	4,048	2,110	1,610	17	-	8,477
Current portion of assets whose use is limited	121	499	11,237	110	51	-	12,018
Due from affiliates – other	2,907	954	1,677	4,991	28	(10,557)	-
Due from affiliates – debt	-	-	-	77,494	-	(77,494)	-
Total current assets	23,979	39,198	118,567	86,810	3,147	(94,651)	177,050
Assets whose use is limited or restricted as to use:							
Endowment funds	14,772	13,619	6,786	-	-	-	35,177
Board-designated funds	3,665	20,370	41,827	-	287	-	66,149
Trustee-held funds	2,220	17,749	83,508	1,018	-	-	104,495
Deferred compensation funds	1,578	318	478	-	31	-	2,405
Total assets limited as to use	22,235	52,056	132,599	1,018	318	-	208,226
Property, plant, and equipment, net	22,959	75,956	132,449	3,484	1,206	-	236,054
Pledges receivable, net	22	1	4,739	-	-	-	4,762
Investments	2,895	-	11,580	9,650	-	-	24,125
Interest rate swap	-	-	-	382	-	-	382
Other assets	11	735	379	457	-	-	1,582
Total assets	\$ 72,101	\$ 167,946	\$ 400,313	\$ 101,801	\$ 4,671	\$ (94,651)	\$ 652,181

Care New England Health System and Affiliates

Details of Consolidated Balance Sheet (continued)

September 30, 2008

	Butler	Kent	WIC	Care New England	The Agency	Eliminations	Total
<b>Liabilities and net assets</b>							
Current liabilities:							
Accounts payable and accrued expenses	\$ 9,860	\$ 25,420	\$ 48,432	\$ 5,963	\$ 2,163	\$ -	\$ 91,838
Current portion of estimated third-party payor settlements and advances	1,801	11,014	17,112	-	-	-	29,927
Current portion of long-term debt and capital leases	401	1,426	1,038	3,405	81	-	6,351
Current portion of long-term debt, due to parent	131	1,464	1,702	-	-	(3,297)	-
Pension liability	-	-	-	-	55	-	55
Other current liabilities	180	375	2,726	32	334	-	3,647
Due to affiliates – other	554	5,758	2,232	1,356	656	(10,556)	-
Total current liabilities	12,927	45,457	73,242	10,756	3,289	(13,853)	131,818
Due from affiliates – other							
Due from affiliates – debt	1,647	15,845	66,624	9,717	-	-	93,833
Long-term portion of third-party payor settlements	2,653	3,841	12,699	-	-	-	19,193
Long-term debt and capital leases	5,676	3,616	6,774	78,035	188	-	94,289
Pension liability	943	3,849	1,797	404	347	-	7,340
Postretirement liability	-	1,486	-	-	-	-	1,486
Other	2,357	1,573	1,008	173	19	-	5,130
Due to parent, long-term debt	4,634	18,008	51,556	-	6,600	(80,798)	-
Total long-term liabilities	17,910	48,218	140,458	88,329	7,154	(80,798)	221,271
Net assets:							
Unrestricted	22,101	59,782	139,304	2,716	(5,772)	-	218,131
Temporarily restricted	4,779	870	40,366	-	-	-	46,015
Permanently restricted	14,384	13,619	6,943	-	-	-	34,946
Total net assets	41,264	74,271	186,613	2,716	(5,772)	-	299,092
Total liabilities and net assets	\$ 72,101	\$ 167,946	\$ 400,313	\$ 101,801	\$ 4,671	\$ (94,651)	\$ 652,181

