ROGER WILLIAMS MEDICAL CENTER, INC.
AND AFFILIATES

Consolidated Financial Statements and
Supplementary Consolidating Information

September 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

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AND AFFILIATES

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Supplementary Consolidating Information

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KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Independent Auditors' Report

The Board of Trustees
Roger Williams Medical Center, Inc. and Affiliates:

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

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

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

As described in note 2 to the financial statements, the Medical Center adopted the provision of FASB ASC Subtopic 958-250: *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*.

KPMG LLP

December 9, 2009

**ROGER WILLIAMS MEDICAL CENTER, INC.
AND AFFILIATES**

Consolidated Balance Sheets

September 30, 2009 and 2008

Assets		2009	2008
Current assets:			
Cash and cash equivalents (restricted cash of $2,445,401 in 2009 and $3,346,300 in 2008)	$	15,988,244	12,781,565
Patient accounts receivable, less allowance for doubtful accounts of $6,007,700 in 2009 and $4,874,300 in 2008		17,876,867	16,734,607
Research grants receivable		188,016	220,945
Inventories		3,387,876	3,140,071
Prepaid expenses and other current assets		2,070,017	3,489,100
Current portion of funds held by trustee under bond indenture (notes 3 and 6)		51,643	6,128
Total current assets		39,562,663	36,372,416
Assets limited or restricted as to use (notes 3, 6, 13 and 14)			
Funds held by trustee under bond indenture		1,620,522	1,689,801
Board-designated investments		3,535,398	4,121,220
Restricted investments:			
Interest in perpetual trusts		3,706,185	3,748,611
By donor		4,209,522	16,801,456
By spending policy		12,597,838	—
Total assets limited or restricted as to use		25,669,465	26,361,088
Property, plant, and equipment, net (note 4)		39,613,332	42,504,410
Investments in joint ventures (note 5)		4,419,655	4,855,898
Other assets		1,694,281	1,244,757
Total assets	$	110,959,396	111,338,569
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	$	26,357,181	23,574,551
Current obligations under capital lease (note 6)		1,458,700	1,669,055
Current portion of long-term debt (note 6)		867,271	816,080
Estimated final settlements due to third-party payors (note 2)		10,132,220	11,027,818
Total current liabilities		38,815,372	37,087,504
Capital lease obligations, less current portion (note 6)		1,928,772	3,418,825
Long-term debt, less current portion (note 6)		22,246,436	23,102,870
Deferred gain on investment in joint venture		2,489,097	2,588,573
Asset retirement obligations		1,185,475	1,171,655
Insurance and other liabilities		6,981,066	4,329,961
Total liabilities		73,646,218	71,699,388
Commitments and contingencies (notes 6, 7, 8, 11, and 16)			
Net assets:			
Unrestricted		14,354,232	15,736,910
Temporarily restricted (note 2 and 14)		15,043,239	3,346,300
Permanently restricted (note 2 and 14)		7,915,707	20,555,971
Total net assets		37,313,178	39,639,181
Total liabilities and net assets	$	110,959,396	111,338,569

See accompanying notes to consolidated financial statements.

ROGER WILLIAMS MEDICAL CENTER, INC.
AND AFFILIATES

Consolidated Statements of Operations

Years ended September 30, 2009 and 2008

		2009	2008
Operating revenues:			
Net patient service revenues (notes 2 and 9)	$	171,759,041	161,375,664
Net assets released from restrictions:			
Research		6,403,821	6,171,499
General operations		378,774	47,678
Free care		87,513	217,390
Other operating revenues		6,619,339	5,909,192
Total operating revenues		185,248,488	173,721,423
Operating expenses (note 15):			
Employee compensation and benefits		90,565,185	89,476,443
Supplies and other		64,438,218	56,593,500
Direct research expenses		6,403,821	6,171,499
License fee (note 10)		6,575,828	4,027,925
Depreciation, amortization, and accretion		5,937,461	5,716,917
Interest		1,670,397	1,840,111
Provision for bad debts		10,568,791	9,879,628
Total operating expenses		186,159,701	173,706,023
(Loss) gain from operations		(911,213)	15,400
Nonoperating gains (losses):			
Investment income (note 3)		666,117	1,007,833
Expenditures for designated purposes, net		(856,828)	(701,813)
Other		(221,530)	300,000
Nonoperating (losses) gains, net		(412,241)	606,020
(Deficiency) excess of revenues over expenses		(1,323,454)	621,420
Other changes in unrestricted net assets:			
Change in net unrealized gains on investments (note 3)		(297,197)	(4,731,294)
Funds released from temporarily restricted net assets		237,973	—
Decrease in unrestricted net assets	$	(1,382,678)	(4,109,874)

See accompanying notes to consolidated financial statements.

ROGER WILLIAMS MEDICAL CENTER, INC.
AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2009 and 2008

		2009	2008
Decrease in unrestricted net assets	$	(1,382,678)	(4,109,874)
Temporarily restricted net assets:			
Restricted income on endowment funds (note 3)		87,513	217,390
Earnings on temporarily restricted net assets (note 3)		29,361	99,124
Gifts, grants and bequests		6,289,259	6,514,194
Adjustment required under Rhode Island enacted version of UPMIFA (note 2(q))		12,597,838	—
Net assets released from restrictions		(7,307,032)	(6,583,522)
Increase in temporarily restricted net assets		11,696,939	247,186
Permanently restricted net assets:			
Realized gains on sale of investments retained to maintain the purchasing power of the original dollar value of the funds (note 2(q))		—	585,634
Restricted income on endowment funds		87,513	217,390
Funds transferred to temporarily restricted net assets		(87,513)	(217,390)
Adjustment required under Rhode Island enacted version of UPMIFA (note 2(q))		(12,597,838)	—
Change in market value of perpetual trusts		(42,426)	(785,981)
Decrease in permanently restricted net assets		(12,640,264)	(200,347)
Decrease in net assets		(2,326,003)	(4,063,035)
Net assets at beginning of year		39,639,181	43,702,216
Net assets at end of year	$	37,313,178	39,639,181

See accompanying notes to consolidated financial statements.

ROGER WILLIAMS MEDICAL CENTER, INC.
AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Decrease in net assets	$ (2,326,003)	(4,063,035)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,881,703	5,663,508
Accretion of asset retirement obligations	55,758	53,409
Accretion of original issue discount	18,752	19,245
Amortization of deferred financing costs	13,033	13,032
Amortization of deferred gain	(99,476)	(145,842)
Equity in income of joint venture	(421,257)	(210,046)
Net realized and unrealized losses on sale of investments	260,746	4,664,587
Change in market value of perpetual trusts	42,426	785,981
Realized gains on sale of investments retained in permanently restricted investments	—	(585,634)
Provision for bad debts	10,568,791	9,879,628
Changes in operating assets and liabilities:		
Patient accounts receivable	(11,711,051)	(11,000,612)
Other current assets and other assets	749,710	(1,853,278)
Accounts payable, accrued expenses, and other liabilities	5,391,797	1,352,221
Deferred prosecution agreement liability	—	(668,882)
Estimated final settlements due to third-party payors	(895,598)	(760,662)
Net cash provided by operating activities	7,529,331	3,143,620
Cash flows from investing activities:		
Additions to property, plant, and equipment	(2,990,625)	(4,678,679)
Purchases of investments	(2,839,962)	(9,258,651)
Sales of investments	3,182,898	9,004,858
Distributions from investments in joint ventures	857,500	377,300
Net cash used in investing activities	(1,790,189)	(4,555,172)
Cash flows from financing activities:		
Proceeds from long-term debt	14,194	4,874,732
Repayment of long-term debt and capital leases	(2,538,597)	(4,685,905)
Deferred financing costs	(8,060)	—
Realized gains on sale of investments retained in permanently restricted investments	—	585,634
Net cash (used in) provided by financing activities	(2,532,463)	774,461
Net change in cash and cash equivalents	3,206,679	(637,091)
Cash and cash equivalents at beginning of year	12,781,565	13,418,656
Cash and cash equivalents at end of year	$ 15,988,244	12,781,565
Supplemental disclosure:		
Capital expenditures financed through capital leases	$ —	2,025,800
Deferred gain on sale of mobile care	—	50,000

See accompanying notes to consolidated financial statements.

