

AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

Southeastern Healthcare System, Inc. and Affiliates
Years Ended September 30, 2009 and 2008
With Report of Independent Auditors

Southeastern Healthcare System, Inc. and Affiliates

Audited Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2009 and 2008

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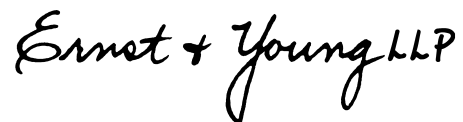
Report of Independent Auditors

Board of Trustees
Southeastern Healthcare System, Inc. and Affiliates

We have audited the accompanying consolidated balance sheets of Southeastern Healthcare System, Inc. and Affiliates (the System) as of September 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of SHSI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the System's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southeastern Healthcare System, Inc. and Affiliates at September 30, 2009 and 2008, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



March 1, 2010

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Balance Sheets

	September 30	
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,791,975	\$ 2,705,681
Current portion of assets whose use is limited	1,789,391	2,409,152
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$8,270,000 and \$7,730,000 for 2009 and 2008, respectively	34,750,619	35,164,101
Other accounts receivable	1,213,767	884,795
Estimated settlements with third-party payors	3,062,696	2,646,557
Inventories	759,265	940,603
Prepaid expenses and other	1,117,861	756,681
Total current assets	44,485,574	45,507,570
Assets whose use is limited:		
By the Board for designated purposes	30,817,515	32,447,532
Held by trustee under indenture agreement	—	788,320
Pledges receivable	403,319	467,425
By donors for designated purposes	691,314	757,526
By donors for permanent endowment	3,124,158	3,124,158
By externally administered trusts	6,236,856	6,314,502
Deferred compensation	2,399,725	2,376,554
	43,672,887	46,276,017
Less amount required to meet current obligations	(1,789,391)	(2,409,152)
Total non-current assets whose use is limited	41,883,496	43,866,865
Property and equipment, net	34,945,135	37,621,766
Other assets, net	260,829	287,581
Total assets	\$ 121,575,034	\$ 127,283,782

	September 30	
	2009	2008
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 24,667,002	\$ 25,897,424
Accrued interest payable	174,984	187,659
Current portion of long-term debt and capital lease obligations	1,582,385	1,582,385
Line of credit	5,000,000	5,000,000
Total current liabilities	<u>31,424,371</u>	<u>32,667,468</u>
Long-term pension liability	36,780,563	13,216,621
Long-term debt, net of current portion	14,275,868	15,858,253
Estimated self-insurance liabilities and other liabilities	1,154,752	934,265
Deferred compensation liability	2,399,725	2,376,554
Total liabilities	<u>86,035,279</u>	<u>65,053,161</u>
Net assets:		
Unrestricted	25,487,427	52,034,435
Temporarily restricted	691,314	757,526
Permanently restricted	9,361,014	9,438,660
Total net assets	<u>35,539,755</u>	<u>62,230,621</u>
Total liabilities and net assets	<u><u>\$ 121,575,034</u></u>	<u><u>\$ 127,283,782</u></u>

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Operations and Changed in Net Assets

	Year Ended September 30	
	2009	2008
Operating revenues:		
Net patient service revenue	\$ 168,605,400	\$ 165,491,224
Other revenue	7,818,184	8,524,051
Net assets released from restrictions for operations	60,434	202,724
Total operating revenues	176,484,018	174,217,999
Operating expenses:		
Salaries and wages	84,391,373	86,954,079
Employee benefits	27,434,032	25,528,232
Supplies, purchased services, and other	44,243,266	46,429,117
Provision for bad debts	12,688,221	12,397,208
Depreciation and amortization	4,302,288	4,425,073
Licensing fee	7,303,539	4,567,793
Interest	1,219,502	1,256,611
Total operating expenses	181,582,221	181,558,113
Loss from operations	(5,098,203)	(7,340,114)
Non-operating (losses) gains:		
Investment income	321,158	800,262
Net realized (losses) gains on sales of investments	(3,115,944)	2,536,900
Unrestricted donations	368,144	761,039
Income on assets held in trust	245,442	256,679
Total nonoperating (losses) gains	(2,181,200)	4,354,880
Deficiency of revenue over expenses before change in appreciation (depreciation) of investments	(7,279,403)	(2,985,234)
Change in appreciation (depreciation) of investments	3,314,461	(10,382,330)
Deficiency of revenue over expenses	(3,964,942)	(13,367,564)

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Southeastern Healthcare System, Inc. and Affiliates

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

	Year Ended September 30	
	2009	2008
Change in unrestricted net assets (continued):		
Deficiency of revenue over expenses	(3,964,942)	(13,367,564)
Change in pension liability	(21,789,804)	(1,772,482)
Effect of change in measurement date for pension liability	(882,733)	-
Net assets released from restrictions	(37,907)	-
Contribution of long-lived assets	33,253	13,000
Net assets released from restrictions used for purchase of property and equipment	95,125	1,783,180
Decrease in unrestricted net assets	(26,547,008)	(13,343,866)
Change in temporarily restricted net assets:		
Contributions	87,147	484,594
Investment income	(35,707)	871,944
Net assets released from restrictions	(117,652)	(1,985,904)
Decrease in temporarily restricted net assets	(66,212)	(629,366)
Change in permanently restricted net assets:		
Change in unrealized depreciation on assets held in externally administered trusts	(77,646)	(1,009,236)
Permanently restricted contributions to externally administered trusts	-	69
Decrease in permanently restricted net assets	(77,646)	(1,009,167)
Decrease in net assets	(26,690,866)	(14,982,399)
Net assets at beginning of year	62,230,621	77,213,020
Net assets at end of year	\$ 35,539,755	\$ 62,230,621

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2009	2008
Operating activities		
Decrease in net assets	\$ (26,690,866)	\$ (14,982,399)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and non-operating gains:		
Depreciation and amortization	4,302,288	4,425,073
Provision for bad debts	12,688,221	12,397,208
Amortization of bond premium	(22,385)	(22,385)
Change in pension liability and effect of change in measurement date for pension liability	22,672,537	1,772,482
Restricted contributions and investment income	(51,440)	(1,356,607)
Change in:		
Patient accounts receivable	(12,274,739)	(12,923,389)
Other accounts receivable	(328,972)	(341,911)
Estimated settlements with third-party payors	(416,139)	(1,838,674)
Inventories	181,338	149,282
Prepaid expenses and other	(361,180)	100,874
Investments classified as trading	2,603,130	17,241,787
Accounts payable, accrued expenses and pension	(339,017)	2,738,281
Accrued interest payable	(12,675)	(15,600)
Estimated self-insurance liabilities and other liabilities	220,487	240,078
Deferred compensation liability	23,171	(279,125)
Net cash provided by operating activities and non-operating gains	2,193,759	7,304,975
Investing activities		
Purchases of property and equipment, net	(1,598,905)	(6,127,166)
Net cash used in investing activities	(1,598,905)	(6,127,166)
Financing activities		
Restricted contributions and investment income	51,440	1,356,607
Repayments of long-term debt and additional financing costs	(1,560,000)	(1,560,000)
Borrowings on line of credit, net	-	406,000
Net cash (used) provided by financing activities	(1,508,560)	202,607
Net (decrease) increase in cash and cash equivalents	(913,706)	1,380,416
Cash and cash equivalents at beginning of year	2,705,681	1,325,265
Cash and cash equivalents at end of year	\$ 1,791,975	\$ 2,705,681