Care New England Health System and Affiliates

Details of Consolidated Statements of Operations and Changes in Net Assets

Year Ended September 30, 2008

	Butler	Kent	WIC	Care New England	The Agency	Eliminations	Total
Unrestricted revenues and gains:							
Net patient service revenue	\$ 49,909	\$ 254,511	\$ 305,916	\$ 939	\$ 13,811	\$ (543)	\$ 624,543
Net assets released from restrictions and used for operations	12,628	875	25,315	-	-	-	38,818
Other revenue	16,794	8,628	34,020	35,566	1,281	(47,051)	49,238
Total unrestricted revenues and gains	79,331	264,014	365,251	36,505	15,092	(47,594)	712,599
Operating expenses:							
Salaries and benefits	54,404	143,086	222,863	22,755	11,999	(8,153)	446,954
Supplies and other expenses	15,889	77,238	85,375	13,062	2,108	(39,395)	154,277
Depreciation and amortization	3,183	9,325	12,731	496	276	-	26,011
Insurance	689	5,133	13,397	58	412	(46)	19,643
Licensure fee	-	7,129	8,598	-	-	-	15,727
Interest	595	784	1,060	104	25	-	2,568
Due from affiliates – other	2,133	20,582	5,379	-	56	-	28,150
Due from affiliates – debt	76,893	263,277	349,403	36,475	14,876	(47,594)	693,330
Income (loss) from operations before							
loss on early extinguishment of debt	2,438	737	15,848	30	216	-	19,269
Loss on early extinguishment of debt	33	155	138	491	-	-	817
Income (loss) from operations	2,405	582	15,710	(461)	216	-	18,452
Non-operating gains and (losses):							
Investment income on assets limited as to use	802	390	1,220	101	17	-	2,530
Unrestricted gifts and bequests	84	2	534	-	76	-	696
Change in fair value of interest rate swaps	-	-	-	255	-	-	255
Net payments on interest rate swaps	(39)	(176)	(214)	(33)	-	-	(462)
Change in net unrealized (losses) gains on trading securities	(991)	(2,476)	(10,968)	(313)	(89)	-	(14,837)
Non-operating expenditures	(283)	(456)	(800)	-	(5)	-	(1,544)
Net non-operating gains and (losses)	(427)	(2,716)	(10,228)	10	(1)	-	(13,362)
Excess (deficiency) of revenues and gains over expenses	1,978	(2,134)	5,482	(451)	215	-	5,090

Care New England Health System and Affiliates

Details of Consolidated Statements of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2008

	Butler	Kent	WIC	Care New England	The Agency	Eliminations	Total
Unrestricted net assets:							
Excess (deficiency) of revenues and gains over expenses	\$ 1,978	\$ (2,134)	\$ 5,482	\$ (451)	\$ 215	\$ -	\$ 5,090
Pension and postretirement adjustments	(3,011)	(12,293)	(6,420)	(1,201)	434	-	(22,491)
Net assets released from restrictions used for purchase of property and equipment	248	1,501	4,510	-	-	-	6,259
Transfers	-	-	-	-	-	-	-
(Decrease) increase in unrestricted net assets	(785)	(12,926)	3,572	(1,652)	649	-	(11,142)
Temporarily restricted net assets:							
Research and other grants, professional receipts, gifts, pledges, and bequests, net	12,110	2,168	31,092	-	-	-	45,370
Transfer from permanently restricted net assets	-	-	100	-	-	-	100
Due from affiliates – other	338	368	9	-	-	-	715
Due from affiliates – debt	(68)	-	-	-	-	-	(68)
Net assets released from restrictions	(12,876)	(2,376)	(29,825)	-	-	-	(45,077)
(Decrease) increase in temporarily restricted net assets	(496)	160	1,376	-	-	-	1,040
Permanently restricted net assets:							
Net realized and unrealized loss from investments	(2,540)	(2,184)	(937)	-	-	-	(5,661)
Transfer to temporarily restricted net assets	-	-	(100)	-	-	-	(100)
Gifts, bequests, grants, and pledges, net	-	8	34	-	-	-	42
Decrease in permanently restricted net assets	(2,540)	(2,176)	(1,003)	-	-	-	(5,719)
(Decrease) increase in net assets	(3,821)	(14,942)	3,945	(1,652)	649	-	(15,821)
Net assets at beginning of year	45,085	89,213	182,668	4,368	(6,421)	-	314,913
Net assets at end of year	\$ 41,264	\$ 74,271	\$ 186,613	\$ 2,716	\$ (5,772)	\$ -	\$ 299,092

Women & Infants Corporation  
(A Controlled Affiliate of Care New England Health System)

