THE WESTERLY HOSPITAL AND SUBSIDIARY
(A Controlled Affiliate of Community Health of Westerly, Inc.)

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Independent Auditors' Report

The Board of Trustees
The Westerly Hospital and Subsidiary

We have audited the accompanying combined balance sheets of The Westerly Hospital and Subsidiary (the Hospital) (a controlled affiliate of Community Health of Westerly, Inc.) as of September 30, 2009 and 2008, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined 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 also 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 Hospital'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 combined financial statements referred to above present fairly, in all material respects, the financial position of The Westerly Hospital and Subsidiary as of September 30, 2009 and 2008, and the results of their operations and changes in net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

December 16, 2009

THE WESTERLY HOSPITAL AND SUBSIDIARY
(A Controlled Affiliate of Community Health of Westerly, Inc.)
COMBINED BALANCE SHEETS
SEPTEMBER 30, 2009 AND 2008

ASSETS

	2009	2008
Current Assets		
Cash and cash equivalents	$ 2,951,166	$ 2,230,848
Patient accounts receivable, net	7,459,592	9,374,472
Inventories	1,469,759	1,407,604
Other current assets	876,919	986,201
Total current assets	12,757,436	13,999,125
Assets Limited as to Use		
Promises to give, net	108,554	193,000
By board to function as endowment	11,296,158	13,831,134
Under loan agreement, funds invested by trustee	1,896,847	1,896,451
Accumulated earnings on permanent endowment funds	3,379,358	-
By donors or grantors for specific purposes	364,595	332,708
By donors for permanent endowment funds	4,671,877	6,430,642
Funds held in trust	7,290,244	7,537,878
Total assets limited as to use	29,007,633	30,221,813
Other Assets		
Property, plant and equipment, net	38,296,354	38,852,580
Deferred financing costs, net	233,389	256,878
Due from related party, long-term	1,119,299	761,252
Other long-term assets	598,371	741,684
Total other assets	40,247,413	40,612,394
Total Assets	$ 82,012,482	$ 84,833,332

LIABILITIES AND NET ASSETS

	2009	2008
Current Liabilities		
Lines of credit	$ 2,433,264	$ 4,443,881
Current installments of long-term debt	925,659	872,374
Current installments of capital lease obligations	1,612,283	865,124
Accounts payable and accrued expenses	5,149,870	4,914,404
Deferred revenue	118,545	116,647
Accrued payroll, benefits and related taxes	5,087,264	4,347,748
Estimated third-party payor settlements	879,073	1,003,963
Total current liabilities	16,205,958	16,564,141
Long-Term Liabilities		
Long-term debt, net of current portion	13,768,276	14,688,880
Long-term portion of capital lease obligations	2,932,268	1,774,779
Noncurrent accrued pension cost	16,257,162	10,722,793
Asset retirement obligation	1,389,257	1,354,080
Total liabilities	50,552,921	45,104,673
Net Assets		
Unrestricted	15,644,933	25,234,433
Temporarily restricted	3,852,507	525,708
Permanently restricted	11,962,121	13,968,518
Total net assets	31,459,561	39,728,659
Total Liabilities and Net Assets	$ 82,012,482	$ 84,833,332

The accompanying notes are an integral part of the combined financial statements

THE WESTERLY HOSPITAL AND SUBSIDIARY
(A Controlled Affiliate of Community Health of Westerly, Inc.)
COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
Unrestricted Revenue		
Net patient revenue	$ 87,786,337	$ 80,841,956
Other revenue	1,356,297	1,429,041
Total revenues	89,142,634	82,270,997
Expenses		
Salaries and benefits	48,398,951	45,668,141
Supplies and other expenses	28,549,604	25,668,057
Depreciation	4,450,501	4,346,170
Provision for uncollectible accounts, net	7,249,449	6,263,526
Interest	1,377,482	1,423,608
Total expenses	90,025,987	83,369,502
Loss From Operations	(883,353)	(1,098,505)
Nonoperating Income		
Interest and investment income	(400,439)	429,902
Unrestricted gifts and bequests	594,091	1,180,103
Total nonoperating income	193,652	1,610,005
Excess (Deficiency) of Revenues and Gains over Expenses	(689,701)	511,500

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THE WESTERLY HOSPITAL AND SUBSIDIARY
(A Controlled Affiliate of Community Health of Westerly, Inc.)
COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
Other Changes in Unrestricted Net Assets		
Net assets released from restrictions	$ 642,793	$ -
Grant revenue - capital purchase	-	402,293
Capital transactions with affiliates	(3,121,653)	(735,600)
Change in unrealized gains (losses) on investments	386,985	(2,329,956)
Changes in additional minimum pension liability	(4,854,582)	(4,142,023)
Cumulative effect of change in accounting principle	(1,953,342)	-
Decrease in unrestricted net assets	(9,589,500)	(6,293,786)
Temporarily Restricted Net Assets		
Investment income	1,018	2,047
Net realized gains on investments	192,048	-
Net unrealized losses on investments	(168,208)	-
Gifts and bequests	95,153	143,500
Pledges	84,452	193,000
Net assets released from restrictions	(642,793)	-
Cumulative effect of change in accounting principle	3,765,129	-
Change in temporarily restricted net assets	3,326,799	338,547
Permanently Restricted Net Assets		
Net realized gains on investments	279,719	818,075
Net unrealized losses on investments	(474,329)	(3,002,493)
Cumulative effect of change in accounting principle	(1,811,787)	-
Change in permanently restricted net assets	(2,006,397)	(2,184,418)
Change in Net Assets	(8,269,098)	(8,139,657)
Net Assets - Beginning of Year	39,728,659	47,868,316
Net Assets - End of Year	$ 31,459,561	$ 39,728,659

