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September 6, 2012

Michael K. Dexter
Chief, Health Systems Development
Health System Development
Rhode Island Department of Health
3 Capitol Hill, Room 404
Providence, RI 02908

Re: Request for Expeditious Review

Dear Michael:

On behalf of our client Lawrence & Memorial Corporation ("L & M"), attached hereto please find a request for expeditious review pursuant to which L & M and Westerly Health Care, Inc. ("Westerly Health Care"), by and through its Special Master W. Mark Russo, Esq., requests that the Department of Health determine that L & M's proposed purchase of Westerly Hospital be granted expeditious review of its Hospital Conversion Act Application pursuant to R.I.G.L. § 23-17.14-12.1.

Note that in response to Question 5, we have attached an Audited Financial Statement for The Westerly Hospital and Subsidiary as of September 30, 2010. However, neither Westerly Health Care, Inc. nor The Westerly Hospital has audited financial statements for fiscal year 2011. Accordingly, we have attached a Consolidated Balance Sheet for The Westerly Hospital as of September 30, 2011. Finally, we attach a Consolidating Statement of Operations for Community Health of Westerly, Inc. for the 7 months ending May 31, 2012.

Of course, if you require any further information regarding this matter, please do not hesitate to contact us.

Sincerely,

Stephen D. Zubiago

Stephen D. Zubiago

Enclosures

cc: W. Mark Russo, Esq.
Richard R. Berretta, Jr., Esq.
Patricia K. Rocha, Esq.
Carolyn Gabbay, Esq.
Christopher Browning, Esq.

Rhode Island Department of Health
Hospital Conversions/Mergers Program
Three Capitol Hill, Room 410
Providence, RI 02908-5097
Phone: (401) 222-2788

www.health.state.ri.us/hospitals/about/mergers

REQUEST FOR EXPEDITIOUS REVIEW

(Pursuant to R.I. Gen. Laws § 23-17.14-12.1)

1. Please provide the following information for the **acquiree**:

Name: Westerly Hospital Healthcare, Inc. (and related entities as set forth in Attachment 4)
Address: 25 Wells Street, Westerly, RI 02891

Contact Information for the President or Chief Executive Officer:

Name: W. Mark Russo, Esq., Special Master	Telephone: 401-455-1000

Information for the person to contact regarding this proposal:

Name: Patricia K. Rocha, Esq.	Telephone: 401-274-7200
E-mail: PRocha@apslaw.com	Fax number: 401-751-0604

2. Please provide the following information for the **acquiror**:

Name: Lawrence & Memorial Corporation
Address: 365 Montauk Avenue, New London, CT 06320

Contact Information for the President or Chief Executive Officer:

Name: Bruce D. Cummings	Telephone: 860-442-0711 x.2221

Information for the person to contact regarding this proposal:

Name: Stephen D. Zubiago, Esq.	Telephone: 401-454-1000
E-mail: SZubiago@Nixonpeabody.com	Fax number: 401-454-1030

3. Please affirm that acquiree **and** acquiror are both nonprofit corporations exempt from taxation under section 501(a) that have directly or indirectly continuously operated at least one licensed hospital for at least the preceding 3 years (mark with an 'X'): Yes X

4. Please affirm that the proposed conversion involves one of the following (mark with an 'X'):
X a. Two (2) or more hospitals that are not in common control with another hospital;
____ b. One hospital not under common control with another hospital and a hospital system parent corporation;
____ c. Two (2) affiliated hospitals the conversion of which was previously approved in accordance with chapter 23-17.14 and another hospital or hospital system parent corporation.

4. Please provide an Executive Summary of the proposed conversion (on a separate page).

5. Please identify the following information regarding the acquiree, **and provide** audited financial statements for the two most recently completed fiscal years and unaudited financial statements for all of the completed quarters of the current fiscal year.

Fiscal Year	Operating Profit/(Loss)	Days Cash on Hand	Current Assets to Liability Ratio	Long-term Debt to Capitalization	Inpatient Occupancy Rate [1]
20 10 Audited	(801,312)	10.10	63.00%	1.57	37.09%
20 11 Unaudited	(5,206,402)	12.82	54.52%	4.83	34.81%
1st Quarter of 20 12	(3,453,152)	16.10	43.68%	6.73	32.49%
2nd Quarter of 20 12	(2,550,371)	19.61	47.80%	14.97	33.43%
3rd Quarter of 20 12 [2]	(897,418)	26.86	47.19%	68.88	32.64%

6. Please identify the most recent rating assigned to the acquiree by each of the major rating agencies:

Rating Agency	Grade Assigned to Acquiree
Standard & Poor's	CCC (December 2011)
Moody's	Rating withdrawn due to insufficient information [3]
Fitch Group	N/A

7. Please have the President or Chief Executive Office of the **acquiree** attest to the following:

"I certify that the acquiree operates a distressed Rhode Island hospital facing significant financial hardship that may impair its ability to continue to operate effectively without the proposed conversion. I certify that the information contained in this material is complete, accurate and correct."

Vin..., Special Lsr

Signed by President or Chief Executive Officer

The Westerly Hospital

Name of Acquiree

Subscribed and sworn to before me on this 5th day of September 2012

Wendy ...

Notary Public

My Commission Expires: 7/20/2014

1 Based on 125 Licensed beds, does not include Nursery Days

2 Reflects thru 5/31/2012, 6/30/2012 not available

3 At the time of withdrawing its rating in February, 2011, Moody's downgraded Westerly Hospital's bond rating to Ca from Caa1. According to the S&Ps "2010 U.S. Not-For Profit Stand Alone Hospital Median Health Care Ratios", the median cash on hand required for a Stand-Alone Hospital to have a favorable rating is approximately 125 days. As of August, 2012, Westerly Hospital had less than 10 days of cash on hand. Conversely, L&M testified at the August 26, 2012 sale hearing that it had 260 days of cash on hand.

8. Please have the President or Chief Executive Office of the **acquiror** attest to the following:

"I certify that the information contained in this material is complete, accurate and correct."

Signed by President or Chief Executive Officer

L+MW Healthcare/L+MW Physicians/L+M Corporations

Name of Acquiror

Subscribed and sworn to before me on this 31st day of August 2012.