Consolidating Schedule for Consolidated Balance Sheet

September 30, 2009

	Hospital	WIH Faculty Physicians, Inc.	Eliminating	Hospital Total	Corporate Entities	Eliminating	Combined
<b>Assets</b>							
Current:							
Cash and cash equivalents	\$37,571	\$6,113		\$43,684	\$6,080		\$49,764
Patient accounts receivable, net of allowance for uncollectible accounts of \$10,145,000	40,441	162		40,603	-		40,603
Other receivables	8,466			8,466	-		8,466
Pledges receivable, net	1,809	-		1,809	-		1,809
Due from affiliates	829	-		829	-		829
Due from Women & Infants entities	7,425	-	\$(7,425)	-	293	\$(293)	-
Other current assets	2,235	-		2,235	-		2,235
Current portion of assets whose use is limited	3,088	-		3,088	-		3,088
<b>Total current assets</b>	<b>101,864</b>	<b>6,275</b>	<b>(7,425)</b>	<b>100,714</b>	<b>6,373</b>	<b>(293)</b>	<b>106,794</b>
Assets whose use is limited or restricted:							
Endowment funds	7,157	-		7,157	-		7,157
Board-designated funds	22,215	-		22,215	25,262		47,477
Self-insurance funds	93,850	-		93,850	-		93,850
Deferred compensation funds	490	-		490	-		490
<b>Total assets whose use is limited or restricted</b>	<b>123,712</b>	<b>-</b>		<b>123,712</b>	<b>25,262</b>		<b>148,974</b>
Property, plant and equipment, net	155,994	-		155,994	1,586		157,580
Pledges receivable, net	2,261	-		2,261	-		2,261
Investments	11,261	-		11,261	-		11,261
Other assets	384	-		384	-		384
<b>Total assets</b>	<b>\$395,476</b>	<b>\$6,275</b>	<b>\$(7,425)</b>	<b>\$394,326</b>	<b>\$33,221</b>	<b>\$(293)</b>	<b>\$427,254</b>

Women & Infants' Corporation  
(A Controlled Affiliate of Care New England Health System)

Consolidating Schedule for Consolidated Balance Sheet (continued)

September 30, 2009

	Hospital	WIH Faculty Physicians, Inc.	Eliminating	Hospital Total	Corporate Entities	Eliminating	Combined
<b>Liabilities and net assets</b>							
Current:							
Accounts payable and accrued expenses	\$ 40,758	\$ 1		\$40,759	\$ 65		\$ 40,824
Current portion of estimated third-party payor settlements and advances	13,507	-		13,507	-		13,507
Current portion of long-term debt and capital leases	2,839	-		2,839	-		2,839
Due to affiliates	2,338	-		2,338	-		2,338
Pension liability	598	-		598	-		598
Other current liabilities	5,533	-		5,533	-		5,533
Due to Women & Infants' entities	200	7,425	\$(7,425)	200	93	\$(293)	-
<b>Total current liabilities</b>	<b>65,773</b>	<b>7,426</b>	<b>(7,425)</b>	<b>65,774</b>	<b>158</b>	<b>(293)</b>	<b>65,639</b>
Long-term liabilities:							
Self-insurance reserves	72,704	-		72,704	-		72,704
Long-term portion estimated third-party payor settlements	16,268	-		16,268	-		16,268
Long-term debt and capital leases	55,490	-		55,490	-		55,490
Pension liability	10,804	-		10,804	-		10,804
Other liabilities	1,889	-		1,889	-		1,889
<b>Total long-term liabilities</b>	<b>157,155</b>	<b>-</b>		<b>157,155</b>	<b>-</b>		<b>157,155</b>
Net assets:							
Unrestricted	140,821	(1,151)		139,670	33,063		172,733
Temporarily restricted	27,737	-		27,737	-		27,737
Permanently restricted	3,990	-		3,990	-		3,990
<b>Total net assets</b>	<b>172,548</b>	<b>(1,151)</b>		<b>171,397</b>	<b>33,063</b>		<b>204,460</b>
<b>Total liabilities and net assets</b>	<b>\$395,476</b>	<b>\$6,275</b>	<b>\$(7,425)</b>	<b>\$394,326</b>	<b>\$33,221</b>	<b>\$(293)</b>	<b>\$427,254</b>

*Note: The Hospital includes Women & Infants Hospital and W&I Indemnity, LTD. Corporate entities include Women & Infants Corporation, Women & Infants Development Foundation, and Palomar Group, Inc.*

Women & Infants Corporation  
(A Controlled Affiliate of Care New England Health System)