(1) Organization, Basis of Presentation and Subsequent Events

(a) Organization

Roger Williams Hospital (the Hospital) is a 220-bed acute care general hospital established to provide healthcare services in Providence, Rhode Island and surrounding communities. Roger Williams Medical Center, Inc. (Medical Center), a not-for-profit corporation, is the sole member or shareholder of six organizations which in conjunction with the Hospital together form the continuum of healthcare commonly referred to as Roger Williams Medical Center. The other entities are:

Elmhurst Extended Care Facilities, Inc. (Elmhurst)

Elmhurst is a 192-bed skilled nursing home and immediate care facility and provider of other elder care services. Elmhurst is a not-for-profit corporation.

Roger Williams Realty Corporation (Realty)

Realty holds and manages real estate assets for the benefit of the Medical Center, owns and leases land and buildings to Elmhurst, and leases clinical and research space to the Hospital. Realty is a not-for-profit organization.

Rosebank Corporation (Rosebank)

Rosebank holds and manages real estate assets for the benefit of the Medical Center. Rosebank owns several parking lots on the main campus of the Medical Center and several other properties adjacent to the main campus including a guesthouse and the building housing the Hospital’s finance department. Rosebank is a for-profit organization.

Physicians Office Building, Inc. (POB)

POB owns and operates a physician office building located adjacent to the Medical Center’s main campus, on space leased from Rosebank, for the benefit of Hospital employed physicians. POB is a not-for-profit organization.

Elmhurst Health Associates, Inc. (EHA)

EHA is a for-profit organization. EHA holds the licenses for the outreach laboratories.

Roger Williams Medical Associates, Inc. (RWMA)

RWMA is a not-for-profit corporation established to arrange for the provision of medical services to patients of Medical Center and individuals in the communities served by the Medical Center, to participate in educational programs for its staff and the community and otherwise to cooperate with Medical Center in meeting the medical needs of patients in the service area.

Affiliation

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

(b) Basis of Statement Presentation

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared consistent with the American Institute of Certified Public Accountants' *Audit and Accounting Guide*, *Healthcare Organizations* (Audit Guide). In accordance with provisions of the Audit Guide, net assets and revenue, expenses, gains, and losses are classified on the existence or absence of donor-imposed restrictions. The Medical Center's net assets and activities that increase or decrease net assets are classified as unrestricted, temporarily restricted, or permanently restricted.

In connection with the preparation of the consolidated financial statements, the Medical Center evaluated subsequent events after the consolidated balance sheet date of September 30, 2009 through December 9, 2009, which is the date the financial statements were issued.

(2) Significant Accounting Policies

(a) Use of Estimates

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

Significant items subject to such estimates and assumptions include the allowance for doubtful accounts, valuation of certain investments, estimated final settlements due to third-party payors, self-insurance liabilities and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Medical Center and its affiliates. Significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Consolidated Statements of Operations

All activities of the Medical Center deemed by management to be ongoing, major and central to the provision of healthcare services are reported as operating revenues and expenses. Other activities deemed to be nonoperating include unrestricted gifts, certain investment income (including realized gains and losses not recorded as either temporarily or permanently restricted net assets) and expenditures for designated purposes consisting primarily of research-related expenses.

The Medical Center records net patient service revenues at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit and/or final determination by the third-party payors. As a result, there is at least a reasonable possibility that the recorded estimates will change by a material amount. Variances between preliminary estimates of net patient service revenues and final third-party settlements are included in net patient service revenues in the year in which the settlement or change in estimate occurs. Significant adjustments to prior year settlements with third-party payors increased net patient service revenue by approximately $2,098,000 and $1,830,000 for the years ended September 30, 2009 and 2008, respectively.

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

(d) Net Patient Service Revenue

The Medical Center maintains agreements with the Social Security Administration under the Medicare Program, Blue Cross and Blue Shield of Rhode Island, Inc. (Blue Cross), United Healthcare Insurance (United) and The State of Rhode Island under the Medicaid Program and various commercial and managed care payors that govern payments to the Medical Center for services rendered to patients covered by these agreements. The agreements generally provide for per case or per diem rates or payments based on allowable costs, subject to certain limitations, for inpatient care and discounted charges or fee schedules for outpatient care. Actual adjustments may be materially different from these estimates.

Certain agreements with various third-party payors have provisions for retroactive settlements and dispute resolution related to issues such as allowable costs, utilization, and charge structure. Provisions have been made in the consolidated financial statements for prior and current years' estimated settlements with the various third-party payors.

(e) Charity Care and Allowance for Doubtful Accounts

The Medical Center provides either full or partial charity care to patients who cannot afford to pay for their medical services based on income and family size. Charity care is not reported as net patient service revenue (note 9).

The Medical Center grants credit without collateral to patients, most of whom are local residents and are insured under third party agreements. Additions to the allowance for doubtful accounts are made by means of a provision for bad debts. Accounts written off as uncollectible are deducted from the allowance and subsequent recoveries are added. The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections, trends in federal and other collection indicators. Services rendered to individuals when payment is expected and ultimately not received are written off to the allowance for doubtful accounts (bad debt).

(f) Cash and Cash Equivalents

Cash equivalents represent highly liquid debt instruments with a maturity at the date of purchase of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements. Restricted cash represents amounts designated primarily for research and other purposes.

(g) Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

(h) Assets Limited or Restricted as to Use

Assets limited or restricted as to use primarily include: (1) assets held by trustees under a bond indenture, (2) board designated assets over which the Board of Trustees retains control and may at their discretion appropriate for spending, (3) interest in perpetual trusts which represents the Medical Center's donated portion of the donor's trust, and (4) donor-restricted investments are funds donated to the Medical Center and are restricted as to time or purpose.

(i) Investment Valuation and Income Recognition

Investments are reported at fair value. The fair value of a financial instrument is the amount that would be received to sell an asset, or the amount that would be paid to transfer a liability, in an orderly transaction between market participants at the measurement date. See note 3 for discussion of fair value measurements.

Investment income or loss (including realized gains and losses on investments, interest and dividends) and unrealized changes in equity interests in the limited partnership are included in the (deficiency) excess of revenues over expenses unless the income or loss is restricted by donor or law. Net unrealized gains and losses on investments is excluded from the (deficiency) excess of revenues over expenses.

A decline in the market value of any available for sale security below cost that is deemed to be other than temporary results in an impairment to reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other than temporary, the Medical Center considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assignment includes the reserves for the impairment, the severity and duration of the impairment changes in value subsequent to year end, forecasted performance of the investor, and the general market conditions in the geographic area or industry the investor operates in. During the years ended September 30, 2009 and 2008, the Medical Center did not record any other-than-temporary impairments to its portfolio.

The Medical Center's management is responsible for the fair value measurements of investments reported in the consolidated financial statements. The Medical Center has implemented policies and procedures to assess the reasonableness of the fair values provided, and believes the reported fair values at the balance sheet dates are reasonable.

(j) Property, Plant, and Equipment

Property, plant, and equipment is reported on the basis of cost less accumulated depreciation and amortization. Donated items are recorded at fair market value at the date of contribution. The carrying value of property, plant, and equipment is reviewed if the facts and circumstances suggest that it may be impaired. Depreciation of property, plant, and equipment is calculated by use of the straight-line method at rates intended to depreciate the cost of assets over their estimated useful lives. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Facilities and equipment under capitalized leases are stated at the present value of minimum lease payments and are amortized using the straight-line method in a manner consistent with the Medical Center's normal depreciation policy for owned assets. Such amortization is included in depreciation expense.

(k) Investments in Joint Ventures

Investments in joint ventures in which the Medical Center has a 20% or less interest are accounted for utilizing the cost method. Investments in which the Medical Center has greater than a 20% and less than a 50% interest are accounted for utilizing the equity method.

(l) Asset Retirement Obligations

The Medical Center recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the Medical Center capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statement of operations.

(m) Deferred Financing Costs

Deferred financing costs (included in other assets) represent the costs associated with the issuance of the 1998 revenue bonds and mortgage notes (see note 6). These costs are amortized over the term of the related obligations. Amortization expense for each of the years ended September 30, 2009 and 2008 was approximately $13,000.