Margaret L. Trakas

Notary Public

My Commission Expires: Nov. 30, 2015

MARGARET L. TRAKAS
NOTARY PUBLIC
MY COMMISSION EXPIRES NOV. 30 2015

Attachment 4

4. Please provide an Executive Summary of the proposed conversion.

The following is a summary of the proposed acquisition of Westerly Hospital Healthcare, Inc., the Westerly Hospital, Atlantic Medical Group, Inc., Ocean Myst, MSO, LLC, Women's Health of Westerly, LLC and North Stonington Health Center, Inc. (collectively, the "Westerly Entities") by LMW Healthcare, Inc. ("LMW Healthcare"), LMW Physicians, Inc. ("LMW Physicians) , and Lawrence & Memorial Corporation (as guarantor)("L&M") (collectively, LMW Healthcare, LMW Physicians, and L&M are referred to herein as the "Buyer"). The Westerly Entities are currently managed and operated by W. Mark Russo, Esq., in his capacity as Permanent Special Master of the Westerly Entities, having been duly-appointed as such by Order of the Rhode Island Superior Court for the County of Washington on January 17, 2012 in the case captioned as *Charles S. Kinney, Chief Executive Officer and Trustee v. Westerly Hospital Healthcare, Inc., the Westerly Hospital, Atlantic Medical Group, Inc., Ocean Myst, MSO, LLC, Women's Health of Westerly, LLC and North Stonington Health Center, Inc., C.A. No. 2011-0781* (the "Mastership Proceeding"). The proposed conversion will be made pursuant to an Asset Purchase Agreement (the "APA") by and among the Westerly Hospital Entities and Buyer that was approved by an Order of the Rhode Island Superior Court for the County of Washington on August 30, 2012.[1]

L&M currently operates the Lawrence & Memorial Hospital in New London, CT. Throughout 2012, L&M is celebrating its one hundredth year of providing high quality health care services to the residents of eastern Connecticut, western Rhode Island, and Fisher's Island (New York), as a non-profit community service organization. L&M maintains a strong financial position, as evidenced by its 6.73% operating margin in 2011 and it's A+ debt ratings from S&P and Fitch dated August 2011. L&M sought its bond rating in anticipation of a September 2011 bond issue, demand for which more than twice as great as the $58.9 million available. L&M is also often recognized for its community leadership and service, as evidenced by its extensive community education, outreach, and disease prevention efforts. In 2011 alone, L&M invested $15.6 million into such community efforts.

Westerly Hospital is a community hospital in Southern Rhode Island licensed for one hundred twenty five (125) beds. It is currently the subject of the Mastership Proceeding. Westerly Hospital is currently staffed to operate seventy (70) beds with an average daily inpatient census of forty one (41). The daily inpatient census ranges as high as seventy (70). There is an active, outpatient practice and thus, the Hospital has an adjusted ADC of 126. Emergency Department visits were 23,510, in fiscal year 2011. Westerly Hospital owns and is situated on a 10.6 acre campus.

The Westerly Hospital has not generated a surplus for twenty (20) years, and in recent years has exhausted an endowment of more than $30M. Westerly Hospital had negative net income for fiscal year 2011. However, Westerly Hospital had a positive EBIDA of $2.363M.

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1 To the extent the terms of the APA conflict with the summary provided herein, the terms of the APA shall control.

The positive EBIDA is misleading as it was the result of $3.5M being injected into Westerly Hospital from the so-called "Morgan Trust" just prior to Westerly Hospital petitioning for Mastership. Upon appointment, the Special Master identified a number of areas that were causing significant losses for Westerly Hospital. A major factor in the Hospital's near term losses was the recent opening of the North Stonington Health Center. Despite being informed that the North Stonington Health Center was operating at a loss of approximately $1M per year, the Special Master determined that it was operating at a loss of over $4M per year. Accordingly, even with the injection of the Morgan Trust funds, the Westerly Hospital continued to face a deteriorating fiscal financial situation and did not have available cash to continue operations without the Mastership Proceeding.

Westerly Hospital's dire financial situation is also reflected by the ratings agencies, as, in December 2011, Standard & Poor's downgraded Westerly Hospital's Bond Rating to CCC from BB- and further affirmed a "negative outlook". In February of 2011, Moody's downgraded Westerly Hospital's Bond Rating to Ca from Caa1, and additionally, withdrew its rating due to insufficient information.

The Special Master working with his advisors and the recently installed CRO/CFO has commenced: (1) a debt restructuring which reduced secured debt and established a $3.3M operating cash reserve; (2) a distressed termination of the defined benefit pension plan (a savings of approximately $4.3M in FY 2012); and (3) a $14M turnaround plan/bridge analysis which will return the Hospital and the Related Entities to modest profitability. Actions already underway will result in annualized savings of over $6.6M. Those actions include, but are not limited to:

- Restructuring certain leases and physician contracts;
- Closing the North Stonington Health Center; and
- Restructuring the Women's Health Center of Westerly.

Actions to be undertaken shortly will result in an additional $4.459M in savings. The balance of the turnaround will be accomplished through a combination of operation efficiencies and revenue enhancements.

The Buyer proposes to purchase the Westerly Entities pursuant to the court-approved APA for total consideration of $69,138,653.00 (the "Purchase Price"). The Purchase Price and other pertinent terms of the proposed conversion consist of the following:

a. Buyer will assume approximately $22 million in liabilities of the Westerly Entities;

b. Buyer will purchase so-called "tail" professional malpractice insurance covering Westerly Hospital at an estimated price of $2 million;

c. Buyer will pay the Westerly Entities' closing costs and transactional expenses in connection with the Mastership proceeding. Such costs are estimated at $1.5 million;

d. Buyer will fund "cure costs" not captured by the assumed liabilities in subsection (a) above;

e. Buyer has committed to continue using the Westerly Hospital identity and name, including its non-profit status and community mission;

f. Buyer has committed to establish a new Westerly Hospital Board with members drawn from residents of the Westerly service area and has made a commitment to put residents of the Westerly service area the Board of Trustees of the Buyer's parent;

g. Buyer will carry out a broad-based community capital campaign in support of the Westerly Hospital and has committed that all such funding will be raised in the Hospital's name and remain for the benefit of the Hospital's non-profit and community mission. Such funds will not be used to fund initiatives other than those carried out by Westerly Hospital;

h. Buyer has committed to maintain Westerly Hospital as an acute care, community hospital for a minimum of 5 years after the Closing, including a commitment not to discontinue clinical services being provided by the Westerly Hospital for 2 years after the Closing as more fully set forth in Section 10.1 of the APA;

i. Buyer will provide $6.5 million of working capital into the Westerly Hospital during the first 2 years after the Closing. Such funds will be used to continue the economic turnaround plan (subject to review and final approval by the Buyer) that was initiated by the Special Master and aimed at returning Westerly Hospital to profitability;

j. Buyer will make or incur contractual obligations to make $30 million in capital expenditures in technology, equipment, and expanded services, among other items;

k. Buyer will offer initial employment after the Closing to the trade and services personnel of the Westerly Entities (excluding certain management personnel and general and administrative support services personnel), union and non-union, and contingent upon positive further review of the employment data and general economic data, expects to offer employment to all or substantially all of the Westerly Entities' other employees. Buyer has also made a further commitment to maintain certain minimum staffing levels per adjusted average occupied bed;

l. Buyer has committed to assume physician contracts and to take steps to strengthen the Westerly Hospital's relationship, reputation, and goodwill with the local physician community (subject to Buyer's due diligence review, including but not limited to, compliance with law);

m. Buyer has made a commitment to provide consulting and administrative services to the Sellers at Buyer's cost between the Sale Hearing and the Closing pursuant to an Interim Advisory Agreement;

n. Buyer will, during the period between the Sale Hearing and the completion of the Hospital Conversion Act process, loan money to Westerly Hospital pursuant to the Interim Advisory Agreement to cover operational losses, subject to Section 10.8 of the APA;

o. Buyer will also pay for the lease obligations of North Stonington Health Center through the Closing date (a monthly expense equal to approximately $68,000.00), subject to the Special Master, in his discretion, deeming such payments necessary.