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

September 30, 2009

1. Summary of Significant Accounting Policies

Organization

Southeastern Healthcare System, Inc. (SHSI), formed in 1997, is the sole corporate member or shareholder of Memorial Hospital of Rhode Island (the Hospital), Primary Care Centers of New England, Inc. (PCCNE), and Blackstone Health, Inc. (BHI) (collectively referred to as the System). The Hospital is the sole corporate member of R.S. Realty Company (RSR) and SHS Ventures, Inc. (Ventures).

The Hospital is a 294-bed, acute care, not-for-profit community teaching and research hospital located in Pawtucket, Rhode Island, and is affiliated with Brown University School of Medicine. RSR owns and leases apartments and office space primarily to Hospital employees. PCCNE provides staffing to Ventures and the Hospital. Ventures consists of Massachusetts-based physician practices. BHI receives and administers certain grant funds, and provides services to elderly and disabled residents in the local area.

Principles of Consolidation

The accompanying consolidated financial statements include the assets of SHSI and its controlled affiliates. The assets of any one of the members of the consolidated group may not be available to meet the obligations of other entities in the group. Intercompany balances and transactions between the organizations have been eliminated in consolidation.

Use of Estimates

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

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue

The System has entered into payment agreements with Medicare, Medicaid, and various commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under those agreements includes prospectively determined rates per discharge, discounts from established charges, costs (subject to limits), fee screens, prospectively determined per diem rates, and capitation fees earned on a per-member-per-month basis. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and final determination by the third-party payors. Variances between preliminary estimates of net patient service revenue and final third-party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs. During fiscal year 2009 and 2008, the System recorded a change in estimate of \$923,712 and \$ (12,188), respectively.

Consolidated Statements of Operations

The consolidated statements of operations include the excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets, including assets acquired using contributions which, by donor restrictions, were to be used for the purpose of acquiring such assets, change in pension liability, the effect of change in measurement date for pension liability, and net assets released from restrictions used to purchase property and equipment.

For presentation purposes, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and operating expenses. Other transactions not considered major or central to the provision of health care services are reported as non-operating gains and losses, which primarily consist of investment income and unrestricted donations.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Grant Revenue

The Hospital receives grants from agencies of the federal government and other sources to perform medical research and educational projects. Revenue related to the grants is recognized as the related costs are incurred. Grant revenues included in other revenue amounted to \$3,333,161 and \$3,891,994 for the years ended September 30, 2009 and 2008, respectively. Deferred revenues which relate to grant funds received prior to costs being incurred are included in accounts payable and accrued expenses and amounted to \$910,973 and \$755,538 at September 30, 2009 and 2008, respectively.

Functional Expenses

Substantially all expenses in the accompanying consolidated statements of operations are related to the delivery of health care services and the performance of medical research and educational projects.

Disproportionate Share Program

The Hospital is a participant in the State of Rhode Island's Disproportionate Share Program, which was established in 1995 to assist hospitals that provide a disproportionate amount of uncompensated care. Under the program, the Hospital receives federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. Payments to the Hospital under the Disproportionate Share Program of \$8,346,204 and \$6,349,608 for the years ended September 30, 2009 and 2008, respectively, are included in net patient service revenue in the accompanying consolidated statements of operations.

Assessments

The State of Rhode Island assesses a licensing fee to all Rhode Island hospitals based upon each hospital's gross patient service revenue as reported on filed cost reports. The Hospital's licensing fee amounted to \$7,303,539 and \$4,567,793 for the years ended September 30, 2009 and 2008, respectively.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of amounts restricted by donors for specific purposes. Permanently restricted net assets have been restricted by donors and are to be maintained by the System in perpetuity. Also included in permanently restricted net assets are assets held in externally administered irrevocable trusts which are not under the System's control. The System is the income beneficiary of certain perpetual trusts and has recognized its share of the fair value of the perpetual trusts as a permanently restricted asset. The System's share represents the percentage of interest the System has in the perpetual trust's income distributions. The System's share of the increase or decrease in fair value of the perpetual trusts is reported as an increase or decrease in permanently restricted net assets.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted donations.

Cash and Cash Equivalents

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

Inventories

Inventories are stated at the lower of cost or market, cost being determined on a weighted-average basis, except for the pharmacy and central processing department, which utilize the first-in, first-out basis.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Assets Whose Use Is Limited

Resources set aside for board-designated purposes or limited under terms of loan agreements are considered to be assets whose use is limited. Assets whose use is limited that are required for obligations classified as current liabilities are classified as current assets.

Assets whose use is limited by donors for designated purposes consist of amounts contributed for the design and renovation of the Hospital's facility. Assets whose use is limited by donors for permanent endowment funds contain a donor-imposed restriction stipulating that these resources be maintained permanently. However, the restriction permits the Hospital to use or expend all of the income and net gains derived from the donated assets. Accordingly, investment income on the assets is unrestricted. Rhode Island general law allows organizations to permanently restrict investment earnings on permanently restricted funds to maintain the purchasing power of the original dollar value of the funds. The law also allows the governing board to expend such funds as permitted under other laws, the terms of the applicable gift instrument, or the charter of the institution. Each year, the Board of Trustees has designated all income of permanently restricted assets, other than externally administered trusts, for future Hospital use and, therefore, the income has been classified as unrestricted.

The Hospital is the beneficiary of the income from externally administered trusts, which are not under its control. Income from these trusts is unrestricted, and the annual distributions received by the Hospital are reported as non-operating gains in the consolidated statements of operations.

Investments and Investment Income

The Hospital has designated its investment portfolio as trading. Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is generally determined based on quoted market price. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses, net of investment expenses.

Property and Equipment

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

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of debt, which are being amortized over the term of the related debt issue. Amortization expense amounted to \$26,753 and \$26,753 for the years ended September 30, 2009 and 2008, respectively.

Fair Value of Financial Instruments

The fair value of the System's financial instruments approximates the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, receivables, and payables. See Note 13 for the fair value of investments and assets whose use is limited and Note 6 for the fair value of long-term debt.