Consolidating Schedule for Consolidated Balance Sheet

September 30, 2008

	Hospital	WIH Faculty Physicians, Inc.	Eliminating	Hospital Total	Corporate Entities	Eliminating	Combined
<b>Assets</b>							
Current:							
Cash and cash equivalents	\$ 44,662	\$4,983		\$ 49,645	\$ 5,757		\$ 55,402
Patient accounts receivable, net of allowance for uncollectible accounts of \$9,150,000	35,089	126		35,215	-		35,215
Other receivables	9,770	-		9,770	-		9,770
Pledges receivable, net	3,156	-		3,156	-		3,156
Due from Affiliates	1,677	-		1,677	-		1,677
Due from Women & Infants' entities	6,006	-	\$(6,006)	-	407	\$(407)	-
Other current assets	2,110	-		2,110	-		2,110
Current portion assets whose use is limited	11,237	-		11,237	-		11,237
<b>Total current assets</b>	<b>113,707</b>	<b>5,109</b>		<b>112,810</b>	<b>6,164</b>		<b>118,567</b>
Assets whose uses is limited or restricted:							
Endowment funds	6,786	-		6,786	-		6,786
Board-designated funds	17,842	-		17,842	23,988		41,830
Self-insurance funds	83,505	-		83,505	-		83,505
Deferred compensation funds	478	-		478	-		478
<b>Total assets whose use is limited or restricted</b>	<b>108,611</b>	<b>-</b>		<b>108,611</b>	<b>23,988</b>		<b>132,599</b>
Property and equipment, net	130,728	-		130,728	1,721		132,449
Pledges receivable, net	4,739	-		4,739	-		4,739
Investments	11,580	-		11,580	-		11,580
Other assets	379	-		379	-		379
<b>Total assets</b>	<b>\$369,744</b>	<b>\$5,109</b>		<b>\$368,847</b>	<b>\$31,873</b>		<b>\$400,313</b>

Women & Infants' Corporation  
(A Controlled Affiliate of Care New England Health System)

Consolidating Schedule for Consolidated Balance Sheet

September 30, 2008

	Hospital	WIH Faculty Physicians, Inc.	Eliminating	Hospital Total	Corporate Entities	Eliminating	Combined
<b>Liabilities and net assets</b>							
Current:							
Accounts payable and accrued expenses	\$ 48,328	\$ 4		\$ 48,332	\$ 100		\$ 48,432
Current estimated third-party payor settlements and advances	17,112	-		17,112	-		17,112
Current portion of long-term debt and capital leases	2,740	-		2,740	-		2,740
Due to affiliates	2,232	-		2,232	-		2,232
Due to Women & Infants' entities	247	6,006	\$(6,006)	247	160	\$(407)	-
Other current liabilities	2,726	-		2,726	-		2,726
Total current liabilities	73,385	6,010	(6,006)	73,389	260	(407)	73,242
Long-term liabilities:							
Self-insurance reserves	66,624	-		66,624	-		66,624
Long-term portion of estimated third-party payor settlements	12,699	-		12,699	-		12,699
Long-term debt and capital leases	58,330	-		58,330	-		58,330
Pension liability	1,797	-		1,797	-		1,797
Other liabilities	1,008	-		1,008	-		1,008
Total long-term liabilities	140,458	-		140,458	-		140,458
Net assets:							
Unrestricted	108,592	(901)		107,691	31,613		139,304
Temporarily restricted	40,366	-		40,366	-		40,366
Permanently restricted	6,943	-		6,943	-		6,943
Total net assets	155,901	(901)		155,000	31,613		186,613
<b>Total liabilities and net assets</b>	<b>\$369,744</b>	<b>\$5,109</b>		<b>\$368,847</b>	<b>\$31,873</b>		<b>\$400,313</b>

*Note: The Hospital includes Women & Infants Hospital and W&I Indemnity, LTD. Corporate entities include Women & Infants Corporation, Women & Infants Development Foundation, and Palomar Group, Inc.*



Women & Infants Corporation  
(A Controlled Affiliate of Care New England Health System)

Consolidating Schedule for Consolidated Statement of Operations and Changes in Net Assets