The accompanying notes are an integral part of the combined financial statements

THE WESTERLY HOSPITAL AND SUBSIDIARY
(A Controlled Affiliate of Community Health of Westerly, Inc.)
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
Cash Flows from Operating Activities		
Change in net assets	$ (8,269,098)	$ (8,139,657)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,450,501	4,346,170
Amortization	23,489	23,487
Contributions restricted for long-term investment	(264,051)	(143,500)
Provision for uncollectible accounts	7,249,449	6,263,526
Increase in additional minimum pension liability	4,854,582	4,142,023
Net realized and unrealized losses on permanently restricted investments	194,610	2,184,418
Net unrealized losses on unrestricted investments	(386,985)	2,329,956
Investment income and unrealized gains on temporarily restricted net assets	(24,858)	(2,047)
(Increase) decrease in operating assets:		
Patient accounts receivable	(5,334,569)	(7,282,340)
Inventories	(62,155)	(85,014)
Other assets	109,282	(246,046)
Promises to give	84,446	(193,000)
Due from related party	(358,047)	(307,121)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	974,982	1,174,545
Deferred revenue	1,898	7,271
Accrued pension cost	679,787	(210,358)
Estimated third-party payor settlements	(124,890)	(31,975)
Asset retirement obligation	35,177	64,480
Net cash provided by operating activities	3,833,550	3,894,818
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(979,002)	(1,768,716)
Sale of investments, net	1,611,017	373,558
Decrease in other long-term assets, net	143,313	379,221
Net cash provided by (used in) investing activities	775,328	(1,015,937)
Cash Flows from Financing Activities		
Repayments of long-term debt	(867,319)	(832,009)
Capital lease payments	(1,010,624)	(747,807)
Line of credit payments	(2,010,617)	(90,985)
Net cash used in financing activities	(3,888,560)	(1,670,801)
Net Increase in Cash and Cash Equivalents	720,318	1,208,080
Cash and Cash Equivalents - Beginning of Year	2,230,848	1,022,768
Cash and Cash Equivalents - End of Year	$ 2,951,166	$ 2,230,848
Cash Paid During the Year for Interest	$ 1,387,457	$ 1,432,730

The accompanying notes are an integral part of the combined financial statements

THE WESTERLY HOSPITAL AND SUBSIDIARY
(A Controlled Affiliate of Community Health of Westerly, Inc.)
NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

The Westerly Hospital and Subsidiary (the Hospital) is a not-for-profit acute care hospital under corporate governance of Community Health of Westerly, Incorporated (C.H.O.W.), a not-for-profit holding company. The Westerly Hospital Foundation (the Foundation) is a not-for-profit corporation formed to promote the charitable, educational and scientific purposes of the Hospital, under corporate governance of the Hospital. The Foundation is a subsidiary of the Hospital. Other affiliated entities under the corporate governance of C.H.O.W. include Mastuxet Realty, Inc., The Westerly Hospital Auxiliary, Inc., Women's Health of Westerly, LLC, Westerly Hospital Energy Co., LLC, and C.H.O.W. NewCo, Inc. Westerly Adult Day Services, Inc., disaffiliated itself from C.H.O.W. in 2008.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The combined financial statements reflect the accounts of the Hospital and the Foundation and have been prepared on the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America (GAAP). All significant intercompany balances and transactions have been eliminated in combination.

The Hospital reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted Net Assets - Unrestricted net assets represent available resources other than donor-restricted contributions. These resources may be expended at the discretion of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. The Board of Trustees has designated a portion of unrestricted net assets as described in Note 21.

Temporarily Restricted Net Assets - Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure and also includes accumulated investment income and gains on donor-restricted endowment assets that have not been appropriated for expenditure. Temporarily restricted net assets are available for the following:

	2009	2008
Women's Initiative Campaign	$ 108,554	$ 193,000
Charity care	8,863	7,854
Physician education	66,733	74,915
Capital expenditures	282,551	243,500
Available for appropriation by Board of Trustees	3,379,358	-
Other	6,448	6,439
	$ 3,852,507	$ 525,708

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently Restricted Net Assets - Permanently restricted net assets represent resources that have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit the Hospital to expend the income earned thereon for general operating purposes (except for the Morgan trust, which specifies that income is restricted for charity care). Such assets are included in the Hospital's endowment funds.

Funds Held in Trust by Others - The Hospital is the sole beneficiary of the income from the Louise D. Hoxsey Foundation and the Estate of Charles A. Morgan trusts, which are held in perpetuity by an independent trustee. These trusts are recorded at market value and are included in assets limited as to use and permanently restricted net assets. The income from the Hoxsey trust is unrestricted, and Morgan trust income is restricted for charity care.