The Buyer anticipates that it will be able to substantially improve the financial performance of the Westerly Entities through the economies of scale in connection with its existing operations and the proven leadership of its current executives that have reported year-over-year improvements in L&M's operating margin for the past 6 years.

Accordingly, the proposed conversion will result in Westerly Hospital, as well as the other Westerly Entities, being owned and operated by an experienced health system with a proven track record of providing high quality health care in a financially sustainable manner. The Court approved sale to the Buyer will advance turnaround efforts and preserve the Westerly Entities as a community asset and economic engine.

Audited Financial Statement

The Westerly Hospital and Subsidiary

September 30, 2010

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

COMBINED FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

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

CONTENTS

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BlumShapiro
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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 Westerly Hospital Health Care, Inc.) as of September 30, 2010 and 2009, 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, 2010 and 2009, 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.

March 3, 2011

THE WESTERLY HOSPITAL AND SUBSIDIARY
(A Controlled Affiliate of Community Health of Westerly, Inc.)
COMBINED BALANCE SHEETS
SEPTEMBER 30, 2010 AND 2009

ASSETS

	2010	2009
Current Assets		
Cash and cash equivalents	$ 2,413,242	$ 2,951,166
Patient accounts receivable, net	7,336,470	7,459,592
Inventories	1,611,752	1,469,759
Other current assets	1,166,569	876,919
Total current assets	12,528,033	12,757,436
Assets Limited as to Use		
Promises to give, net	11,950	108,554
By Board to function as endowment	12,368,211	11,296,158
Under loan agreement, funds invested by trustee	1,963,570	1,896,847
Accumulated earnings on permanent endowment funds	3,513,444	3,379,358
By donors or grantors for specific purposes	301,614	364,595
By donors for permanent endowment funds	4,744,092	4,671,877
Funds held in trust	7,556,551	7,290,244
Total assets limited as to use	30,459,432	29,007,633
Other Assets		
Property, plant and equipment, net	36,501,015	38,296,354
Deferred financing costs, net	209,899	233,389
Due from related party, long-term	869,589	1,119,299
Other long-term assets	513,420	598,371
Total other assets	38,093,923	40,247,413
Total Assets	$ 81,081,388	$ 82,012,482

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

LIABILITIES AND NET ASSETS

	2010	2009
Current Liabilities		
Lines of credit	$ 4,566,767	$ 2,433,264
Current installments of long-term debt	984,831	925,659
Current installments of capital lease obligations	2,326,753	1,612,283
Accounts payable and accrued expenses	5,739,354	5,149,870
Deferred revenue	1,469,601	118,545
Accrued payroll, benefits and related taxes	3,927,424	5,087,264
Estimated third-party payor settlements	872,367	879,073
Total current liabilities	19,887,097	16,205,958
Long-Term Liabilities		
Long-term debt, net of current portion	12,788,366	13,768,276
Long-term portion of capital lease obligations	1,406,509	2,932,268
Noncurrent accrued pension cost	20,456,320	16,257,162
Asset retirement obligation	1,412,870	1,389,257
Total liabilities	55,951,162	50,552,921
Net Assets		
Unrestricted	9,002,516	15,644,933
Temporarily restricted	3,827,067	3,852,507
Permanently restricted	12,300,643	11,962,121
Total net assets	25,130,226	31,459,561
Total Liabilities and Net Assets	$ 81,081,388	$ 82,012,482

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, 2010 AND 2009

	2010	2009
Unrestricted Revenue		
Net patient revenue	$ 90,460,251	$ 87,786,337
Other revenue	1,809,187	1,356,297
Total revenues	92,269,438	89,142,634
Expenses		
Salaries and benefits	51,825,334	48,398,951
Supplies and other expenses	29,384,660	28,549,604
Depreciation	4,592,213	4,450,501
Provision for uncollectible accounts, net	5,962,284	7,249,449
Interest	1,306,259	1,377,482
Total expenses	93,070,750	90,025,987
Loss From Operations	(801,312)	(883,353)
Nonoperating Income		
Interest and investment income	448,102	(400,439)
Unrestricted gifts and bequests	819,506	594,091
Total nonoperating income	1,267,608	193,652
Excess (Deficiency) of Revenues and Gains over Expenses	466,296	(689,701)

(Continued on next page)

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, 2010 AND 2009

	2010	2009
Other Changes in Unrestricted Net Assets		
Net assets released from restrictions	$ 552,981	$ 642,793
Capital transactions with affiliates	(4,915,318)	(3,121,653)
Change in unrealized gains on investments	443,946	386,985
Changes in additional minimum pension liability	(3,190,322)	(4,854,582)
Cumulative effect of change in accounting principle	-	(1,953,342)
Decrease in unrestricted net assets	(6,642,417)	(9,589,500)
Temporarily Restricted Net Assets		
Investment income	1,015	1,018
Net realized gains on investments	109,469	192,048
Net unrealized gains (losses) on investments	345,450	(168,208)
Gifts and bequests	41,840	95,153
Pledges	29,767	84,452
Net assets released from restrictions	(552,981)	(642,793)
Cumulative effect of change in accounting principle	-	3,765,129
Change in temporarily restricted net assets	(25,440)	3,326,799
Permanently Restricted Net Assets		
Net realized gains on investments	347,236	279,719
Net unrealized losses on investments	(8,714)	(474,329)
Cumulative effect of change in accounting principle	-	(1,811,787)
Change in permanently restricted net assets	338,522	(2,006,397)
Change in Net Assets	(6,329,335)	(8,269,098)
Net Assets - Beginning of Year	31,459,561	39,728,659
Net Assets - End of Year	$ 25,130,226	$ 31,459,561