Tax Status

SHSI, the Hospital, Ventures and BHI have been recognized as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the Code). RSR has been recognized as a tax-exempt organization under Section 501(c)(2) of the Code. Those organizations are, therefore, exempt from federal taxes on related income pursuant to Section 501(a) of the Code. PCCNE is organized as a for-profit corporation and is, therefore, subject to tax. The provision for income taxes on the earnings of PCCNE is immaterial to the consolidated financial statements.

As of September 30, 2009, PCCNE has net operating loss carryforwards of approximately \$1,380,000 for income tax purposes. These carryforwards resulted from PCCNE incurring operating losses in prior years. A deferred tax asset for these losses of approximately \$552,000 is offset by a corresponding valuation allowance of the same amount.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (Statement 168). Statement 168 establishes the FASB Accounting Standards Codification (ASC, also collectively known as the Codification) as the single source of authoritative GAAP to be applied by nongovernmental entities. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. Statement 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The System has adopted Statement 168 for its year ended September 30, 2009. Accounting references have been updated and replaced with ASC references.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*, (hereafter referred to as ASC No. 820) which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosure about fair value measurements. The System adopted ASC No. 820 effective October 1, 2008. The effect of adopting ASC No. 820 was not material to the System's financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (hereafter referred to as ASC No. 825) which permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. The System adopted ASC No. 825 effective October 1, 2008. The System did not elect the option to value any other assets or liabilities at fair value.

In June 2009, the FASB issued a Statement on Subsequent Events. This statement provides authoritative accounting guidance and disclosure requirements for material events occurring subsequent to the balance sheet date and prior to the issuance of the financial statements. This statement is effective for the System for the year ended September 30, 2009. The System has evaluated the impact of subsequent events through March 1, 2010, representing the date at which the financial statements were issued.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2008 balances previously reported in the balance sheets in order to conform with the year ended September 30, 2009 presentation.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Revenues from Services to Patients and Uncompensated Care

During fiscal years 2009 and 2008, the Hospital's net revenues from services to patients were 32% and 33% from Medicare and 17% and 16% from Medicaid, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

Patient accounts receivable and revenues are recorded when patient services are performed. The Hospital has agreements with certain third-party payors, including health maintenance organizations, that provide for payments to the Hospital at amounts different from the Hospital's established billing rates. These differences are accounted for as allowances. Under those agreements, the Hospital receives reimbursement based on a number of different payment arrangements.

Net revenues from services to patients is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition to the above-mentioned medical care rendered, the Hospital provides numerous other services to the community for which charges are not generated. These services include translation of medical information into various languages, physician referral services, health care screenings (including those done at employer sites), community support groups, health educational programs, physician services, and general community benefit services such as disaster relief. In addition, volunteer services are provided by Hospital staff to the community on their own time.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Revenues from Services to Patients and Uncompensated Care (continued)

The Hospital also provides services to other indigent patients under the Medicaid program, which reimburses health care providers at amounts which are, in total, estimated to be less than the cost of services provided. The differences between the cost of services provided to indigent patients and the expected reimbursement is also considered to be charitable services by the Hospital but they have not been included in the amounts disclosed above.

In addition to the cost of charity care and other community service programs, the Hospital provided \$12,688,221 and \$12,397,208 for uncollectible patient accounts during the years ended September 30, 2009 and 2008, respectively.

3. Assets Whose Use is Limited

Assets whose use is limited consists of the following at fair value at September 30:

	2009	2008
Interest and other receivables	\$ 1,282,145	\$ 1,219,524
Pledges receivable	403,319	467,425
Deferred compensation trust	2,399,725	2,376,554
Assets held in externally administered trusts	6,236,856	6,314,502
Cash and money market investments	6,810,242	6,357,090
Marketable securities	26,540,600	29,540,922
	\$ 43,672,887	\$ 46,276,017

Marketable securities consist of the following at fair value at September 30:

	2009	2008
Equity securities	\$ 16,172,893	\$ 15,658,736
Corporate bonds	4,134,555	5,076,358
Mutual funds	3,707,015	4,597,555
U.S. government obligations	2,526,137	4,208,273
	\$ 26,540,600	\$ 29,540,922

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

3. Assets Whose Use is Limited (continued)

The System's unrestricted investment return for the years ended September 30 consisted of the following:

	2009	2008
Interest income	\$ 321,158	\$ 800,262
Net realized (losses) gains on sales of investments	(3,115,944)	2,536,900
Income on assets held in trust	245,442	256,679
	(2,549,344)	3,593,841
Interest and dividend income on trustee funds included in other operating revenue	-	37,783
Change in (depreciation) appreciation of investments	3,314,461	(10,382,330)
	\$ 765,117	\$ (6,750,706)

4. Endowment

The System has interpreted the Rhode Island Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, beginning in fiscal year 2010, the System will classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment related to the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the System and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the System; and (7) the investment and spending policies of the System.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

4. Endowment (continued)

The System's endowment consists of funds established for a variety of purposes. The endowment includes donor-restricted endowment funds. The System's net asset composition by fund type as of September 30, 2009 includes:

Changes in endowment net asset for the year ended September 30, 2009 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ –	\$ 9,438,660	\$ 9,438,660
Change in value of beneficial interest trust	–	(77,646)	(77,646)
Endowment net assets, end of year	\$ –	\$ 9,361,014	\$ 9,361,014

From time to time, the fair value of assets associated with permanently restricted endowment funds may fall below the level determined under UPMIFA.

The System has adopted investment practices for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment. To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

5. Property and Equipment

Property and equipment consisted of the following at September 30:

	2009	2008
Land	\$ 1,912,714	\$ 1,912,714
Land improvements	1,539,572	1,539,572
Buildings and improvements	48,444,254	48,332,401
Equipment	57,003,672	66,912,616
Construction-in-progress	402,984	257,610
	109,303,196	118,954,913
Less accumulated depreciation and amortization	(74,358,061)	(81,333,147)
Property and equipment, net	\$ 34,945,135	\$ 37,621,766

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

6. Line of Credit

The Hospital has an unsecured revolving line of credit with a bank which provides for borrowings of up to \$5,000,000 for both fiscal 2009 and 2008. Interest accrues at the effective LIBOR rate of LIBOR plus 3.5% (4.75% at September 30, 2009).

