

# **Care New England Health System and Affiliates**

**Consolidated Financial Statements  
September 30, 2014 and 2013**

**Care New England Health System and Affiliates**  
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**September 30, 2014 and 2013**

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## Independent Auditor's Report

To the Board of Directors  
Care New England Health System

We have audited the accompanying consolidated financial statements of Care New England Health System and Affiliates ("Care New England"), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Care New England at September 30, 2014 and 2013, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual affiliates and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position and results of operations of the individual affiliates.

*PricewaterhouseCoopers LLP*

Boston, Massachusetts  
January 15, 2015

**Care New England Health System and Affiliates**  
**Consolidated Balance Sheets**  
**Years Ended September 30, 2014 and 2013**

	2014	2013
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 52,389,555	\$ 55,899,611
Investments	25,219,578	29,724,606
Patient accounts receivable, net of allowance for doubtful accounts of \$35,971,784 in 2014 and \$56,532,703 in 2013	125,108,931	136,431,290
Other receivables	15,153,122	17,776,982
Pledges receivable, net	1,325,725	1,671,584
Other current assets	19,855,200	16,417,181
Current portion of assets whose use is limited	<u>2,355,049</u>	<u>3,710,858</u>
Total current assets	<u>241,407,160</u>	<u>261,632,112</u>
Assets whose use is limited or restricted as to use		
Endowment funds	54,523,410	52,403,854
Board-designated funds	133,698,785	109,480,008
Trustee-held funds	178,811,354	160,951,184
Deferred compensation funds	<u>2,537,023</u>	<u>4,610,702</u>
Total assets limited as to use	369,570,572	327,445,748
Less: Amounts required to meet current obligations	<u>(2,355,049)</u>	<u>(3,710,858)</u>
Noncurrent assets limited as to use	<u>367,215,523</u>	<u>323,734,890</u>
Goodwill	24,345,364	24,345,364
Intangibles	5,400,000	5,400,000
Property, plant and equipment, net	311,986,509	307,417,682
Pledges receivable, net	1,275,798	2,332,561
Insurance receivable	1,831,200	1,826,201
Other assets	<u>5,567,492</u>	<u>1,911,847</u>
Total assets	<u>\$ 959,029,046</u>	<u>\$ 928,600,657</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 119,457,709	\$ 131,366,474
Current portion of estimated third-party payor settlements and advances	6,198,878	12,662,797
Current portion of long-term debt and capital leases	7,254,395	7,586,511
Self-insurance reserves	7,802,674	7,251,066
Pension liability	13,380,543	12,907,505
Interest rate swaps	-	8,361,253
Other current liabilities	<u>10,828,738</u>	<u>10,363,973</u>
Total current liabilities	<u>164,922,937</u>	<u>190,499,579</u>
Long-term liabilities		
Self-insurance reserves	137,475,561	133,173,731
Long-term portion of estimated third-party payor settlements and advances	32,575,832	32,570,317
Long-term debt and capital leases	157,756,641	110,327,300
Pension liability	83,407,618	66,603,584
Postretirement liability	1,462,614	1,545,568
Other liabilities	<u>3,576,384</u>	<u>7,251,130</u>
Total long-term liabilities	<u>416,254,650</u>	<u>351,471,630</u>
Net assets		
Unrestricted	309,539,402	315,391,278
Temporarily restricted	37,856,284	41,124,957
Permanently restricted	<u>30,455,773</u>	<u>30,113,213</u>
Total net assets	<u>377,851,459</u>	<u>386,629,448</u>
Total liabilities and net assets	<u>\$ 959,029,046</u>	<u>\$ 928,600,657</u>

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Consolidated Statements of Operations**  
**September 30, 2014 and 2013**

	2014	2013
<b>Revenues and gains</b>		
Patient service revenue (net of contractual allowances and discounts)	\$ 1,023,075,993	\$ 859,384,644
Provision for bad debts	<u>(40,068,967)</u>	<u>(53,669,209)</u>
Net patient service revenue less provision for bad debts	983,007,026	805,715,435
Net assets released from restrictions and used for operations	3,126,281	2,804,476
Research revenue	25,936,818	24,268,236
Contribution revenue from acquisition	-	7,898,229
Other revenue	<u>55,940,569</u>	<u>52,471,550</u>
Total revenues and gains	<u>1,068,010,694</u>	<u>893,157,926</u>
<b>Operating expenses</b>		
Salaries and benefits	675,473,104	569,461,047
Supplies and other expenses	249,593,140	190,588,600
Research expenses	25,146,652	23,851,525
Depreciation and amortization	34,495,543	28,296,075
Insurance	26,706,819	26,890,188
Licensure fee	41,052,257	32,840,235
Interest	6,527,788	3,626,488
Loss on debt refinancing	<u>509,587</u>	<u>-</u>
Total operating expenses	<u>1,059,504,890</u>	<u>875,554,158</u>
Income from operations	<u>8,505,804</u>	<u>17,603,768</u>
<b>Nonoperating gains (losses)</b>		
Investment income/gains on assets limited as to use	2,822,990	4,311,799
Unrestricted gifts and bequests	1,044,993	368,043
Change in fair value of interest rate swaps	-	5,268,136
Change in net unrealized gains (losses) on investments	1,232,951	(904,264)
Nonoperating expenditures	<u>(2,466,463)</u>	<u>(2,074,816)</u>
Net nonoperating gains	<u>2,634,471</u>	<u>6,968,898</u>
Excess of revenues and gains over expenses and losses	11,140,275	24,572,666
<b>Other changes in unrestricted net assets</b>		
Pension and postretirement adjustment	(27,334,588)	29,394,505
Net assets released from restrictions used for purchase of property, plant and equipment	10,294,707	2,235,386
Transfer from temporarily restricted	<u>47,728</u>	<u>-</u>
(Decrease)/increase in unrestricted net assets	<u>\$ (5,851,878)</u>	<u>\$ 56,202,557</u>

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended September 30, 2014 and 2013**

	2014	2013
<b>Unrestricted net assets</b>		
Excess of revenues and gains over expenses and losses	\$ 11,140,275	\$ 24,572,666
Other changes in unrestricted net assets		
Pension and postretirement adjustment	(27,334,588)	29,394,505
Net assets released from restrictions used for purchase of property, plant and equipment	10,294,707	2,235,386
Transfer from temporarily restricted	47,728	-
(Decrease)/increase in unrestricted net assets	<u>(5,851,878)</u>	<u>56,202,557</u>
<b>Temporarily restricted net assets</b>		
Contributions	7,735,780	7,054,451
Contribution of temporarily restricted net assets from acquisition	-	1,883,401
Income from investments	669,757	1,156,641
Net realized and unrealized gains from investments	1,812,273	2,028,988
Net assets released from restrictions	(13,420,988)	(5,039,862)
Transfer (to) unrestricted net assets	(47,728)	-
(Decrease)/increase in temporarily restricted net assets	<u>(3,250,906)</u>	<u>7,083,619</u>
<b>Permanently restricted net assets</b>		
Net realized and unrealized gains from investments	309,747	435,609
Contribution of permanently restricted net assets from acquisition	-	10,275,712
Contributions	15,048	59,092
Increase in permanently restricted net assets	<u>324,795</u>	<u>10,770,413</u>
(Decrease)/increase in net assets	(8,777,989)	74,056,589
<b>Net assets</b>		
Beginning of year	<u>386,629,448</u>	<u>312,572,859</u>
End of year	<u>\$ 377,851,459</u>	<u>\$ 386,629,448</u>

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Consolidated Statements of Cash Flows**  
**Years Ended September 30, 2014 and 2013**

	2014	2013
<b>Operating activities</b>		
Change in net assets	\$ (8,777,989)	\$ 74,056,589
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Contribution revenue from acquisition, net of cash	-	(17,598,085)
Gain on extinguishment of interest rate swaps	(81,747)	-
Pension and postretirement adjustment	27,334,588	(29,394,505)
Depreciation and amortization	34,495,543	28,296,075
Loss of redemption of debt	509,587	-
Bond premium	1,178,760	-
Provision for bad debt	40,068,967	53,669,209
Change in fair value of interest rate swaps	-	(5,268,136)
Payments to terminate swaps	(8,279,506)	-
Income and gains on assets limited as to use	(2,822,990)	(4,311,798)
Net unrealized (gains) losses on investments	(1,232,951)	904,264
Restricted contributions and investment income	(300,806)	(839,557)
Changes in		
Patient accounts receivable	(28,746,608)	(70,789,139)
Investments	(23,835,355)	(15,543,604)
Other current and long-term assets	(1,319,324)	4,601,677
Accounts payable and accrued expenses	(11,908,765)	14,906,400
Estimated third-party payor settlements	(6,458,404)	(1,610,393)
Deferred revenue and other liabilities	(3,209,981)	(858,958)
Net pension liability	(10,140,470)	(2,551,795)
Self-insurance reserves	4,848,439	11,570,768
Net cash provided by operating activities	<u>1,320,988</u>	<u>39,239,012</u>
<b>Investing activities</b>		
Purchase of property and equipment	(39,064,370)	(53,735,159)
Purchase of investments	(127,718,207)	(119,126,148)
Proceeds from the sale of investments	<u>117,989,707</u>	<u>132,225,597</u>
Net cash used in investing activities	<u>(48,792,870)</u>	<u>(40,635,710)</u>
<b>Financing activities</b>		
Proceeds from the issuance of debt and capital leases	130,315,468	-
Debt repayments	(76,273,714)	-
Payments on long-term debt and capital leases	(8,632,876)	(6,377,675)
Payment of long-term debt issuance costs	(1,747,858)	-
Restricted contributions to be used for long-term investments and investment income	<u>300,806</u>	<u>839,557</u>
Net cash provided by (used in) financing activities	<u>43,961,826</u>	<u>(5,538,118)</u>
Net decrease in cash and cash equivalents	(3,510,056)	(6,934,816)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>55,899,611</u>	<u>62,834,427</u>
End of year	<u>\$ 52,389,555</u>	<u>\$ 55,899,611</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid for interest	\$ 6,425,327	\$ 4,013,472

The accompanying notes are an integral part of these financial statements.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2014 and 2013

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#### 1. Description of Organization

##### Corporate Structure

Care New England Health System (“CNE”, “Care New England”, or the “Health System”), a not-for-profit corporation, was established in February 1996 as the holding company for the development of an integrated delivery network. Prior to September 3, 2013, it consisted of Butler Hospital, Kent County Memorial Hospital, and Women & Infants Hospital of Rhode Island (collectively, the “Hospitals”), and the Kent County Visiting Nurse Association, d/b/a VNA of Care New England (the “Agency”).

As of September 3, 2013, Southeastern Healthcare System, Inc. (“SHS”), a not-for-profit corporation located in Rhode Island and southeastern Massachusetts, became a subsidiary of the Health System. CNE became the parent organization and sole member as a result of this acquisition. CNE and SHS agreed that the acquisition will greatly improve their ability to provide comprehensive healthcare services.

The accompanying consolidated financial statements include the accounts of Care New England and its affiliates, over which Care New England has corporate governance:

- Butler Hospital (“Butler”) and its affiliates, Carriage House, LLC (“Carriage”), and Butler Hospital Allied Medical Services, LLC.
- Kent County Memorial Hospital (“Kent”) and its affiliates, Kent Hospital Foundation, Kent Ancillary Services, LLC, Affinity Physicians, LLC, and Toll Gate Indemnity, Ltd. (“Toll Gate”).
- Women & Infants Corporation (“WIC”) and its affiliates, Women & Infants Development Foundation, Palomar Group, Inc. (“Palomar”), Women & Infants Hospital of Rhode Island (“WIH”), WIH Faculty Physicians, Inc., Women & Infants Ancillary Services, LLC, Women & Infants Health Care Alliance, LLC, and W&I Indemnity, Ltd. (“W&I Indemnity”).
- Kent County Visiting Nurse Association and its affiliate, Healthtouch, Inc. (together, the “Agency”).
- Integra Community Care Network, LLC.
- SHS and its affiliates, Memorial Hospital of Rhode Island (“Memorial”), Primary Care Centers of New England, Inc. (“PCCNE”), and Blackstone Health, Inc. (“BHI”). Memorial is the sole corporate member of SHS Ventures, Inc. (“Ventures”).

Intercompany accounts have been eliminated in consolidation.

##### Mission and Nature of Business

Care New England is dedicated to building an exemplary health care system. Care New England supports the four Hospitals, the Agency, and other affiliated organizations.

The mission of Butler Hospital is to provide treatment of psychiatric illness in an atmosphere of dignity and respect, and to contribute to knowledge through education and research, while continuously improving the ways Butler serves its patients and the community. Butler is a 117-bed, not-for-profit psychiatric teaching hospital, affiliated with The Warren Alpert Medical School of Brown University, providing services for the care of patients from Rhode Island and nearby Massachusetts. As a complement to its role in service and education, Butler actively supports research by members of its staff. Butler is accredited by The Joint Commission (“TJC”).

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements

#### September 30, 2014 and 2013

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The mission of Kent County Memorial Hospital is to continually improve the health and well-being of the people and communities it serves, offering its essential services without regard for the ability to pay. Kent is a 359-bed, not-for-profit general hospital providing a full range of services for the acute care of patients principally from Kent County, Rhode Island. Kent is affiliated with, and provides clinical training to, the students of the University of New England College of Osteopathic Medicine, and currently operates American Osteopathic Association approved residency programs in emergency medicine, family practice, internal medicine, and a fellowship program in hyperbaric medicine. Kent is accredited by TJC and the Commission on Accreditation of Rehabilitation Facilities. Toll Gate, a wholly owned subsidiary of Kent insures primary and excess hospital professional and general liability risks for the Hospital and its employees on an occurrence basis. Toll Gate insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from employed physicians' professional liability on both a claims-made and occurrence basis. Toll Gate also insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from community physicians' professional liability on both a claims-made and occurrence basis.

The mission of Women & Infants Corporation is to support Women & Infants Hospital of Rhode Island and all other affiliated organizations. The mission of Women & Infants Hospital of Rhode Island is to improve the health and well-being of women and infants, and to provide essential services regardless of ability to pay. WIH is a 247-bed, not-for-profit regional center for women and infants' care in Rhode Island and southern New England. Among other university affiliations, Women & Infants is the primary teaching affiliate of the Warren Alpert Medical School of Brown University in obstetrics, gynecology and newborn pediatrics along with related sub-specialty and internal medicine services. As a complement to its role in service and education, WIH actively supports research by members of its staff. WIH is accredited by TJC. W&I Indemnity is a wholly owned subsidiary of WIH. W&I Indemnity insures excess hospital professional liability risks for the Hospital and its employees on an occurrence basis, and excess hospital professional liability risks for the Care New England Health System solely to the extent not covered by commercial insurance purchased by Care New England, Butler, or Kent. W&I Indemnity insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from employed physicians' and residents' medical malpractice liability on an occurrence basis. W&I Indemnity also insures the Hospital's contractual liability (pursuant to certain Indemnification Agreements) arising from community physicians' medical malpractice liability on both a claims-made and occurrence basis.

The mission of Kent County Visiting Nurse Association is to provide and administer a comprehensive, multidisciplinary, therapeutic, hospice, and public health nursing program. The Agency is a not-for-profit corporation, providing home care services to the residents of Rhode Island and nearby Massachusetts. Healthtouch, Inc. is a not-for-profit corporation providing private duty nursing and personal care services, primarily to residents of Rhode Island.