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, 2010 AND 2009

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	$ (6,329,335)	$ (8,269,098)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	4,592,213	4,450,501
Amortization	23,490	23,489
Contributions restricted for long-term investment	(41,839)	(264,051)
Provision for uncollectible accounts	5,962,284	7,249,449
Increase in additional minimum pension liability	3,190,322	4,854,582
Net realized and unrealized (gains) losses on permanently restricted investments	(338,522)	194,610
Net unrealized gains on unrestricted investments	(443,946)	(386,985)
Investment income and unrealized gains on temporarily restricted net assets	(455,934)	(24,858)
(Increase) decrease in operating assets:		
Patient accounts receivable	(5,839,162)	(5,334,569)
Inventories	(141,993)	(62,155)
Other assets	(289,650)	109,282
Promises to give	96,604	84,446
Due from related party	249,710	(358,047)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(570,356)	974,982
Deferred revenue	1,351,056	1,898
Accrued pension cost	1,008,836	679,787
Estimated third-party payor settlements	(6,706)	(124,890)
Asset retirement obligation	23,613	35,177
Net cash provided by operating activities	2,040,685	3,833,550
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(2,796,874)	(979,002)
Sale (purchase) of investments, net	(268,162)	1,611,017
Decrease in other long-term assets, net	84,951	143,313
Net cash provided by (used in) investing activities	(2,980,085)	775,328
Cash Flows from Financing Activities		
Repayments of long-term debt	(920,738)	(867,319)
Capital lease payments, net	(811,289)	(1,010,624)
Line of credit borrowings (payments), net	2,133,503	(2,010,617)
Net cash provided by (used in) financing activities	401,476	(3,888,560)
Net Increase (Decrease) in Cash and Cash Equivalents	(537,924)	720,318
Cash and Cash Equivalents - Beginning of Year	2,951,166	2,230,848
Cash and Cash Equivalents - End of Year	$ 2,413,242	$ 2,951,166
Cash Paid During the Year for Interest	$ 1,316,834	$ 1,387,457

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

THE WESTERLY HOSPITAL AND SUBSIDIARY
(A Controlled Affiliate of Westerly Hospital Health Care, 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 Westerly Hospital Health Care, Inc. (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, Atlantic Medical Group, Inc. (formally C.H.O.W. NewCo, Inc.), North Stonington Health Center, Inc., and Eldereval, LLC.

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:

	2010	2009
Women's Initiative Campaign	$ 11,950	$ 108,554
Charity care	9,872	8,863
Physician education	53,644	66,733
Capital expenditures	231,643	282,551
Available for appropriation by Board of Trustees	3,513,444	3,379,358
Other	6,514	6,448
	$ 3,827,067	$ 3,852,507

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

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.

The tax returns of the Hospital and the Foundation for the years ended September 30, 2007 through 2010 are subject to examination by the Internal Revenue Service (IRS) and various state jurisdictions.

Excess of Revenues and Gains over Expenses - The combined statements of operations and changes in net assets include excess (deficiency) of revenues and gains over expenses. Changes in unrestricted net assets, which are excluded from excess (deficiency) of revenues and gains over expenses, consistent with industry practice, include unrealized gains and losses on investments, capital transactions with C.H.O.W. and affiliated entities, 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 third-party payor reserves, contractual allowances on patient revenue, accrued pension costs and the reserve for uncollectible accounts. Actual results could differ from those estimates.

Change in Accounting Principle - In 2009, 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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

restricted net assets. In accordance with GAAP, 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 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 certain 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, 2010 and 2009. 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.

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 revenues and gains over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess (deficiency) of revenues and gains over expenses 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 that 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 revenues and gains over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. 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 2010 and 2009, 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 $3,807,403 and $3,539,944 for 2010 and 2009, 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 2011. 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 - The Hospital has recognized a liability related to certain of the Hospital's pipe coverings and floor tiles that contain asbestos that must be removed upon demolition or upon extensive renovation. An asset retirement obligation of $1,412,870 and $1,389,257 has been included on the accompanying combined balance sheets as of September 30, 2010 and 2009, respectively. Accretion expense of $23,613 was recognized by the Hospital during 2010. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events - In preparing these combined financial statements, management has evaluated subsequent events through March 3, 2011, which represents the date the combined financial statements were available to be issued.

NOTE 3 - RESTATEMENT OF ENDOWMENT NET ASSETS

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

Accordingly, 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, 2010 and 2009:

	2010	2009
Charges Foregone, Based on Established Rates	$ 2,204,887	$ 1,091,713

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, 2008. Management does not believe that future settlements will have a material impact on operations.

Blue Cross - 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 that 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, 2010 and 2009, comprises the following:

	2010	2009
Morgan trust income	$ 301,296	$ 307,625
Cafeteria sales	199,382	177,733
Pharmacy sales	1,520	1,142
Rental income, service fees and other	1,306,989	869,797
	$ 1,809,187	$ 1,356,297

NOTE 7 - PATIENT ACCOUNTS RECEIVABLE

Accounts receivable are presented in the combined balance sheets net of an allowance for doubtful accounts of $5,146,027 and $6,635,205 at September 30, 2010 and 2009, respectively. The Hospital provided $5,962,284 and $7,249,449 for uncollectible patient accounts during the years ended September 30, 2010 and 2009, respectively. Accounts are written off when all collection efforts have been exhausted. Recoveries of approximately $1,100,000 and $1,200,000 were netted against the provision for uncollectible accounts for the years ended September 30, 2010 and 2009, respectively.

NOTE 8 - PROMISES TO GIVE

Unconditional promises to give as of September 30, 2010 and 2009, are expected to be collected as follows:

	2010	2009
Within one year	$ 11,950	$ 113,231
Within two to five years	-	7,465
Total contributions receivable	11,950	120,696
Less discounts to net present value and reserve for uncollectible pledges	-	(12,142)
Net Unconditional Promises to Give	$ 11,950	$ 108,554

The discount rate used in calculating the present value of promises to give for the years ended September 30, 2010 and 2009, was 3.4%.

Of the promises to give, $-0- and $74,000 is due from The Westerly Hospital Auxiliary, Inc., a related party, as of September 30, 2010 and 2009, respectively.

NOTE 9 - ASSETS LIMITED AS TO USE

The following information is presented as of September 30, 2010 and 2009, regarding assets whose use is restricted by donors or limited by the board:

	2010	2009
Cash and short-term investments	$ 1,925,462	$ 1,962,780
Marketable equity securities	13,635,129	10,638,635
Other investments, primarily bonds	5,366,770	7,110,573
	$ 20,927,361	$ 19,711,988

The following information is presented as of September 30, 2010 and 2009, regarding assets invested by trustee under loan agreement:

	2010	2009
Cash and short-term investments	$ 1,316,657	$ 1,277,983
Other investments, primarily bonds	646,913	618,864
	$ 1,963,570	$ 1,896,847

The following information is presented as of September 30, 2010 and 2009, regarding assets held in trust:

	2010	2009
Cash and short-term investments	$ 128,888	$ 284,721
Marketable equity securities	4,268,042	3,763,021
Other investments, primarily bonds	3,159,621	3,242,502
	$ 7,556,551	$ 7,290,244

Included in interest and investment income is an investment impairment charge totaling $10,608 and $461,557 for the years ended September 30, 2010 and 2009, 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 $72,241 and $69,626 for the years ended September 30, 2010 and 2009, respectively.