7. Long-term Debt

Long-term debt consists of the following at September 30:

	<u>2009</u>	<u>2008</u>
Rhode Island Health and Educational Building Corporation Hospital Financing Revenue Refunding Bonds	\$ 15,640,000	\$ 17,200,000
Add premium	218,253	240,638
Less current portion	(1,582,385)	(1,582,385)
Long-term debt	<u>\$ 14,275,868</u>	<u>\$ 15,858,253</u>

In December 2003, the Rhode Island Health and Educational Building Corporation (RIHEBC) issued \$25,000,000 of Series 2003 Hospital Financing Revenue Refunding Bonds (the Bonds) on behalf of the Hospital. RIHEBC loaned the proceeds of the Bonds to the Hospital pursuant to the Loan and Trust Agreement (the Agreement) dated December 1, 2003. The terms of the Agreement stipulate that interest will be paid at fixed rates ranging from 2.00% to 5.25% per annum (weighted-average rate at September 30, 2008 and 2009 was 4.36% and 4.48%, respectively), with principal installments commencing July 1, 2004 and ending July 1, 2019.

The Bonds are issued under and collateralized by the Agreement. The terms of the Agreement require that the Hospital makes quarterly payments to the trustee, which are sufficient to provide for payment of principal and interest due on the Bonds. The Bonds are collateralized by a lien on the Hospital's gross receipts. Additional debt collateralized on a parity with the Bonds may only be incurred by the Hospital in accordance with restrictions of the Agreement.

As security for the payment of the principal amount of the bonds, a bank letter of credit was issued under the terms of a Reimbursement Agreement between the Hospital and the bank dated December 31, 2003 (Reimbursement Agreement). Section 7 of the Reimbursement Agreement contains various covenants with which the Hospital must comply.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

7. Long-term Debt (continued)

At September 30, 2008 the Hospital was not in compliance with Section 7(k) of the Reimbursement Agreement which relates to leverage. This situation was primarily due to the deterioration of the financial markets and the related decline in the Hospital's investment portfolio. On March 13, 2009 the Hospital received a waiver from the bank whereby the bank agreed to waive such defaults as of September 30, 2008. On July 31, 2009 the Hospital received an amendment, which modified several terms of the Reimbursement Agreement, including certain financial ratios. At September 30, 2009 the Hospital was in compliance with all covenants contained in the Reimbursement Agreement. The aggregate maturities of long-term debt (prior to amortization of premium) for the next five fiscal years ending September 30 and thereafter are approximately as follows:

2010	\$ 1,560,000
2011	1,560,000
2012	1,560,000
2013	1,560,000
2014	1,560,000
Thereafter	7,840,000

Cash paid for interest on all borrowings during the years ended September 30, 2009 and 2008 was approximately \$1,255,000 and \$1,295,000, respectively.

8. Pension Plan

The Hospital has a defined benefit pension plan (the Plan) covering substantially all of its employees. The plan benefits are based on years of service and employees' compensation during the last five years of covered employment. The Hospital makes annual contributions to the Plan, which approximates the amount of net periodic pension cost. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

On September 29, 2006, the FASB issued Statement No., 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, and amendment of FASB Statements No. 87, 88, 106 and 123(R)* (hereafter referred to as ASC No. 715). In 2009, the System adopted the measurement date provisions of ASC No. 715. ASC No. 715 required the System to measure defined benefit plan assets and obligations as of September 30, the date of its fiscal year end statement of financial position. Prior to the implementation of this change, the measurement date for the System's pension and postretirement benefit plans was June 30. The adjustment to unrestricted net assets at adoption represents a decrease to net assets of \$882,733 and an increase to accrued pension obligation. The adoption of the measurement date provision of ASC No. 715 had no effect on the System's financial results for fiscal 2009 or any prior period presented. It will not affect the System's operating results in future periods.

The following table sets forth the status of the retirement plan as of September 30:

	2009	2008
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 90,314,749	\$ 86,998,357
Service cost	4,329,294	3,449,380
Interest cost	7,512,867	5,566,320
Benefits paid	(2,712,676)	(2,405,638)
Actuarial gain (loss)	7,989,424	(3,293,670)
Projected benefit obligation at end of year	107,433,658	90,314,749
Change in plan assets		
Fair value of plan assets at beginning of year	72,078,175	73,104,188
Actual return on plan assets	(3,626,491)	(1,425,712)
Contributions and transfers	4,914,087	2,805,337
Benefits paid	(2,712,676)	(2,405,638)
Fair value of plan assets at end of year	70,653,095	72,078,175
Unfunded status	\$ (36,780,563)	\$ (18,236,574)

Accrued pension cost included in accounts payable and accrued expenses as of September 30, 2008 was \$5,019,953.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

Components of net periodic pension cost are as follows for the years ended September 30:

	<u>2009</u>	<u>2008</u>
Service cost – benefits earned during the year	\$ 4,329,294	\$ 3,449,380
Interest cost on projected benefit obligation	7,512,867	5,566,320
Actual return on plan assets	(8,217,105)	(6,599,179)
Net amortization and deferral	823,294	387,964
Net periodic pension cost	<u>\$ 4,448,350</u>	<u>\$ 2,804,485</u>

The adoption of ASC No. 715 resulted in an addition three months of net periodic pension costs. Costs of \$882,733 as a result of the adoption were recognized as a reduction of unrestricted net assets. The remaining \$3,565,617 of expense is included within employee benefits expense.

Assumptions

Weighted-average assumptions used to determine benefit obligations and net cost at September 30, 2009 and 2008 and the years then ended are as follows:

	<u>Benefit Obligations</u>		<u>Net Periodic Pension Cost</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Discount rate	5.80%	6.75%	6.75%	6.50%
Expected rate of return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	2.00%	4.00%	2.00%	4.00%

The expected rate of return on plan assets was determined by the expected return on each asset class based on a model that considers historical and expected future performance.

The accumulated benefit obligation was \$96,899,855 and \$77,673,717 at September 30, 2009 and 2008, respectively.

The measurement date for determining plan assets and obligations is September 30.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

Plan Assets

The pension plan weighted-average asset allocations as of September 30, 2009 and 2008, by asset category, are as follows:

	Target Allocation	2009	2008
Equity securities	38%	34%	37%
Annuities	42	47	41
Debt securities	20	12	16
Cash equivalents	–	7	6
Total	100%	100	100%

The goals of the pension plan are to provide a secure retirement benefit for pension plan participants and to manage pension plan assets for the exclusive benefit of the participants. The invested assets will be managed on a long-term total return basis and measured against established benchmarks for each asset class. Risk management is achieved by limiting the size of asset class and individual security positions to achieve adequate diversification. The Plan will maintain a funded level sufficient to ensure benefit security.

Cash Flows

Contributions

The Hospital funds its pension plan in accordance with guidelines prescribed by the Employee Retirement Income Security Act of 1974 (ERISA). The Hospital expects to contribute \$5,480,065 to its pension plan in fiscal 2010.