The mission of Memorial Hospital is primary care and preventive medicine providing advanced diagnosis and treatment with a focus on teaching and research. Memorial is a 294-bed, acute care, not-for-profit community teaching and research hospital located in Pawtucket, RI, and is affiliated with Brown University School of Medicine. PCCNE provides staffing to Ventures and Memorial. Ventures consist of Massachusetts-based physician practices. BHI receives and administers certain grant funds, and provides services to elderly and disabled residents in the local area.

The change in control of SHS was accounted for under the acquisition method. As such, CNE recorded \$24,345,364 of goodwill which is included in the 2014 and 2013 consolidated balance sheet. This amount represents the excess of the fair value of liabilities and net assets assumed

**Care New England Health System and Affiliates**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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over the fair value of assets acquired. The consolidated statement of operations for the year ended September 30, 2013 reflects the activity of SHS from the date of acquisition to year end. No consideration was exchanged for the acquisition.

The fair value of assets acquired, liabilities assumed and net assets of SHS at September 3, 2013 were as follows:

	<b>September 3, 2013</b>
Cash and cash equivalents	\$ 2,459,257
Patient accounts receivable, net	22,626,414
Other receivables	3,183,764
Assets whose use is limited or restricted as to use	16,299,472
Inventory	736,860
Prepaid expenses	1,152,310
Deferred financing costs	156,052
Other assets	1,078,846
Property, plant and equipment, net	32,191,309
Intangibles	5,400,000
Goodwill	24,345,364
Total assets	<u>\$ 109,629,648</u>
Accounts payable and accrued expenses	\$ 24,579,104
Estimated third-party payor settlements	11,413,422
Long-term debt and capital leases	9,520,579
Self-insurance reserves	2,175,421
Pension liability	41,883,780
Total liabilities	<u>89,572,306</u>
Unrestricted	7,898,229
Temporarily restricted	1,883,401
Permanently restricted	10,275,712
Total net assets	<u>20,057,342</u>
Total liabilities and net assets	<u>\$ 109,629,648</u>

Goodwill of \$24,345,364 at September 30, 2014 and 2013 are included in the consolidated balance sheets. The goodwill recorded as a result of the acquisition of SHS is attributable to factors such as expected benefits from combining operations of CNE and SHS that do not qualify for separate recognition.

Intangible assets of \$5,400,000 at September 30, 2014 and 2013 are included in the consolidated balance sheets and attributable to trade name valuation with an indefinite useful life.

**Care New England Health System and Affiliates**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

A summary of the financial results of SHS included in the consolidated statement of operations for the period September 4, 2013 through September 30, 2013 are as follows:

Total revenues and gains	\$ 11,333,908
Total operating expenses	<u>13,520,428</u>
Loss from operations	(2,186,520)
Net nonoperating losses	<u>(109,704)</u>
Excess of expenses and losses over revenues and gains	(2,296,224)
Pension adjustment	<u>(232,607)</u>
Decrease in unrestricted net assets	<u>\$ (2,528,831)</u>

The changes in net assets of SHS included in the consolidated statement of changes in net assets for the period September 4, 2013 through September 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, September 3, 2013	\$ 7,898,229	\$ 1,883,401	\$ 10,275,712	\$ 20,057,342
Excess of expenses over revenues	(2,296,224)	-	-	(2,296,224)
Pension adjustment	(232,607)	-	-	(232,607)
Income from investments	-	72	-	72
Net realized and unrealized gains from investments	-	25,505	108,882	134,387
Net assets released from restrictions	<u>-</u>	<u>(1,924)</u>	<u>-</u>	<u>(1,924)</u>
(Decrease) increase in net assets	<u>(2,528,831)</u>	<u>23,653</u>	<u>108,882</u>	<u>(2,396,296)</u>
Net assets, September 30, 2013	<u>\$ 5,369,398</u>	<u>\$ 1,907,054</u>	<u>\$ 10,384,594</u>	<u>\$ 17,661,046</u>

A summary of the unaudited pro forma financial results of CNE and SHS for the year ended September 30, 2013 as if the acquisition had occurred on October 1, 2012 are as follows:

	<u>2013 (Unaudited)</u>		
	CNE	SHS	Total
Total revenues and gains	\$ 873,938,052	\$ 137,313,142	\$ 1,011,251,194
Total operating expenses	<u>862,045,993</u>	<u>173,638,300</u>	<u>1,035,684,293</u>
Income (loss) from operations	11,892,059	(36,325,158)	(24,433,099)
Other gains	<u>7,078,601</u>	<u>3,712,690</u>	<u>10,791,291</u>
Excess (deficiency) of revenue over expenses	18,970,660	(32,612,468)	(13,641,808)
Other support	<u>31,862,498</u>	<u>27,086,791</u>	<u>58,949,289</u>
Total increase (decrease) in unrestricted net assets	<u>\$ 50,833,158</u>	<u>\$ (5,525,677)</u>	<u>\$ 45,307,481</u>

**2. Significant Accounting Policies**

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in accordance with the reporting principles of not-for-profit accounting as defined by Not-for-Profit Entities and the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide for Health Care Organizations.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2014 and 2013

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#### **Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates are made in the areas of patient accounts receivable, accruals for settlements with third-party payors, incurred but not reported liabilities for medical, workers' compensation, and medical malpractice insurance, and other accrued expenses. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Care New England considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, excluding amounts whose use is limited by the Boards of Trustees (the "Boards") designation or other arrangements under trust agreements.

#### **Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, other-than-temporary impairments in the value of securities, interest, and dividends) is included in the excess of revenues and gains over expenses unless the income or loss is restricted by donor or law.

Butler, Kent, WIH and the Agency follow the practice of pooling resources of unrestricted and restricted assets for long-term investment purposes. The investment pool is operated on the market value method whereby each participating fund is assigned a number of units based on the percentage of the pool it owns at the time of entry. Income, gains, and losses of the pool are allocated to the funds based on their respective participation in the pool.

Alternative investments (nontraditional, not readily marketable holdings) include hedge funds. Alternative investment interests generally are structured such that the Health System holds a limited partnership interest. The Health System's ownership structure does not provide for control over the related investees, and the Health System's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitment. There was an outstanding unfunded commitment for alternative investments of \$5,685,000 at September 30, 2014.

Individual investment holdings within the alternative investments include nonmarketable and market-traded debt and equity securities, and interests in other alternative investments. The Health System may be exposed indirectly to securities lending, short sales of securities, and trading in futures and forward contracts, options, private equity holdings, and other derivative products. Alternative investments often have liquidity restrictions under which the Health System's capital may be divested only at specified times. The Health System's liquidity restrictions may be up to 90 days for certain investments. Liquidity restrictions may apply to all or portions of a particular invested amount.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

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Financial information used by the Health System to evaluate its alternative investments is provided by the investment manager or general partner, and includes fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not always coincide with the Health System's annual financial statement reporting.

There is uncertainty in the valuation for alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, and time lags associated with reporting by investee companies. As a result, there is at least a reasonable possibility that estimates will change in the near term.

Income and realized net gains (losses) on investments of endowments and specific purpose funds are reported as follows:

- Increases (decreases) in permanently restricted net assets if the terms of the gift require that they be added to the principal of permanently restricted net assets;
- Increases (decreases) in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income or the income has not yet been appropriated; or
- Increases (decreases) in the unrestricted net assets in all other cases.

#### **Assets Limited as to Use**

Assets limited as to use primarily include endowment funds, assets held by trustees under indenture agreements and insurance programs, deferred compensation arrangements, and designated assets set aside by one or more of the Boards, over which the Boards retain control and may, at their discretion, subsequently use for other purposes. Amounts required to meet current obligations of the Hospitals have been reclassified to current assets.

#### **Inventories**

Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out) or market. Inventories of \$7,921,695 and \$7,429,492 at September 30, 2014 and 2013, respectively, are included in other current assets in the consolidated balance sheets.

#### **Property and Equipment**

Property and equipment acquisitions are recorded at cost. Donated property and equipment is recorded at fair value at the date of receipt. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Depreciation is recorded using the straight-line method based on the estimated useful life of each class of depreciable asset, as recommended by the American Hospital Association as follows:

Buildings and improvements	5 – 40 Years
Fixed and moveable equipment	3 – 20 Years

## Care New England Health System and Affiliates

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

Assets recorded under capital leases are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the asset. Such amortization is included with depreciation and amortization expense in the consolidated statements of operations.

Upon retirement or sale of assets, the cost of assets disposed of and the related accumulated depreciation are eliminated and the related gains or losses are recognized in other revenue in the consolidated statements of operations.

Care New England evaluates the potential impairment of property, plant and equipment whenever events or changes in circumstances indicate that the carrying value of a group of assets may not be recoverable.

#### **Pledges**

Pledges, less an allowance for uncollectible amounts, are recorded as receivables in the year made. Pledges receivable over a period greater than one year are stated at net present value. Pledges are recorded as additions to the appropriate net asset classification.

#### **Deferred Financing Costs**

Expenses related to issuance of bonds are deferred and amortized on a straight-line basis over the period during which the bonds are expected to be outstanding.

#### **Self-Insurance Reserves**

The reserves for self-insured programs are estimated based on actuarial studies and the Hospitals' and industry experience. The reserves include estimates of the ultimate cost for both reported claims and claims incurred but not yet reported. The Hospitals have established separate indemnification companies and trust funds for payment of certain self-insured claims including medical malpractice.

Care New England is self-insured for losses arising from workers' compensation claims. Loss reserves are estimated based on actuarial studies, and the Health System's and industry experience.

For the employees of Butler, Kent and WIC and the Agency, Care New England is self-insured for losses arising from health insurance claims. Self-insured losses for both reported claims and claims incurred but not yet reported are estimated based on actuarial studies and the Health System's actual experience.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

# Care New England Health System and Affiliates

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#### **Excess of Revenues Over Expenses**

The consolidated statements of operations and changes in net assets include excess of revenues and gains over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues and gains over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and changes in the pension and postretirement liability.

#### **Net Patient Service Revenue**

The Hospitals and the Agency have individual agreements with many third-party payors that provide payments at amounts different from their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments.

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, and includes estimated retroactive revenue adjustments due to such things as future audits and reviews. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known, or as years are no longer subject to such adjustments.

#### **Research Revenue**

Research revenue includes revenue from federal, state, institutional and other sources for the purposes of funding research activities.

#### **Other Revenue**

Other revenue includes underwriting income, rental income, cafeteria sales, laboratory services provided to nonpatients, sales of home medical equipment, vendor rebates and discounts, various services provided to physicians and other organizations and gains or losses upon the retirement or sale of assets.

#### **Charity Care**

The Health System provides care to patients who meet certain criteria under their charity care policies without charge or at amounts less than established rates. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient revenue.

#### **Contributions and Donor-Restricted Gifts**

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

Unrestricted contributions are reported net of direct fundraising expenses in the consolidated statements of operations.

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**Income Tax Status**

Care New England, Butler, Kent, WIH, the Agency, Healthtouch, Women & Infants Faculty Physicians, Inc., Women & Infants Corporation, Women & Infants Development Foundation, Palomar, and Kent Hospital Foundation, SHS, Memorial, Ventures, and BHI are not-for-profit corporations, and have been recognized as tax exempt on related income pursuant to Section 501(c)(3) of the Internal Revenue Code (the Code). Those organizations are, therefore, exempt from federal taxes on related income pursuant to Section 501(a) of the Code. W&I Indemnity, Ltd. and Toll Gate Indemnity, Ltd. are foreign corporations with no material tax liability. PCCNE is organized as a for-profit corporation and is, therefore, subject to tax. The provision for income taxes on the earnings of PCCNE is immaterial to the consolidated financial statements. Other affiliates are single-member limited liability companies which are treated as part of their sole member for tax purposes.

**Reclassifications**

Certain items in the 2013 financial statements have been reclassified to conform to the current year presentation.

**3. Uncompensated Care and Community Services**

The Health System maintains records to identify and monitor the level of charity care and community services it provides, including the amount of charges forgone for services and the estimated cost incurred to provide those services. The revenues forgone and estimated costs and expenses incurred to provide charity care for the years ended September 30 are as follows:

	<b>2014</b>	<b>2013</b>
Revenues forgone, based on established rates	\$ 43,939,667	\$ 40,948,837
Expenses and costs incurred	17,435,479	15,910,413

Of the Health System's total expenses reported (\$1,058,995,303 and \$875,554,158 in 2014 and 2013, respectively), an estimated \$17,435,479 and \$15,910,413 arose during 2014 and 2013, respectively, from providing services to charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to patients who qualify for charity care. The ratio of cost to charges is calculated based on total expenses (less bad debt expense) divided by gross patient service revenue. The Health System did not receive significant contributions that were restricted for the care of indigent patients during 2014 and 2013.

In addition to the above-mentioned medical care rendered, the Health System provides numerous other services free of charge to the community. These services include such things as transporting patients to the healthcare facilities, interpretation of medical information to various languages, volunteer services to other not-for-profit agencies, emergency and disaster relief services, various health, educational, research and teaching programs, healthcare screening services, therapeutic patient services, and provision of direct services to patients with multiple psychosocial needs.

	<b>2014</b>	<b>2013</b>
Approximated revenues forgone, or cost of the services provided to the community	\$ 7,317,421	\$ 7,119,215

## Care New England Health System and Affiliates

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The Health System also provides services to other indigent patients under the Medicaid/Rite Care Program, which reimburses healthcare providers at amounts which are less than the cost of services provided to the recipients.

In addition to the cost of charity care and other community service programs, the Health System provided \$40,068,967 and \$53,669,209 for uncollectible patient accounts during the years ended September 30, 2014 and 2013, respectively.

#### **4. Allowance for Doubtful Accounts**

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Health System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Health System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay a portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Health System's allowance for doubtful accounts for self-pay patients decreased from 29.3% of net accounts receivable at September 30, 2013, to 22.3% of net accounts receivable at September 30, 2014. The Health System's self-pay charity and bad debt write-offs increased \$5,720,000 from \$83,181,000 for fiscal year 2013 to \$88,901,000 for fiscal year 2014. The increase in write-offs was the result of increases in patients served who had no insurance coverage or who had previously unpaid balances qualifying for charity as a result of the Affordable Care Act implementation on January 1, 2014. The Health System has not changed its charity care or uninsured discount policies during fiscal years 2013 or 2014.

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**5. Pledges Receivable**

Unconditional promises to give are recorded at present value as current and long-term assets based on expected time of collection. Future expected collections of these pledges as of September 30 are as follows:

	<b>2014</b>	<b>2013</b>
Within one year	\$ 1,431,665	\$ 1,834,944
One to five years	1,326,773	2,420,541
Beyond five years	-	1,498
	<u>2,758,438</u>	<u>4,256,983</u>
Less: Allowance for uncollectibles	(156,915)	(252,838)
Pledges receivable, net	<u>\$ 2,601,523</u>	<u>\$ 4,004,145</u>

**6. Summary of Investments**

Investments at September 30 are summarized as follows:

	<b>2014</b>	<b>2013</b>
Securities		
Cash and cash equivalents	\$ 60,711,202	\$ 32,053,685
Interest and other receivables	-	1,216,813
Fixed income securities	52,595,450	70,051,191
Equity securities	57,705,216	56,336,592
Mutual funds	80,702,985	73,206,442
Alternative investments	94,235,702	76,315,520
Assets held under split - interest agreements	19,165,203	18,823,609
Cash surrender value of life insurance	29,674,392	29,166,502
	<u>\$ 394,790,150</u>	<u>\$ 357,170,354</u>

The cash surrender value of life insurance is included in Board-designated funds.