At September 30, 2010, investments with market value below cost for 12 months or more included certain equity and bond securities with market values of $3,680,683 and $10,194, respectively, and unrealized losses of $1,540,842 and $160, respectively. Investments with market value below cost for less than 12 months at September 30, 2010 included certain equity and bond securities with a market value of $3,408,104 and $175,593, respectively, and an unrealized loss of $425,272 and $4,811, respectively.

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at September 30, 2010 and 2009, comprises the following:

	2010	2009
Land and land improvements	$ 2,450,129	$ 2,428,957
Building and building improvements	43,905,405	43,510,583
Equipment	63,691,732	63,178,602
Construction in progress	1,965,142	122,865
	112,012,408	109,241,007
Less accumulated depreciation and amortization	75,511,393	70,944,653
Net Property and Equipment	$ 36,501,015	$ 38,296,354

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.

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

Long-term debt is comprised of the following at September 30, 2010 and 2009:

	2010	2009
6.25% secured promissory note, principal maturing June 15, 2024, monthly installments are $40,493, interest is 6.25% until June 15, 2014	$ 4,451,767	$ 4,648,709
Series 1994 Tax-Exempt Revenue Bonds, principal maturing in varying annual amounts, due July 1, 2019, collateralized by a lien on certain equipment	8,610,000	9,315,000
7.72% mortgage loan, payable in monthly installments of $6,274, including interest, collateralized by a mortgage on certain property	711,430	730,226
	13,773,197	14,693,935
Less current installments	984,831	925,659
Total Long-Term Debt	$ 12,788,366	$ 13,768,276

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

Year Ending September 30	
2011	$ 984,831
2012	1,045,266
2013	1,106,721
2014	1,174,262
2015	1,247,963
Thereafter	8,214,154
	$ 13,773,197

The Hospital has a $3,500,000 secured line-of-credit agreement with a bank as of September 30, 2010 and 2009. The Hospital had outstanding borrowings of $3,066,767 and $2,433,264 against the line of credit as of September 30, 2010 and 2009, respectively. This amount is included within lines of credit on the accompanying combined balance sheets. Interest is payable on the outstanding balance at 150 basis points in excess of the 30-day LIBOR rate. Interest was 1.75% and 1.70% at September 30, 2010 and 2009, respectively. This line-of-credit agreement expires on June 1, 2012.

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, 2010 and 2009. The Hospital had outstanding borrowings of $1,500,000 and $-0- against the line of credit as of September 30, 2010 and 2009, respectively. This amount is included within lines of credit in the accompanying combined balance sheets. Interest is payable on the outstanding balance at 150 basis points in excess of the 30-day LIBOR rate. Interest was 1.75% and 1.70% at September 30, 2010 and 2009, respectively. This line of credit expires March 1, 2012.

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, 2010 and 2009, which were established in connection with the long-term debt discussed above:

	2010	2009
Debt service reserve fund	$ 1,621,542	$ 1,555,496
Principal and interest funds	339,470	338,795
Other	2,558	2,556
Total Funds Invested by Trustee	$ 1,963,570	$ 1,896,847

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	
2011	$ 2,551,443
2012	788,480
2013	565,169
2014	120,259
Total minimum lease payments	4,025,351
Less amount representing interest at interest rates ranging from 1.30% to 7.94%	(292,089)
Present value of net minimum capital lease payments	3,733,262
Less current portion of capital lease obligations	(2,326,753)
Long-Term Capital Lease Obligations	$ 1,406,509

The net book value of equipment under capital lease obligations is $6,808,294.

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.

GAAP requires companies to record a liability on the combined 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.

NOTE 13 - PENSION PLAN (Continued)

The following table sets forth the Plan's funded status and amounts recognized in the Hospital's combined financial statements at September 30, 2010 and 2009:

	2010	2009
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 46,630,499	$ 40,592,391
Service cost	1,722,030	1,507,179
Interest cost	2,790,199	2,609,371
Benefits paid	(1,478,491)	(1,387,741)
Actuarial loss	4,339,731	3,309,299
Projected Benefit Obligation at End of Year	54,003,968	46,630,499
Change in plan assets:		
Fair value of plan assets at beginning of year	30,373,337	29,869,598
Actual return on plan assets	2,713,514	396,977
Contributions and transfers	1,939,288	1,494,503
Benefits paid	(1,478,491)	(1,387,741)
Fair Value of Plan Assets at End of Year	33,547,648	30,373,337
Accrued Pension Cost	$ 20,456,320	$ 16,257,162

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

	2010	2009
Unrecognized loss from past experience different from that assumed and effects of changes in assumptions	$ 20,695,927	$ 17,461,924

The accumulated benefit obligation at the end of 2010 and 2009 was $48,350,539 and $41,583,268, respectively. The measurement dates are September 30, 2010 and 2009.

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

	2010	2009
Discount rate	5.50%	6.00%
Rate of compensation increase	3.00	3.00

NOTE 13 - PENSION PLAN (Continued)

Net periodic pension cost for 2010 and 2009 included the following components:

	2010	2009
Service cost - benefits earned during the period	$ 1,722,030	$ 1,507,179
Interest cost on projected benefit obligation	2,790,199	2,609,371
Expected return on assets	(2,578,906)	(2,472,901)
Recognized net actuarial loss	971,120	530,641
Net Periodic Pension Cost	$ 2,904,443	$ 2,174,290

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

	2010	2009
Discount rate	6.00%	6.75%
Expected return on plan assets	8.50	8.50
Rate of compensation increase	3.00	4.50

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

Expected benefit payments:

2011	$ 1,731,574
2012	1,862,730
2013	2,121,255
2014	2,373,581
2015	2,472,505
2016-2020	16,144,488

The asset allocation for the Plan at the end of 2010 and 2009, and the target allocation for 2010 by asset category, are as follows:

Asset Category	Target Allocations 2010	Percentage of Plan Assets at September 30 2010	2009
Equity	50%	54%	52%
Fixed income	40	42	40
Cash equivalents	10	4	8

NOTE 13 - PENSION PLAN (Continued)

The Plan's investment policy includes a mandate to diversify assets and invest in a variety of asset classes to achieve a goal of three-year average of 10%. The Plan's assets are currently invested in a variety of funds representing most standard equity and debt security classes. While no significant changes in the asset allocation are expected during the upcoming year, the Hospital may make changes at any time.