(n) Malpractice Insurance

The Medical Center maintains medical malpractice insurance on a claims-made basis. The Medical Center has commercial insurance for the primary layer up to $1 million per claim and up to a $3 million annual aggregate. For the period October 1, 2004 through September 30, 2009, the Medical Center retains a $1 million per claim and $1 million aggregate self-insured layer above the primary layer for malpractice claims in excess of $1 million. For claims in excess of $2 million the Medical Center maintains commercial excess coverage with another insurer.

The Medical Center has established reserves to cover the professional liability exposure that may not be covered by current or prior insurance policies, including reserves for estimated claims incurred but not reported to the insurance company. Management is unaware of any claims that would cause the ultimate cost of malpractice claims to vary materially from amounts provided.

(o) Workers Compensation

The Medical Center was self insured for workers compensation claims made prior to December 31, 2008. As of December 31, 2008, the Medical Center obtained commercial insurance for its workers' compensation liability. The Medical Center has accrued its estimate of the ultimate cost of both reported and incurred but not reported claims based upon an actuarial study. The actuary developed the estimate based on the Medical Center's actual paid claims. The estimated losses were discounted using a rate of three (3) percent. In order to provide for the ultimate payment of the estimated losses, the Medical Center maintains a letter of credit in the amount of $1.5 million.

(Continued)

(p) Gifts and Grants

Unconditional promises to give cash and other assets to the Medical Center are reported at fair value at the date the promise is received. Conditional promises to give are recognized when the conditions are substantially met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

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 additions to temporarily restricted net assets if the gifts are not expended or placed in service during the year.

(q) Classification of Net Assets

Effective September 30, 2009, the Medical Center adopted the provisions of FASB ASC Subtopic 958-250: *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act* (ASC 958-250). ASC 958-250 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires disclosures about endowment funds, including donor-restricted endowment funds and board-designated endowment funds.

The Medical Center is licensed under the laws of Rhode Island which, effective June 30, 2009, adopted UPMIFA. Under UPMIFA, the assets of a donor-restricted endowment fund may be appropriated for expenditure by the Medical Center in accordance with the standard of prudence prescribed by UPMIFA. As a result of this new law and the adoption of ASC 958-250, the Medical Center has classified its September 30, 2009 net assets as follows:

- *Permanently restricted net assets* contain donor – imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Medical Center and primarily consist of their historic dollar value of contributions to establish or add to donor-restricted endowment funds.
- *Temporarily restricted net assets* contain donor – imposed stipulations as to the timing of their availability or use for a particular purpose. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions. Net assets of donor-restricted endowment funds in excess of their historical dollar value are classified as temporarily restricted net assets until appropriated by the Medical Center and spent in accordance with the standard of prudence imposed by UPMIFA.
- *Unrestricted net assets* contain no donor – imposed restrictions and are available for the general operations of the Medical Center. Such net assets may be designated by the Medical Center for specific purposes, including to function as endowment funds.

Prior to 2009, the Medical Center was subject to Rhode Island Uniform Management of Institutional Funds Act (UMIFA), as amended. Rhode Island's enacted version of UMIFA required the Medical Center to maintain the purchasing power of the historic dollar value of its donor-restricted endowment funds and, as a result, the Medical Center annually added a portion of the funds' return to permanently restricted net assets to account for inflation. This requirement was eliminated by the enactment of UPMIFA and, accordingly, in 2009 the Medical Center reclassified $12,597,838 representing the cumulative amount of such additions from permanently restricted net assets to temporarily restricted net assets. See note 13 for more information about the Medical Center's endowments.

(r) Income Taxes

The Medical Center (except for EHA and Rosebank which are for-profit corporations) and its affiliates are not-for-profit corporations as described in the Section 501(c)(3) of the Internal Revenue Code and are generally exempt from income taxes on related income pursuant to Section 501(a) of the Internal Revenue Code. Accordingly, no provision for income taxes is required for these entities. The for-profit corporations file separate federal and state income tax returns. Federal and state income taxes charged to operations in 2009 and 2008 were not significant.

The Medical Center recognizes the effect of income tax positions only if these positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition in measurement are reflected in the period in which the change in judgment occurs. The Medical Center did not recognize the effect of any income tax portion in either 2009 or 2008.

(s) Fair Value of Financial Instruments

Effective, October 1, 2008, the Medical Center adopted the recognition and disclosure provisions of FASB ASC Subtopic 820-10 which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. FASB ASC Subtopic 820-10 establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities;
- Level 2 – observable prices that are based on input not quoted in active markets, but corroborated by market data; and
- Level 3 – unobservable inputs are used when little or no market data is available.

The fair value hierarchy gives the highest level of priority to Level 1 input and the lowest priority to Level 3 input. In determining fair value, the Medical Center utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable input to the extent possible. The adoption of FASB ASC Subtopic 820-10 did not have a material impact on the Medical Center's financial position, change in net assets, or cash flows but did significantly expand fair value disclosures. See note 3 for more information on the fair value of Medical Center's investments.

(t) Reclassifications

Certain prior-year amounts have been reclassified on the accompanying consolidated financial statements to conform to the 2009 presentation.

(3) Investments, Assets Limited or Restricted as to Use and Fair Value Measurement

The Medical Center holds investments in equities, fixed income securities and mutual funds. The Medical Center is also the beneficiary of perpetual trusts which hold investments in common collective trusts and commingled funds. The Medical Center also holds shares or units in a private investment fund.

Investments in public-traded equity securities are valued based on quoted market prices. To the extent that quoted market prices are not readily available, the fair value may be determined based on broker or dealer quotations or alternate pricing sources with reasonable levels of price transparency. The fair value of fixed income securities may be determined based on yields currently available on comparable securities of issuers with similar credit ratings, dealer supplied prices or by discounting future principal and interest payments at prevailing interest rates. Units held in registered mutual funds are determined by reference to the funds underlying assets, which are principally marketable equity and fixed income securities. The Medical Center's interest in perpetual trusts are valued based on the funds' net asset value (NAV) as supplied by the fund administrator or trustee.

The Medical Center's investment in a private investment fund is recorded at the estimated fair value based on the Medical Center's share of the fund's fair value or number of units outstanding. Private equity funds generally hold assets which require the estimation of fair value in the absence of readily determinable market values. Such valuations are determined by the fund manager and generally consider variables such as operating results, comparable earning multiples, projected cash flows, recent sales prices and other pertinent information, and may reflect discounts taken for the illiquid nature of certain investments held. The estimated fair value of this investment is based on the most recent valuation provided by the external investment manager.

The Medical Center has applied the accounting guidance in Accounting Standard Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), which permits the use of NAV or its equivalent reported by each underlying alternative investment fund as a practical expedient to estimate the fair value of the investment. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements or operations of the underlying funds. However, it is possible that these redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements, as applicable. Changes in market conditions, the economic environment, or the funds' liquidity provisions may significantly impact the NAV of the funds and, consequently, the fair value of the Medical Center's interest in the fund. Although certain investments may be sold in the secondary market, the secondary market is not active and individual transactions are not necessarily observable. It is, therefore, reasonably possible that if the Medical Center were to sell the fund in the secondary market, the sale could occur at an amount materially different than the reported value.

The composition of investments and assets limited or restricted as to use are reported in the accompanying consolidated balance sheets as follows at September 30.

	September 30 2009	September 30 2008
Current assets:		
Current portion of funds held by trustee under bond indenture	$ 51,643	6,128
	51,643	6,128
Assets whose use is limited (noncurrent):		
Funds held by trustee under bond indenture	1,620,522	1,689,801
Board designated investments	3,535,398	4,121,220
Restricted investments:		
Interest in perpetual trusts	3,706,185	3,748,611
By donor	4,209,522	16,801,456
By spending policy	12,597,838	—
	25,669,465	26,361,088
Total assets whose use is limited	$ 25,721,108	26,367,216

The following table sets forth the Medical Center's financial assets that were accounted for at fair value.