Unrestricted investment return for the years ended September 30 consisted of the following:

	<b>2014</b>	<b>2013</b>
Interest and dividend income	\$ 2,762,026	\$ 2,698,876
Net realized gains on sales of investments	9,768,920	12,966,668
Net change in unrealized (losses) gains	1,232,951	(904,264)
	<u>\$ 13,763,897</u>	<u>\$ 14,761,280</u>
Included in operating revenue	\$ 9,707,956	\$ 11,353,745
Included in nonoperating revenue	4,055,941	3,407,535
	<u>\$ 13,763,897</u>	<u>\$ 14,761,280</u>

**Care New England Health System and Affiliates**  
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Care New England, Butler, Kent, Memorial, WIC, and the Agency routinely invest their surplus operating funds in various overnight repurchase agreements, money market funds, and fixed income U.S. agency bonds, which are classified as cash and cash equivalents.

**7. Property, Plant and Equipment**

A summary of property, plant and equipment at September 30 follows:

	<b>2014</b>	<b>2013</b>
Land and land improvements	\$ 17,603,479	\$ 16,527,677
Buildings and improvements	412,526,302	382,479,398
Moveable equipment	<u>285,700,896</u>	<u>275,018,659</u>
Total property, plant and equipment	715,830,677	674,025,734
Less: Accumulated depreciation and amortization	<u>(423,591,539)</u>	<u>(389,717,678)</u>
	292,239,138	284,308,056
Construction and projects in progress	<u>19,747,371</u>	<u>23,109,626</u>
Property, plant and equipment, net	<u>\$ 311,986,509</u>	<u>\$ 307,417,682</u>

Depreciation expense of property, plant and equipment amounted to \$34,330,419 and \$28,143,692 for the years ended September 30, 2014 and 2013, respectively.

Care New England had property, plant and equipment disposals of \$678,461 and \$7,868,432 with accumulated depreciation of \$588,217 and \$3,768,999 for the years ended September 30, 2014 and 2013, respectively. In addition, the Health System wrote off \$17,260,510 for the year ended September 30 2013, of fully depreciated assets that were being tracked on the fixed asset register and determined to no longer be in service. The net book value was written off and reflected in the consolidated statements of operations.

During May 2010, Kent received a Certificate of Need approval from the Rhode Island Department of Health to construct and relocate its outpatient surgical suites on one floor of a two-story medical building being built on its campus by a private developer. The Certificate of Need also included lobby renovations, the construction of a connector to the main hospital building, and the construction of a 10-bed short stay nursing unit in the vacated outpatient surgery space. The project was funded through tax-exempt debt and philanthropic donations. Total estimated cost of the project was approximately \$15,000,000. The ambulatory surgical center opened in August 2013 and the remainder of the project was substantially completed in fiscal 2014.

During November 2010, Butler received a Certificate of Need approval from the Rhode Island Department of Health to construct a building to house an updated Patient Assessment Service, and accommodate an increase in Butler's licensed bed complement of inpatient psychiatry beds by twenty-six. The building construction was funded through tax-exempt debt, use of equity, and philanthropic donations. Total cost of the new building was approximately \$16,000,000 and was completed during calendar 2013.

As of September 30, 2014, the Health System estimated the total cost of completion of construction and projects in progress to be approximately \$16,656,990. The funding to complete these projects will come from trustee-held funds, philanthropic donations and operating cash.

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WIH leases land for its facility from Rhode Island Hospital (“RIH”), for a nominal annual payment, under a 99-year lease agreement which expires December 31, 2085.

Butler owns approximately 110 acres of land, which was purchased with donated funds in the mid-19th century. This land has a book value of one dollar.

In the late 1940s, Kent acquired 57 acres of land, which is recorded at the acquisition price of \$90,165.

Conditional asset retirement obligations are recorded at \$1,817,089 and \$1,841,427 as of September 30, 2014 and 2013, respectively. These obligations are recorded in other noncurrent liabilities in the consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2014 and 2013, there were no significant retirement obligations incurred or settled. Accretion expense of \$74,515 and \$71,496 was recorded during the years ended September 30, 2014 and 2013, respectively.

**8. Long-Term Debt and Capital Leases**

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

	2014	2013
Variable rate \$42,810,000 RIHEBC 2014 Series A Bonds, final maturity in 2043	\$ 42,810,000	\$ -
Variable rate \$46,730,000 RIHEBC 2008 Series A bonds, final maturity in 2032	-	38,845,000
Variable rate \$38,210,000 RIHEBC 2008 Series B bonds, final maturity in 2037	-	27,910,000
Fixed rate \$87,385,000 RIHEBC 2013 Series A Bonds, final maturity in 2033	84,288,761	-
Fixed rate \$12,000,000 RIHEBC 2010 Series bonds, final maturity in 2031	10,474,255	10,930,064
Fixed rate \$16,000,000 RIHEBC 2011 Series bonds, final maturity in 2031	14,149,854	14,780,517
Fixed rate \$25,000,000 RIHEBC 2003 Series bonds, final maturity in 2019	-	9,518,714
Term, \$300,000 RIHEBC equipment note, final maturity in 2014	-	30,772
Term, \$3,750,000 Bank of America mortgage note, final maturity in 2015	2,031,251	2,218,750
Term, \$4,000,000 Time Insurance Company mortgage note, final maturity in 2027	3,375,456	3,479,849
Capital lease obligations	7,881,459	10,200,145
Total long-term debt and capital lease obligations	<u>165,011,036</u>	<u>117,913,811</u>
Less: Current portion of long-term debt and capital lease obligations	<u>7,254,395</u>	<u>(7,586,511)</u>
Long-term debt and capital lease obligations, excluding current portion	<u>\$ 157,756,641</u>	<u>\$ 110,327,300</u>

## Care New England Health System and Affiliates

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#### **Rhode Island Health and Educational Building Corporation (RIHEBC) Bonds**

In 2014, the Health System issued RIHEBC 2013 Series A fixed rate bonds of \$87,385,000. The bonds have mandatory sinking fund redemptions ranging from \$2,010,000 in 2015 to \$8,230,000 in 2033. Unspent bond proceeds of \$11,468,724 are included in the trustee-held funds in the consolidated balance sheet at September 30, 2014. The Health System is required to comply with certain debt covenants under the bond agreements, including a minimum debt service coverage ratio of 1.2 to 1 and days cash on hand of 45. The Health System has been, and remains, compliant with these terms.

The proceeds from the CNE 2013 Series A Bonds were used to (i) refund the outstanding CNE 2008 Series A Bonds, and (ii) refund the outstanding Memorial 2003 Series bonds and accrued interest, and (iii) establish a debt service reserve fund, and (iv) terminate the interest rate swap agreement with Deutsche Bank, and (v) fund a portion of routine capital expenditures/improvements, and (vi) pay certain expenses related to the issuance of the 2013 Series A Bonds.

The CNE 2008 Series A Bonds were defeased by depositing a portion of the proceeds of the CNE 2013 Series A bond proceeds and money contributed by the Obligated Group members, Butler, Kent, WIC WIH and Memorial in an account held by the trustee for the CNE 2008 Series A Bonds to provide funds as and when necessary to pay the principal and interest on the CNE 2008 Series A Bonds. The refunding trust had sufficient fixed income securities to meet the required payments on the outstanding balances, with final payment made on September 1, 2037.

In 2014, the Health System issued RIHEBC 2014 Series A variable rate bonds of \$42,810,000. The bonds have mandatory sinking fund redemptions ranging from \$20,000 in 2029 to \$5,150,000 in 2033 with final payment of \$3,350,060 in 2042. Unspent bond proceeds of \$7,455,582 are included in trustee-held funds in the consolidated balance sheet at September 30, 2014. The Health System is required to comply with certain debt covenants under the bond agreements, including a minimum debt service coverage ratio of 1.2 to 1 and days cash on hand of 45. The Health System has been, and remains, compliant with these terms.

The proceeds from the CNE 2014 Series A Bonds were used to (i) refund the outstanding CNE 2008 Series B Bonds, and (ii) terminate the interest rate swap agreement with Morgan Stanley, (iii) fund a portion of routine capital expenditures/improvements, and (iv) pay certain expenses related to the issuance of the 2014 Series A Bonds.

The 2008 Series B Bonds were defeased by depositing the proceeds of the CNE Series 2014 bonds in an account held by the Trustee to provide funds as and when necessary to pay the principal and interest of the CNE 2008 Series B bonds. The refunding trust has sufficient fixed income securities of \$27,925,378, to meet the required payments of the outstanding balance, with the final payment in September 2037.

In 2008, the Health System issued RIHEBC 2008 Series A variable rate bonds of \$46,730,000. The bonds have mandatory sinking fund redemptions ranging from \$1,480,000 in 2014 to \$2,735,000 in 2032.

In 2008, the Health System issued RIHEBC 2008 Series B variable rate bonds of \$38,210,000. The bonds have mandatory sinking fund redemptions ranging from \$685,000 in 2014 to \$1,810,000 in 2037.

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The proceeds from the CNE 2008 Series A bonds were used to (1) refund the outstanding CNE 2002 Series A bonds, and (2) pay certain expenses related to the issuance of the CNE 2008 Series A bonds. The proceeds from the CNE 2008 Series B bonds were used to (1) defease a portion of the outstanding CNE 2002 Series B bonds, and (2) finance a portion of WIH's Certificated of Need project consisting of the construction, equipping, and furnishing of a five-story addition to WIH's existing hospital building, (3) finance a portion of routine capital improvements, and (4) pay certain expenses related to the issuance of the CNE 2008 Series B bonds. The CNE 2002 Series B bonds were defeased by depositing a portion of the proceeds of the CNE 2008 Series B bond proceeds and money contributed by the Obligated Group members, Butler, Kent, WIC and WIH in an account held by the trustee for the CNE 2002 Series B bonds to provide funds as and when necessary to pay the principal and interest on the CNE 2002 Series B bonds. The refunding trust had sufficient fixed income securities to meet the required payments on the outstanding balances, with final payment made on September 1, 2012.

The 2008 Series A and Series B bonds bear interest at a daily, weekly, or monthly rate, which is payable on the first business day of each month, and on maturity or redemption dates and the fixed rate conversion date. In no event will the interest rate borne by the bonds exceed 10% per annum. Since issuance in 2008, the bonds have borne weekly interest rate. CNE has pledged gross receipts backed by a bank letter of credit which expires on February 1, 2015. The bonds are subject to tender at the option of the owners thereof. To the extent the tendered bonds are not able to be remarketed, the letter of credit bank has committed to purchase the bonds. Amounts advanced by the bank to pay the purchase price on bonds being purchased and not reimbursed to the bank on the date of such drawing will be converted to a credit agreement loan and amortized over three years. CNE, Butler, Kent, WIC, and WIH are jointly and severally liable for repayment.

Under the terms of the 2008 Series A and Series B revenue bonds, CNE, Butler, Kent, and WIC are required to make periodic debt service payments with a trustee, which are included with assets limited as to use. The revenue bond indenture and letter of credit agreement also places limits on the incurrence of additional borrowings, and require that the Obligated Group satisfy certain measures of financial performance as long as the bonds are outstanding. The Health System is required to comply with certain debt covenants under the bond agreements, including a minimum debt service coverage ratio of 1.25 to 1 and a liquidity ratio of 1 to 1. The Health System has been, and remains, compliant with these terms.

In 2010, the Health System issued RIHEBC 2010 Series fixed rate bonds of \$12,000,000. The bonds have mandatory sinking fund redemptions ranging from \$472,599 in 2014 to \$813,065 in 2030, with a final payment of \$417,695 in 2031. These bonds were issued as Direct Purchase Tax Exempt Bank qualified bonds. The bonds bear a fixed interest rate of 3.65% through December, 2017 with 3 year optional tenders through December, 2030. The bonds bear interest on a per annum basis with semi-annual payments based on a 20 year amortization. The proceeds from the bonds are being used by Kent to finance (i) the renovation, equipping and furnishing of existing hospital space to house a ten (10) bed short stay unit; (ii) the construction, equipping and furnishing of a 30,000 square foot ambulatory surgical center with a connection to Kent's existing hospital building and (iii) cost of issuance. CNE, Butler, Kent, WIC and WIH are jointly and severable liable for repayment. The Health System is required to comply with certain debt covenants under the bond agreements, including a minimum debt service coverage ratio of 1.25 to 1 and a liquidity ratio of 1 to 1. The Health System has been, and remains, compliant with these terms.

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In 2011, the Health System issued RIHEBC 2011 Series fixed rate bonds of \$16,000,000. The bonds have mandatory sinking fund redemptions ranging from \$649,668 in 2014 to \$1,044,574 in 2031. These bonds were issued as unrated private placement tax exempt bonds. The bonds bear a fixed interest rate of 2.99% through July 31, 2018. The bonds bear interest on a per annum basis with semi-annual payments based on a 20 year amortization. The proceeds from the bonds are being used to finance (i) the construction, equipping and furnishing of a 32,000 square foot addition of Butler's existing hospital facility; (ii) refinancing of the Bank of Rhode Island mortgage held by WIC; (iii) refinancing of certain capital leases; (iv) purchase of capital equipment; (v) capitalized interest and (vi) cost of issuance. CNE, Butler, Kent, WIC and WIH are jointly and severable liable for repayment. The Health System is required to comply with certain debt covenants under the bond agreements, including a minimum debt service coverage ratio of 1.25 to 1 and a liquidity ratio of 1 to 1. The Health System has been, and remains, compliant with these terms.

In December 2003, RIHEBC issued \$25,000,000 of Series 2003 Hospital Financing Revenue Refunding Bonds (the Bonds) on behalf of Memorial. RIHEBC loaned the proceeds of the Bonds to Memorial pursuant to the Loan and Trust Agreement (the Agreement) dated December 1, 2003. The terms of the Agreement stipulate that interest will be paid at fixed rates ranging from 4.00% to 5.25% per annum (weighted-average rate at September 30, 2013 was 4.79%), with principal installments commencing July 1, 2004, and ending July 1, 2019.

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

As required by the Agreement, the Bonds are secured by a letter of credit from a commercial bank (the Bank). Accordingly, Memorial has entered into a Reimbursement Agreement, dated December 1, 2003 (the Reimbursement Agreement), and an Unrestricted Endowment Account Control Agreement dated July 31, 2009 (the Account Control Agreement). Under the terms of the Reimbursement Agreement, Memorial must meet the requirements of certain covenants. The Account Control Agreement grants the bank a security interest in certain investments held by Memorial. Under the terms of an Amendment to the Reimbursement Agreement dated February 29, 2012 (the Amendment), the required minimum cash flow coverage ratio covenant was waived for the four quarters ending December 31, 2011. In addition, the requirement to provide annual audited financial statements to the trustee by February 27, 2012 was also waived. The Amendment to the reimbursement agreement amended certain sections of the original reimbursement agreement and required Memorial to: fund a debt service fund in an amount equal to the monthly pro-rata portion of the annual debt service on the bonds; release funds to repay the existing line of credit and fund operating losses; and meet certain transaction milestones in fiscal year 2013. The Amendment also limited the amount of monthly losses from operations.