Estimated Future Benefit Payments

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

2010	\$ 3,544,000
2011	3,690,000
2012	4,215,000
2013	4,640,000
2014	4,963,000
2015 – 2019	30,721,000

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Estimated Self-Insurance Liabilities

Professional Liability Insurance

Effective July 1, 2004, professional liability insurance coverage was provided on an occurrence basis. Such coverage was provided on a claims-made basis through June 30, 2004. The claims-made policies cover only claims made during the terms of the policies and not those occurrences for which claims may be made after expiration of the policies. The System is self-insured with respect to incurred but not reported (IBNR) claims incurred prior to July 1, 2004. Accordingly, the System has recorded a liability of \$444,037 at September 30, 2009 for such IBNR exposure.

Workers' Compensation Insurance

The System is self-insured with respect to workers' compensation risks up to a maximum of \$350,000 per claim. The provision for estimated self-insured workers' IBNR compensation claims includes estimates of the ultimate costs for both reported claims and claims. The estimates incorporate the System's past experience, as well as other considerations.

10. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The percentage of accounts receivable from patients and various third-party payors was as follows at September 30:

	<u>2009</u>	<u>2008</u>
Medicare	32%	33%
Blue Cross	30	31
Medicaid	17	16
Other third-party payors	15	15
Patients	6	5
	<u>100%</u>	<u>100%</u>

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at September 30:

	2009	2008
General activities	\$ 559,977	\$ 604,235
Research	131,337	153,292
	\$ 691,314	\$ 757,527

Permanently restricted net assets consist of the following at September 30:

	2009	2008
Principal portion of contributions restricted in perpetuity by donors	\$ 3,124,158	\$ 3,124,158
Assets held in externally administered trusts	6,236,856	6,314,502
	\$ 9,361,014	\$ 9,438,660

12. Commitments and Contingencies

The System is a defendant in several lawsuits, which are in various stages of progress or discovery. Management believes that its insurance coverage is adequate to cover claims made under all such lawsuits and, accordingly, no provision for loss has been reflected in the accompanying consolidated financial statements.

13. Fair Value Measurement

The System has adopted the methods of calculating fair value as defined in ASC No. 820 to value its financial assets and liabilities, where applicable. ASC No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

ASC No. 820 establishes a three tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

13. Fair Value Measurement (continued)

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

Level 3: Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

In determining fair value, the System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The System also considers nonperformance risk in the overall assessment of fair value.

Financial assets carried at fair value as of September 30, 2009 are classified in the following table in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 8,602,217	\$ –	\$ –	\$ 8,602,217
Mutual Funds	3,707,015	–	–	3,707,015
Equity securities	16,172,893			16,172,893
U.S. government obligations	2,526,137	–	–	2,526,137
Corporate bonds	4,134,555	–	–	4,134,555
Common collective trusts	–	8,636,581		8,636,581
Investments at fair value	\$ 35,142,817	\$ 8,636,581	\$ –	43,779,398
Interest and other receivables				1,282,145
Pledge receivable				403,319
Total investments				\$ 45,464,862

The fair value of long-term debt, which is not required to be carried at fair value, is approximately \$16,172,000 and 16,419,000 at September 30, 2009 and 2008, respectively. Fair value of long-term debt is based on current borrowing rate for similar types of debt using undiscounted cash flow analysis.

Other Financial Information

Report of Independent Auditors on Other Financial Information

Board of Trustees
Southeastern Healthcare System, Inc. and Affiliates

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

March 1, 2010

Southeastern Healthcare System, Inc.

Consolidating Balance Sheets

September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 588,412	\$ 491,194	\$ 8,533	\$ –	\$ 1,088,139	\$ 21,323	\$ 655,351	\$ 27,162	\$ 1,791,975	\$ –	\$ 1,791,975
Assets limited as to use	1,789,391	–	–	–	1,789,391	–	–	–	1,789,391	–	1,789,391
Patient accounts receivable, net	34,705,649	–	42,512	–	34,748,161	2,458	–	–	34,750,619	–	34,750,619
Other accounts receivable	972,639	6,820	27,516	–	1,006,975	51,849	209,367	–	1,268,191	(54,424)	1,213,767
Estimated third party settlements	3,062,696	–	–	–	3,062,696	–	–	–	3,062,696	–	3,062,696
Inventories	752,440	–	6,825	–	759,265	–	–	–	759,265	–	759,265
Prepaid expenses	1,081,771	13,343	11,174	–	1,106,288	–	11,573	–	1,117,861	–	1,117,861
Total current assets	42,952,998	511,357	96,560	–	43,560,95	75,630	876,291	27,162	44,539,998	(54,424)	44,485,574
Assets limited as to use:											
By the Board for designated purposes	29,271,022	–	–	(200,000)	29,071,022	512,716	–	–	29,583,738	–	29,583,738
By the Board for designated purposes – Littlefield	1,233,777	–	–	–	1,233,777	–	–	–	1,233,777	–	1,233,777
Pledges receivable	403,319	–	–	–	403,319	–	–	–	403,319	–	403,319
By donors for specific purposes	691,314	–	–	–	691,314	–	–	–	691,314	–	691,314
By donors for permanent endowment	3,124,158	–	–	–	3,124,158	–	–	–	3,124,158	–	3,124,158
By externally administered trusts	6,236,856	–	–	–	6,236,856	–	–	–	6,236,856	–	6,236,856
Deferred compensation trust	2,399,725	–	–	–	2,399,725	–	–	–	2,399,725	–	2,399,725
	43,360,717	–	–	(200,000)	43,160,717	512,716	–	–	43,672,887	–	43,672,887
Less amount required to meet current obligations											
	(1,789,391)	–	–	–	(1,789,391)	–	–	–	(1,789,391)	–	(1,789,391)
	41,570,780	–	–	(200,000)	41,370,780	512,716	–	–	41,883,496	–	41,883,496
Property and equipment, net	34,324,599	586,063	9,603	–	34,920,265	–	24,870	–	34,945,135	–	34,945,135
Deferred financing costs, net	260,829	–	–	–	260,829	–	–	–	260,829	–	260,829
Total assets	\$ 119,109,206	\$ 1,097,420	\$ 106,163	\$ (200,000)	\$ 120,112,789	\$ 588,346	\$ 901,161	\$ 27,162	\$ 121,629,458	\$ (54,424)	\$ 121,575,034

Southeastern Healthcare System, Inc.
Consolidating Balance Sheets (continued)