Annual distributions from the trusts are reported as other revenue that increases unrestricted net assets.

Income Taxes - The Hospital and the Foundation are organizations as described in Section 501(c)(3) of the Internal Revenue Code and are generally exempt from federal income taxes on related income under the Code.

Excess of Expenses over Revenues and Gains - The combined statements of operations and changes in unrestricted net assets include excess of expenses over revenues and gains. Changes in unrestricted net assets, which are excluded from excess of expenses over revenues and gains, consistent with industry practice, include unrealized gains and losses on investments 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, capital transactions with C.H.O.W. and affiliated entities, grants for capital expenditures and changes in additional minimum pension liability).

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include contractual allowances on patient revenue and the reserve for uncollectible accounts. Actual results could differ from those estimates.

Change in Accounting Principle - The Hospital was required to change its accounting for donor-restricted endowments due to the issuance of Financial Accounting Standards Board Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FAS 117-1). Previously, accumulated gains and income on donor-restricted endowment assets were classified either as unrestricted or permanently restricted net assets. Under FAS 117-1, accumulated gains and income on donor-restricted endowment assets are classified as temporarily restricted net assets until appropriated for expenditure. This change in accounting principle had no effect on total net assets. The

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

reclassification of net assets from unrestricted and permanently restricted to temporarily restricted is disclosed in Note 3 and Note 21.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by donor designation or other arrangements under trust agreements that, at times, may exceed federally insured limits. In addition, cash equivalents may, at times, be invested in instruments not covered by federal insurance. The Hospital's deposits exceeded federal depository insurance limits as of September 30, 2009 and 2008. However, the Hospital has not experienced any losses in such accounts or instruments, and management believes the Hospital is not exposed to any significant credit risk on cash and cash equivalents.

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

Promises to Give - Unconditional promises to give cash and other assets to the Foundation are reported at fair value at the date the promise is received. Unconditional promises to give are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined financial statements.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the combined balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of expenses over revenues and gains unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of expenses over revenues and gains unless the investments are trading securities. None of the Hospital's investments are trading securities.

A decline in the market value of an investment security below its cost that is designated to be other than temporary is recognized through an impairment charge. The impairment charge is included in the excess of expenses over revenues and gains in the combined statements of operations and changes in net assets, and a new cost basis is established (see Note 9).

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities could occur in the near term and that such changes could materially affect the investment balances and activity reflected in the combined financial statements. The Hospital maintains a diversified portfolio of investments and is actively monitoring the financial markets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets Limited as to Use - Assets limited as to use primarily include assets restricted by donors, assets held by trustees under indenture agreements and designated assets set aside by the Board of Trustees to function as endowment, over which the Board retains control and at its discretion may use for other purposes.

Property, Plant and Equipment - Property, plant and equipment acquisitions that individually exceed $1,500 are recorded at cost. Depreciation is provided over the estimated useful lives of the assets, 3-30 years, on a straight-line basis. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or estimated useful life of the equipment. Such amortization is included in depreciation in the combined financial statements. Maintenance and repairs are charged to expense as incurred, and renovations which extend the original expected life of the related assets are capitalized.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of expenses over revenues and gains, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Without explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred Financing Costs - Deferred financing costs are amortized over the lives of the related revenue bonds.

Net Patient Service Revenue - The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at 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.

Restricted and Unrestricted Revenue and Support - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 combined statements of operations and changes in net assets as net assets released from restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assessments - During 2009 and 2008, the State of Rhode Island assessed a licensing fee to all Rhode Island hospitals based on each hospital's gross patient revenue. The licensing fee expense included in supplies and other expenses in the accompanying combined statements of operations and changes in net assets was \$3,539,944 and \$2,182,550 for 2009 and 2008, respectively.

Malpractice Insurance Coverage and Estimated Malpractice Costs - The Hospital maintains its malpractice coverage on a claims-made basis and has renewed its policy for fiscal year 2010. The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Charity Care and Provision for Bad Debts - 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, such amounts are not reported as revenue.

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party arrangements. Additions to the allowance for uncollectible accounts are made by means of the 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, business and economic conditions, trends in federal and state governmental healthcare coverage and other collection indicators.

Nonoperating Gains and Losses - The Hospital records unrestricted investment income from endowment funds and board-designated assets as nonoperating gains within the combined statements of operations and changes in net assets. All gifts and grants are considered to be available for general use, unless specifically restricted by the donor, and are recorded at fair market value at the date received.

Donated Services - A substantial number of unpaid volunteers have made significant contributions of their time to the Hospital's programs and supporting services. These contributed services are not recorded as contributions in the combined financial statements.

State Unemployment Compensation Method - The Hospital uses the self-insurance method for unemployment insurance under which the Hospital reimburses the State of Rhode Island for actual unemployment benefits paid by the State.