On March 28, 2013, the Reimbursement Agreement was further amended. Under the terms of the March 28, 2013 amendment (March 2013 Amendment) the Bank released its security interest in the investments held by Memorial. The release was contingent upon the sale of a clinic building owned by Memorial located in Plainville, Massachusetts, for an amount not less than \$4,250,000 to CNE. That sale was completed on March 29, 2013. In addition, Section 7(t) of the Reimbursement Agreement, which contained certain debt covenants, was deleted in its entirety and replaced with a requirement that the transaction described in Note 1 with respect to the sale of SHS to CNE be completed by October 1, 2013. Failure to close the transaction with CNE by October 1, 2013 would constitute an event of default under the March 2013 Amendment.

## Care New England Health System and Affiliates

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Under Section 906 of the Agreement, Memorial was required to furnish audited financial statements to the trustee by February 27, 2013. Memorial failed to comply with that requirement. Under the terms of the Agreement, Memorial had a cure period which expired on April 5, 2013. Management delivered the audited financial statements to the trustee prior to the expiration of the cure period.

The outstanding bonds were refunded with the proceeds of the RIHEBC 2013 Series A bonds.

#### **Rhode Island Health and Educational Building Corporation Notes**

In 2004, the Health System entered into a \$300,000 RIHEBC Equipment Note due July 1, 2004 through June 1, 2014. Monthly interest and principal installments of \$3,141 are due at a fixed interest rate of 4.72%. The note is collateralized by the equipment purchased with the proceeds by the Agency and guaranteed by the Health System.

#### **Bank Mortgage Notes**

In 2005, the Health System entered into a \$3,750,000 mortgage note with Bank of America due August 2005 through July 2015. Interest and principal installments of \$33,837 on August 1, 2005 to \$24,883 on June 1, 2015 are due monthly, with a final payment of \$1,899,215 due June 2015, at a fixed interest rate of 5.64%. The note is collateralized by the real estate purchased. The Health System is required to comply with certain debt covenants under the note agreement, including a minimum debt service coverage ratio of 1.25 to 1. The Health System has been, and remains, compliant with these terms.

In 2007, the Health System entered into a \$4,000,000 mortgage note with Time Insurance Company due October 2007 through September 2027. Interest and principal installments of \$25,261 are due monthly, with a final payment of \$1,338,527 due September 2027, at a fixed interest rate of 5.79%. The note is collateralized by the real estate purchased.

#### **Interest Rate Swaps**

CNE maintained interest rate swap programs on certain of its 2008 Series A and B variable rate revenue bonds. These bonds exposed the Health System to variability in interest payments due to changes in interest rates. The Health System entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These agreements involved the exchange of fixed rate payments by CNE for variable rate payments from counterparties, based on the Securities Industry and Financial Markets Association (SIFMA) Index.

As part of the 2008 Series A & B refinancing, CNE (1) entered into an interest rate swap agreement with Deutsche Bank Group which effectively converts all of the RIHEBC CNE 2008 Series A variable rate bonds to a fixed rate of 4.216% for the period of August 1, 2011 through July 1, 2032. The notional amount of the swap at September 30, 2014 and 2013 was \$0 and \$38,845,000, respectively, and (2) entered into an interest rate swap agreement with Morgan Stanley Capital Services which effectively converts all of the RIHEBC CNE 2008 Series B variable rate bonds to a fixed rate of 3.857% for the period of February 1, 2008 through August 31, 2037. The notional amount of the swap at September 30, 2014 and 2013 was \$0 and \$27,910,000, respectively.

The Health System used the interest rate swap agreements in order to manage its interest rate risk associated with its outstanding debt. These swaps effectively convert interest rates on variable rate bonds to fixed rates. The interest rate swap agreements meet the definition of derivative instruments. However, the change in the market value and cash flow impact of the derivative instruments are accounted for as a nonoperating activity. The swaps, while serving as an economic hedge, do not qualify as an accounting hedge.

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The Swaps were terminated in 2014 as part of the 2013 Series A and 2014 Series A financings.

Scheduled principal repayments on long-term debt are as follows for the years ended September 30:

2015	\$ 5,274,115
2016	6,100,345
2017	6,211,577
2018	6,323,443
2019	5,477,064
Thereafter	<u>126,564,273</u>
	<u>155,950,817</u>
Plus unamortized premium on bonds	<u>1,178,760</u>
	<u>\$ 157,129,577</u>

Care New England had available \$15,000,000 from December 29, 2011 through September 30, 2014 through a line of credit with a financial institution. There were no outstanding balances on the line of credit as of September 30, 2014 and 2013.

The Hospitals classify certain noncancelable leases as capital leases, and include the property under lease in their property and equipment. Amortization expense for these assets is included in depreciation and amortization expenses in the consolidated statements of operations and changes in net assets. Ownership of the leased property converts to the Hospitals at the end of the lease term. Assets and related accumulated depreciation under the capital leases are included in property, plant and equipment (Note 7).

Future minimum lease payments due under capital lease arrangements are as follows:

2015	\$ 2,048,651
2016	1,549,417
2017	1,547,007
2018	1,538,259
2019	1,528,061
Thereafter	<u>-</u>
Total minimum lease payments	8,211,395
Less: Amount representing interest	<u>329,936</u>
Capital lease obligations at September 30, 2014	<u>\$ 7,881,459</u>

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**9. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes or periods at September 30:

	<b>2014</b>	<b>2013</b>
Healthcare services	\$ 5,162,436	\$ 4,847,128
Healthcare research	3,255,103	988,045
General purposes	9,799,743	9,589,468
Indigent care	3,250,994	3,093,290
Health education	2,493,238	2,269,467
Plant replacement and expansion	5,474,107	13,032,281
Other	<u>8,420,663</u>	<u>7,305,278</u>
Total temporarily restricted net assets	<u>\$ 37,856,284</u>	<u>\$ 41,124,957</u>

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

	<b>2014</b>	<b>2013</b>
Plant replacement and expansion	\$ 19,133,350	\$ 18,823,609
Indigent care	1,311,835	1,311,835
General purposes	4,019,732	4,019,732
Research	577,748	562,975
Healthcare services	4,362,102	4,357,831
Health education	<u>1,051,006</u>	<u>1,037,231</u>
Total permanently restricted net assets	<u>\$ 30,455,773</u>	<u>\$ 30,113,213</u>

The Health System follows the requirements of the Rhode Island enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 as they relate to its permanently restricted endowments. The Health System's endowments consist of numerous individual funds established for a variety of purposes. Its endowments consist solely of donor-restricted endowment funds. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Health System classifies restricted donor funds in accordance with the laws of the State of Rhode Island and generally accepted accounting principles. The Health System classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. The Health System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the Health System and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) the investment policies of the Health System.

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For the year ended September 30, 2014, the Health System had the following changes in the endowment net assets:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets at beginning of year</b>	\$ 22,741,119	\$ 11,289,604	\$ 34,030,723
Investment return			
Investment income	139,119	-	139,119
Net appreciation (realized and unrealized)	<u>1,729,730</u>	<u>-</u>	<u>1,729,730</u>
Total investment return	1,868,849	-	1,868,849
Contributions	-	15,048	15,048
Transfer to unrestricted net assets	(47,728)	-	(47,728)
Transfer to permanently restricted net assets	-	17,771	17,771
Appropriation of endowment assets for expenditure	<u>(533,783)</u>	<u>-</u>	<u>(533,783)</u>
<b>Endowment net assets at end of year</b>	<u>\$ 24,028,457</u>	<u>\$ 11,322,423</u>	<u>\$ 35,350,880</u>

For the year ended September 30, 2013, the Health System had the following changes in the endowment net assets:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets at beginning of year</b>	\$ 19,935,873	\$ 8,126,287	\$ 28,062,160
Acquired endowment net assets	1,053,502	3,104,224	4,157,726
Investment return			
Investment income	619,262	-	619,262
Net appreciation (realized and unrealized)	<u>1,968,058</u>	<u>-</u>	<u>1,968,058</u>
Total investment return	2,587,320	-	2,587,320
Contributions	(50,000)	59,093	9,093
Appropriation of endowment assets for expenditure	<u>(785,576)</u>	<u>-</u>	<u>(785,576)</u>
<b>Endowment net assets at end of year</b>	<u>\$ 22,741,119</u>	<u>\$ 11,289,604</u>	<u>\$ 34,030,723</u>

In addition to permanently restricted endowments, Kent and Memorial are income beneficiaries of various trusts. On September 30, 2014 and 2013, the market value of the trust assets, which are recorded as permanently restricted net assets, totaled \$19,133,350 and \$18,823,609, respectively. Distributions of income are made at the discretion of the trustees.

It is the policy of the Health System that any appropriations from the appreciation in endowment funds are periodically requested of and approved by the Board of Trustees.

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The Board has responsibility for formulating investment policy. The investment policy is to invest in a conservative asset portfolio with minimal investment risk. Certain funds are included in a consolidated long term investment pool and invested in accordance with the investment strategy, authorized by the Board.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Health System to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets are immaterial as of September 30, 2014 and 2013. These deficiencies resulted from unfavorable market fluctuations. The individual donor-restricted endowment funds with deficiencies will retain future income and appreciation to restore the required fair value of the assets.

During fiscal 2014 and 2013, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	<b>2014</b>	<b>2013</b>
Healthcare services	\$ 1,421,285	\$ 1,223,929
Healthcare research	159,467	171,952
Plant replacement and expansion	10,294,706	2,235,386
Other	1,132,728	1,017,685
Health education	196,440	184,135
Indigent care	<u>216,362</u>	<u>206,775</u>
Total net assets released from restrictions	<u>\$ 13,420,988</u>	<u>\$ 5,039,862</u>

**10. Retirement Plans**

The Health System has three separate Defined Benefit pension plans. One plan covers the employees of CNE, Butler, Kent and WIC, with the exception of the unionized employees of WIH (who are covered under a multiemployer union plan), and certain WIH-employed physicians. The second plan covers the employees of the Agency, and the third plan covers substantially all of the employees of Memorial.

**Care New England Pension Plan**

The Care New England Pension Plan (the "Plan"), established on October 1, 1998, is a defined benefit cash balance plan that covers all of the employees of CNE, and all of the employees of Butler, Kent and WIC, with the exception of the unionized employees and certain employed physicians at WIH. The benefits for the unionized employees at Butler are computed under a separate formula that was in effect when the Butler plan was a standalone noncontributory defined benefit plan. Butler, Kent and WIC incur and fund their respective pension plan expenses within the guidelines established by the Employee Retirement Income Security Act of 1974.

The Care New England Board of Trustees voted, on September 23, 2010, to freeze the Plan effective December 31, 2010 for all employees with the exception of the Butler unionized employees. Effective December 31, 2010, compensation paid to a participant shall be disregarded for plan purposes, except for purposes related to determining benefits for the unionized employees at Butler. In addition, a participant's cash balance account will only increase annually for interest credit. In connection with the Plan freeze, the Health System enhanced contributions to the Care New England 403(b) Match and Savings Plan.

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Included in cumulative changes in unrestricted net assets at September 30, 2014 that has not yet been recognized in net periodic pension cost is an actuarial loss of \$67,337,612. Included in cumulative changes in unrestricted net assets at September 30, 2013 that has not yet been recognized in net periodic pension cost is an actuarial loss of \$53,723,281.

The actuarial loss included as cumulative changes in unrestricted net assets and expected to be recognized in net periodic pension cost during the fiscal year ended September 30, 2015 is \$1,381,414.

Lump sum payments during fiscal 2013 triggered settlement accounting for the Plan, and accelerated statement of operations recognition of \$3,496,714 for the fiscal year ended September 30, 2013. No settlement accounting was triggered for the fiscal year ended September 30, 2014.

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

	<b>2014</b>	<b>2013</b>
Service cost	\$ 2,068,226	\$ 2,306,558
Interest cost	9,895,828	8,997,812
Expected return on plan assets	(13,317,915)	(13,899,734)
Settlements	-	3,496,714
Amortization of loss	1,011,097	1,777,022
Net periodic pension (income)/expense	<u>\$ (342,764)</u>	<u>\$ 2,678,372</u>

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

	<b>2014</b>	<b>2013</b>
Discount rate	4.75 %	3.80 %
Expected return on assets	7.00	7.50
Rate of compensation increase	3.00	4.00

The following table presents a reconciliation of the beginning and ending balances of the plan projected benefit obligations, fair value of plan assets, funded status, and accumulated other comprehensive income (AOCI) of the plan as of September 30:

	<b>2014</b>	<b>2013</b>
<b>Changes in benefit obligations</b>		
Projected benefit obligations at beginning of year	\$ 215,615,120	\$ 245,654,125
Service cost	2,068,226	2,306,558
Interest cost	9,895,828	8,997,812
Actuarial (gain) loss	14,317,282	(22,211,906)
Settlements	-	(14,033,366)
Benefits and expenses paid	<u>(12,670,805)</u>	<u>(5,098,103)</u>
Projected benefit obligations at end of year	<u>\$ 229,225,651</u>	<u>\$ 215,615,120</u>

**Care New England Health System and Affiliates**  
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**Changes in plan assets**

Fair value of plan assets at beginning of year	\$ 192,848,939	\$ 191,432,716
Actual return on plan assets	13,009,769	14,547,692
Employer contributions	8,000,000	6,000,000
Settlements	-	(14,033,366)
Benefits and expenses paid	(12,670,806)	(5,098,103)
Fair value of plan assets at end of year	<u>\$ 201,187,902</u>	<u>\$ 192,848,939</u>

**Funded status**

Total pension liability	\$ (28,037,748)	\$ (22,766,181)
Accumulated benefit obligation	227,351,007	214,143,232

**Amounts recognized in unrestricted net assets**

Unrestricted net assets at beginning of year	\$ 53,723,281	\$ 81,856,881
Less amounts amortized during the year		
Net loss	1,011,097	1,777,022
Settlement amount	-	3,496,714
Plus amounts occurring during the year		
Net (gain) loss	14,625,428	(22,859,864)
Unrestricted net assets at end of year	<u>\$ 67,337,612</u>	<u>\$ 53,723,281</u>

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

	<b>2014</b>	<b>2013</b>
Discount rate	4.17 %	4.75 %
Rate of compensation increase	3.00 %	3.00 %

**Plan Assets**

The Plan's investment objectives are to achieve long-term growth in excess of inflation, and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets. In order to minimize risk, the Plan attempts to minimize the variability in yearly returns. The Plan diversifies its holdings among sectors, industries, and companies. No more than 6% of the Plan's portfolio (measured on market value) may be held in an individual company's stocks or bonds.

To develop the expected long-term rate of return on plan assets assumption, the Health System considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

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The Health System's pension plan asset allocations (based on market value) at September 30, by asset category, are as follows:

	<b>Target Allocation</b>	<b>Actual 2014</b>	<b>Actual 2013</b>
<b>Asset category</b>			
Alternative investments	16 %	16 %	18 %
Fixed income securities	29	31	26
Equity securities	55	53	56
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Refer to Note 21 for details on assets held by the Plan.

**Contributions**

The Health System contributed \$8,000,000 and \$6,000,000 to the Plan in 2014 and 2013, respectively. The Health System expects to contribute \$5,000,000 to the Plan in 2015.