September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 24,042,519	\$ 372,582	\$ 211,117	\$ (200,000)	\$ 24,426,218	\$ 47,252	\$ 132,917	\$ –	\$ 24,606,387	\$ (54,424)	\$ 24,551,963
Deferred revenue	–	–	–	–	–	–	115,039	–	115,039	–	115,039
Estimated third party settlements	–	–	–	–	–	–	–	–	–	–	–
Accrued interest payable	174,984	–	–	–	174,984	–	–	–	174,984	–	174,984
Current portion of long-term debt and capital lease obligations	1,582,385	–	–	–	1,582,385	–	–	–	1,582,385	–	1,582,385
Line of credit	5,000,000	–	–	–	5,000,000	–	–	–	5,000,000	–	5,000,000
Total current liabilities	30,799,888	372,582	211,117	(200,000)	31,183,587	47,252	247,956	–	31,478,795	(54,424)	31,424,371
Additional minimum pension liability	36,780,563	–	–	–	36,780,563	–	–	–	36,780,563	–	36,780,563
Long-term debt, net of current portion	14,275,868	–	–	–	14,275,868	–	–	–	14,275,868	–	14,275,868
Capital lease obligations	–	–	–	–	–	–	–	–	–	–	–
Estimated self-insurance and other liabilities	1,154,752	–	–	–	1,154,752	–	–	–	1,154,752	–	1,154,752
Other long-term liabilities	2,399,725	–	–	–	2,399,725	–	–	–	2,399,725	–	2,399,725
Total liabilities	85,410,796	372,582	211,117	(200,000)	85,794,495	47,252	247,956	–	86,089,703	(54,424)	86,035,279
Net assets:											
Unrestricted	23,646,082	724,838	(104,954)	–	24,265,966	541,094	653,205	27,162	25,487,427	–	25,487,427
Temporarily restricted	691,314	–	–	–	691,314	–	–	–	691,314	–	691,314
Permanently restricted	9,361,014	–	–	–	9,361,014	–	–	–	9,361,014	–	9,361,014
Total net assets	33,698,410	724,838	(104,954)	–	34,318,294	541,094	653,205	27,162	35,539,755	–	35,539,755
Total liabilities and net assets	\$ 119,109,206	\$ 1,097,420	\$ 106,163	\$ (200,000)	\$ 120,112,789	\$ 588,346	\$ 901,161	\$ 27,162	\$ 121,629,458	\$ (54,424)	\$ 121,575,034

Southeastern Healthcare System, Inc.

Consolidating Balance Sheets

September 30, 2008

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 1,791,014	\$ 320,255	\$ 382	\$ -	\$ 2,111,651	\$ 19,701	\$ 547,175	\$ 27,154	\$ 2,705,681	\$ -	\$ 2,705,681
Assets limited as to use	2,409,152	-	-	-	2,409,152	-	-	-	2,409,152	-	2,409,152
Patient accounts receivable, net	35,109,474	-	52,169	-	35,161,643	2,458	-	-	35,164,101	-	35,164,101
Other accounts receivable	697,696	19,214	15,339	-	732,250	49,238	144,091	-	925,579	(40,784)	884,795
Estimated third party settlements	2,646,557	-	-	-	2,646,557	-	-	-	2,646,557	-	2,644,557
Inventories	933,778	-	6,825	-	940,603	-	-	-	940,603	-	940,603
Prepaid expenses	720,208	21,386	9,330	-	750,924	-	5,757	-	756,681	-	756,681
Total current assets	44,307,880	360,855	84,045	-	44,752,780	71,397	697,023	27,154	45,548,354	(40,784)	45,507,570
Assets limited as to use:											
By the Board for designated purposes	31,273,038	-	-	-	31,273,038	512,716	-	-	31,785,754	-	31,785,754
By the Board for designated purposes – Littlefield	1,129,203	-	-	-	1,129,203	-	-	-	1,129,203	-	1,129,203
Held by trustee under loan agreement	788,320	-	-	-	788,320	-	-	-	788,320	-	788,320
By donors for specific purposes	757,526	-	-	-	757,526	-	-	-	757,526	-	757,526
By donors for permanent endowment	3,124,158	-	-	-	3,124,158	-	-	-	3,124,158	-	3,124,158
By externally administered trusts	6,314,502	-	-	-	6,314,502	-	-	-	6,314,502	-	6,314,502
Deferred compensation trust	2,376,554	-	-	-	2,376,554	-	-	-	2,376,554	-	2,376,554
	45,763,301	-	-	-	45,763,301	512,716	-	-	46,276,017	-	46,276,017
Less amount required to meet current obligations	(2,409,152)	-	-	-	(2,409,152)	-	-	-	(2,409,152)	-	(2,409,152)
	43,354,149	-	-	-	43,354,149	512,716	-	-	43,866,865	-	43,866,865
Property and equipment, net	36,921,702	648,162	12,457	-	37,582,321	-	39,445	-	37,621,766	-	37,621,766
Deferred financing costs, net	287,581	-	-	-	287,581	-	-	-	287,581	-	287,581
Total assets	\$ 124,871,312	\$ 1,009,017	\$ 96,502	\$ -	\$ 125,976,831	\$ 584,113	\$ 736,468	\$ 27,154	\$ 127,324,566	\$ (40,784)	\$ 127,283,782

Southeastern Healthcare System, Inc.
Consolidating Balance Sheets (continued)

September 30, 2008

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 25,500,706	\$ 146,846	\$ 73,776	\$ —	\$ 25,721,328	\$ 44,671	\$ 104,714	\$ —	\$ 25,870,713	\$ (40,784)	\$ 25,829,929
Deferred revenue	—	—	—	—	—	—	67,495	—	67,495	—	67,495
Estimated third party settlements	—	—	—	—	—	—	—	—	—	—	—
Accrued interest payable	187,659	—	—	—	187,659	—	—	—	187,659	—	187,659
Current portion of long-term debt and capital lease obligations	1,582,385	—	—	—	1,582,385	—	—	—	1,582,385	—	1,582,385
Line of credit	5,000,000	—	—	—	5,000,000	—	—	—	5,000,000	—	5,000,000
Total current liabilities	32,270,750	146,846	73,776	—	32,491,372	44,671	172,209	—	32,708,252	(40,784)	32,667,468
Additional minimum pension liability	13,216,621	—	—	—	13,216,621	—	—	—	13,216,621	—	13,216,621
Long-term debt, net of current portion	15,858,253	—	—	—	15,858,253	—	—	—	15,858,253	—	15,858,253
Capital lease obligations	—	—	—	—	—	—	—	—	—	—	—
Estimated self-insurance and other liabilities	934,265	—	—	—	934,265	—	—	—	934,265	—	934,265
Other long-term liabilities	2,376,554	—	—	—	2,376,554	—	—	—	2,376,554	—	2,376,554
Total liabilities	64,656,443	146,846	73,776	—	64,877,065	44,671	172,209	—	65,093,945	(40,784)	65,053,161
Net assets:											
Unrestricted	50,018,683	862,171	22,726	—	50,903,580	539,442	564,259	27,154	52,034,435	—	52,034,435
Temporarily restricted	757,526	—	—	—	757,526	—	—	—	757,526	—	757,526
Permanently restricted	9,438,660	—	—	—	9,438,660	—	—	—	9,438,660	—	9,438,660
Total net assets	60,214,869	862,171	22,726	—	61,099,766	539,442	564,259	27,154	62,230,621	—	62,230,621
Total liabilities and net assets	\$ 124,871,312	\$ 1,009,017	\$ 96,502	\$ —	\$ 125,976,831	\$ 584,113	\$ 736,468	\$ 27,154	\$ 127,324,566	\$ (40,784)	\$ 127,283,782

Southeastern Healthcare System, Inc.