GAAP has established a fair value hierarchy that prioritizes the inputs to valuation techniques to measure fair value. Highest rank is given to unadjusted quoted prices in active markets for identical assets (Level 1) and lowest rank to unobservable inputs (Level 3). Investments are ranked based on the lowest level of input that is significant to their fair value measurement.

The fair values of all Plan assets of the Hospital are determined using quoted prices in active markets for identical assets (Level 1, as defined in the fair value hierarchy established by GAAP - see Note 20).

The fair values of the Hospital's pension plan assets at September 30, 2010 by asset class are as follows:

Asset classes:	
Equity investments - common stock	$ 17,914,711
Fixed income	13,913,697
Cash and cash equivalents	1,547,224
Convertible securities and other	172,016
Total Pension Plan Assets	$ 33,547,648

The Hospital also provides an employer funded annuity plan covering substantially all employees. Hospital contributions to the annuity plan totaled $189,178 and $256,366 during 2010 and 2009, respectively.

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 14 - COMMITMENTS AND CONTINGENCIES (Continued)

The Hospital has made a $3,500,000 line of credit available to Atlantic Medical Group, an affiliated organization under common management and control. The line of credit expires on June 30, 2013. Outstanding balances on the line of credit bear interest at Prime minus 1%. There were no balances outstanding as of September 30, 2010.

The Hospital has also guaranteed a building and equipment lease entered into by North Stonington Health Center, Inc., an affiliated organization under common management and control. The lease has a 25- year term and provides for annual base rental payments of $686,400 for the building and equipment, plus reimbursement of certain operating expenses of approximately $180,000 per year. The equipment portion of the lease provided for the purchase of equipment valued at approximately $730,000, and is amortized over a 10-year period, at which time the base rental payments will be reduced accordingly.

NOTE 15 - OPERATING LEASES

Rental expense under all significant operating leases was $735,153 and $750,502 for the years ended September 30, 2010 and 2009, respectively. At September 30, 2010, future minimum lease payments under noncancelable operating leases are as follows:

Year Ending September 30	
2011	$ 380,544
2012	235,000
2013	235,000
2014	235,000
	$ 1,085,544

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 $3,008,630 and $3,556,998 for the years ended September 30, 2010 and 2009, 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:

	2010	2009
Medicare	37%	39%
Medicaid	2	2
Blue Cross	23	23
Other third-party payors	34	33
Patients	4	3
	100%	100%

NOTE 18 - RELATED PARTIES

The following amounts were due to the Hospital from related parties at September 30, 2010:

C.H.O.W.	$ 52,357
Women's Health of Westerly, LLC	102,152
Atlantic Medical Group, Inc.	350,000
North Stonington Health Center, Inc.	365,080
	$ 869,589

During 2010, the Hospital incurred $4,915,318 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:

Atlantic Medical Group, Inc.	$ 3,676,242
Women's Health of Westerly, LLC	1,228,076
Eldereval, LLC	11,000
	$ 4,915,318

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:

	2010	2009
Healthcare services	$ 60,038,899	$ 56,466,938
Provision for uncollectible accounts	5,962,284	7,249,449
General and administrative	21,171,095	20,481,617
Interest	1,306,259	1,377,482
Depreciation and amortization	4,592,213	4,450,501
	$ 93,070,750	$ 90,025,987

NOTE 20 - FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP has established a fair value hierarchy that prioritizes the inputs to valuation techniques to measure fair value. Highest rank is given to unadjusted quoted prices in active markets for identical assets (Level 1) and lowest rank to unobservable inputs (Level 3). Investments are ranked based on the lowest level of input that is significant to their fair value measurement. The three levels of the fair value hierarchy are described below:

Level 1 - Quoted market prices (unadjusted) in active markets for identical assets or liabilities to which the Hospital has the ability to access at the measurement date.

Level 2 - Inputs and information other than quoted market indices included in Level 1 that are observable for the asset or liability, either directly or indirectly, and the Hospital has the ability to redeem the asset or liability in the near term subsequent to the measurement date.

Level 3 - Unobservable inputs are used to measure the fair value to the extent that observable inputs are not available, and the Hospital does not have the ability to redeem the asset or liability in the near term subsequent to the measurement date.

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 is estimated based on quoted market prices or estimates of fair value for those or similar investments.

NOTE 20 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Bonds and Notes Payable - The estimated fair market value of the Hospital's long-term debt at September 30, 2010 is approximately $13,825,000, estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements.

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, 2010:

		Fair Value Measurements Using		
Description	September 30, 2010	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 2,413,242	$ 2,413,242	$ -	$ -
Assets whose use is restricted by donors or limited by the Board	20,927,361	20,927,361	-	-
Promises to give, net	11,950	-	-	11,950
Under loan agreement, funds invested by trustee	1,963,570	1,963,570	-	-
Funds held in trust	7,556,551	-	-	7,556,551
Total	$ 32,872,674	$ 25,304,173	$ -	$ 7,568,501

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 and promises to give measured at fair value on a recurring basis using significant unobservable inputs:

	Funds Held in Trust	Promises to Give, Net
Balance - beginning of year	$ 7,290,244	108,554
Net realized gains	280,625	-
Net unrealized losses	(14,318)	-
Collections	-	(96,604)
Balance - End of Year	$ 7,556,551	11,950

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 from 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, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 3,513,444	$ 4,744,092	$ 8,257,536
Board-designated endowment funds	12,368,211	-	-	12,368,211
Total	$ 12,368,211	$ 3,513,444	$ 4,744,092	$ 20,625,747

Changes in endowment net assets are as follows for the year ended September 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	$ 11,296,158	$ 3,379,358	$ 4,671,877	$ 19,347,393
Investment return:				
Investment income	307,274	109,469	66,612	483,355
Unrealized investment gain	443,946	345,450	5,603	794,999
Total investment return	751,220	454,919	72,215	1,278,354
Appropriation of endowment assets for expenditure/transfer	320,833	(320,833)	-	-
Endowment Net Assets - End of Year	$ 12,368,211	$ 3,513,444	$ 4,744,092	$ 20,625,747

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

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 $81,100 and $104,500 as of September 30, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

NOTE 21 - ENDOWMENT (Continued)

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.

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 and equivalents	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 that an ordinarily prudent person in a like position would exercise under similar circumstances.