Asset Retirement Obligations - GAAP requires that a liability be recognized for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. Certain of the Hospital's pipe coverings and floor tiles contain asbestos that must be removed upon demolition or upon extensive renovation. An asset retirement obligation of \$1,389,257 and \$1,354,080 has been included on the accompanying combined balance sheets as of September 30, 2009 and 2008, respectively. Accretion expense of \$35,177 was recognized by the Hospital during

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2009. The Hospital expects to, and has the ability to, continue to maintain and operate its remaining buildings without undertaking any activities that would require removal of the asbestos.

Subsequent Events - In preparing these combined financial statements, management has evaluated subsequent events through December 16, 2009, which represents the date the combined financial statements were available to be issued.

NOTE 3 - RESTATEMENT OF ENDOWMENT NET ASSETS

During 2008, the Financial Accounting Standards Board issued FAS 117-1, which provides guidance on the net asset classification of donor-restricted endowment funds.

Also in 2009, the Rhode Island Prudent Management of Institutional Funds Act (RIPMIFA) became effective and applies to the Hospital.

The Hospital adopted the principles of FAS 117-1 effective as of the beginning of the fiscal year ended September 30, 2009. This resulted in the reclassification of accumulated unspent investment returns of $1,953,342 from unrestricted net assets to temporarily restricted net assets, as more fully described in Note 21. The adoption of RIPMIFA also resulted in a reclassification of $1,811,787 from permanently restricted net assets to temporarily restricted net assets. The amount of this reclassification represented the amount by which the permanently restricted funds were increased in order to maintain the purchasing power of the fund, as previously required by the Uniform Management of Institutional Funds Act.

These reclassifications are shown as a cumulative effect of change in accounting principle in the accompanying combined financial statements.

NOTE 4 - CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics.

The following information summarizes charity care provided during the years ended September 30, 2009 and 2008:

	2009	2008
Charges Foregone, Based on Established Rates	$ 1,091,713	$ 1,231,016

The Hospital also subsidizes the cost of treating patients who are on government assistance where reimbursement is below cost.

NOTE 5 - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care and certain outpatient services rendered to Medicare program beneficiaries are reimbursed at prospectively determined rates. Inpatient rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Payments for outpatient services are based on ambulatory payment classifications.

The Hospital is paid for certain cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare Prospective Payment System and the appropriateness of their admissions are subject to an independent review by a peer review organization under contract with the Medicare program. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2007. Management does not believe that future settlements will have a material impact on operations.

Blue Cross - Beginning in fiscal 2009, the Hospital is reimbursed at prospectively determined rates for inpatient services provided to Blue Cross patients. Outpatient services are reimbursed in accordance with a negotiated fee. Both inpatient and outpatient services are reimbursed on predetermined volumes.

Medicaid - The Hospital is reimbursed for charges to Medicaid patients under the terms of a prospective rating contract. Under the contract, reimbursement rates are determined in advance based on budgeted costs and anticipated patient care statistics for the applicable year, as negotiated and agreed to by the third-party contractual agencies. Adjustments to anticipated patient care statistics are made at year end in accordance with provisions in the contract which recognize actual volume and intensity statistics. Settlements have been reached with Medicaid through September 30, 2004. Management does not believe that future settlements will have a material impact on operations.

United Health Plans of New England, Inc. - The Hospital is reimbursed for inpatient services provided to United Health patients on a negotiated per diem rate. Outpatient services are reimbursed in accordance with a predetermined fee schedule.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant regulatory action; failure to comply with such laws and regulations can result in fines, penalties and exclusion from the Medicare and Medicaid programs. The Hospital believes it is in compliance with all applicable laws and regulations.

NOTE 6 - OTHER REVENUE

Other revenue for the years ended September 30, 2009 and 2008, comprises the following:

	2009	2008
Morgan trust income	$ 307,625	$ 344,935
Cafeteria sales	177,733	195,657
Pharmacy sales	1,142	366
Rental income and service fees	869,797	888,083
	$ 1,356,297	$ 1,429,041

NOTE 7 - PATIENT ACCOUNTS RECEIVABLE

Accounts receivable are presented in the combined balance sheets net of an allowance for doubtful accounts of $6,635,205 and $5,010,972 at September 30, 2009 and 2008, respectively. The Hospital provided $7,249,449 and $6,263,526 for uncollectible patient accounts during the years ended September 30, 2009 and 2008, respectively. Recoveries of approximately $1,200,000 and $2,200,000 were netted against the provision for uncollectible accounts for the years ended September 30, 2009 and 2008, respectively.

NOTE 8 - PROMISES TO GIVE

Unconditional promises to give as of September 30, 2009 and 2008, are expected to be collected as follows:

	2009	2008
Within one year	$ 113,231	$ 210,920
Within two to five years	7,465	4,000
Total contributions receivable	120,696	214,920
Less discounts to net present value and reserve for uncollectible pledges	(12,142)	(21,920)
Net Unconditional Promises to Give	$ 108,554	$ 193,000

The discount rate used in calculating the present value of promises to give for the years ended September 30, 2009 and 2008, was 3.4% and 4.8%, respectively.

Of the promises to give, $74,000 and $150,000 is due from The Westerly Hospital Auxiliary, Inc., a related party, as of September 30, 2009 and 2008, respectively.