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2009

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Unrestricted revenue, gains and other support:														
Net patient service revenue	\$ 150,788,168	\$ 6,611,666	\$ 10,359,442	\$ 167,759,276	\$ -	\$ 846,124	\$ -	\$ 168,605,400	\$ -	\$ -	\$ -	\$ 168,605,400	\$ -	\$ 168,605,400
Other revenue	6,069,366	-	-	6,069,366	780,811	96,470	(268,286)	6,678,361	72,505	1,257,709	60,008	8,068,583	(250,399)	7,818,184
Assets released from restrictions for operations	60,434	-	-	60,434	-	-	-	60,434	-	-	-	60,434	-	60,434
Total revenue, gains and other support	156,917,968	6,611,666	10,359,442	173,889,076	780,811	942,594	(268,286)	175,344,195	72,505	1,257,709	60,008	176,734,417	(250,399)	176,484,018
Expenses:														
Salaries and wages	71,080,045	4,819,219	7,264,060	83,163,324	-	669,085	120,290	83,952,699	62,000	376,674	-	84,391,373	-	84,391,373
Employee benefits	24,731,991	1,590,342	730,744	27,053,077	-	233,053	-	27,286,130	5,029	142,873	-	27,434,032	-	27,434,032
Supplies, purchased services and other	40,162,863	172,673	2,875,296	43,210,832	817,319	356,134	(588,576)	43,795,709	3,824	634,132	60,000	44,493,665	(250,399)	44,243,266
Provision for bad debts	12,654,073	-	-	12,654,073	-	34,148	-	12,688,221	-	-	-	12,688,221	-	12,688,221
Depreciation and amortization	4,183,525	-	-	4,183,525	100,825	2,854	-	4,287,204	-	15,084	-	4,302,288	-	4,302,288
Licensing fee	7,303,539	-	-	7,303,539	-	-	-	7,303,539	-	-	-	7,303,539	-	7,303,539
Interest	1,219,502	-	-	1,219,502	-	-	-	1,219,502	-	-	-	1,219,502	-	1,219,502
Total expenses	161,335,538	6,582,234	10,870,100	178,787,872	918,144	1,295,274	(468,286)	180,533,004	70,853	1,168,763	60,000	181,832,620	(250,399)	181,582,221
(Loss) gain from operations	(4,417,570)	29,432	(510,658)	(4,898,796)	(137,333)	(352,680)	200,000	(5,188,809)	1,652	88,946	8	(5,098,203)	-	(5,098,203)
Other income, gains and losses:														
Investment income	521,158	-	-	521,158	-	-	(200,000)	321,158	-	-	-	321,158	-	321,158
Net realized gains on sales of investments	(3,115,944)	-	-	(3,115,944)	-	-	-	(3,115,944)	-	-	-	(3,115,944)	-	(3,115,944)
Unrestricted donations	368,144	-	-	368,144	-	-	-	368,144	-	-	-	368,144	-	368,144
Income on assets held in trust	245,442	-	-	245,442	-	-	-	245,442	-	-	-	245,442	-	245,442
Write-off of investment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total nonoperating gains	(1,981,200)	-	-	(1,981,200)	-	-	(200,000)	(2,181,200)	-	-	-	(2,181,200)	-	(2,181,200)
Excess of revenues over expenses before change in appreciation of investments	(6,879,996)	-	-	(6,879,996)	(137,333)	(352,680)	-	(7,370,009)	1,652	88,946	8	(7,279,403)	-	(7,279,403)
Change in appreciation of investments	3,314,461	-	-	3,314,461	-	-	-	3,314,461	-	-	-	3,314,461	-	3,314,461
Excess of revenues over expenses	\$ (3,565,535)	\$ -	\$ -	(3,565,535)	(137,333)	(352,680)	-	(4,055,548)	1,652	88,946	8	(3,964,942)	-	(3,964,942)

Southeastern Healthcare System, Inc.

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

Year Ended September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
Excess (deficiency) of revenues over expenses	(3,565,535)	62,667	(352,680)	(200,000)	(4,055,548)	1,652	88,946	8	(3,964,942)	–	(3,964,942)
Change in pension liability	(21,789,804)	–	–	–	(21,789,804)	–	–	–	(21,789,804)	–	(21,789,804)
Effect of a change in measurement date for pension liability	(882,733)	–	–	–	(882,733)	–	–	–	(882,733)	–	(882,733)
Intercompany transfer	(225,000)	(200,000)	225,000	200,000	–	–	–	–	–	–	–
Contributions for capital expenditures	33,253	–	–	–	33,253	–	–	–	33,253	–	33,253
Net assets released from restrictions	(37,907)	–	–	–	(37,907)	–	–	–	(37,907)	–	(37,907)
Net assets released from restrictions used for purchase of property, plant and equipment	95,125	–	–	–	95,125	–	–	–	95,125	–	95,125
Decrease in unrestricted net assets	(26,372,601)	(137,333)	(127,680)	–	(26,637,614)	1,652	88,946	8	(26,557,008)	–	(26,557,008)
Change in temporarily restricted net assets:											
Contributions	87,147	–	–	–	87,147	–	–	–	87,147	–	87,147
Investment income	(35,707)	–	–	–	(35,707)	–	–	–	(35,707)	–	(35,707)
Net assets released from restrictions	(117,652)	–	–	–	(117,652)	–	–	–	(117,652)	–	(117,652)
Decrease in temporarily restricted net assets	(66,212)	–	–	–	(66,212)	–	–	–	(66,212)	–	(66,212)
Change in permanently restricted net assets:											
Restricted donations	–	–	–	–	–	–	–	–	–	–	–
Investment income	–	–	–	–	–	–	–	–	–	–	–
Net appreciation on assets held in externally administered trusts	(77,646)	–	–	–	(77,646)	–	–	–	(77,646)	–	(77,646)
Decrease in permanently restricted net assets	(77,646)	–	–	–	(77,646)	–	–	–	(77,646)	–	(77,646)
Decrease in net assets	(26,516,459)	(137,333)	(127,680)	–	(26,781,472)	1,652	88,946	8	(26,690,866)	–	(26,690,866)
Net assets, beginning of year	60,214,869	862,171	22,726	–	61,099,766	539,442	564,259	27,154	62,230,62	–	62,230,621
Net assets, end of year	\$ 33,698,410	\$ 724,838	\$ (104,954)	\$ –	\$ 34,318,294	\$ 541,094	\$ 653,205	\$ 27,162	\$ 35,539,755	\$ –	\$ 35,539,755

Southeastern Healthcare System, Inc.