**Estimated Future Benefit Payments**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<b>Fiscal Year</b>	<b>Pension Benefits</b>
2015	\$ 16,174,227
2016	15,112,304
2017	15,832,290
2018	16,774,952
2019	16,067,108
Years 2020–2024	81,421,165

**Care New England 403(b) Match and Savings Plan**

Effective January 1, 2009, the Pension Plan Protection legislation resulted in regulatory changes which discontinued the matching credits to the participants that were previously recorded in the CNE Pension Plan. As a result, CNE established the Care New England 403(b) Plan to account for future matching credits. The plan covers employees that meet certain eligibility requirements. Additionally, effective January 1, 2011, in connection with the freeze of the Care New England Pension Plan, the Health System also provides a nonelective contribution to participant accounts, as defined in the Plan document. Nonelective contributions are allocated to each eligible participant based on a percentage of salary, a combination of the recipients age and years of service, and are credited to each such participant as of the first day of the Plan year, as further described in the Plan document.

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The Health System recorded an expense of \$14,741,274 and \$13,350,988 for the nonelective contribution to participant accounts for the fiscal years that ended September 30, 2014 and 2013, respectively. In addition, the Health System recorded an expense of \$3,660,075 and \$3,856,186 for matching credits for fiscal years ended September 30, 2014 and 2013, respectively. The Health System will fund the 2014 expense in calendar year 2015 and funded the 2013 expense in calendar year 2014.

***Kent County Visiting Nurse Association Pension Plan***

The Agency has a noncontributory defined benefit pension plan covering all employees who have satisfied certain eligibility requirements that was frozen effective December 31, 2007, and replaced with a contributory retirement savings plan. Benefits under the defined benefit plan were based on years of service and employee's compensation levels.

Included in the charge to net assets at September 30, 2014 and 2013 is an unrecognized actuarial loss of \$2,905,785 and \$2,324,409, respectively. The actuarial loss expected to be recognized in net periodic pension cost during the fiscal year ended September 30, 2015 is \$253,128.

The Agency's pension expense was \$150,433 in 2014 and \$254,917 in 2013.

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

	<b>2014</b>	<b>2013</b>
Discount rate	4.92 %	3.94 %
Expected return on assets	6.50 %	6.50 %
Rate of compensation increase	N/A	N/A

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

	<b>2014</b>	<b>2013</b>
Discount rate	4.32 %	4.92 %
Rate of compensation increase	N/A	N/A

To develop the expected long-term rate of return on plan assets assumption, the Agency considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Plan assets, valued at fair value, consist of 99% mutual funds and 1% cash and cash equivalents. The fair value of the Plan assets were \$7,045,572 and \$6,743,856 at September 30, 2014 and 2013, respectively.

The funded status of the Agency's defined benefit plan was a total pension liability of \$2,221,403 and \$1,721,021 as of September 30, 2014 and 2013, respectively.

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The Agency made required contributions to the Plan of \$231,427 and \$248,110 in 2014 and 2013, respectively. The Agency is expected to make \$256,200 in contributions to the Plan during 2015. Benefit payments are expected to be paid as follows:

<b>Fiscal Year</b>	<b>Pension Benefits</b>
2015	\$ 304,000
2016	330,000
2017	390,000
2018	489,000
2019	521,000
Years 2020–2024	2,809,000

Effective January 1, 2008, the Agency established a 403(b) Retirement Savings Plan that covers employees who have met certain eligibility requirements. Discretionary contributions to the plan are based on years of service and compensation levels. For the fiscal years that ended September 30, 2014 and 2013, respectively, the Agency recorded an expense of \$390,331 and \$277,680.

***Memorial Retirement Plan***

As part of the acquisition of SHS, CNE acquired the assets and assumed the liabilities for Memorial's defined benefit pension plan ("the Plan"), which was frozen for non-union participants as of May 31, 2012 and union employees as of June 1, 2013 and was replaced by the Memorial 403(b) Match and Savings Plan. Benefits under the defined benefit plan were based on years of service and employees' compensation during the last five years of covered employment. Memorial makes annual contributions to the Plan, which approximate the amount of net periodic pension cost.

	<b>2014</b>
Service cost	\$ -
Interest cost	6,900,857
Expected return on plan assets	(5,715,707)
Amortization of loss	-
Net periodic pension expenses	<u>\$ 1,185,150</u>

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

	<b>2013</b>
Discount rate	5.11 %
Expected return on plan assets	6.00 %
Rate of compensation increase	N/A

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The assumptions used to determine net periodic benefit cost for the period from date of acquisition through the year ended September 30, 2013 are as follows:

	<b>2013</b>
Discount rate	4.60 %
Expected rate of return on plan assets	6.00 %
Rate of compensation increase	N/A

The following tables represent a reconciliation of the beginning and ending balances of the plan projected benefit obligations, fair value of plan assets, funded status, and accumulated other comprehensive income (AOCI) of the plan as of September 30,

	<b>2014</b>
<b>Changes in benefit obligations</b>	
Projected benefit obligations at beginning of year	\$ 137,879,874
Service cost	-
Interest cost	6,900,857
Actuarial (gain) loss	13,223,730
Benefits and expenses paid	<u>(4,931,752)</u>
Projected benefit obligations at end of year	<u>\$ 153,072,709</u>
<b>Changes in plan assets</b>	
Fair value of plan assets at beginning of year	\$ 95,763,486
Actual return on plan assets	5,323,711
Employer contributions	3,427,811
Benefits and expenses paid	<u>(4,931,752)</u>
Fair value of plan assets at end of year	<u>\$ 99,583,256</u>
<b>Funded status</b>	
Total pension liability	\$ (53,148,472)
Accumulated benefit obligation	153,072,709
<b>Amounts recognized in unrestricted net assets</b>	
Unrestricted net assets at beginning of year	\$ (36,275,726)
Less	
Impact of purchase accounting	36,275,726
Plus amounts occurring during the year	
Net (gain) loss	<u>(13,274,745)</u>
Unrestricted net assets at end of year	<u>\$ (13,274,745)</u>

The assumptions used to develop the projected benefit obligations as of September 30, 2014 are as follows:

	<b>2014</b>
Discount rate	4.43 %
Rate of compensation increase	N/A

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The following reflects the funded status of Memorial's defined benefit plan as of September 30, 2013:

	<b>2013</b>
Total pension liability at time of acquisition of SHS	\$ 41,883,780
Net periodic pension cost	<u>232,607</u>
Total pension liability as of September 30, 2013	<u>\$ 42,116,387</u>

The assumptions used to determine projected benefit obligation for the period from date of acquisition through the year ended September 30, 2013 are as follows:

	<b>2013</b>
Discount rate	5.11 %
Expected return on plan assets	6.00 %
Rate of compensation increase	N/A

**Plan Assets**

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

The pension plan asset allocations (based on market value) at September 30, by asset category, are as follows:

<b>Asset category</b>	<b>Target Allocation</b>	<b>Actual 2014</b>	<b>Actual 2013</b>
Alternative investments	4 %	2 %	4 %
Fixed income securities	72	76	73
Equity securities	<u>24</u>	<u>22</u>	<u>23</u>
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Refer to Note 22 for details on assets held by the Plan.

**Contributions**

Memorial contributed \$3,427,811 to the Plan in 2014 and expects to contribute \$7,000,000 to the Plan in 2015.

# Care New England Health System and Affiliates

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#### Estimated Future Benefit Payments

Benefit payments, are expected to be paid as follows:

Fiscal year	Pension Benefits
2015	\$ 6,103,000
2016	6,530,000
2017	6,983,000
2018	7,504,000
2019	7,888,000
Years 2020–2024	45,447,000

#### WIH Union Plan

Payments to a multiemployer pension plan covering union employees at WIH for the years ended September 30, 2014 and 2013 were \$8,308,637 and \$8,448,495, respectively.

#### 11. Postretirement Plans

Kent sponsors an unfunded noncontributory defined benefit postretirement plan that provides medical and dental benefits to certain salaried and nonsalaried employees. In 1996, Kent amended the plans to eliminate benefits for all employees, except for certain employees with at least 25 years of service at that date.

Included in the charge to net assets are the following amounts that have not yet been recognized in net periodic postretirement benefit cost as of September 30, 2014 and 2013, respectively: unrecognized net transition obligation of \$63,750 and \$160,750 and unrecognized actuarial loss of \$82,039 and \$91,609. The unrecognized net transition obligation and actuarial loss expected to be recognized in net periodic postretirement costs during the fiscal year ended September 30, 2015 are \$63,750 and \$97,000, respectively.

The postretirement benefit cost for these plans was \$161,649 in 2014 and \$162,239 in 2013.

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**12. Patient Service Revenue**

For the majority of the System's revenue, the Hospitals and the Agency have agreements with third-party payors that provide for payments to the Hospitals and the Agency at amounts different from their established rates. At the time of rendering service to the patients, the Hospitals and the Agency obtain assignment of benefits payable under the patient's health insurance program, plan, or policy (e.g., Medicaid, Blue Cross, health maintenance organizations, commercial insurance, Medicare, and others). The following is a breakdown of gross patient service revenue by payor type for the years ended September 30:

	<b>2014</b>	<b>2013</b>
Medicare and Medicare Managed Care	34 %	34 %
Medicaid and Medicaid Managed Care	24	20
Blue Cross	22	23
Managed care	11	11
Self-pay	3	5
Other third-party payors	6	7
	<u>100 %</u>	<u>100 %</u>

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there will always be a possibility that the recorded estimates of net revenue could change by a significant amount in the future. The Hospitals and the Agency believe they are in compliance with all applicable laws and regulations. Cost reports filed annually with third-party payors are subject to audit prior to final settlement. The Hospitals and the Agency are compliant with all reimbursement filings. A summary of cost report activity as of September 30, 2014 is as follows:

**Medicare**

Cost reports for the Hospitals and the Agency have been filed through 2013, and settled through 2011 for the Agency, 2012 for Butler, and 2011 for Kent, WIH, and Memorial.

**State of Rhode Island (Medicaid)**

Cost reports have been filed through 2010, and settled through 2006 for Butler, Kent, WIH, and Memorial. The implementation of a prospective payment system eliminated the need for Medicaid settlements after fiscal year 2010.

The filing of these cost reports and associated settlements require the use of estimates. Net patient service revenue was increased by approximately \$6,900,000 and \$500,000 in 2014 and 2013, respectively, to reflect the changes in the estimated settlements for certain prior years.

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The Health System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Health System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Health System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Health System records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), for the years ended September 30, 2014 and 2013 is summarized as follows:

	2014	2013
Patient service revenue (net of contractual allowances and discounts)		
Third-party payors	\$ 998,003,727	\$ 810,741,807
Self-pay	<u>25,072,266</u>	<u>48,642,837</u>
Total All Payors	<u>\$ 1,023,075,993</u>	<u>\$ 859,384,644</u>

**13. Disproportionate Share**

The government has long recognized the financial burdens which are borne by hospitals which serve an unusually large number, or "disproportionate share", of low-income patients. Kent, WIH, and Memorial received payments under the disproportionate share program of \$47,925,810 and \$30,914,963 from the State of Rhode Island's Medicaid program for the years ended September 30, 2014 and 2013, respectively. Kent, WIH, and Memorial also recorded disproportionate share payments of \$2,056,222 and \$4,729,080 from Medicare during 2014 and 2013, respectively. Additional payments of \$15,718,164 were received during 2014 from Medicare as part of new provisions under the Accountable Care Act to offset hospital costs for uncompensated care

**14. Licensure Fees**

The State of Rhode Island assesses hospitals an annual licensure fee calculated as a percentage of the hospital's net patient revenue. The Care New England hospitals were assessed \$41,052,257 and \$32,840,235 for the years ended September 30, 2014 and 2013, respectively.

**15. Concentration of Credit Risk**

As of September 30, 2014 and 2013, Care New England, the Hospitals, and the Agency had cash and cash equivalents in excess of Federal Depository Insurance limits at major financial institutions. These financial institutions have a strong credit rating, and management believes that credit risks related to these deposits are minimal.

The Hospitals and the Agency receive a significant portion of its payment for services rendered from a limited number of governmental and commercial third-party payors, including Medicare, Medicaid, and Blue Cross. The organization has not historically incurred any significant concentrated credit losses in the normal course of business.

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In addition, the organizations routinely grant credit to patients without requiring collateral or other security. The mix of receivables, net of contractual allowances, from patients and third-party payors at September 30, 2014 and 2013, was as follows:

	2014	2013
Medicare and Medicare Managed Care	17 %	15 %
Medicaid and Medicaid Managed Care	18	14
Blue Cross	20	16
Managed care	15	11
Self-pay	19	27
Other third-party payors	11	17
	<u>100 %</u>	<u>100 %</u>

The Health System provides an allowance for doubtful accounts to address the risks of nonpayment of accounts receivable.

**16. Commitments and Contingencies**

**Operating Leases**

Care New England, the Hospitals, and the Agency have entered into operating lease agreements with several vendors for the lease of certain equipment and office space. Future minimum lease payments under noncancelable operating leases as of September 30, 2014 are:

2015	\$ 7,107,798
2016	5,935,677
2017	5,897,629
2018	5,583,169
2019	5,080,873
Later years	<u>42,393,713</u>
Total minimum lease payments	<u>\$ 71,998,859</u>

Total rent expense for operating leases for the years ended September 30, 2014 and 2013 amounted to \$8,064,246 and \$6,832,560, respectively.

Butler has entered into several agreements with various parties, mostly nonprofit organizations, to lease space on the Butler campus. Rental income in the amount of \$3,272,788 and \$3,164,859 for the fiscal years ending September 30, 2014 and 2013, respectively, is included in other operating revenues in the consolidated statements of operations.

**Litigation**

CNE, the Affiliates, and the Agency have been individually named as codefendants in several complaints. It is the opinion of management that the liability, if any, to CNE, the Affiliates, and the Agency in excess of insurance coverage will have no material adverse effect on the consolidated financial position of Care New England.

**Collective Bargaining Agreements**

At September 30, 2014, approximately 40% of the Health System's employees were covered by collective bargaining agreements. All bargaining agreements will be in effect through fiscal 2015.

## Care New England Health System and Affiliates

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#### 17. Professional and General Liability Claims

Due to strategic and economic issues, as well as the potential for limited availability of commercial insurance policies, the Care New England entities have moved over time to covering the majority of their professional and general liability insurance to self-insured approaches. The adequacy of the coverage provided, reserves, and the funding levels are evaluated annually by independent actuaries who review the soundness of the programs and recommend future funding levels. Potential losses are estimated based on industry as well as entity experience, and a provision for these losses is recorded.

Butler annually contributes to its self-insurance trust fund to provide for risks relating to its existing actuarially calculated primary level of professional and general liabilities, as well as the tail liability related to prior claims-made coverage. Butler's professional liability coverage for claims in excess of its primary coverage limits is provided by W&I Indemnity.

Kent Hospital established Toll Gate Indemnity in 2004, as an off-shore captive insurance entity to insure primary and excess hospital professional and general liability risks, as well as to supply indemnification coverage for certain eligible medical staff.

WIH established W&I Indemnity in 1994, as an off-shore captive insurance entity to provide coverage for claims in excess of its underlying policy, as well as to insure the contractual liability arising from indemnification agreements with certain eligible medical staff. In addition, WIH has a self-insurance trust fund for risks relating to prior tail liabilities.

Effective July 1, 2004, professional liability insurance coverage for Memorial was provided on an occurrence basis. Such coverage was provided on a claims-made basis through June 30, 2004. The claims-made policies cover only claims made during the terms of the policies, and not those occurrences for which claims may be made after expiration of the policies. Memorial is self-insured with respect to incurred but not reported (IBNR) claims incurred prior to July 1, 2004. Memorial purchases annually commercial insurance policies to insure professional and general liability risks.