NOTE 9 - INVESTMENTS

The following information is presented as of September 30, 2009 and 2008, regarding assets whose use is restricted by donors or limited by the board:

	2009	2008
Cash and short-term investments	$ 1,962,780	$ 3,431,917
Marketable equity securities	10,638,635	11,048,262
Other investments, primarily bonds	7,110,573	6,114,305
	$ 19,711,988	$ 20,594,484

The following information is presented as of September 30, 2009 and 2008, regarding assets invested by trustee under loan agreement:

	2009	2008
Cash and short-term investments	$ 1,277,983	$ 1,297,349
Other investments, primarily bonds	618,864	599,102
	$ 1,896,847	$ 1,896,451

The following information is presented as of September 30, 2009 and 2008, regarding assets held in trust:

	2009	2008
Cash and short-term investments	$ 284,721	$ 330,646
Marketable equity securities	3,763,021	4,173,915
Other investments, primarily bonds	3,242,502	3,033,317
	$ 7,290,244	$ 7,537,878

Included in interest and investment income is an investment impairment charge totaling $461,557 and $108,766 for the years ended September 30, 2009 and 2008, respectively, to reflect other than temporary declines in the fair market value of certain equity securities.

Investment income is stated net of management fees and expenses, which were $69,626 and $75,535 for the years ended September 30, 2009 and 2008, respectively.

At September 30, 2009, investments with market value below cost for 12 months or more included certain equity and bond securities with a market value of $3,983,660 and $148,159, respectively, and an unrealized loss of $1,989,605 and $14,836, respectively. Investments with market value below cost for less than 12 months at September 30, 2009 included certain equity and bond securities with a market value of $1,874,072 and $954,171, respectively, and an unrealized loss of $300,856 and $57,480, respectively.

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at September 30, 2009 and 2008, comprises the following:

	2009	2008
Land and land improvements	$ 2,428,957	$ 2,428,957
Building and building improvements	43,510,583	43,510,583
Equipment	63,178,602	59,315,502
Construction in progress	122,865	63,135
	109,241,007	105,318,177
Less accumulated depreciation and amortization	70,944,653	66,465,597
Net Property and Equipment	$ 38,296,354	$ 38,852,580

NOTE 11 - LONG-TERM DEBT AND FUNDS INVESTED BY TRUSTEE

The Hospital has a 6.25% secured promissory note payable in monthly installments of $40,493 until June 15, 2014. After June 15, 2014, the interest rate will be adjusted to either 150 basis points greater than the bank's five- or ten-year cost of funds or the then 30-day LIBOR rate. It is the Hospital's option which rate to choose. The final payment is due June 15, 2024.

In January 1994, the Rhode Island Health and Educational Building Corporation issued $20,485,000 of Hospital Financing Revenue Bonds - The Westerly Hospital Issue - Series 1994 (the Bonds) on behalf of the Hospital pursuant to the Loan and Trust Agreement dated January 15, 1994 (the Bond Agreement). The terms of the Bond Agreement stipulate that interest will be paid at rates between 2.75% and 6% per annum, with semiannual principal installment payments commencing July 1, 1994 and through July 1, 2019.

The terms of the Bond Agreement require that the Hospital make quarterly deposits to the trustee that are sufficient to provide for the payment of principal and interest due on the bonds. Such deposits are included in assets limited as to use. The Bond Agreement also requires the Hospital to maintain a certain debt coverage ratio. The Hospital is in compliance with its debt coverage ratio at September 30, 2009.

NOTE 11 - LONG-TERM DEBT AND FUNDS INVESTED BY TRUSTEE (Continued)

Long-term debt is comprised of the following at September 30, 2009 and 2008:

	2009	2008
6.25% secured promissory note, principal maturing June 15, 2024, monthly installments are $40,493, interest is 6.25% until June 15, 2014	$ 4,648,709	$ 4,833,641
Series 1994 Tax-Exempt Revenue Bonds, principal maturing in varying annual amounts, due July 1, 2019, collateralized by a lien on certain equipment	9,315,000	9,980,000
7.72% mortgage loan, payable in monthly installments of $6,274, including interest, collateralized by a mortgage on certain property	730,226	747,613
	14,693,935	15,561,254
Less current installments	925,659	872,374
Total Long-Term Debt	$ 13,768,276	$ 14,688,880

The aggregate maturities of long-term debt for the next five years and thereafter are as follows:

Year Ending September 30	
2010	$ 925,659
2011	985,160
2012	1,045,617
2013	1,107,096
2014	1,174,662
Thereafter	9,455,741
	$ 14,693,935

The Hospital has a $3,500,000 secured line-of-credit agreement with a bank as of September 30, 2009 and 2008. The Hospital had outstanding borrowings of $2,433,264 and $3,259,066 against the line of credit as of September 30, 2009 and 2008, respectively. Interest is payable on the outstanding balance at 150 basis points in excess of the 30-day LIBOR rate. Interest was 1.70% and 5.22% at September 30, 2009 and 2008, respectively. This line-of-credit agreement expires on January 1, 2011.