	Fair value measurement at reporting date				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	September 30 2009	September 30 2008
Cash equivalents	$ 84,910	—	—	84,910	125,322
Corporate bond	—	832,915	—	832,915	171,208
U.S. Treasury obligations	234,340	—	—	234,340	1,085,073
U.S. government agencies	—	1,709,222	—	1,709,222	2,119,398
Mutual funds	16,290,369	—	—	16,290,369	16,137,494
Equity	1,438	—	—	1,438	2,975
Limited partnerships	—	—	1,189,564	1,189,564	1,281,206
Total	16,611,057	2,542,137	1,189,564	20,342,758	20,922,676
Funds held in trust by others:					
Perpetual trusts	—	—	3,706,185	3,706,185	3,748,611
Bond indenture	1,672,165	—	—	1,672,165	1,695,929
Total	1,672,165	—	3,706,185	5,378,350	5,444,540
Total	$ 18,283,222	2,542,137	4,895,749	25,721,108	26,367,216

		Fair value measurement using significant unobservable inputs		
		Limited partnerships	Perpetual trust	Total
Fair value at October 1, 2008	$	1,281,206	3,748,611	5,029,817
Net realized and unrealized gains (losses)		(91,642)	(42,426)	(134,068)
Fair value at September 30, 2009	$	1,189,564	3,706,185	4,895,749

The Medical Center invests in various investment securities. Investment securities are exposed to various risks such as interest rate market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in value of investment securities will occur in the near term and that such change could materially affect the amounts reported in the consolidated financial statements.

Investment income is comprised of the following:

		September 30	
		2009	2008
Unrestricted:			
Dividends and interest income	$	657,514	1,656,917
Net realized (losses) gains on sales of investments		36,451	(513,024)
Total investment income included in (deficiency) excess of revenues over expenses		693,965	1,143,893
Change in net unrealized gains on investments		(297,197)	(4,731,294)
Temporarily restricted:			
Dividends and interest income		116,874	316,514
Permanently restricted:			
Realized gains on sale of investments retained to maintain the purchasing power of the original dollar value of the funds		—	585,634
Change in market value of perpetual trusts		(42,426)	(785,981)
		(42,426)	(200,347)
	$	471,216	(3,471,234)

Investment income included in other operating revenue for the years ended September 30, 2009 and 2008 was $27,848 and $136,060, respectively.

Funds Held in Trust by Others

Funds held in trust by others represent funds that are held and administered by outside trustees. The Hospital has funds held by trust relating to the Tax Exempt Revenue Bonds – Series 1998 (note 6) and donor established perpetual trusts. The Hospital receives a specific portion of the return on the underlying assets of the perpetual trusts. The investment income is recorded as unrestricted investment income in nonoperating gains (losses).

(4) Property, Plant, and Equipment

The following is a summary of land, building, equipment and construction in progress as of September 30:

	Useful lives		2009	2008
Land and land improvements	8 – 15 years	$	1,797,932	1,789,434
Buildings and building improvements	5 – 20 years		58,848,977	54,328,998
Equipment	5 – 20 years		43,971,416	42,002,504
			104,618,325	98,120,936
Accumulated depreciation and amortization			(65,547,052)	(59,831,403)
Construction in progress			542,059	4,214,877
Property, plant, and equipment, net		$	39,613,332	42,504,410

Depreciation expense on property, plant, and equipment for the years ended September 30, 2009 and 2008 were $4,758,991, and $4,668,041, respectively. Amortization expense on capital lease facilities and equipment for years ended September 30, 2009 and 2008 was $1,122,712, and $994,838, respectively.

The net book value of equipment and facilities under capital leases for the years ended September 30, 2009 and 2008 was $5,300,597, and $4,158,278, respectively.

(5) Investments in Joint Ventures

The Hospital participates in two joint ventures. In 2002, the Hospital entered into a joint venture with an unrelated third party known as Rhode Island PET Services, LLC (the Company). The Company is a limited liability company formed under the Rhode Island Limited Liability Act. The Hospital purchased five Units for a total investment of $25,000.

In 2005, the Hospital entered into a for profit joint venture with an unrelated third party to provide radiation therapy services known as Roger Williams Radiation Therapy (RWRT). RWRT received its license and commenced operations effective February 2007. RWRT is a limited liability company formed under the Rhode Island Limited Liability Act.

The Hospital's total investment in the RWRT joint venture is $4,782,000. The investment is comprised of the right to utilize a building for 30 years with the option to extend for an additional 10 years, radiation therapy equipment, a 30 year prepaid rent obligation and an estimated value of existing business. The Hospital's contribution represents a 49% equity share in the joint venture and has been accounted for under the equity method of accounting. The Hospital is not liable for any obligations insured by the joint venture nor is it obligated to make any further capital contributions or lend funds to the joint venture.

The difference between the net book value of the assets utilized in the joint venture and the investment value assigned was recorded as a deferred gain of $2,684,415. For the years ended September 30, 2009 and 2008, amortization of deferred gain in the amount of $89,481 and $141,688, respectively, was recorded.

For the years ended September 30, 2009 and September 30, 2008, the Hospital recognized $421,257 and $210,046 as its share of the financial results of the RWRT joint venture and received distributions totaling $857,500 and $377,300, respectively. Selected financial data of the RWRT joint venture, taken from the December 31, 2008 financial statements are summarized as follows (dollars in thousands):

		December 31, 2008
Assets	$	10,070
Shareholders equity		5,402
Net income		747

(6) Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations consist of the following:

		September 30 2009	September 30 2008
Rhode Island Health and Educational Building Corporation (RIHEBC) Tax Exempt Revenue Bonds – Series 1998 (Series 1998 Bonds) (a)	$	13,140,000	13,535,000
Citizens Bank term loan (b)		2,333,333	2,500,000
Capital lease obligations (e, f)		3,387,472	5,087,880
1989 Mortgage note payable (c)		7,035,019	7,211,841
1994 Mortgage note payable (d)		563,249	601,772
Other debt		247,670	294,653
Less original issue discount on RIHEBC tax exempt revenue bonds		(205,564)	(224,316)
		26,501,179	29,006,830
Less current portion		2,325,971	2,485,135
	$	24,175,208	26,521,695

(a) RIHEBC Revenue Bonds

In December 1998, the Medical Center entered into an agreement with RIHEBC, whereby RIHEBC authorized the issuance of tax-exempt Medical Center financing revenue bonds in the amount of $19,115,000. The proceeds of the Series 1998 Bonds were used to defease (extinguished in fiscal year 2000) $18,779,000 of previously issued tax-exempt revenue bonds, to fund a debt service reserve fund and pay associated issuance costs.

The Series 1998 Bonds bear interest at rates ranging from 4.70% to 5.50% per year, due in annual installments through July 2028. A portion of the Series 1998 Bonds require the establishment of a sinking fund for the purpose of mandatory redemption of the Series 1998 Bonds. In addition, the sinking fund will be used to redeem the remaining bonds at various maturity dates.

The Series 1998 Bonds are collateralized by a first mortgage on the Medical Center's real estate and certain tangible personal property. The bond agreements provide, among other things, that the Medical Center deposit funds with a designated trustee to provide for future payments of interest and principal. The Medical Center is also required to establish a property reserve fund with the trustee to assure that adequate funds are on hand to maintain the condition of the Medical Center's property. The Series 1998 Bonds Master Trust Indenture provides for, among other requirements, the maintenance of a minimum debt service coverage ratio (DSC) of 1.10 and limitations on additional indebtedness. Management believes the Medical Center is in compliance with required covenants as of September 30, 2009.

The Medical Center redeemed $2,325,000 in bond principal on August 1, 2008. The redemption was required due to the utilization of the building by the for profit RWRT joint venture.

(b) Citizens Bank Term Loan

On September 26, 2008, the Medical Center entered into a Term Loan Agreement with Citizens Bank. The loan was taken to replace the tax exempt revenue bonds redeemed on August 1, 2008. The amount of term loan is $2,500,000. The term is 10 years with a 15 year amortization period. The loan contains a fixed interest rate of 4.6%. The loan is collateralized by an interest in certain marketable securities held in investments by the Medical Center. Management believes the Medical Center is in compliance with required covenants as of September 30, 2009.

The Medical Center entered into an interest rate swap agreement with the Citizens Bank Term Loan. The interest rate swap agreement notional amount amortizes at the same rate as the related debt principal. The interest rate swap agreement provides for the Medical Center to pay a fixed interest rate of 4.6% in exchange for Citizens Bank paying a variable rate equal to one-month USD – LIBOR on the notional amount. The interest rate swap is included in other liabilities on the balance sheet and is valued at $221,530 at September 30, 2009. The swap fair value is based predominantly on observable inputs that are corroborated by market data. It is categorized as a Level 2 for purposes of valuation disclosure under FASB ASC Subtopic 820-10.