NOTE 21 - ENDOWMENT (Continued)

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

Consolidated Balance Sheet

The Westerly Hospital

September 30, 2011

The Westerly Hospital

CONSOLIDATED BALANCE SHEET

As of September 30, 2011

	Current 30-Sep-11	Prior Month	30-Sep-10	$ Change Cur-Prior	$ Change Cur-10
Current Assets					
Cash and Cash Equivalents	$3,212	$448	$2,413	$2,764	$799
Receivables:					
Patient accounts	33,691	31,977	26,887	1,714	6,804
Less allowances	(24,687)	(23,132)	(19,551)	(1,555)	(5,136)
Net Patient Receivables	9,004	8,845	7,336	159	1,668
Inventories	1,557	1,594	1,612	(37)	(55)
Prepaid exps and other current assets	1,395	283	1,167	1,112	228
Total Current Assets	15,168	11,169	12,528	3,999	2,640
Board Designated Restr Assets					
By Board to Function as Endowment	7,440	8,026	12,368	(587)	(4,928)
Promises to Give	0	0	12	0	(12)
Under Loan Agreement, Funds Invested	2,010	1,689	1,964	321	46
Accumulated Earnings on Permanent Endowment	2,275	2,444	3,513	(170)	(1,238)
By Donors for Specific Purpose	119	119	302	0	(183)
By Donor for Permanent Endowment	4,827	4,852	4,743	(25)	84
Held In Trust	3,875	8,155	7,557	(4,280)	(3,682)
Total Restricted Assets	20,545	25,286	30,459	(4,740)	(9,914)
Property and Equipment					
Property Plant and Equipment	116,567	115,986	111,933	581	4,634
Less accumulated depreciation	(80,206)	(79,723)	(75,432)	(483)	(4,774)
Subtotal	36,361	36,263	36,501	98	(140)
Other Assets					
Due from Related Parties	4,162	3,635	870	527	3,292
Other Long-term Assets	513	513	513	(0)	0
Deferred Financing Cost, Net	186	188	210	(2)	(24)
TOTAL ASSETS	$76,937	$77,055	$81,081	($118)	(4,144)

The Westerly Hospital
CONSOLIDATED BALANCE SHEET
As of September 30, 2011

	Current 30-Sep-11	Prior Month	30-Sep-10	$ Change Cur-Prior	$ Change Cur-10
LIABILITIES AND NET ASSETS					
Current Liabilities					
Line of Credit	$ 4,967	$ 4,967	$ 4,567	$0	$400
Current portion - long-term debt	3,452	3,452	3,312	0	140
Accounts payable/Accrued Exp/Other	14,730	10,339	7,209	4,391	7,521
Accrued Payroll	3,947	4,491	3,927	(544)	20
Third party payable	725	805	872	(80)	(147)
Total Current Liabilities	27,821	24,055	19,887	3,766	7,934
Long-term debt, net	12,374	13,607	14,195	(1,233)	(1,821)
Asset Retirement Obligation	1,413	1,413	1,413	0	(0)
Additional Pension Liability	26,311	20,449	20,456	5,862	5,855
TOTAL LIABILITIES	67,919	59,523	55,951	8,396	11,968
Net Assets					
Unrestricted	(2,077)	1,961	9,002	(4,039)	(11,079)
Temporarily restricted	2,393	2,563	3,827	(170)	(1,434)
Permanently restricted	8,702	13,007	12,301	(4,305)	(3,599)
Total Net Assets	9,018	17,531	25,130	(8,514)	(16,112)
TOTAL LIABILITIES AND NET ASSETS	$ 76,937	$ 77,055	$ 81,081	$ (118)	(4,144)

The Westerly Hospital
CONSOLIDATED STATEMENT OF OPERATIONS
For the Period Ending September 2011

	Month					Year-to-Date				
	Actual	**Budget**	**$ Change**	**% Change**	**FY 2010**	**Actual**	**Budget**	**$ Change**	**% Change**	**FY 2010**
UNRESTRICTED REVENUES:										
Inpatient acute	$ 6,915	$ 6,836	$ 79	1.16	$ 6,044	$ 70,375	$ 80,119	$ (9,744)	(12.16)	$ 73,656
Outpatient acute	12,846	13,331	(485)	(3.64)	12,244	149,838	157,497	(7,660)	(4.86)	145,398
GROSS PATIENT REVENUES	19,761	20,167	(406)	(2.01)	18,288	220,213	237,616	(17,403)	(7.32)	219,054
DEDUCTIONS FROM REVENUE										
Contractual Allowance	12,269	12,225	44	0.36	10,730	134,601	144,035	(9,433)	(6.55)	130,506
Disproportionate Share	69	63	6	-	(41)	619	750	(131)	-	(210)
Uncompensated Care	198	176	21	12.14	221	1,689	2,078	(389)	(18.70)	2,213
TOTAL DEDUCTIONS FROM REVENUE	12,536	12,464	72	0.58	10,910	136,910	146,863	(9,953)	(6.78)	132,509
NET PATIENT REVENUES	7,226	7,704	(478)	(6.20)	7,378	83,304	90,754	(7,450)	(8.21)	86,545
TOTAL OTHER OPERATING REVENUE	3,635	241	3,395	1,409.52	157	5,317	2,516	2,801	111.30	1,917
TOTAL NET OPRATING REVENUE	10,861	7,945	2,917	36.71	7,535	88,620	93,270	(4,650)	(4.99)	88,462
OPERATING EXPENSES:										
Salaries & Wages	2,623	3,227	604	18.72	3,274	37,468	39,174	1,706	4.36	38,752
Vacation and sick Accrual	(19)	(3)	16	(627.42)	1	342	331	(11)	(3.33)	385
Temporary Help	59	21	(38)	(181.04)	39	376	250	(126)	(50.30)	278
Total Salaries	2,664	3,246	582	17.94	3,314	38,185	39,755	1,570	3.95	39,415
Employee benefits	1,515	1,159	(356)	(30.75)	992	14,245	13,457	(788)	(5.86)	12,192
Workers Compensation	20	31	11	35.94	28	230	367	137	37.31	311
Professional Fees	300	140	(161)	(114.90)	171	1,923	1,709	(214)	(12.55)	2,050
Med/Surg Supplies	573	491	(82)	(16.70)	331	5,693	5,886	192	3.27	5,700
Drugs	288	243	(44)	(18.15)	452	2,653	2,919	266	9.12	3,203
Other Supplies	198	165	(33)	(20.12)	191	2,061	1,965	(96)	(4.89)	1,918
Utilities	120	132	12	9.11	146	1,562	1,559	(3)	(0.15)	1,421
Purchased Services	743	780	37	4.76	653	9,951	9,999	48	0.48	7,928
Insurance	165	113	(51)	(45.42)	135	1,292	1,358	65	4.82	1,219
Other Expenses	146	89	(57)	(64.58)	164	1,073	1,076	3	0.31	1,311
Bad Debts	657	578	(79)	(13.65)	394	6,782	6,810	28	0.41	5,962
Leases and Rentals	(66)	58	124	213.00	42	606	698	92	13.22	735
Depreciation	482	383	(99)	(25.78)	407	4,699	4,600	(99)	(2.15)	4,591
Interest	153	119	(35)	(29.27)	108	1,411	1,422	12	0.83	1,306
TOTAL OPERATING EXPENSES	7,957	7,726	(231)	(2.99)	7,528	92,367	93,581	1,214	1.30	89,262
OPERATIONS INCOME BEFORE RESTRUCTURE	2,904	219	2,686	(1,228.29)	7	(3,746)	(311)	(3,436)	(1,106.41)	(800)
RESTRUCTURE COSTS	-		-			1,460		(1,460)		
OPERATIONS INCOME	2,904	219	2,686	(1,228.29)	7	(5,206)	(311)	(4,896)	(1,576.57)	(800)
NON-OPERATING REVENUE AND EXPENSES:										
Interest Income/ Realized Gain on Sale of Stock	160	-	160	-	98	1,154	-	1,154	-	439
Realized Gain on Sale of Stock	-	-	-	-	-	-	-	-	-	-
Contributions	109	83	26	30.84	123	2,142	1,000	1,142	114.18	392
Other than Temporary Loss	267	-	267	-	-	267	-	267	-	-
NON-OPERATING REVENUE AND EXPENSES	536	83	453	543.02	221	3,563	1,000	2,563	256.29	831
EXCESS OF REV AND GAINS OVER EXPENSES	3,440	302	3,138	1,039.19	228	(1,643)	689	(2,333)	(338.37)	31
Loss on Impairment of Assets	-	-	-	-	-	-	-	-	-	-
Net Assets Released from Restrictions	146	-	146	-	621	1,646	-	1,646	-	1,041
Transfers to Parent Corp	(836)	(204)	(632)	-	(107)	(4,957)	(2,655)	(2,302)	-	(4,915)
Appr Value of Hoxsey and Lafferts	-	-	-	-	-	-	-	-	-	-
Unrealized Gain/Loss Investments	(545)	-	(545)	-	732	(93)	-	(93)	-	401
Minimum Pension Liab Adj	(6,244)	-	(6,244)	-	(3,183)	(6,244)	-	(6,244)	-	(3,183)
INC/DEC UNREST. NET ASSETS	$ (4,039)	$ 98	$ (4,137)	4,221.42	$ (1,709)	$ (11,291)	$ (1,966)	$ (9,326)	(474.46)	$ (6,625)