Year Ended September 30, 2009

	Hospital	WIH Faculty Physicians, Inc.	Hospital Total	Corporate Entities	Elimination	Combined
Revenues and gains:						
Net patient service revenue	\$325,965	-	325,965	-		325,965
Net assets released from restrictions and used for operations	20,990	-	20,990	-		20,990
Other revenue	40,939	1,165	42,104	4,392	(4,361)	42,135
Total revenues and gains	387,894	1,165	389,059	4,392	(4,361)	389,090
Operating expenses:						
Salaries and benefits	236,872	1,161	238,033	-		238,033
Supplies & other expenses	87,842	254	88,096	4,015	(4,361)	87,750
Insurance	14,496	-	14,496	-		14,496
Depreciation and amortization	12,736	-	12,736	136		12,872
Licensure fee	14,699	-	14,699	-		14,699
Provision for uncollectible accounts	6,891	-	6,891	-		6,891
Interest	607	-	607	-		607
Total operating expenses	374,143	1,415	375,558	4,151	(4,361)	375,348
Income (loss) from operations	13,751	(250)	13,501	241	-	13,742
Nonoperating gains and (losses):						
Unrestricted gifts and bequests	126	-	126	231		357
Non-operating expenditures	(1,137)	-	(1,137)	-		(1,137)
Net payments on interest rate swaps	(628)	-	(628)	-		(628)
Investment income on assets limited as to use	4	-	4	751		755
Change in net unrealized gains and losses on trading securities	10,875	-	10,875	227		11,102
Net non-operating gains (losses)	9,240	-	9,240	1,209	-	10,449
Excess of revenues and gains over expenses	22,991	(250)	22,741	1,450	-	24,191

Women & Infants Corporation  
(A Controlled Affiliate of Care New England Health System)

Consolidating Schedule for Consolidated Statement of Operations and Changes in Net Assets

Year Ended September 30, 2009

	Hospital	WIH Faculty Physicians, Inc.	Hospital Total	Corporate Entities	Elimination	Combined
Unrestricted net assets:						
Excess of revenues and gains over expenses	\$22,991	\$(250)	\$22,741	\$1,450	-	\$24,191
Pension adjustment	(9,619)	-	(9,619)	-	-	(9,619)
Net assets released from restrictions and used for property and equipment purchases	17,963	-	17,963	-	-	17,963
Transfers from Care New England	894	-	894	-	-	894
Increase (decrease) in unrestricted net assets	32,229	(250)	31,979	1,450	-	33,429
Temporarily restricted net assets:						
Research and other grants, professional receipts, pledges, and bequests, net	\$23,204	-	23,204	-	-	23,204
Cumulative effect of adopting ASC Topic 958	3,045	-	3,045	-	-	3,045
Income from investments	12	-	12	-	-	12
Net unrealized gains from investments	63	-	63	-	-	63
Net assets released from restrictions	(38,953)	-	(38,953)	-	-	(38,953)
Decrease in temporarily restricted net assets	(12,629)	-	(12,629)	-	-	(12,629)
Permanently restricted net assets:						
Investment income	1	-	1	-	-	1
Cumulative effect of adopting ASC Topic 958	(3,045)	-	(3,045)	-	-	(3,045)
Gifts, bequest, grants, and pledges net	91	-	91	-	-	91
Decrease in permanently restricted net assets	(2,953)	-	(2,953)	-	-	(2,953)
Increase (decrease) in net assets	16,647	(250)	16,397	1,450	-	17,847
Net assets at beginning of year	155,901	(901)	155,000	31,613	-	186,613
Net assets at end of year	\$172,548	(1,151)	\$171,397	\$33,063	-	\$204,460

*Note: The Hospital includes Women & Infants Hospital and W&I Indemnity, LTD. Corporate entities include Women & Infants Corporation, Women & Infants Development Foundation, and Palomar Group, Inc.*

Women & Infants Corporation  
(A Controlled Affiliate of Care New England Health System)

Consolidating Schedule for Consolidated Statement of Operations and Changes in Net Assets

Year Ended September 30, 2008

	Hospital	WIH Faculty Physicians, Inc.	Hospital Total	Corporate Entities	Elimination	Combined
Revenues and gains:						
Net patient service revenue	\$305,916	-	\$305,916	-		\$305,916
Net assets released from restrictions and used for operations	25,315	-	25,315	-		25,315
Other revenue	33,036	\$ 933	33,969	\$4,902	\$(4,851)	34,020
Total revenues and gains	364,267	933	365,200	4,902	(4,851)	365,251
Operating expenses:						
Salaries and benefits	221,803	1,060	222,863	-		222,863
Supplies and other expenses	85,401	402	85,803	4,561	(4,851)	85,513
Insurance	13,396	-	13,396	-		13,396
Depreciation and amortization	12,595	-	12,595	136		12,731
Licensure fee	8,598	-	8,598	-		8,598
Provision for uncollectible accounts	5,379	-	5,379	-		5,379
Interest	1,060	-	1,060	-		1,060
Total operating expenses	348,232	1,462	349,694	4,697	(4,851)	349,540
Income (loss) from operations	16,035	(529)	15,506	205	-	15,711
Non-operating gains and (losses):						
Unrestricted gifts and bequests	302	-	302	232		534
Non-operating expenditures	(800)	-	(800)	-		(800)
Net payments on interest rate swaps	(214)	-	(214)	-		(214)
Investment income on assets limited as to use	216	-	216	1,004		1,220
Change in net unrealized gains and (losses) on trading securities	(7,272)	-	(7,272)	(3,696)		(10,968)
Net non-operating losses	(7,768)	-	(7,768)	(2,460)	-	(10,228)
Excess of revenues and gains over expenses	8,267	(529)	7,738	(2,255)	-	5,483