The provisions for anticipated losses were based upon expected undiscounted values. Trust fund and captive assets are available for the payment of claims.

The Agency purchase general and professional liability insurance from Toll Gate Indemnity.

#### 18. Other Self-Insurance Reserves

Care New England has established a workers' compensation trust fund to cover all past and future self-insured claims of workers' compensation activity for CNE, Butler, Kent, WIC, Memorial, and the Agency. The reserve for workers' compensation losses is based on an actuarial study and actual experience. At September 30, 2014 and 2013, the amounts accrued for estimated self-insurance costs have not been discounted.

CNE, on behalf of itself, Butler, Kent, WIC, and the Agency, has entered into a self-insurance program for health insurance risks. This program covers the health insurance claims for all of CNE's, Butler's, Kent's, WIC's, and the Agency's employees, with the exception of the unionized employees at WIH. The provisions for health insurance losses are based on actuarial assumptions and actual claims experience.

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**19. Affiliation With Rhode Island Hospital**

In 1981, RIH and WIH approved an agreement providing for the affiliation of the two Hospitals. The affiliation agreement provides for a program of shared medical services, thereby greatly increasing the scope of comprehensive acute-care services available to WIH in maternal, gynecological, and neonatal care. In accordance with the agreement, the Hospital relocated to the property of RIH.

**20. Affiliation With Accredited Medical Schools**

Butler, WIH, and Memorial are affiliated with the Warren Alpert Medical School of Brown University. The affiliation agreements provide that Butler, Memorial and WIH are the Major Affiliated Teaching Hospitals of the Medical School for psychiatry and behavioral, primary care medicine, and activities unique to women and newborns, respectively. Kent is affiliated with the University of New England College of Osteopathic Medicine.

**21. Functional Expenses**

CNE provides healthcare services to residents within their geographic service areas. Expenses related to providing these services for the years ended September 30 are as follows:

	<b>2014</b>	<b>2013</b>
Healthcare services	\$ 834,168,320	\$ 689,107,247
General and administrative	<u>225,336,570</u>	<u>186,446,911</u>
	<u>\$ 1,059,504,890</u>	<u>\$ 875,554,158</u>

**22. Fair Value of Financial Instruments**

The Health System calculates fair value defined in ASC Topic 820 to value its financial assets and liabilities, where applicable. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. Topic 820 applies to other accounting pronouncements that require or permit fair value measurements, and does not require new fair value measurements. Fair value measurements, are applied based on the unit of account from the reporting entity's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

ASC Topic 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2 Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

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Level 3 Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Health System uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, and considers nonperformance risk in its assessment of fair value.

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. Fair value for Level 3 is based upon unobservable inputs for the asset (i.e., supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset (including assumptions about risk).

The Health System's ownership in alternative investments is limited partnership interests in private equity funds. The value of certain alternative investments represents the ownership interest in the Net Asset Value (NAV) of the respective partnership. The NAV of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities related. The Health System has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value as of September 30.

The fair value of interest rate swap agreements is primarily determined using techniques consistent with the market approach. Significant observable inputs to valuation models include interest rates, treasury yields, and credit spreads.

Financial instruments carried at fair value for the System's nonpension plan assets as of September 30, 2014 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 60,711,115	\$ 87	\$ -	\$ 60,711,202
Fixed income securities	30,908,714	21,686,736	-	52,595,450
Equity securities	57,705,216	-	-	57,705,216
Alternative investments	-	44,477,262	49,758,440	94,235,702
Mutual funds	21,003,509	59,699,477	-	80,702,986
Total investments	<u>170,328,554</u>	<u>125,863,562</u>	<u>49,758,440</u>	<u>345,950,556</u>
Assets held under split-interest agreements	<u>31,848</u>	-	<u>19,133,355</u>	<u>19,165,203</u>
Total assets	<u>\$ 170,360,402</u>	<u>\$ 125,863,562</u>	<u>\$ 68,891,795</u>	<u>\$ 365,115,759</u>

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Financial instruments carried at fair value for the System's nonpension plan assets as of September 30, 2013 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 32,052,109	\$ 1,576	\$ -	\$ 32,053,685
Interest and other receivables	1,216,813	-	-	1,216,813
Fixed income securities	38,759,993	31,291,198	-	70,051,191
Equity securities	56,336,592	-	-	56,336,592
Alternative investments	-	40,422,461	35,893,059	76,315,520
Mutual funds	28,332,565	44,873,877	-	73,206,442
Total investments	156,698,072	116,589,112	35,893,059	309,180,243
Assets held under split-interest agreements	-	-	18,823,609	18,823,609
Total assets	<u>\$ 156,698,072</u>	<u>\$ 116,589,112</u>	<u>\$ 54,716,668</u>	<u>\$ 328,003,852</u>
<b>Liabilities</b>				
Interest rate swap agreements	\$ -	\$ (8,361,253)	\$ -	\$ (8,361,253)

The amounts reported in the financial instruments table exclude the values of life insurance policies valued at \$29,674,392 as of September 30, 2014 and \$29,166,502 as of September 30, 2013, which are valued at the lesser of discounted value or cash surrender value.

Financial instruments carried at fair value for assets invested in the CNE Defined Benefit Pension Plan as of September 30, 2014 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 2,409,741	\$ -	\$ -	\$ 2,409,741
Fixed income securities	10,762,222	-	-	10,762,222
Equity securities	16,590,343	-	-	16,590,343
Mutual funds	29,793,735	-	-	29,793,735
Alternative investments	-	48,125,401	93,506,460	141,631,861
	<u>\$ 59,556,041</u>	<u>\$ 48,125,401</u>	<u>\$ 93,506,460</u>	<u>\$ 201,187,902</u>

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Financial instruments carried at fair value for assets invested in the CNE Defined Benefit Pension Plan as of September 30, 2013 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 4,517,298	\$ 2,188	\$ -	\$ 4,519,486
Fixed income securities	25,964,803	-	-	25,964,803
Equity securities	14,419,542	-	-	14,419,542
Mutual funds	7,828,428	-	-	7,828,428
Alternative investments	-	47,555,053	92,561,627	140,116,680
	<u>\$ 52,730,071</u>	<u>\$ 47,557,241</u>	<u>\$ 92,561,627</u>	<u>\$ 192,848,939</u>

Financial instruments carried at fair value for assets invested in Memorial's Defined Benefit Pension Plan as of September 30, 2014 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 2,017,166	\$ -	\$ -	\$ 2,017,166
Fixed income securities	8,891,012	-	-	8,891,012
Equity securities	16,593,683	-	-	16,593,683
Mutual funds	6,720,241	-	-	6,720,241
Guaranteed annuity contracts	-	-	65,361,154	65,361,154
	<u>\$ 34,222,102</u>	<u>\$ -</u>	<u>\$ 65,361,154</u>	<u>\$ 99,583,256</u>

Financial instruments carried at fair value for assets invested in Memorial's Defined Benefit Pension Plan as of September 30, 2013 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 1,654,003	\$ -	\$ -	\$ 1,654,003
Fixed income securities	2,462,354	-	-	2,462,354
Equity securities	19,145,169	-	-	19,145,169
Mutual funds	11,682,069	-	-	11,682,069
Guaranteed annuity contracts	-	-	60,819,891	60,819,891
	<u>\$ 34,943,595</u>	<u>\$ -</u>	<u>\$ 60,819,891</u>	<u>\$ 95,763,486</u>

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During the years ended September 30, 2014 and 2013, respectively, the changes in the fair value for the System's financial instruments in the nonpension plan assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	Alternative Investments	Auction Rate Securities	Split-Interest Agreements	Total Investments
<b>Fair value at October 1, 2013</b>	\$ 35,893,059	\$ -	\$ 18,823,609	\$ 54,716,668
Total gains (losses)				
Dividends and interest income	333,392	-	-	333,392
Net realized gains on investments	402,316	-	-	402,316
Change in net unrealized appreciation on investments	762,665	-	309,747	1,072,412
Purchases	18,539,356	-	-	18,539,356
Issuances	631,649	-	-	631,649
Sales	(6,867,374)	-	-	(6,867,374)
Transfers in and/or out of Level 3	63,377	-	-	63,377
<b>Fair value at September 30, 2014</b>	<u>\$ 49,758,440</u>	<u>\$ -</u>	<u>\$ 19,133,356</u>	<u>\$ 68,891,796</u>
	Alternative Investments	Auction Rate Securities	Split-Interest Agreements	Total Investments
<b>Fair value at October 1, 2012</b>	\$ 24,844,790	\$ 4,175,157	\$ -	\$ 29,019,947
Value at time of acquisition of SHS	-	-	7,171,487	7,171,487
Total gains (losses)				
Dividends and interest income	242,754	-	-	242,754
Net realized gains on investments	822,570	590,077	-	1,412,647
Change in net unrealized appreciation on investments	665,495	234,585	435,609	1,335,689
Purchases	2,404,999	-	-	2,404,999
Sales	(3,528,549)	(4,999,819)	-	(8,528,368)
Transfers in and/or out of Level 3	10,441,000	-	11,216,513	21,657,513
<b>Fair value at September 30, 2013</b>	<u>\$ 35,893,059</u>	<u>\$ -</u>	<u>\$ 18,823,609</u>	<u>\$ 54,716,668</u>

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During the year ended September 30, 2014 and 2013, the changes in the fair value for the System's financial instruments invested in the CNE's Defined Benefit Pension Plan assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	<b>2014</b>	<b>2013</b>
<b>Balance at beginning of year</b>	\$ 92,561,627	\$ 101,034,079
Total gains (losses)		
Dividends and interest income	898,024	1,071,526
Net Realized gains on investments	2,690,541	8,055,776
Change in net unrealized appreciation on investments	1,495,264	(1,424,532)
Purchases	-	2,200,000
Sales	5,699,918	(36,715,520)
Transfers in and/or out of Level 3	(9,838,914)	18,340,298
<b>Balance at end of year</b>	<u>\$ 93,506,460</u>	<u>\$ 92,561,627</u>

During the year ended September 30, 2014 and 2013, the changes in the fair value for Memorial's financial instruments invested in Memorial's Defined Benefit Pension Plan assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	<b>2014</b>	<b>2013</b>
<b>Balance at the beginning of year</b>	\$ 60,819,891	\$ -
Market value adjustment (prior year)	832,304	-
Value at time of acquisition		59,799,806
Total gains		
Dividends and interest income	2,401,252	182,433
Net Realized gains on investments	-	-
Change in net unrealized appreciation on investments	-	369,426
Administration charge	(80,732)	-
Purchases	6,251,432	856,915
Sales	(4,862,993)	(388,689)
<b>Balance at end of year</b>	<u>\$ 65,361,154</u>	<u>\$ 60,819,891</u>

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The Health System uses NAV to determine the fair value of its investments which do not have a readily determinable fair market value. The following table summarizes the key provisions for the Health System's nonpension plan investments as of September 30, 2014, which are valued at NAV. There was an outstanding unfunded commitment of \$5,685,000 at September 30, 2014.

	<b>Net Asset Value</b>	<b>Redemption Terms</b>
Fixed Income	\$ 6,144,954	Bi-monthly upon 30 day prior written notice.
Common Collective Trust	3,336,859	Daily upon 7 day prior written notice.
Common Collective Trust	5,815,317	Daily upon 5 day prior written notice.
Hedge Fund Alternative Investments	6,143,873	Quarterly with 90 day prior written notice.
Common Collective Trust	3,627,965	Monthly upon 8 day prior written notice.
Common Collective Trust	6,210,753	Daily .
Private Equity	4,215,327	Monthly upon 15 day prior written notice.
Private Equity	7,681,623	Monthly upon 8 day prior written notice.
Common Collective Trust	7,374,710	Daily .
Private Equity	323,022	No redemptions available, fund has 10 year term with 4 one year extensions.
Offshore Trust	9,871,625	Weekly upon 5 day prior written notice.
Common Collective Offshore Trust	6,047,170	Daily upon 1 day prior written notice.
Common Collective Trust	5,897,784	Daily upon 1 day prior written notice.
International Equity	13,042,954	Daily upon 5 day prior written notice.
Emerging Markets Fund	7,977,219	Daily upon 1 day prior written notice.
Total Return Bond Fund	35,470,532	Daily upon 1 day prior written notice.
Unconstrained Bond Fund	41,314,997	Daily upon 1 day prior written notice.
	<u>\$ 170,496,684</u>	

The following methods and assumptions were used in estimating the fair value of financial instruments other than investments:

***Accounts Payable and Accrued Expenses***

The carrying amount reported in the consolidated balance sheets for accounts payable and accrued expenses approximates its fair value.

***Estimated Third-Party Payor Settlements***

The carrying amount reported in the consolidated balance sheets for estimated third-party payor settlements approximates its fair value.

***Long-Term Debt***

The Health System's long-term debt obligations are reported in the accompanying statements of financial position at principal value less unamortized discount or premium, which totaled approximately \$156 million at September 30, 2014, excluding capital leases. The estimated fair value of the Health System's long-term debt as of September 30, 2014 approximated its carrying value. It is classified as Level 2 under the valuation hierarchy described in the beginning of Note 21.

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**23. Subsequent Event**

In September 2014, Care New England Health System and The Providence Center entered into an Affiliation Agreement, under which it will become a part of the health system operated by Care New England. The Boards of Care New England and The Providence Center voted at their December 2014 meetings to proceed with closing on the affiliation effective January 1, 2015.

Care New England Health System has assessed the impact of subsequent events through January 15, 2015, the date the audited financial statements were issued and has concluded that there were no such events other than noted above requiring adjustments to the audited financial statements or disclosure in the notes to the audited financial statements.