Consolidating Statement of Operations

Community Health of Westerly, Inc.

7 Months Ending May 31, 2012

COMMUNITY HEALTH OF WESTERLY INC. CONSOLIDATING STATEMENT OF OPERATIONS ($ 000s) 7 Months Ending 5/31/2012		YEAR-TO-DATE ACTUAL								
		The Westerly Hospital	Foundation	North Stonington	AMG	Women's Health Of Wstrly	Ocean Myst MSO,LLC	CHOW	Consol/ Elims	Consol-dated
Unrestricted Revenues:	Inpatient acute	47,386			-	-				47,386
	Outpatient acute	98,815		3,374	6,828	2,149				111,166
	Charges	-			-	-	-			-
	Other contractual income	-			2,157	-	572		(2,719)	10
	Gross Patient Revenues	**146,201**	**-**	**3,374**	**8,985**	**2,149**	**572**	**-**	**(2,719)**	**158,562**
Deductions From Revenue:	Contractual allowance	90,799		2,169	3,456	1,379				97,803
	Disproportionate share	1,189			-	-				1,189
	Uncompensated care	1,043			-	-				1,043
	Total Deductions From Revenue	**93,031**	**-**	**2,169**	**3,456**	**1,379**	**-**	**-**	**-**	**100,035**
	Net Patient Revenues	**53,170**	**-**	**1,205**	**5,529**	**770**	**572**	**-**	**(2,719)**	**56,527**
Total Other Operating Revenue		1,053	627	23	-	2	-		(627)	1,078
TOTAL NET OPERATING REVENUE		**54,223**	**627**	**1,228**	**5,529**	**772**	**572**	**-**	**(3,346)**	**59,605**
Operating Expenses:	Salaries and wages	23,359	85	1,171	3,903	930	356		-	29,804
	Vacation and sick accrual	206			-	-				206
	Temporary help	455			-	-	-			455
	Employee benefits	9,750	22	315	769	238	148			11,242
	Salaries, wages and benefits	-			-	-				-
	Total salaries and benefits	33,770	107	1,486	4,672	1,168	504	-	-	41,707
	Workers compensation	194			-	-	-			194
	Administrative fees	-			-	-				-
	Net admin & billing allocations	-			-	-				-
	Professional fees	1,030	-	93	164	77	63		-	1,427
	Medical/surgical supplies	3,719		109	110	57				3,995
	Drugs	1,807		13	2	45				1,867
	Other supplies	1,232		34	-	11	4			1,281
	Utilities	892	12	23	34	10	2			973
	Purchased / leased services	7,190	-	775	1,141	149	8		(2,719)	6,544
	Insurance	886		77	196	172	-			1,331
	Bad debts	4,595		191	64	10				4,860
	Leases and rentals	270		543	961	148	1			1,923
	Depreciation	3,167		57	51	2				3,277
	Interest	622		5	-	-				627
	Other expenses	584	36	31	439	7	5			1,102
TOTAL OPERATING EXPENSES		**59,958**	**155**	**3,437**	**7,834**	**1,856**	**587**	**-**	**(2,719)**	**71,108**
OPERATING INCOME (LOSS) BEFORE RESTRUCTURE		(5,735)	472	(2,209)	(2,305)	(1,084)	(15)	-	(627)	(11,503)
RESTRUCTURE COSTS		1,012								1,012
OPERATING INCOME (LOSS)		**(6,747)**	**472**	**(2,209)**	**(2,305)**	**(1,084)**	**(15)**	**-**	**(627)**	**(12,515)**
Non-operating Items:	Interest Income				-	-				-
	Realized gain on sale of stock	115	60		105	-				280
	Contributions	117			-	-			627	744
	Other than temporary loss	-			-	-				-
NON-OPERATING REVENUE AND EXPENSE		**232**	**60**	**-**	**105**	**-**	**-**	**-**	**627**	**1,024**
REVENUES & GAINS OVER (UNDER) EXPENSES		**(6,515)**	**532**	**(2,209)**	**(2,200)**	**(1,084)**	**(15)**	**-**	**-**	**(11,491)**
Other Net Asset Adjustments:		-			-					-
	Change in Accounting Priciple	-			-	-				-
	Transfers to Parent Corp	(3,304)			2,340	762	202			-
	Foundation trnsfrs; net assets released	626	(626)		-	-				-
	Unrealized gain/loss investments	231	(8)		-	-				223
	Minimum pension liability adjustment	-			-	-				-
INCREASE/DECREASE IN UNRESTRICTED NET ASSETS		**(8,962)**	**(102)**	**(2,209)**	**140**	**(322)**	**187**	**-**	**-**	**(11,268)**