Women & Infants Corporation  
(A Controlled Affiliate of Care New England Health System)

Consolidating Schedule for Consolidated Statement of Operations and Changes in Net Assets

Year Ended September 30, 2008

	Hospital	WIH Faculty Physicians, Inc.	Hospital Total	Corporate Entities	Elimination	Combined
Unrestricted net assets:						
Excess of revenues and gains over expenses	\$ 8,267	\$(529)	\$ 7,738	\$(2,255)		\$ 5,483
Pension adjustment	(6,420)	-	(6,420)	-		(6,420)
Net assets released from restrictions and used for property and equipment purchases	4,510	-	4,510	-		4,510
Transfers from (to) Women & Infants entities	(120)	-	(120)	120		-
Increase (decrease) in unrestricted net assets	6,237	(529)	5,708	(2,135)	-	3,573
Temporarily restricted net assets:						
Research and other grants, professional receipts, pledges, and bequests, net	31,092	-	31,092	-		31,092
Income from investments	9	-	9	-		9
Transfer from permanently restricted net assets	100	-	100	-		100
Net assets released from restriction	(29,825)	-	(29,825)	-		(29,825)
Increase in temporarily restricted net assets	1,376	-	1,376	-	-	1,376
Permanently restricted net assets:						
Investment income	136	-	136	-		136
Change in net unrealized losses on investments	(1,074)	-	(1,074)	-		(1,074)
Gifts, bequest, grants, and pledges net	34	-	34	-		34
Transfer to temporarily restricted net assets	(100)	-	(100)	-		(100)
Decrease in permanently restricted net assets	(1,004)	-	(1,004)	-	-	(1,004)
Increase (decrease) in net assets	6,609	(529)	6,080	(2,135)	-	3,945
Net assets at beginning of year	149,292	(372)	148,920	33,748		182,668
Net assets at end of year	\$155,901	\$ (901)	\$155,000	\$31,613	-	\$186,613

*Note: The Hospital includes Women & Infants Hospital and W&I Indemnity, LTD. Corporate entities include Women & Infants Corporation, Women & Infants Development Foundation, and Palomar Group, Inc.*

Butler Hospital  
(A Controlled Affiliate of Care New England Health System)

Statements of Cash Flows (Unaudited)

	<b>Year Ended September 30</b>	
	<b>2009</b>	<b>2008</b>
	<i>(In thousands)</i>	
<b>Operating activities</b>		
Change in net assets	\$(3,491)	\$(3,821)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on early extinguishment of debt	–	33
Pension adjustment	5,394	3,011
Depreciation and amortization	3,112	3,183
Income and gains on assets limited as to use	(100)	(343)
Net unrealized losses on trading securities	195	991
(Gain) loss on disposal of assets	(50)	1
Restricted contributions and investment income	821	2,540
Changes in:		
Patient accounts receivable	(627)	(707)
Trading securities	995	3,754
Other current assets	110	667
Accounts payable and accrued expenses	1,763	(458)
Estimated third-party payor settlements	(648)	(138)
Other current and long-term liabilities	720	429
Net pension liability	(141)	(264)
Self-insurance reserves	(395)	(444)
Net cash provided by operating activities	7,658	8,434
<b>Investing activities</b>		
Purchase of property and equipment	(2,574)	(1,879)
Proceeds from sale of property and equipment	50	12
Net cash used in investing activities	(2,524)	(1,867)
<b>Financing activities</b>		
Proceeds from long term debt	–	4,891
Payments on refunding of long-term debt	–	(4,879)
Payments on long-term debt and capital leases	(540)	(536)
Proceeds from capital leases	–	71
Payment of long term debt issuance costs	–	(10)
Restricted contributions and investment income	(821)	(2,540)
Net cash used in financing activities	(1,361)	(3,003)
Net increase in cash and cash equivalents	3,773	3,564
Beginning cash and cash equivalents	12,261	8,697
Ending cash and cash equivalents	\$16,034	\$12,261
<b>Supplemental disclosures</b>		
Cash paid for interest	\$ 493	\$ 597