**Supplementary Consolidating  
Financial Statements**

**Care New England Health System and Affiliates**  
**Consolidating Balance Sheet**  
**September 30, 2014**

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Southeastern Healthcare System, Inc. and Affiliates	Eliminations	Total
<b>Assets</b>								
Current assets								
Cash and cash equivalents	\$ 12,937,966	\$ 14,000,020	\$ 77,100,621	\$ (28,819,218)	\$ (6,237,020)	\$ (16,592,814)	\$ -	\$ 52,389,555
Investments	-	-	-	25,219,578	-	-	-	25,219,578
Patient accounts receivable	10,898,287	49,864,861	66,851,616	-	5,396,806	28,069,145	-	161,080,715
Less: Allowance for doubtful accounts	(2,879,390)	(13,949,085)	(11,945,641)	-	(162,372)	(7,035,296)	-	(35,971,784)
Net patient accounts receivable	8,018,897	35,915,776	54,905,975	-	5,234,434	21,033,849	-	125,108,931
Other receivables	2,475,974	2,873,331	6,985,114	54,396	233,162	2,644,856	(113,711)	15,153,122
Pledges receivable, net	301,139	733,299	291,287	-	-	-	-	1,325,725
Other current assets	852,627	5,407,436	6,736,297	2,849,185	79,915	3,929,740	-	19,855,200
Current portion of assets whose use is limited	203,713	507,939	667,262	620,807	-	355,328	-	2,355,049
Due from affiliates—other	3,307,650	1,655,525	15,773,390	17,907,946	6,186	35	(38,650,732)	-
Due from affiliates—debt	-	-	-	115,086,663	-	-	(115,086,663)	-
Total current assets	28,097,966	61,093,326	162,459,946	132,919,357	(683,323)	11,370,994	(153,851,106)	241,407,160
Assets whose use is limited or restricted as to use								
Endowment funds	17,942,013	16,807,015	9,119,930	-	-	10,654,452	-	54,523,410
Board-designated funds	5,517,861	25,612,900	89,341,885	-	739,577	12,486,562	-	133,698,785
Trustee-held funds	2,860,107	27,840,848	117,904,990	30,163,691	-	41,718	-	178,811,354
Deferred compensation funds	357,759	655,541	556,862	872,196	94,665	-	-	2,537,023
Total assets limited as to use	26,677,740	70,916,304	216,923,667	31,035,887	834,242	23,182,732	-	369,570,572
Less: Amounts required to meet current obligations	(203,713)	(507,939)	(667,262)	(620,807)	-	(355,328)	-	(2,355,049)
Noncurrent assets limited as to use	26,474,027	70,408,365	216,256,405	30,415,080	834,242	22,827,404	-	367,215,523
Goodwill								
Goodwill	-	-	-	-	-	24,345,364	-	24,345,364
Intangibles								
Intangibles	-	-	-	-	-	5,400,000	-	5,400,000
Property, plant and equipment, net								
Property, plant and equipment, net	32,542,442	74,720,164	148,891,143	25,633,243	674,787	29,524,730	-	311,986,509
Pledges receivable, net								
Pledges receivable, net	254,895	905,376	115,527	-	-	-	-	1,275,798
Insurance receivable								
Insurance receivable	-	-	-	752,354	-	1,078,846	-	1,831,200
Other assets								
Other assets	51,443	1,067,523	84,143	4,364,383	-	-	-	5,567,492
Total assets	\$ 87,420,773	\$ 208,194,754	\$ 527,807,164	\$ 194,084,417	\$ 825,706	\$ 94,547,338	\$ (153,851,106)	\$ 959,029,046

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Consolidating Balance Sheet**  
**September 30, 2014**

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Southeastern Healthcare System, Inc. and Affiliates	Eliminations	Total
<b>Liabilities and Net Assets</b>								
Current liabilities								
Accounts payable and accrued expenses	\$ 9,879,543	\$ 29,993,502	\$ 38,105,564	\$ 22,315,342	\$ 2,463,215	\$ 16,814,254	\$ (113,711)	\$ 119,457,709
Current portion of estimated third-party payor settlements and advances	742,545	(133,476)	4,388,711	-	243,802	957,296	-	6,198,878
Current portion of long-term debt and capital leases	141,271	481,323	2,031,251	4,600,550	-	-	-	7,254,395
Current portion of long-term debt, due to parent	693,436	1,377,987	1,139,020	-	-	220,844	(3,431,287)	-
Self-insurance reserves	-	-	-	7,802,674	-	-	-	7,802,674
Pension liability	1,715,000	5,858,714	2,970,866	2,677,755	158,208	-	-	13,380,543
Other current liabilities	1,873,598	2,512,020	5,209,562	620,807	612,751	-	-	10,828,738
Due to affiliates	7,513,241	10,494,089	4,386,209	5,902,305	1,584,700	8,770,188	(38,650,732)	-
Total current liabilities	22,558,634	50,584,159	58,231,183	43,919,433	5,062,676	26,762,582	(42,195,730)	164,922,937
Long term liabilities								
Self-insurance reserves	2,411,409	33,070,436	91,964,864	8,026,562	-	2,002,290	-	137,475,561
Long-term portion of estimated third-party payor settlements and advances	2,384,292	5,766,063	17,359,764	-	-	7,065,713	-	32,575,832
Long-term debt and capital leases	3,386,936	-	-	154,369,705	-	-	-	157,756,641
Pension liability	5,646,968	12,442,464	6,621,681	3,326,630	2,221,403	53,148,472	-	83,407,618
Postretirement liability	-	1,462,614	-	-	-	-	-	1,462,614
Other liabilities	1,029,589	1,235,324	718,853	641,280	108,256	(156,918)	-	3,576,384
Due to parent, long-term debt	14,684,658	28,221,007	59,295,065	-	-	9,454,646	(111,655,376)	-
Total long-term liabilities	29,543,852	82,197,908	175,960,227	166,364,177	2,329,659	71,514,203	(111,655,376)	416,254,650
Net assets								
Unrestricted	13,772,668	55,907,849	278,803,972	(16,199,193)	(6,566,629)	(16,179,265)	-	309,539,402
Temporarily restricted	19,106,234	6,392,388	10,562,290	-	-	1,795,372	-	37,856,284
Permanently restricted	2,439,385	13,112,450	4,249,492	-	-	10,654,446	-	30,455,773
Total net assets	35,318,287	75,412,687	293,615,754	(16,199,193)	(6,566,629)	(3,729,447)	-	377,851,459
Total liabilities and net assets	\$ 87,420,773	\$ 208,194,754	\$ 527,807,164	\$ 194,084,417	\$ 825,706	\$ 94,547,338	\$ (153,851,106)	\$ 959,029,046

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Consolidating Statement of Operations**  
**Year Ended September 30, 2014**

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Southeastern Healthcare System, Inc. and Affiliates	Eliminations	Total
<b>Revenues and gains</b>								
Patient service revenue (net of contractual allowances and discounts)	\$ 77,293,666	\$ 323,606,104	\$ 447,301,338	\$ 491,430	\$ 20,070,564	\$ 155,356,301	\$ (1,043,410)	\$ 1,023,075,993
Provision for bad debts	(3,330,269)	(14,148,112)	(9,056,936)	-	(152,854)	(13,380,796)	-	(40,068,967)
Net patient service revenue less provision for bad debts	73,963,397	309,457,992	438,244,402	491,430	19,917,710	141,975,505	(1,043,410)	983,007,026
Net assets released from restrictions and used for operations	537,469	706,879	1,676,717	-	-	205,216	-	3,126,281
Research revenue	11,652,522	-	10,917,279	-	-	3,367,017	-	25,936,818
Other revenue	17,951,840	10,058,705	38,013,364	114,829,793	926,244	4,012,139	(129,851,516)	55,940,569
Total revenues and gains	104,105,228	320,223,576	488,851,762	115,321,223	20,843,954	149,559,877	(130,894,926)	1,068,010,694
<b>Operating expenses</b>								
Salaries and benefits	69,724,362	175,817,207	254,857,990	69,754,544	17,118,695	92,950,410	(4,750,104)	675,473,104
Supplies and other expenses	19,130,276	104,535,650	156,766,725	43,782,561	3,808,894	47,600,145	(126,031,111)	249,593,140
Research expenses	11,336,422	-	10,443,213	-	-	3,367,017	-	25,146,652
Depreciation and amortization	3,761,280	9,944,176	14,952,321	843,687	175,465	4,818,614	-	34,495,543
Insurance	2,596,898	10,935,191	10,263,328	212,502	141,617	2,670,994	(113,711)	26,706,819
Licensure fee	-	14,583,914	19,483,539	-	-	6,984,804	-	41,052,257
Interest	729,422	1,215,363	1,920,156	2,070,102	1,390	591,355	-	6,527,788
Loss on debt refinancing	12,169	33,405	202,082	237,914	-	24,017	-	509,587
Total operating expenses	107,290,829	317,064,906	468,889,354	116,901,310	21,246,061	159,007,356	(130,894,926)	1,059,504,890
Income (loss) from operations	(3,185,601)	3,158,670	19,962,408	(1,580,087)	(402,107)	(9,447,479)	-	8,505,804
<b>Nonoperating gains (losses)</b>								
Investment income on assets limited as to use	842,690	398,231	1,342,035	(181,885)	17,456	404,463	-	2,822,990
Unrestricted gifts and bequests	28,718	1,214	311,157	-	43,860	660,044	-	1,044,993
Change in net unrealized gains on investments	186,267	792,150	96,630	36,551	30,088	91,265	-	1,232,951
Nonoperating expenditures	-	(2,089)	-	(2,459,280)	(5,094)	-	-	(2,466,463)
Net nonoperating gains (losses)	1,057,675	1,189,506	1,749,822	(2,604,614)	86,310	1,155,772	-	2,634,471
Excess (deficiency) of revenues and gains over expenses and losses	\$ (2,127,926)	\$ 4,348,176	\$ 21,712,230	\$ (4,184,701)	\$ (315,797)	\$ (8,291,707)	\$ -	\$ 11,140,275

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Consolidating Statement of Changes in Net Assets**  
**Year Ended September 30, 2014**

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Southeastern Healthcare System, Inc. and Affiliates	Eliminations	Total
<b>Unrestricted net assets</b>								
Excess (deficiency) of revenues and gains over expenses and losses	\$ (2,127,926)	\$ 4,348,176	\$ 21,712,230	\$ (4,184,701)	\$ (315,797)	\$ (8,291,707)	\$ -	\$ 11,140,275
Pension and postretirement adjustment	(2,929,993)	(5,741,845)	(3,273,822)	(1,562,102)	(581,376)	(13,245,450)	-	(27,334,588)
Net assets released from restrictions used for purchase of property, plant and equipment	206,110	4,674,933	5,413,664	-	-	-	-	10,294,707
Transfers	-	-	47,728	11,509	-	(11,509)	-	47,728
Increase (decrease) in unrestricted net assets	(4,851,809)	3,281,264	23,899,800	(5,735,294)	(897,173)	(21,548,666)	-	(5,851,878)
<b>Temporarily restricted net assets</b>								
Contributions	1,261,150	782,922	5,623,394	-	-	68,314	-	7,735,780
Income from investments	(197,103)	742,650	98,993	-	-	25,217	-	669,757
Net realized and unrealized gains from investments	907,971	413,504	490,798	-	-	-	-	1,812,273
Net assets released from restrictions	(743,579)	(5,381,812)	(7,090,381)	-	-	(205,216)	-	(13,420,988)
Transfer to unrestricted net assets	-	-	(47,728)	-	-	-	-	(47,728)
Increase in temporarily restricted net assets	1,228,439	(3,442,736)	(924,924)	-	-	(111,685)	-	(3,250,906)
<b>Permanently restricted net assets</b>								
Net realized and unrealized gains from investments	-	39,889	-	-	-	269,858	-	309,747
Contributions	773	14,275	-	-	-	-	-	15,048
Increase in permanently restricted net assets	773	54,164	-	-	-	269,858	-	324,795
(Decrease) increase in net assets	(3,622,597)	(107,308)	22,974,876	(5,735,294)	(897,173)	(21,390,493)	-	(8,777,989)
Net assets at beginning of year	38,940,884	75,519,995	270,640,878	(10,463,899)	(5,669,456)	17,661,046	-	386,629,448
Net assets at end of year	\$ 35,318,287	\$ 75,412,687	\$ 293,615,754	\$ (16,199,193)	\$ (6,566,629)	\$ (3,729,447)	\$ -	\$ 377,851,459

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Consolidating Balance Sheet**  
**September 30, 2013**

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Southeastern Healthcare System, Inc. and Affiliates	Eliminations	Total
<b>Assets</b>								
Current assets								
Cash and cash equivalents	\$ 12,058,552	\$ (2,897,924)	\$ 70,398,845	\$ (19,507,004)	\$ (5,202,485)	\$ 1,049,627	\$ -	\$ 55,899,611
Investments	-	-	-	29,724,606	-	-	-	29,724,606
Patient accounts receivable	10,695,386	67,489,630	73,495,966	-	2,916,237	38,366,774	-	192,963,993
Less: Allowance for doubtful accounts	(2,286,234)	(24,986,851)	(12,692,209)	-	(233,019)	(16,334,390)	-	(56,532,703)
Net patient accounts receivable	8,409,152	42,502,779	60,803,757	-	2,683,218	22,032,384	-	136,431,290
Other receivables	3,379,362	3,345,517	7,348,086	272,199	118,758	3,421,303	(108,243)	17,776,982
Pledges receivable, net	353,215	753,720	564,649	-	-	-	-	1,671,584
Other current assets	816,958	5,254,908	5,309,940	3,192,221	33,261	1,809,893	-	16,417,181
Current portion of assets whose use is limited	456,367	830,141	283,735	80,131	-	2,060,484	-	3,710,858
Due from affiliates—other	3,132,331	3,454,083	1,519,329	13,141,307	221,753	-	(21,468,803)	-
Due from affiliates—debt	-	-	-	96,904,510	-	-	(96,904,510)	-
Total current assets	28,605,937	53,243,224	146,228,341	123,807,970	(2,145,495)	30,373,691	(118,481,556)	261,632,112
Assets whose use is limited or restricted as to use								
Endowment funds	16,772,322	16,339,347	8,907,591	-	-	10,384,594	-	52,403,854
Board-designated funds	4,533,952	26,499,528	72,770,727	-	692,406	4,983,395	-	109,480,008
Trustee-held funds	3,075,004	27,281,403	126,852,185	3,081,537	-	661,055	-	160,951,184
Deferred compensation funds	1,920,375	732,202	1,148,398	715,434	94,293	-	-	4,610,702
Total assets limited as to use	26,301,653	70,852,480	209,678,901	3,796,971	786,699	16,029,044	-	327,445,748
Less: Amounts required to meet current obligations	(456,367)	(830,141)	(283,735)	(80,131)	-	(2,060,484)	-	(3,710,858)
Noncurrent assets limited as to use	25,845,286	70,022,339	209,395,166	3,716,840	786,699	13,968,560	-	323,734,890
Goodwill								
Goodwill	-	-	-	-	-	24,345,364	-	24,345,364
Intangibles								
Intangibles	-	-	-	-	-	5,400,000	-	5,400,000
Property, plant and equipment, net								
Property, plant and equipment, net	33,015,694	77,152,373	153,456,591	10,981,019	821,844	31,990,161	-	307,417,682
Pledges receivable, net								
Pledges receivable, net	442,204	1,665,642	224,715	-	-	-	-	2,332,561
Insurance receivable								
Insurance receivable	-	-	-	747,355	-	1,078,846	-	1,826,201
Other assets								
Other assets	67,404	936,737	341,187	412,697	-	153,822	-	1,911,847
Total assets	\$ 87,976,525	\$ 203,020,315	\$ 509,646,000	\$ 139,665,881	\$ (536,952)	\$ 107,310,444	\$ (118,481,556)	\$ 928,600,657

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Consolidating Balance Sheet**  
**September 30, 2013**