NOTE 11 - LONG-TERM DEBT AND FUNDS INVESTED BY TRUSTEE (Continued)

The Hospital has a $1,500,000 secured line-of-credit agreement with a bank as of September 30, 2009 and 2008. The Hospital had outstanding borrowings of $-0- and $1,184,815 against the line of credit as of September 30, 2009 and 2008, respectively. Interest is payable on the outstanding balance at 150 basis points in excess of the 30-day LIBOR rate. Interest was 1.70% and 5.22% at September 30, 2009 and 2008, respectively. This line-of-credit is payable upon demand.

Approximately $11,400,000 in investments and cash collateralizes the promissory note and the two lines of credit.

Under Loan Agreement, Funds Invested by Trustee - Funds invested by trustee consisted of the following accounts at September 30, 2009 and 2008, which were established in connection with the long-term debt discussed above:

	2009	2008
Debt service reserve fund	$ 1,555,496	$ 1,497,079
Principal and interest funds	338,795	396,820
Other	2,556	2,552
Total Funds Invested by Trustee	$ 1,896,847	$ 1,896,451

The principal and interest funds are used to make semiannual principal and interest payments. The debt service reserve fund represents additional funds that the Hospital is required to set aside under the Bond Agreement.

NOTE 12 - LEASES - CAPITAL

The Hospital leases various equipment under capital leases. The present value of future minimum capital lease payments is as follows:

Year Ending September 30

2010	$	1,825,170
2011		1,640,972
2012		800,038
2013		565,168
2014		127,336
Total minimum lease payments		4,958,684
Less amount representing interest at interest rates ranging from 1.59% to 9.14%		(414,133)
Present value of net minimum capital lease payments		4,544,551
Less current portion of capital lease obligations		(1,612,283)
Long-Term Capital Lease Obligations	$	2,932,268

The net book value of equipment under capital lease obligations is $3,337,121.

NOTE 13 - PENSION PLAN

The Hospital sponsors a noncontributory defined benefit retirement plan covering substantially all employees called The Westerly Hospital Retirement Plan (the Plan). The Plan provides pension benefits, which are based on years of service and compensation throughout the term of employment, and certain death benefits. It is the Hospital's policy to fund the minimum allowed contribution, taking into effect the IRS full-funding limitation. 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.

In November 2006, the Plan was amended such that new employees hired after January 30, 2007 will not be eligible to participate in the Plan. New employees hired after that date will receive a 5% contribution to the Tax Sheltered Annuity Plan (TSA) once qualified under such plan. Existing employees (and those hired before January 30, 2007) will remain in (or eligible for) the Plan and will be eligible for a 1% match under the TSA once qualified under such plan. Existing employees may elect to transfer from the Plan to the TSA and receive an employer contribution of 5% of their salary once qualified under the Plan (see page 21).

NOTE 13 - PENSION PLAN (Continued)

GAAP requires companies to record a liability on the balance sheets for the underfunded portion of postretirement plans, defined as the amount by which the projected benefit obligation exceeds the fair value of plan assets.

The following table sets forth the Plan's funded status and amounts recognized in the Hospital's combined financial statements at September 30, 2009 and 2008:

	2009	2008
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 40,592,391	$ 40,265,227
Service cost	1,507,179	1,648,403
Interest cost	2,609,371	2,499,959
Benefits paid	(1,387,741)	(1,175,124)
Actuarial loss (gain)	3,309,299	(2,646,074)
Projected Benefit Obligation at End of Year	46,630,499	40,592,391
Change in plan assets:		
Fair value of plan assets at beginning of year	29,869,598	33,474,099
Actual return on plan assets	396,977	(4,258,620)
Contributions and transfers	1,494,503	1,829,243
Benefits paid	(1,387,741)	(1,175,124)
Fair Value of Plan Assets at End of Year	30,373,337	29,869,598
Accrued Pension Cost	$ 16,257,162	$ 10,722,793

The following table sets forth the unrecognized items impacting the Plan:

	2009	2008
Unrecognized loss from past experience different from that assumed and effects of changes in assumptions	$ 17,461,924	$ 12,607,342

The accumulated benefit obligation at the end of 2009 and 2008 was $41,583,268 and $35,066,279, respectively. The measurement dates are September 30, 2009 and 2008.

NOTE 13 - PENSION PLAN (Continued)

The following weighted average assumptions were used to determine end of year benefit obligations:

	2009	2008
Discount rate	6.00%	6.75%
Rate of compensation increase	3.00	4.50

Net periodic pension cost for 2009 and 2008 included the following components:

	2009	2008
Service cost - benefits earned during the period	$ 1,507,179	$ 1,648,403
Interest cost on projected benefit obligation	2,609,371	2,499,959
Expected return on assets	(2,472,901)	(2,792,678)
Recognized net actuarial loss	530,641	342,194
Net Periodic Pension Cost	$ 2,174,290	$ 1,697,878

The following weighted average assumptions were used to determine net periodic pension cost:

	2009	2008
Discount rate	6.75%	6.25%
Expected return on plan assets	8.50	8.50
Rate of compensation increase	4.50	4.50

The Hospital expects to contribute approximately $3,700,000 to the Plan during the upcoming year.