*See accompanying notes.*

Kent County Memorial Hospital and Affiliates  
(A Controlled Affiliate of Care New England Health System)

Consolidated Statements of Cash Flows (Unaudited)

	<b>Year Ended September 30</b>	
	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Change in net assets	<b>\$(13,430)</b>	\$(14,942)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss on early extinguishment of debt	–	155
Pension and postretirement adjustment	<b>18,903</b>	12,293
Depreciation and amortization	<b>8,891</b>	9,325
Investment income on assets limited as to use	<b>(385)</b>	(390)
Net unrealized (gains) losses on trading securities	<b>(4,249)</b>	4,566
Transfers from related parties	<b>(684)</b>	–
Restricted contributions and investment income	<b>1,273</b>	86
Changes in:		
Patient accounts receivable	<b>(3,305)</b>	87
Trading securities	<b>2,685</b>	(1,181)
Inventories	<b>(192)</b>	244
Other current and long-term assets	<b>(490)</b>	197
Accounts payable and accrued expenses	<b>(279)</b>	767
Estimated third-party payor settlements	<b>(5,727)</b>	(4,521)
Net due to related parties	<b>(2)</b>	1,036
Self-insurance reserves	<b>3,956</b>	2,689
Other current and long-term liabilities	<b>153</b>	327
Pension and postretirement liability	<b>(179)</b>	(1,052)
Net cash provided by operating activities	<b>6,739</b>	9,686
<b>Investing activity</b>		
Purchase of property and equipment	<b>(5,684)</b>	(4,789)
Net cash used in investing activity	<b>(5,684)</b>	(4,789)
<b>Financing activities</b>		
Proceeds from long-term debt	–	20,885
Payments on refunding of long-term debt	–	(20,840)
Payments on long-term debt and capital leases	<b>(2,890)</b>	(2,892)
Payment of long-term debt issuance costs	–	(43)
Transfers from related parties	<b>684</b>	–
Restricted contributions and investment income	<b>(1,273)</b>	(86)
Net cash used in financing activities	<b>(3,479)</b>	(2,976)
Net (decrease) increase in cash and cash equivalents	<b>(2,224)</b>	1,921
Beginning cash and cash equivalents	<b>2,542</b>	621
Ending cash and cash equivalents	<b>\$ 318</b>	\$ 2,542
<b>Supplemental disclosures</b>		
Cash paid for interest	<b>\$ 327</b>	\$ 859

*See accompanying notes.*

Women & Infants Corporation and Affiliates  
(A Controlled Affiliate of Care New England Health System)

Consolidated Statements of Cash Flows (Unaudited)

	<b>Year Ended September 30</b>	
	<b>2009</b>	<b>2008</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Change in net assets	\$ 17,847	\$ 3,945
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Pension adjustment	9,619	6,420
Depreciation and amortization	12,872	12,731
Loss on extinguishment of debt	–	138
Income and gains on assets limited as to use	(755)	(1,220)
Net unrealized (gains) losses on trading securities	(11,165)	12,041
Restricted contributions and investment income	(92)	(170)
Transfers from Care New England	(894)	–
Changes in:		
Patient accounts receivable	(5,388)	(552)
Trading securities	3,694	(15,589)
Other current and long-term assets	(142)	(717)
Other receivables and pledges receivable	5,129	(1,035)
Net pension asset	–	4,122
Accounts payable and accrued expenses	(7,608)	13,516
Due to/from affiliates	954	(531)
Estimated third-party payor settlements	(36)	3,356
Other current and long-term liabilities	3,688	(946)
Net pension liability	(14)	(4,623)
Self-insurance reserves	6,080	11,643
Net cash provided by operating activities	33,789	42,529
<b>Investing activities</b>		
Purchase of property and equipment	(37,991)	(49,807)
Sale of investments	319	2,820
Net cash used in investing activities	(37,672)	(46,987)
<b>Financing activities</b>		
Proceeds from long-term debt	–	55,113
Payments on refunding of long-term debt	–	(23,651)
Payments on long-term debt and capital leases	(2,741)	(5,040)
Payments of long-term debt issuance costs	–	(274)
Transfers from Care New England	894	–
Restricted contributions and investment income	92	170
Net cash (used in) provided by financing activities	(1,755)	26,318
Net (decrease) increase in cash and cash equivalents	(5,638)	21,860
Cash and cash equivalents at beginning of year	55,402	33,542
Cash and cash equivalents at end of year	\$ 49,764	\$ 55,402
<b>Supplemental disclosures</b>		
Cash paid for interest and fees	\$ 991	\$ 1,412