(c) 1989 Mortgage Note Payable

The 1989 mortgage note payable is collateralized by Realty's rental property, and is insured by the United States Secretary of Housing and Urban Development, acting through the Federal Housing Authority (FHA). The note, which requires monthly principal and interest payments of $52,177 through 2029 at 6.3%, has been pledged as collateral for certain tax-exempt revenue bonds issued in November 1999 by RIHEBC. The FHA insurance agreement provides that, in the event of default on the mortgage note, FHA will repay 99% of the principal amount of the mortgage outstanding plus interest accruing thirty days after the date of default.

(d) 1994 Mortgage Note Payable

The 1994 mortgage note consists of a loan, originally in the amount of $923,000, with interest at 8-1/4% and requiring monthly payments of principal and interest in the amount of $7,228 through the year 2019. This note is insured by FHA and is evidenced by a supplemental mortgage subject to the conditions of the original 1989 mortgage note.

Realty is required to make monthly payments of $7,955 to a reserve fund maintained by the mortgagee's servicing agent. These funds, which are included in funds held by trustee and invested in money market accounts, amounted to $289,113 and $320,699 at September 30, 2009 and 2008, respectively, and are available to Realty upon approval from the FHA for major structural repairs.

(e) Phillips Master Lease Agreement

On October 27, 2005, the Medical Center entered into a Master Lease Agreement with Phillips Medical Capital, LLC. The lease-purchase was for radiology equipment. The amount of the lease was $1,484,507. The term of the agreement is for five years from the equipment installation date at an average interest rate of 6.9%. Effective February 17, 2007 the master lease was amended to include financing in the amount of $999,370 for additional diagnostic imaging equipment. The term of the agreement is for five years from the equipment installation date at an average interest rate of 6.3%. At the end of the lease, the Medical Center may purchase the equipment for one dollar.

(f) Pantheon Lease Agreement

The Lease Agreement with Pantheon Capital LLP commenced in December 2006. The lease-purchase was for various medical and office equipment, information technology and telecommunication projects and renovations. The amount of the lease was $2,500,000. The term of the agreement is for five years from the equipment installation date at an average interest rate of 6.5%. At the end of the lease, the Medical Center may purchase the equipment for one dollar.

Effective April 2008, the master lease was amended to include financing in the amount of $2,000,000 for the construction of a new cancer center facility including medical and office equipment. The term of the agreement is for sixty-six months at the average interest rate of 5.3%. At the end of the lease, the Medical Center may purchase the equipment for one dollar.

Aggregate maturities and payments of long-term debt obligations during the next five years are as follows:

		Amount
Year:		
2010	$	867,271
2011		902,992
2012		945,736
2013		978,842
2014		959,045

Aggregate maturities and payments of capital lease obligations during the next five years are as follows:

		Amount
Year:		
2010	$	1,458,700
2011		1,153,071
2012		570,567
2013		205,134
2014		—

Interest paid on all obligations was $1,693,778 and $1,843,364 for the years ended September 30, 2009 and 2008, respectively.

(7) Line of Credit Borrowings

The Medical Center has a collateralized line of credit with a maximum borrowing line of $10,000,000 renewable on an annual basis. The line of credit is collateralized by gross receipts, accounts receivable, insurance policies, insurance proceeds, and other instruments evidencing an interest now owned or acquired by borrower. There was no outstanding balance against the line as of September 30, 2009 and 2008. The line of credit is payable upon demand.

(8) Commitments

The Medical Center leases various equipment under noncancelable lease agreements. Future minimum payments by year, under noncancelable operating leases with terms of one year or more consist of the following:

	Amount
Year:	
2010	$ 830,626
2011	644,453
2012	371,046
2013	124,104
2014	35,448

Rental expense, including rentals under leases with terms of less than one year, for the years ended September 30, 2009 and 2008 were $1,416,635 and $1,042,955, respectively.

The Medical Center has additional lease commitments that are based on procedures performed. They are noncancelable agreements but the future dollar commitments of the Medical Center are not quantifiable as they are volume driven.

(9) Disproportionate Share Program and Charity Care

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, Rhode Island hospitals, including the Medical Center, receive 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 approximately $7,875,000 and $6,172,000 for the years ended September 30, 2009 and 2008, respectively, are included in net patient service revenues in the accompanying consolidated statements of operations.

Charity care is measured using established charge rates and represented approximately $5,335,000 and $6,247,000 in charges foregone for the years ended September 30, 2009 and 2008, respectively.

Uncompensated care (charity care and bad debt) totaled $15,788,545 and $16,039,070 for the years ended September 30, 2009 and 2008, respectively.

(10) License Fee

The State of Rhode Island assesses a license fee to all Rhode Island medical centers based on each Medical Center's gross patient service revenue. The 2009 fee is based on 2007 gross patient service revenue. The 2008 fee is based on 2006 gross patient revenue. The Medical Center's license fee expense was $6,575,828 and $4,027,925 for each of the years ended September 30, 2009 and 2008, respectively.

(Continued)

(11) Pension Plans

The Medical Center has a defined contribution pension plan (the Plan) which covers substantially all employees of the Medical Center and Elmhurst. Employees are fully vested immediately upon becoming eligible to participate in the Plan. The amount of each contribution is discretionary and determined by the Board of Trustees. As of September 30, 2009 and 2008, accrued expenses include pension plan contributions payable of $1,891,709 and $1,836,693, respectively. Pension expense was $1,013,108 and $993,373 for the years ended September 30, 2009 and 2008, respectively.

(12) Concentration of Credit Risk

Financial instruments that potentially subject the Medical Center to concentration of credit risk consist of patient accounts receivable and certain investments. Investments, which include government and agency securities, stocks, and corporate bonds, are not concentrated in any corporation or industry or with any single counterparty.

The Medical Center receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, including Medicare, Medicaid, and Managed Care Payers (Blue Cross of Rhode Island and United Healthcare). Revenue from self pay and third-party payors are as follows:

	2009	2008
Medicare	46%	45%
Managed care	28	29
Medicaid	14	15
Self pay	4	5
Other	8	6
	100%	100%

The Medical Center maintains several bank accounts at one institution, which are insured by the Federal Deposit Insurance Corporate (FDIC) up to $100,000. In October 2008, the level of FDIC insurance increased to $250,000. At September 30, 2009, the Medical Center had cash balances of $13,206,509 in excess of the insured limits at such institutions.

(13) Endowments

The Medical Center’s endowment consists of 117 funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Medical Center to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment net assets consist of the following at September 30, 2009 and 2008:

	2009			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$ (147,067)	12,597,838	4,209,522	16,660,293
Board-designated endowment funds	3,682,465	—	—	3,682,465
Total endowment net assets	$ 3,535,398	12,597,838	4,209,522	20,342,758

	2008			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowment funds	$ (179,255)	—	16,807,360	16,628,105
Board-designated endowment funds	4,300,475	—	—	4,300,475
Total endowment net assets	$ 4,121,220	—	16,807,360	20,928,580

Change in endowment net assets for the year September 30, 2009 is as follows:

	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Endowment net assets, September 30, 2008	$ 4,121,220	—	16,807,360	20,928,580
Reclassification due to change in law	—	12,597,838	(12,597,838)	—
Total endowment net assets after reclassification	4,121,220	12,597,838	4,209,522	20,928,580
Interest and dividends	465,010	100,912	—	565,922
Realized and unrealized net losses	(260,746)	—	—	(260,746)
Appropriation of endowment assets	(790,086)	(100,912)	—	(890,998)
Endowment net assets, September 30, 2009	$ 3,535,398	12,597,838	4,209,522	20,342,758

(Continued)

Change in endowment net assets for the year September 30, 2008 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, September 30, 2007	$ 8,914,895	—	14,559,885	23,474,780
Interest and dividends	1,110,628	222,563	—	1,333,191
Realized and unrealized net losses	(5,244,318)	—	585,634	(4,658,684)
Transfer of perpetual trust assets to endowment	—	—	1,661,841	1,661,841
Appropriation of endowment assets	(659,985)	(222,563)	—	(882,548)
Endowment net assets, September 30, 2008	$ 4,121,220	—	16,807,360	20,928,580