Expected benefit payments:

2010	$ 1,480,312
2011	1,594,822
2012	1,737,320
2013	2,064,040
2014	2,323,661
2015-2019	12,247,885

NOTE 13 - PENSION PLAN (Continued)

The asset allocation for the Plan at the end of 2009 and 2008, and the target allocation for 2009 by asset category, are as follows:

Asset Category	Target Allocations 2009	Percentage of Plan Assets at September 30 2009	2008
Equity	40-70%	54%	54%
Fixed income	30-60	37	37
Cash equivalents	0-10	9	9

The Hospital also provides an employer funded annuity plan covering substantially all employees. Hospital contributions to the annuity plan totaled $235,138 and $235,138 during 2009 and 2008, respectively (see page 18).

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The Hospital is presently a defendant in several pending medical malpractice and other suits. All of these suits are being defended by counsel of the Hospital's insurance carriers. In the opinion of the Hospital's management, any settlements or judgments of these suits will be covered by insurance and will have no significant adverse effect on the financial position or results of operations of the Hospital.

NOTE 15 - OPERATING LEASES

Rental expense under all significant operating leases was $750,502 and $907,324 for the years ended September 30, 2009 and 2008, respectively. At September 30, 2009, future minimum lease payments under noncancelable operating leases are as follows:

Year Ending September 30	
2010	$ 464,708
2011	295,544
2012	150,000
2013	150,000
	$ 1,060,252

NOTE 16 - DISPROPORTIONATE SHARE

The Federal government has long recognized the financial burdens that are borne by hospitals that serve an unusually large number or "disproportionate share" of low-income patients. The Hospital received disproportionate share payments of $3,556,998 and $2,245,880 for the years ended September 30, 2009 and 2008, respectively. These amounts are included in net patient revenue on the accompanying combined statements of operations and changes in net assets.

NOTE 17 - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Revenues from patients and third-party payors were as follows:

	2009	2008
Medicare	39%	37%
Medicaid	2	2
Blue Cross	23	24
Other third-party payors	33	34
Patients	3	3
	100%	100%

NOTE 18 - RELATED PARTIES

The following amounts were due to the Hospital from related parties at September 30, 2009:

C.H.O.W.	$ 52,357
Women's Health of Westerly, LLC	100,902
C.H.O.W. NewCo, Inc.	966,040
	$ 1,119,299

The Hospital also has employees working at Mystic Medical Office Building, Wood River Health Services, Urgent Care and Morgan Medical Building. None of these entities have amounts due to or from the Hospital at September 30, 2009.

NOTE 18 - RELATED PARTIES (Continued)

During 2009, the Hospital incurred $3,121,653 in capital transactions with affiliates, which is reflected on the accompanying combined statement of operations and changes in net assets. These capital transactions occurred with the following affiliates:

C.H.O.W. NewCo., Inc.	$ 1,899,366
Women's Health of Westerly, LLC	1,110,864
Eldereval	111,423
	$ 3,121,653

NOTE 19 - FUNCTIONAL EXPENSES

The Hospital provides general healthcare services to residents within its geographic location. Expenses related to providing these services are as follows:

	2009	2008
Healthcare services	$ 56,466,938	$ 52,059,014
Provision for uncollectible accounts	7,249,449	6,263,526
General and administrative	20,481,617	19,277,184
Interest	1,377,482	1,423,608
Depreciation and amortization	4,450,501	4,346,170
	$ 90,025,987	$ 83,369,502

NOTE 20 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Cash and Cash Equivalents - The carrying amount approximates fair value because of the short maturity of these instruments.

Investments - The fair value of certain investments are estimated based on quoted market prices or estimates of fair value for those or similar investments.

Bonds and Notes Payable - The estimated fair market value of the Hospital's long-term debt at September 30, 2009 is approximately $14,750,000, estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements.

NOTE 20 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Assets Measured at Fair Value on a Recurring Basis - The following is a summary of the source of fair value measurements for assets that are measured at fair value on a recurring basis as of September 30, 2009:

			Fair Value Measurements Using				
Description		**September 30, 2009**		**Quoted Prices in Active Markets for Identical Assets (Level 1)**		**Significant Other Observable Inputs (Level 2)**		**Significant Unobservable Inputs (Level 3)**
Cash and cash equivalents	$	2,951,166	$	2,951,166	$	-	$	-
Assets whose use is restricted by donors or limited by the Board		19,711,988		19,711,988		-		-
Under loan agreement, funds invested by trustee		1,896,847		1,896,847		-		-
Funds held in trust		7,290,244		-		-		7,290,244
Total	$	31,850,245	$	24,560,001	$	-	$	7,290,244

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3) - The following is a summary of the changes in the balances of investments measured at fair value on a recurring basis using significant unobservable inputs:

		Funds Held in Trust
Balance - beginning of year	$	7,537,878
Net realized gains		210,034
Net unrealized losses		(457,668)
Balance - End of Year	$	7,290,244

Funds held in trust represent the right to receive a future stream of payments from the trust. The underlying assets in the trust would be classified as Level 1 if the Hospital held them directly.