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2008

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Unrestricted revenue, gains and other support:														
Net patient service revenue	\$ 146,809,770	\$ 6,451,734	\$ 10,273,524	\$ 163,535,028	\$ -	\$ 1,956,196	\$ -	\$ 165,491,224	\$ -	\$ -	\$ -	\$ 165,491,224	\$ -	\$ 165,491,224
Other revenue	6,910,922			6,910,922	761,291	85,694	(302,187)	7,455,720	72,512	1,186,202	60,016	8,774,450	(250,399)	8,524,051
Assets released from restrictions for operations	202,724			202,724	-	-	-	202,724	-	-	-	202,724	-	202,724
Total revenue, gains and other support	153,923,416	6,451,734	10,273,524	170,648,674	761,291	2,041,890	(302,187)	173,149,668	72,512	1,186,202	60,016	174,468,398	(250,399)	174,217,999
Expenses:														
Salaries and wages	73,476,266	4,401,203	7,653,036	85,530,505	-	894,621	102,925	86,528,051	62,000	364,028	-	86,954,079	-	86,954,079
Employee benefits	22,943,799	1,452,397	752,746	25,148,942	-	236,115	-	25,385,057	13,647	129,528	-	25,528,232	-	25,528,232
Supplies, purchased services and other	41,946,573	429,843	2,969,533	45,345,949	592,518	466,305	(405,112)	45,999,660	4,563	615,293	60,000	46,679,516	(250,399)	46,429,117
Provision for bad debts	11,730,714			11,730,714	-	666,494	-	12,397,208	-	-	-	12,397,208	-	12,397,208
Depreciation and amortization	4,295,785			4,295,785	104,288	2,976	-	4,403,049	-	22,024	-	4,425,073	-	4,425,073
Licensing fee	4,567,793			4,567,793	-	-	-	4,567,793	-	-	-	4,567,793	-	4,567,793
Interest	1,256,611			1,256,611	-	-	-	1,256,611	-	-	-	1,256,611	-	1,256,611
Total expenses	160,217,541	6,283,443	11,375,315	177,876,299	696,806	2,266,511	(302,187)	180,537,429	80,210	1,130,873	60,000	181,808,512	(250,399)	181,558,113
(Loss) gain from operations	(6,294,125)	168,291	(1,101,791)	(7,227,625)	64,485	(224,621)	-	(7,387,761)	(7,698)	55,329	16	(7,340,114)	-	(7,340,114)
Other income, gains and losses:														
Investment income				800,262	-	-	-	800,262	-	-	-	800,262	-	800,262
Net realized gains on sales of investments				2,536,900	-	-	-	2,536,900	-	-	-	2,536,900	-	2,536,900
Unrestricted donations				761,039	-	-	-	761,039	-	-	-	761,039	-	761,039
Income on assets held in trust				256,679	-	-	-	256,679	-	-	-	256,679	-	256,679
Write-off of investment				-	-	-	-	-	-	-	-	-	-	-
Total nonoperating gains				4,354,880	-	-	-	4,354,880	-	-	-	4,354,880	-	4,354,880
Excess of revenues over expenses before change in appreciation of investments				(2,872,745)	64,485	(224,621)	-	(3,032,881)	(7,698)	55,329	16	(2,985,234)	-	(2,985,234)
Change in appreciation of investments				(10,382,330)	-	-	-	(10,382,330)	-	-	-	(10,382,330)	-	(10,382,330)
Excess of revenues over expenses	\$	\$	\$	(13,255,075)	64,485	(224,621)	-	(13,415,211)	(7,698)	55,329	16	(13,367,564)	-	(13,367,564)

Southeastern Healthcare System, Inc.

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

Year Ended September 30, 2008

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
Excess (deficiency) of revenues over expenses	(13,255,075)	64,485	(224,621)	–	(13,415,211)	(7,698)	55,329	16	(13,367,564)	–	(13,367,564)
Additional minimum pension liability	(1,772,482)	–	–	–	(1,772,482)	–	–	–	(1,772,482)	–	(1,772,482)
Cumulative effect of a change in accounting principle	–	–	–	–	–	–	–	–	–	–	–
Intercompany transfer	(120,000)	–	120,000	–	–	–	–	–	–	–	–
Contributions for capital expenditures	13,000	–	–	–	13,000	–	–	–	13,000	–	13,000
Net assets released from restrictions	–	–	–	–	–	–	–	–	–	–	–
Net assets released from restrictions used for purchase of property, plant and equipment	1,783,180	–	–	–	1,783,180	–	–	–	1,783,180	–	1,783,180
Increase in unrestricted net assets	(13,351,377)	64,485	(104,621)	–	(13,391,513)	(7,698)	55,329	16	(13,343,866)	–	(13,343,866)
Change in temporarily restricted net assets:											
Contributions	484,594	–	–	–	485,594	–	–	–	485,594	–	484,594
Investment income	871,944	–	–	–	871,944	–	–	–	871,944	–	871,944
Net assets released from restrictions	(1,985,904)	–	–	–	(1,985,904)	–	–	–	(1,985,904)	–	(1,985,904)
Increase in temporarily restricted net assets	(629,366)	–	–	–	(629,366)	–	–	–	(629,366)	–	(629,366)
Change in permanently restricted net assets:											
Restricted donations	69	–	–	–	69	–	–	–	69	–	69
Investment income	–	–	–	–	–	–	–	–	–	–	–
Net appreciation on assets held in externally administered trusts	(1,009,236)	–	–	–	(1,009,236)	–	–	–	(1,009,236)	–	(1,009,236)
Increase in permanently restricted net assets	(1,009,167)	–	–	–	(1,009,167)	–	–	–	(1,009,167)	–	(1,009,167)
Increase in net assets	(14,989,910)	64,485	(104,621)	–	(15,030,046)	(7,698)	55,329	16	(14,982,399)	–	(14,982,399)
Net assets, beginning of year	75,204,779	797,686	127,347	–	76,129,812	547,140	508,930	27,138	77,213,020	–	77,213,020
Net assets, end of year	\$ 60,214,869	\$ 862,171	\$ 23,726	\$ –	\$ 61,099,766	\$ 539,442	\$ 564,259	\$ 27,154	\$ 62,230,621	\$ –	\$ 62,230,621