(a) Interpretation of the Relevant Law

The portion of the donor-restricted endowment funds that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriate for expenditure by the Board of Trustees in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Medical Center considers the following factors in making a determination to appropriate or accumulated donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of the Medical Center and the donor restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Medical Center
- The investment policies of the Medical Center

(b) Funds with Deficiencies

From time to time the fair value of assets associated with individual donor-restricted endowment funds may fall below the fund’s historic dollar value. Deficiencies of this nature reported in unrestricted net assets were $147,067 and $179,255 as of September 30, 2009 and September 30, 2008, respectively. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of a new permanently restricted contribution. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

(c) Return Objectives and Risk Parameters

The Medical Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the Medical Center and programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, including both donor-restricted and board designated funds. Under this policy, as approved by the Medical Center Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the total return of a benchmark composed of 12.5% S&P 500 Index, 12.5% Russell 1000 value index, 12.5% Russell 1000 Growth Index, 5% Russell 2000 Value Index, 5% Russell 2000 Growth Index, 15% MSCI EAFE Index, 17.5% Barkclay's Aggregate Bond Index, 10% Barkclay's Government Credit Index, 5% Barkclay's U.S. TIPS Index, and 5% to various indices aligned with the strategies adopted with the alternate asset sub-allocation. The Medical Center expects its endowment funds, over a full market cycle, to provide an average annual real rate of return of approximately 5% plus inflation annually. Actual returns in any given year or period of years may vary from this amount.

(d) Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objective, the Medical Center 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). The Medical Center targets a diversified asset allocation that places emphasis on investments in domestic and international equities, fixed income and alternate equities to achieve its long-term return objectives within prudent risk constraints.

(e) Spending Policy and How the Investment Objectives Relate to Spending Policy

The Medical Center uses a spending policy designed to preserve the value of the endowment in real terms and to generate a predictable stream of income to support spending. The Medical Center manages investments in accordance with policies established by the Board of Trustees. Investment earnings are allocated to the endowment net assets based upon the amount of the endowment balances included in both the temporarily and permanently restricted net assets. The portion of the donor restricted endowment funds that represents the cumulative earnings less spending out of the fund is classified as temporarily restricted net assets.

(14) Restricted Net Assets

Restricted net assets are available for the following purposes:

	September 30 2009	September 30 2008
Temporarily restricted:		
Accumulated net realized and unrealized gains on permanently restricted donations subject to spending policy - general operations	$ 12,597,838	—
Special purpose funds	1,259,681	1,759,972
Research	1,185,720	1,586,328
	$ 15,043,239	3,346,300
Permanently restricted:		
Healthcare services	$ 3,861,101	13,372,712
Free bed	348,421	3,434,648
Interest in perpetual trusts	3,706,185	3,748,611
	$ 7,915,707	20,555,971

(15) Functional Expenses

Total operating expenses for the Medical Center by function are as follows for the years ended:

	September 30 2009	September 30 2008
Healthcare services	$ 128,244,345	120,090,432
General and administrative	51,511,535	47,444,092
Direct research	6,403,821	6,171,499
	$ 186,159,701	173,706,023

(16) Contingencies

The Medical Center is subject to complaints, claims, and litigation that have arisen in the normal course of business. In addition, the Medical Center is subject to investigations by various federal and state government agencies to assure compliance with applicable laws, some of which are subject to different interpretations. Recently, governmental review of compliance with these laws and regulations has increased, resulting in fines and penalties for noncompliance by particular healthcare providers.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Medical Center believes that it is in compliance with these laws and regulations.

SUPPLEMENTARY CONSOLIDATING INFORMATION

KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

**Independent Auditors' Report
on Supplementary Information**

The Board of Trustees
Roger Williams Medical Center, Inc. and Affiliates:

We have audited and reported separately herein on the consolidated financial statements of Roger Williams Medical Center, Inc. and Affiliates as of and for the years ended September 30, 2009 and 2008.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of Roger Williams Medical Center, Inc. and Affiliates taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets (deficit), of the individual entities. The consolidating information as of and for the years ended September 30, 2009 and 2008 has been subjected to the auditing procedures applied in the 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.

As described in note 2 to the financial statements, the Medical Center adopted the provision of FASB ASC Subtopic 958-250: *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act.*

KPMG LLP

December 9, 2009

ROGER WILLIAMS MEDICAL CENTER, INC.
AND AFFILIATES

Consolidating Balance Sheet

September 30, 2009

Assets	Roger Williams Hospital	Roger Williams Realty Corp.	Physicians Office Building	Rosebank Corporation	Roger Williams Medical Center, Inc.	Roger Williams Medical Associates, Inc.	Elmhurst Health Associates, Inc.	Elmhurst Extended Care Facilities, Inc.	Eliminations	Consolidated
Current assets:										
Cash and cash equivalents	$ 13,916,538	863,532	3,174	27,324	345,075	8,953	2,700	820,948	—	15,988,244
Patient accounts receivable, net	15,243,371	—	—	—	—	—	—	2,653,011	(19,515)	17,876,867
Research grants receivable	188,016	—	—	—	—	—	—	—	—	188,016
Inventories	3,343,306	—	—	—	—	—	—	44,570	—	3,387,876
Prepaid expenses and other current assets	1,826,281	54,499	—	—	6,210	157,712	—	25,315	—	2,070,017
Current portion of funds held by trustee under bond indenture	51,643	—	—	—	—	—	—	—	—	51,643
Due from related parties	561,590	476,737	—	—	—	—	—	—	(1,038,327)	—
Total current assets	35,130,745	1,394,768	3,174	27,324	351,285	166,665	2,700	3,543,844	(1,057,842)	39,562,663
Assets limited or restricted as to use										
Funds held by trustee under bond indenture	1,331,409	289,113	—	—	—	—	—	—	—	1,620,522
Board-designated investments	3,535,398	—	—	—	—	—	—	—	—	3,535,398
Restricted investments:										
Interest in perpetual trusts	3,706,185	—	—	—	—	—	—	—	—	3,706,185
By donor	4,209,522	—	—	—	—	—	—	—	—	4,209,522
By spending policy	12,597,838	—	—	—	—	—	—	—	—	12,597,838
Total assets limited or restricted as to use	25,380,352	289,113	—	—	—	—	—	—	—	25,669,465
Property, plant, and equipment, net	31,432,107	7,427,512	12,096	337,365	1,365	—	—	402,887	—	39,613,332
Investments in joint ventures	4,419,655	—	—	—	—	—	—	—	—	4,419,655
Other assets:										
Due from related parties	2,514,858	521,427	—	—	—	—	500,000	—	(3,536,285)	—
Other	1,609,606	71,662	—	—	—	—	—	13,013	—	1,694,281
Total assets	$ 100,487,323	9,704,482	15,270	364,689	352,650	166,665	502,700	3,959,744	(4,594,127)	110,959,396

(Continued)