*See accompanying notes.*

**Care New England Health System**  
Supporting Schedule—Property, Plant and Equipment  
*Fiscal year ended September 30, 2009*

	<b>Butler</b>	<b>Kent</b>	<b>WIH</b>	<b>All Other</b>	<b>Total</b>
<b>Property, plant and equipment</b>					
Land and improvements	\$ 3,054,000	\$ 2,812,000	\$ 4,106,000	\$ 0	\$ 9,972,000
Building and improvements	42,869,000	86,336,000	192,242,000	5,857,000	327,304,000
Furniture and equipment	14,527,000	109,461,000	122,178,000	3,718,000	249,884,000
Construction in progress	231,000	144,000	1,267,000	(1,000)	1,641,000
Totals	60,681,000	198,753,000	319,793,000	9,574,000	588,801,000
Accumulated depreciation	38,233,000	126,004,000	162,213,000	5,467,000	331,917,000
Net property, plant and equipment	<u>\$22,448,000</u>	<u>\$ 72,749,000</u>	<u>\$157,580,000</u>	<u>\$4,107,000</u>	<u>\$256,884,000</u>



**Care New England Health System**  
 Supporting Schedule—Charity Care  
*Fiscal year ended September 30, 2009*

	<b>Butler</b>	<b>Kent</b>	<b>WIH</b>	<b>All Other</b>	<b>Total</b>
<b>Charity care</b>					
Revenues foregone	\$1,444,728	\$10,862,856	\$13,182,591	\$ 4,145	\$25,494,320
Uncollectible accounts	\$1,789,361	\$21,155,403	\$ 6,890,996	\$96,957	\$29,932,717

**Care New England Health System**  
Supporting Schedule—Investments  
*Fiscal year ended September 30, 2009*

	<b>Market Value</b>				<b>Total</b>
	<b>Butler</b>	<b>Kent</b>	<b>WIH</b>	<b>All Other</b>	
<b>Summary of investments</b>					
Government securities	\$ 3,028,000	\$ 262,000	\$ 2,694,475	\$ (475)	\$ 5,984,000
Commercial paper	-	-	-	-	-
Bonds	2,260,000	22,827,000	8,233,888	1,855,112	35,176,000
Common stock	9,585,000	14,987,000	29,524,297	8,563,703	62,660,000
Cash and CDs	2,741,000	3,478,000	14,564,076	1,125,924	21,909,000
Alternative investments	0	2,295,000	1,247,454	4,309,546	7,852,000
Mutual funds	5,264,000	4,738,000	47,626,279	11,190,721	68,819,000
Auction rate securities	2,815,000	-	11,261,550	8,658,450	22,735,000
Other	-	-	-	-	-
Cash surrender value of life insurance and other	-	5,917,000	22,908,763	237	28,826,000
<b>Totals</b>	<b>\$25,693,000</b>	<b>\$54,504,000</b>	<b>\$138,060,782</b>	<b>\$35,703,218</b>	<b>\$253,961,000</b>

**Care New England Health System**  
 Supporting Schedule—Disproportionate Share  
*Fiscal year ended September 30, 2009*

<b>Disproportionate Share</b>	<b>Butler</b>	<b>Kent</b>	<b>WIH</b>	<b>Total</b>
Disproportionate share—Medicaid	\$8,828	\$8,445,012	\$16,562,698	\$25,016,538
Disproportionate share—Medicare	\$0	\$3,530,000	\$ 1,087,926	\$ 4,617,926

**Care New England Health System**  
*Supporting Schedule–Licensure Fee*  
*Fiscal year ended September 30, 2009*

<b>Licensure Fee</b>	<b>Kent</b>	<b>WIH</b>	<b>Total</b>
Licensure fee	<u>\$11,376,116</u>	<u>\$14,698,788</u>	<u>\$26,074,904</u>