NOTE 21 - ENDOWMENT

The Hospital's endowment consists of approximately 10 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The Hospital has interpreted RIPMIFA 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, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment 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 Hospital in a manner consistent with the standard of prudence prescribed by RIPMIFA. In accordance with RIPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulated donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Hospital 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 Hospital
- The investment policies of the Hospital
- The expected tax consequences, if any, of investment decisions or strategies
- The role that each investment or course of action plays within the overall investment portfolio of the fund
- The needs of the Hospital and the fund to make distributions to preserve capital
- An asset's special relationship or special value, if any, to the charitable purposes of the Hospital.

NOTE 21 - ENDOWMENT (Continued)

Endowment net asset composition by type of fund is as follows as of September 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 3,379,358	$ 4,671,877	$ 8,051,235
Board-designated endowment funds	11,296,158	-	-	11,296,158
Total	$ 11,296,158	$ 3,379,358	$ 4,671,877	$ 19,347,393

Changes in endowment net assets are as follows for the year ended September 30, 2009:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	$ 13,831,134	$ -	$ 6,430,642	$ 20,261,776
Net asset reclassifications based on change in law	(1,953,342)	3,765,129	(1,811,787)	-
	11,877,792	3,765,129	4,618,855	20,261,776
Investment return:				
Investment income	272,570	192,049	69,685	534,304
Unrealized investment loss	(354,204)	(168,208)	(16,663)	(539,075)
Total investment return	(81,634)	23,841	53,022	(4,771)
Appropriation of endowment assets for expenditure	(500,000)	(409,612)	-	(909,612)
Endowment Net Assets - End of Year	$ 11,296,158	$ 3,379,358	$ 4,671,877	$ 19,347,393

NOTE 21 - ENDOWMENT (Continued)

Endowment net asset composition by type of fund is as follows as of September 30, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 6,430,642	$ 6,430,642
Board-designated endowment funds	13,831,134	-	-	13,831,134
Total	$ 13,831,134	$ -	$ 6,430,642	$ 20,261,776

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	$ 16,610,213	$ -	$ 7,030,207	$ 23,640,420
Investment return:				
Investment income	462,580	-	329,646	792,226
Unrealized investment loss	(2,541,659)	-	(899,969)	(3,441,628)
Total investment return	(2,079,079)	-	(570,323)	(2,649,402)
Appropriation of endowment assets for expenditure	(700,000)	-	(29,242)	(729,242)
Endowment Net Assets - End of Year	$ 13,831,134	$ -	$ 6,430,642	$ 20,261,776

NOTE 21 - ENDOWMENT (Continued)

Amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) are as follows:

	2009	2008
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by RIPMIFA	$ 4,671,877	$ 6,430,642
Total Endowment Funds Classified as Permanently Restricted Net Assets	$ 4,671,877	$ 6,430,642
Temporarily restricted net assets:		
The portion of perpetual endowment funds subject to a time restriction under RIPMIFA:		
Without purpose restrictions	$ 3,379,358	$ -
With purpose restrictions	-	-
Total Endowment Funds Classified as Temporarily Restricted Net Assets	$ 3,379,358	$ -

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or RIPMIFA requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were approximately $104,500 as of September 30, 2009. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Return Objectives and Risk Parameters - The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Hospital must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Board of Trustees, fund managers are expected to produce a total return exceeding the median of a universe of managers with similar asset allocation objectives. On an annualized, net-of-fees basis, the total return of the portfolio will be expected to equal or exceed inflation plus 3% over a rolling three-year period. Actual returns in any given year may vary from this amount.

NOTE 21 - ENDOWMENT (Continued)

Strategies Employed for Achieving Objectives - The fund shall be allocated across a number of investment classes to provide diversification and achieve the fund's investment objectives. The following table defines the fund's target asset allocation and range for each asset class:

Asset Class	Min Wt.	Target Wt.	Max Wt.	Representative Index
Equities	40%	50%	65%	70% Standard & Poor's 500 15% Russell 2000 Value 15% Europe Australia Far East
Fixed Income	25%	40%	60%	100% Lehman Bros Govt./Corp
Cash & Equiv.	0%	10%	20%	100% Salomon 30-day US T-bills

This asset allocation plan provides for diversification of assets in an effort to maximize the investment return and manage the risk of the fund consistent with market conditions. Due to the fluctuation of market values, allocations within a specified range constitute compliance within the policy. An extended period of time may be required to fully implement the asset allocation plan, and periodic revisions will be required.

Spending Policy and How the Investment Objectives Relate to Spending Policy - Distributions from the endowment are specifically approved by the Board of Trustees as deemed fit to meet the operating and capital needs of the Hospital. In implementing this spending policy, and subject to the intent of a donor expressed in a gift instrument, the Hospital may appropriate for expenditure or accumulate so much of its fund as it determines to be prudent for the uses, benefits, purposes and duration for which its fund is established. In making a determination to appropriate or accumulate, the Hospital shall act in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

The investment program shall invest according to an asset allocation plan that is designed to meet the goals of the Fund. The plan will be based on a number of factors, including:

- The projected spending needs;
- The maintenance of sufficient liquidity to meet spending payments; and
- The return objectives and risk tolerances of the fund as defined in the Investment Philosophy