ROGER WILLIAMS MEDICAL CENTER, INC.
AND AFFILIATES

Consolidating Balance Sheet

September 30, 2009

Liabilities and Net Assets (Deficit)		Roger Williams Hospital	Roger Williams Realty Corp.	Physicians Office Building	Rosebank Corporation	Roger Williams Medical Center, Inc.	Roger Williams Medical Associates, Inc.	Elmhurst Health Associates, Inc.	Elmhurst Extended Care Facilities, Inc.	Eliminations	Consolidated
Current liabilities:											
Accounts payable and accrued expenses	$	23,578,258	102,268	1,309	51,234	—	53,611	—	2,557,740	12,761	26,357,181
Current obligations under capital lease		1,458,700	—	—	—	—	—	—	—	—	1,458,700
Current portion of long-term debt		631,691	230,113	—	—	—	—	—	47,289	(41,822)	867,271
Estimated final settlements due to third-party payors		10,132,220	—	—	—	—	—	—	—	—	10,132,220
Due to related parties		—	121,292	96,584	395,921	20,299	396,423	340,623	2,640,221	(4,011,363)	—
Total current liabilities		35,800,869	453,673	97,893	447,155	20,299	450,034	340,623	5,245,250	(4,040,424)	38,815,372
Capital lease obligation, less current portion		1,928,772	—	—	—	—	—	—	—	—	1,928,772
Long-term debt, less current portion		14,861,066	7,368,155	—	—	—	—	—	538,642	(521,427)	22,246,436
Deferred gain on investment in joint venture		2,489,097	—	—	—	—	—	—	—	—	2,489,097
Asset retirement obligations		692,520	492,955	—	—	—	—	—	—	—	1,185,475
Insurance and other liabilities		6,980,066	1,000	—	—	—	—	—	—	—	6,981,066
Total liabilities		62,752,390	8,315,783	97,893	447,155	20,299	450,034	340,623	5,783,892	(4,561,851)	73,646,218
Net assets (deficit):											
Unrestricted		14,775,987	1,388,699	(82,623)	(82,466)	332,351	(283,369)	162,077	(1,824,148)	(32,276)	14,354,232
Temporarily restricted		15,043,239	—	—	—	—	—	—	—	—	15,043,239
Permanently restricted		7,915,707	—	—	—	—	—	—	—	—	7,915,707
Total net assets (deficit)		37,734,933	1,388,699	(82,623)	(82,466)	332,351	(283,369)	162,077	(1,824,148)	(32,276)	37,313,178
Total liabilities and net assets	$	100,487,323	9,704,482	15,270	364,689	352,650	166,665	502,700	3,959,744	(4,594,127)	110,959,396

See accompanying independent auditors' report on supplementary information.

ROGER WILLIAMS MEDICAL CENTER, INC.
AND AFFILIATES

Consolidating Balance Sheet

September 30, 2008

Assets	Roger Williams Hospital	Roger Williams Realty Corp.	Physicians Office Building	Rosebank Corporation	Roger Williams Medical Center, Inc.	Roger Williams Medical Associates, Inc.	Elmhurst Health Associates, Inc.	Elmhurst Extended Care Facilities, Inc.	Eliminations	Consolidated
Current assets:										
Cash and cash equivalents	$ 10,657,094	1,033,574	9,294	36,284	314,639	11,018	7,650	712,012	—	12,781,565
Patient accounts receivable, net	14,340,330	—	—	—	—	—	—	2,470,048	(75,771)	16,734,607
Research grants receivable	220,945	—	—	—	—	—	—	—	—	220,945
Inventories	3,102,578	—	—	—	—	—	—	37,493	—	3,140,071
Prepaid expenses and other current assets	3,237,772	69,826	—	—	—	173,771	—	28,720	(20,989)	3,489,100
Current portion of funds held by trustee under bond indenture	6,128	—	—	—	—	—	—	—	—	6,128
Due from related parties	546,711	449,705	—	—	72,447	—	—	—	(1,068,863)	—
Total current assets	32,111,558	1,553,105	9,294	36,284	387,086	184,789	7,650	3,248,273	(1,165,623)	36,372,416
Assets limited or restricted as to use										
Funds held by trustee under bond indenture	1,369,102	320,699	—	—	—	—	—	—	—	1,689,801
Board-designated investments	4,121,220	—	—	—	—	—	—	—	—	4,121,220
Restricted investments:										
Interest in perpetual trusts	3,748,611	—	—	—	—	—	—	—	—	3,748,611
By donor	16,801,456	—	—	—	—	—	—	—	—	16,801,456
Total assets limited or restricted as to use	26,040,389	320,699	—	—	—	—	—	—	—	26,361,088
Property, plant, and equipment, net	33,716,582	7,991,560	6,189	341,546	1,755	—	—	446,778	—	42,504,410
Investments in joint ventures	4,855,898	—	—	—	—	—	—	—	—	4,855,898
Other assets:										
Due from related parties	2,238,702	563,441	—	—	—	—	500,000	—	(3,302,143)	—
Other	1,163,882	67,021	—	—	—	—	—	13,854	—	1,244,757
Total assets	$ 100,127,011	10,495,826	15,483	377,830	388,841	184,789	507,650	3,708,905	(4,467,766)	111,338,569

(Continued)

ROGER WILLIAMS MEDICAL CENTER, INC.
AND AFFILIATES

Consolidating Balance Sheet

September 30, 2008

Liabilities and Net Assets (Deficit)		Roger Williams Hospital	Roger Williams Realty Corp.	Physicians Office Building	Rosebank Corporation	Roger Williams Medical Center, Inc.	Roger Williams Medical Associates, Inc.	Elmhurst Health Associates, Inc.	Elmhurst Extended Care Facilities, Inc.	Eliminations	Consolidated
Current liabilities:											
Accounts payable and accrued expenses	$	20,672,465	65,777	991	14,746	—	50,990	—	2,813,077	(43,495)	23,574,551
Current obligations under capital lease		1,669,055	—	—	—	—	—	—	—	—	1,669,055
Current portion of long-term debt		594,962	215,345	—	—	—	—	—	44,294	(38,521)	816,080
Estimated final settlements due to third-party payors		11,027,818	—	—	—	—	—	—	—	—	11,027,818
Due to related parties		—	185,834	122,909	393,224	34,313	298,687	340,623	2,414,634	(3,790,224)	—
Total current liabilities		33,964,300	466,956	123,900	407,970	34,313	349,677	340,623	5,272,005	(3,872,240)	37,087,504
Capital lease obligation, less current portion		3,418,825	—	—	—	—	—	—	—	—	3,418,825
Long-term debt, less current portion		15,482,790	7,598,268	—	—	—	—	—	585,062	(563,250)	23,102,870
Deferred gain on investment in joint venture		2,588,573	—	—	—	—	—	—	—	—	2,588,573
Asset retirement obligations		698,536	473,119	—	—	—	—	—	—	—	1,171,655
Insurance and other liabilities		4,329,961	—	—	—	—	—	—	—	—	4,329,961
Total liabilities		60,482,985	8,538,343	123,900	407,970	34,313	349,677	340,623	5,857,067	(4,435,490)	71,699,388
Net assets (deficit):											
Unrestricted		15,741,755	1,957,483	(108,417)	(30,140)	354,528	(164,888)	167,027	(2,148,162)	(32,276)	15,736,910
Temporarily restricted		3,346,300	—	—	—	—	—	—	—	—	3,346,300
Permanently restricted		20,555,971	—	—	—	—	—	—	—	—	20,555,971
Total net assets (deficit)		39,644,026	1,957,483	(108,417)	(30,140)	354,528	(164,888)	167,027	(2,148,162)	(32,276)	39,639,181
Total liabilities and net assets	$	100,127,011	10,495,826	15,483	377,830	388,841	184,789	507,650	3,708,905	(4,467,766)	111,338,569

See accompanying independent auditors' report on supplementary information.

ROGER WILLIAMS MEDICAL CENTER, INC.
AND AFFILIATES

Consolidating Statement of Operations and Changes in Net Assets (Deficit)

Year ended September 30, 2009

	Roger Williams Hospital	Roger Williams Realty Corp.	Physicians Office Building	Rosebank Corporation	Roger Williams Medical Center, Inc.	Roger Williams Medical Associates, Inc.	Elmhurst Health Associates, Inc.	Elmhurst Extended Care Facilities, Inc.	Eliminations	Consolidated
Operating revenues:										
Net patient service revenues	$ 154,212,453	—	—	—	—	—	—	17,527,073	19,515	171,759,041
Net assets released from restrictions:										
Research	6,403,821	—	—	—	—	—	—	—	—	6,403,821
General operations	378,774	—	—	—	—	—	—	—	—	378,774
Free care	87,513	—	—	—	—	—	—	—	—	87,513
Other operating revenues	6,193,748	3,008,061	53,700	84,000	18,069	77,963	—	91,374	(2,907,576)	6,619,339
Total operating revenues	167,276,309	3,008,061	53,700	84,000	18,069	77,963	—	17,618,447	(2,888,061)	185,248,488
Operating expenses:										
Employee compensation and benefits	79,151,930	1,014,288	—	—	19,639	140,258	—	10,239,070	—	90,565,185
Supplies and other	58,849,840	1,438,328	26,803	130,644	20,217	56,186	4,950	6,799,311	(2,888,061)	64,438,218
Direct research expenses	6,403,821	—	—	—	—	—	—	—	—	6,403,821
License fee	6,575,828	—	—	—	—	—	—	—	—	6,575,828
Depreciation, amortization, and accretion	5,175,396	671,511	1,103	5,682	390	—	—	83,379	—	5,937,461
Interest	1,160,159	452,718	—	—	—	—	—	57,520	—	1,670,397
Provision for bad debts	10,453,638	—	—	—	—	—	—	115,153	—	10,568,791
Total operating expenses	167,770,612	3,576,845	27,906	136,326	40,246	196,444	4,950	17,294,433	(2,888,061)	186,159,701
(Loss) gain from operations	(494,303)	(568,784)	25,794	(52,326)	(22,177)	(118,481)	(4,950)	324,014	—	(911,213)
Nonoperating gains (losses):										
Investment income	666,117	—	—	—	—	—	—	—	—	666,117
Expenditures for designated purposes, net	(856,828)	—	—	—	—	—	—	—	—	(856,828)
Other	(221,530)	—	—	—	—	—	—	—	—	(221,530)
Nonoperating losses, net	(412,241)	—	—	—	—	—	—	—	—	(412,241)
(Deficiency) excess of revenues over expenses	(906,544)	(568,784)	25,794	(52,326)	(22,177)	(118,481)	(4,950)	324,014	—	(1,323,454)
Other changes in unrestricted net assets:										
Change in net unrealized gains on investments	(297,197)	—	—	—	—	—	—	—	—	(297,197)
Funds released from temporarily restricted net assets	237,973	—	—	—	—	—	—	—	—	237,973
(Decrease) increase in unrestricted net assets	(965,768)	(568,784)	25,794	(52,326)	(22,177)	(118,481)	(4,950)	324,014	—	(1,382,678)
Temporarily restricted net assets:										
Restricted income on endowment funds	87,513	—	—	—	—	—	—	—	—	87,513
Earnings on temporarily restricted net assets	29,361	—	—	—	—	—	—	—	—	29,361
Gifts, grants, and bequests	6,289,259	—	—	—	—	—	—	—	—	6,289,259
Adjustment required under Rhode Island enacted version of UPMIFA	12,597,838	—	—	—	—	—	—	—	—	12,597,838
Net assets released from restrictions	(7,307,032)	—	—	—	—	—	—	—	—	(7,307,032)
Increase in temporarily restricted net assets	11,696,939	—	—	—	—	—	—	—	—	11,696,939
Permanently restricted net assets:										
Restricted income on endowment funds	87,513	—	—	—	—	—	—	—	—	87,513
Funds transferred to temporarily restricted net assets	(87,513)	—	—	—	—	—	—	—	—	(87,513)
Adjustment required under Rhode Island enacted version of UPMIFA	(12,597,838)	—	—	—	—	—	—	—	—	(12,597,838)
Change in market value of perpetual trusts	(42,426)	—	—	—	—	—	—	—	—	(42,426)
Decrease in permanently restricted net assets	(12,640,264)	—	—	—	—	—	—	—	—	(12,640,264)
(Decrease) increase in net assets	(1,909,093)	(568,784)	25,794	(52,326)	(22,177)	(118,481)	(4,950)	324,014	—	(2,326,003)
Net assets (deficit) at beginning of year	39,644,026	1,957,483	(108,417)	(30,140)	354,528	(164,888)	167,027	(2,148,162)	(32,276)	39,639,181
Net assets (deficit) at end of year	$ 37,734,933	1,388,699	(82,623)	(82,466)	332,351	(283,369)	162,077	(1,824,148)	(32,276)	37,313,178

See accompanying independent auditors' report on supplementary information.

ROGER WILLIAMS MEDICAL CENTER, INC.
AND AFFILIATES

Consolidating Statement of Operations and Changes in Net Assets (Deficit)

Year ended September 30, 2008

	Roger Williams Hospital	Roger Williams Realty Corp.	Physicians Office Building	Rosebank Corporation	Roger Williams Medical Center, Inc.	Roger Williams Medical Associates, Inc.	Elmhurst Health Associates, Inc.	Elmhurst Extended Care Facilities, Inc.	Eliminations	Consolidated
Operating revenues:										
Net patient service revenues	$ 144,057,198	—	—	—	—	—	—	17,394,237	(75,771)	161,375,664
Net assets released from restrictions:										
Research	6,171,499	—	—	—	—	—	—	—	—	6,171,499
General operations	47,678	—	—	—	—	—	—	—	—	47,678
Free care	217,390	—	—	—	—	—	—	—	—	217,390
Other operating revenues	5,531,742	3,072,718	53,700	84,000	16,875	1,200	—	101,052	(2,952,095)	5,909,192
Total operating revenues	156,025,507	3,072,718	53,700	84,000	16,875	1,200	—	17,495,289	(3,027,866)	173,721,423
Operating expenses:										
Employee compensation and benefits	77,840,275	986,749	—	—	18,665	13,807	—	10,616,947	—	89,476,443
Supplies and other	51,283,758	1,330,655	27,985	121,492	5,712	20,126	7,050	6,824,588	(3,027,866)	56,593,500
Direct research expenses	6,171,499	—	—	—	—	—	—	—	—	6,171,499
License fee	4,027,925	—	—	—	—	—	—	—	—	4,027,925
Depreciation, amortization, and accretion	4,964,589	672,303	(276)	6,151	195	—	—	73,955	—	5,716,917
Interest	1,323,221	463,487	—	—	—	—	—	53,403	—	1,840,111
Provision for bad debts	9,791,867	—	—	—	—	—	—	87,761	—	9,879,628
Total operating expenses	155,403,134	3,453,194	27,709	127,643	24,572	33,933	7,050	17,656,654	(3,027,866)	173,706,023
Gain (loss) from operations	622,373	(380,476)	25,991	(43,643)	(7,697)	(32,733)	(7,050)	(161,365)	—	15,400
Nonoperating gains (losses):										
Investment income	1,007,833	—	—	—	—	—	—	—	—	1,007,833
Expenditures for designated purposes, net	(701,813)	—	—	—	—	—	—	—	—	(701,813)
Other	300,000	—	—	—	—	—	—	—	—	300,000
Nonoperating gains, net	606,020	—	—	—	—	—	—	—	—	606,020
Excess (deficiency) of revenues over expenses	1,228,393	(380,476)	25,991	(43,643)	(7,697)	(32,733)	(7,050)	(161,365)	—	621,420
Other changes in unrestricted net assets:										
Change in net unrealized gains on investments	(4,731,294)	—	—	—	—	—	—	—	—	(4,731,294)
(Decrease) increase in unrestricted net assets	(3,502,901)	(380,476)	25,991	(43,643)	(7,697)	(32,733)	(7,050)	(161,365)	—	(4,109,874)
Temporarily restricted net assets:										
Restricted income on endowment funds	217,390	—	—	—	—	—	—	—	—	217,390
Earnings on temporarily restricted net assets	99,124	—	—	—	—	—	—	—	—	99,124
Gifts, grants, and bequests	6,514,194	—	—	—	—	—	—	—	—	6,514,194
Net assets released from restrictions	(6,583,522)	—	—	—	—	—	—	—	—	(6,583,522)
Increase in temporarily restricted net assets	247,186	—	—	—	—	—	—	—	—	247,186
Permanently restricted net assets:										
Realized gains on sale of investments retained to maintain the purchasing power of the original dollar value of the funds	585,634	—	—	—	—	—	—	—	—	585,634
Restricted income on endowment funds	217,390	—	—	—	—	—	—	—	—	217,390
Funds transferred to temporarily restricted net assets	(217,390)	—	—	—	—	—	—	—	—	(217,390)
Change in market value of perpetual trusts	(785,981)	—	—	—	—	—	—	—	—	(785,981)
Decrease in permanently restricted net assets	(200,347)	—	—	—	—	—	—	—	—	(200,347)
(Decrease) increase in net assets	(3,456,062)	(380,476)	25,991	(43,643)	(7,697)	(32,733)	(7,050)	(161,365)	—	(4,063,035)
Net assets (deficit) at beginning of year	43,100,088	2,337,959	(134,408)	13,503	362,225	(132,155)	174,077	(1,986,797)	(32,276)	43,702,216
Net assets (deficit) at end of year	$ 39,644,026	1,957,483	(108,417)	(30,140)	354,528	(164,888)	167,027	(2,148,162)	(32,276)	39,639,181

See accompanying independent auditors' report on supplementary information.