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Southeastern Healthcare System, Inc. and Affiliates	Eliminations	Total
<b>Liabilities and Net Assets</b>								
Current liabilities								
Accounts payable and accrued expenses	\$ 12,943,834	\$ 29,681,559	\$ 44,837,245	\$ 17,878,096	\$ 1,980,275	\$ 24,153,708	\$ (108,243)	\$ 131,366,474
Current portion of estimated third-party payor settlements and advances	319,456	2,528,041	5,171,083	-	243,802	4,400,415	-	12,662,797
Current portion of long-term debt and capital leases	207,315	935,612	187,500	4,637,927	30,772	1,587,385	-	7,586,511
Current portion of long-term debt, due to parent	739,337	1,572,739	2,064,618	-	-	-	(4,376,694)	-
Self-insurance reserves	-	-	-	7,251,066	-	-	-	7,251,066
Pension liability	1,725,032	5,875,820	2,936,521	2,259,863	110,269	-	-	12,907,505
Interest rate swaps	-	-	-	8,361,253	-	-	-	8,361,253
Other current liabilities	2,756,184	1,682,672	5,163,620	369,753	391,744	-	-	10,363,973
Due to affiliates	1,814,747	6,542,624	11,207,571	1,244,494	546,365	113,002	(21,468,803)	-
Total current liabilities	20,505,905	48,819,067	71,568,158	42,002,452	3,303,227	30,254,510	(25,953,740)	190,499,579
Long term liabilities								
Self-insurance reserves	2,162,432	31,191,800	90,256,541	7,275,980	-	2,286,978	-	133,173,731
Long-term portion of estimated third-party payor settlements and advances	2,384,292	5,766,067	17,359,764	-	-	7,060,194	-	32,570,317
Long-term debt and capital leases	3,421,904	481,323	2,031,249	96,461,495	-	7,931,329	-	110,327,300
Pension liability	4,224,460	10,444,258	5,302,634	2,794,824	1,721,021	42,116,387	-	66,603,584
Postretirement liability	-	1,545,568	-	-	-	-	-	1,545,568
Other liabilities	1,705,673	1,831,151	2,011,021	1,595,029	108,256	-	-	7,251,130
Due to parent, long-term debt	14,630,975	27,421,086	50,475,755	-	-	-	(92,527,816)	-
Total long-term liabilities	28,529,736	78,681,253	167,436,964	108,127,328	1,829,277	59,394,888	(92,527,816)	351,471,630
Net assets								
Unrestricted	18,624,477	52,626,585	254,904,172	(10,463,899)	(5,669,456)	5,369,399	-	315,391,278
Temporarily restricted	17,895,566	9,835,124	11,487,214	-	-	1,907,053	-	41,124,957
Permanently restricted	2,420,841	13,058,286	4,249,492	-	-	10,384,594	-	30,113,213
Total net assets	38,940,884	75,519,995	270,640,878	(10,463,899)	(5,669,456)	17,661,046	-	386,629,448
Total liabilities and net assets	\$ 87,976,525	\$ 203,020,315	\$ 509,646,000	\$ 139,665,881	\$ (536,952)	\$ 107,310,444	\$ (118,481,556)	\$ 928,600,657

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Consolidating Statement of Operations**  
**Year Ended September 30, 2013**

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Southeastern Healthcare System, Inc. and Affiliates	Eliminations	Total
<b>Revenues and gains</b>								
Patient service revenue (net of contractual allowances and discounts)	\$ 68,603,189	\$ 339,855,424	\$ 421,866,454	\$ 1,406,037	\$ 16,227,917	\$ 11,964,882	\$ (539,259)	\$ 859,384,644
Provision for bad debts	(4,449,706)	(37,399,364)	(10,453,885)	-	17,566	(1,383,820)	-	(53,669,209)
Net patient service revenue less provision for bad debts	64,153,483	302,456,060	411,412,569	1,406,037	16,245,483	10,581,062	(539,259)	805,715,435
Net assets released from restrictions and used for operations	489,802	586,746	1,726,004	-	-	1,924	-	2,804,476
Research revenue	10,850,844	-	13,185,417	-	-	231,975	-	24,268,236
Contribution of Southeastern Healthcare System	-	-	-	-	-	7,898,229	-	7,898,229
Other revenue	18,071,567	11,106,361	36,429,822	92,961,467	995,541	518,947	(107,612,155)	52,471,550
Total revenues and gains	93,565,696	314,149,167	462,753,812	94,367,504	17,241,024	19,232,137	(108,151,414)	893,157,926
<b>Operating expenses</b>								
Salaries and benefits	65,168,660	167,857,564	258,112,275	58,739,768	13,981,658	8,409,307	(2,808,185)	569,461,047
Supplies and other expenses	16,330,580	110,014,039	129,852,497	33,063,419	2,751,549	3,811,502	(105,234,986)	190,588,600
Research expenses	10,539,829	-	13,079,721	-	-	231,975	-	23,851,525
Depreciation and amortization	3,387,337	9,607,045	14,184,824	592,331	203,227	321,311	-	28,296,075
Insurance	1,855,246	12,512,932	12,289,852	63,076	116,762	160,563	(108,243)	26,890,188
Licensure fee	-	13,904,662	18,401,048	-	-	534,525	-	32,840,235
Interest	411,286	821,501	2,167,214	172,652	2,590	51,245	-	3,626,488
Total operating expenses	97,692,938	314,717,743	448,087,431	92,631,246	17,055,786	13,520,428	(108,151,414)	875,554,158
Income (loss) from operations	(4,127,242)	(568,576)	14,666,381	1,736,258	185,238	5,711,709	-	17,603,768
<b>Nonoperating gains (losses)</b>								
Investment income on assets limited as to use	958,984	788,993	2,521,692	224,772	36,381	(219,023)	-	4,311,799
Unrestricted gifts and bequests	60,558	1,300	244,158	3,465	44,925	13,637	-	368,043
Change in fair value of interest rate swaps	-	-	-	5,268,136	-	-	-	5,268,136
Change in net unrealized (losses) gains on investments	185,750	369,955	(1,348,450)	(226,196)	18,995	95,682	-	(904,264)
Nonoperating expenditures	(451,539)	(789,021)	(828,913)	-	(5,343)	-	-	(2,074,816)
Net nonoperating gains (losses)	753,753	371,227	588,487	5,270,177	94,958	(109,704)	-	6,968,898
Excess (deficiency) of revenues and gains over expenses and losses	\$ (3,373,489)	\$ (197,349)	\$ 15,254,868	\$ 7,006,435	\$ 280,196	\$ 5,602,005	\$ -	\$ 24,572,666

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Consolidating Statement of Changes in Net Assets**  
**Year Ended September 30, 2013**

	Butler and Affiliates	Kent and Affiliates	WIC and Affiliates	Care New England	The Agency	Southeastern Healthcare System, Inc. and Affiliates	Eliminations	Total
<b>Unrestricted net assets</b>								
Excess (deficiency) of revenues and gains over expenses and losses	\$ (3,373,489)	\$ (197,349)	\$ 15,254,868	\$ 7,006,435	\$ 280,196	\$ 5,602,005	\$ -	\$ 24,572,666
Pension and postretirement adjustment	9,868,031	11,754,020	4,874,338	1,874,639	1,256,084	(232,607)	-	29,394,505
Net assets released from restrictions used for purchase of property, plant and equipment	183,160	1,253,236	798,990	-	-	-	-	2,235,386
Increase (decrease) in unrestricted net assets	6,677,702	12,809,907	20,928,196	8,881,074	1,536,280	5,369,398	-	56,202,557
<b>Temporarily restricted net assets</b>								
Contributions	1,537,696	1,824,214	3,692,541	-	-	-	-	7,054,451
Contribution of Southeastern Healthcare System	-	-	-	-	-	1,883,401	-	1,883,401
Income from investments	238,457	778,837	139,275	-	-	72	-	1,156,641
Net realized and unrealized gains from investments	833,809	510,128	659,546	-	-	25,505	-	2,028,988
Net assets released from restrictions	(672,962)	(1,839,982)	(2,524,994)	-	-	(1,924)	-	(5,039,862)
Increase in temporarily restricted net assets	1,937,000	1,273,197	1,966,368	-	-	1,907,054	-	7,083,619
<b>Permanently restricted net assets</b>								
Net realized and unrealized gains from investments	-	326,727	-	-	-	108,882	-	435,609
Contribution of Southeastern Healthcare System	-	-	-	-	-	10,275,712	-	10,275,712
Contributions	(1,653)	10,745	50,000	-	-	-	-	59,092
(Decrease) increase in permanently restricted net assets	(1,653)	337,472	50,000	-	-	10,384,594	-	10,770,413
Increase (decrease) in net assets	8,613,049	14,420,576	22,944,564	8,881,074	1,536,280	17,661,046	-	74,056,589
Net assets at beginning of year	30,327,835	61,099,419	247,696,314	(19,344,973)	(7,205,736)	-	-	312,572,859
Net assets at end of year	\$ 38,940,884	\$ 75,519,995	\$ 270,640,878	\$ (10,463,899)	\$ (5,669,456)	\$ 17,661,046	\$ -	\$ 386,629,448

The accompanying notes are an integral part of these financial statements.

## **Other Consolidating Financial Information**



## Report of Independent Auditors on Other Financial Information

The Board of Trustees  
Care New England Health System and Affiliates

We have audited the consolidated financial statements of Care New England Health System and Affiliates ("Care New England") as of September 30, 2014 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

January 15, 2015

**Care New England Health System and Affiliates  
Women and Infants Corporation**  
(A controlled affiliate of Care New England Health System)  
**Consolidating Balance Sheet (Unaudited)**  
**September 30, 2014**

	WIH	WIH Faculty Physicians, Inc.	Eliminating	Hospital Total	Corporate Entities	Eliminating	WIC and Affiliates
<b>Assets</b>							
Current assets							
Cash and cash equivalents	\$ 54,537,207	\$ 14,116,663	\$ -	\$ 68,653,870	\$ 8,446,751	\$ -	\$ 77,100,621
Investments	-	-	-	-	-	-	-
Patient accounts receivable, net of allowance for doubtful accounts of \$11,945,641	54,579,077	326,898	-	54,905,975	-	-	54,905,975
Other receivables	6,985,114	-	-	6,985,114	-	-	6,985,114
Pledges receivable, net	291,287	-	-	291,287	-	-	291,287
Other current assets	6,736,297	-	-	6,736,297	-	-	6,736,297
Current portion of assets whose use is limited	667,262	-	-	667,262	-	-	667,262
Due from affiliates	15,773,390	-	-	15,773,390	-	-	15,773,390
Due from Women and Infants entities	18,835,599	-	(18,262,274)	573,325	42,562	(615,887)	-
Total current assets	158,405,233	14,443,561	(18,262,274)	154,586,520	8,489,313	(615,887)	162,459,946
Assets whose use is limited or restricted as to use							
Endowment funds	9,119,930	-	-	9,119,930	-	-	9,119,930
Board-designated funds	22,969,630	-	-	22,969,630	66,372,255	-	89,341,885
Trustee-held funds	117,904,990	-	-	117,904,990	-	-	117,904,990
Deferred compensation funds	556,862	-	-	556,862	-	-	556,862
Total assets limited as to use	150,551,412	-	-	150,551,412	66,372,255	-	216,923,667
Less: Amounts required to meet current obligations	(667,262)	-	-	(667,262)	-	-	(667,262)
Noncurrent assets limited as to use	149,884,150	-	-	149,884,150	66,372,255	-	216,256,405
Property, plant, and equipment, net	147,938,030	-	-	147,938,030	953,113	-	148,891,143
Pledges receivable, net	115,527	-	-	115,527	-	-	115,527
Other assets	84,143	-	-	84,143	-	-	84,143
Total assets	\$ 456,427,083	\$ 14,443,561	\$ (18,262,274)	\$ 452,608,370	\$ 75,814,681	\$ (615,887)	\$ 527,807,164

The accompanying notes are an integral part of these consolidating financial statements.

**Care New England Health System and Affiliates**  
**Women and Infants Corporation**  
(A controlled affiliate of Care New England Health System)  
**Consolidating Balance Sheet (Unaudited)**  
**September 30, 2014**

	WIH	WIH Faculty Physicians, Inc.	Eliminating	Hospital Total	Corporate Entities	Eliminating	WIC and Affiliates
<b>Liabilities and Net Assets</b>							
Current liabilities							
Accounts payable and accrued expenses	\$ 38,076,489	\$ 51	\$ -	\$ 38,076,540	\$ 29,024	\$ -	\$ 38,105,564
Current portion of estimated third-party payor settlements and advances	4,388,711	-	-	4,388,711	-	-	4,388,711
Current portion of long-term debt and capital leases	2,031,251	-	-	2,031,251	-	-	2,031,251
Current portion of long-term debt, due to parent	1,139,020	-	-	1,139,020	-	-	1,139,020
Pension liability	2,970,866	-	-	2,970,866	-	-	2,970,866
Other current liabilities	5,209,562	-	-	5,209,562	-	-	5,209,562
Due to affiliates	4,386,209	-	-	4,386,209	-	-	4,386,209
Due to Women and Infants' entities	-	18,262,274	(18,262,274)	-	615,887	(615,887)	-
Total current liabilities	<u>58,202,108</u>	<u>18,262,325</u>	<u>(18,262,274)</u>	<u>58,202,159</u>	<u>644,911</u>	<u>(615,887)</u>	<u>58,231,183</u>
Long term liabilities							
Self-insurance reserves	91,964,864	-	-	91,964,864	-	-	91,964,864
Long-term portion of third-party payor settlements and advances	17,359,764	-	-	17,359,764	-	-	17,359,764
Long-term debt and capital leases	-	-	-	-	-	-	-
Pension liability	6,621,681	-	-	6,621,681	-	-	6,621,681
Other liabilities	718,853	-	-	718,853	-	-	718,853
Due to parent, long-term debt	59,295,065	-	-	59,295,065	-	-	59,295,065
Total long-term liabilities	<u>175,960,227</u>	<u>-</u>	<u>-</u>	<u>175,960,227</u>	<u>-</u>	<u>-</u>	<u>175,960,227</u>
Net assets							
Unrestricted	207,452,966	(3,818,764)	-	203,634,202	75,169,770	-	278,803,972
Temporarily restricted	10,562,290	-	-	10,562,290	-	-	10,562,290
Permanently restricted	4,249,492	-	-	4,249,492	-	-	4,249,492
Total net assets	<u>222,264,748</u>	<u>(3,818,764)</u>	<u>-</u>	<u>218,445,984</u>	<u>75,169,770</u>	<u>-</u>	<u>293,615,754</u>
Total liabilities and net assets	<u>\$ 456,427,083</u>	<u>\$ 14,443,561</u>	<u>\$ (18,262,274)</u>	<u>\$ 452,608,370</u>	<u>\$ 75,814,681</u>	<u>\$ (615,887)</u>	<u>\$ 527,807,164</u>

The accompanying notes are an integral part of these consolidating financial statements.

**Care New England Health System and Affiliates**  
**Women and Infants Corporation**  
(A controlled affiliate of Care New England Health System)  
**Consolidating Balance Sheet (Unaudited)**  
**September 30, 2013**

	WIH	WIH Faculty Physicians, Inc.	Eliminating	Hospital Total	Corporate Entities	Eliminating	WIC and Affiliates
<b>Assets</b>							
Current assets							
Cash and cash equivalents	\$ 50,023,903	\$ 12,553,706	\$ -	\$ 62,577,609	\$ 7,821,236	\$ -	\$ 70,398,845
Investments	-	-	-	-	-	-	-
Patient accounts receivable, net of allowance for doubtful accounts of \$12,692,209	60,447,376	356,381	-	60,803,757	-	-	60,803,757
Other receivables	7,348,086	-	-	7,348,086	-	-	7,348,086
Pledges receivable, net	564,649	-	-	564,649	-	-	564,649
Due from affiliates	1,519,329	-	-	1,519,329	-	-	1,519,329
Due from Women and Infants entities	16,018,623	-	(15,949,298)	69,325	69,552	(138,877)	-
Other current assets	5,309,940	-	-	5,309,940	-	-	5,309,940
Current portion of assets whose use is limited	283,735	-	-	283,735	-	-	283,735
Total current assets	141,515,641	12,910,087	(15,949,298)	138,476,430	7,890,788	(138,877)	146,228,341
Assets whose use is limited or restricted as to use							
Endowment funds	8,907,591	-	-	8,907,591	-	-	8,907,591
Board-designated funds	22,454,999	-	-	22,454,999	50,315,728	-	72,770,727
Trustee-held funds	126,852,185	-	-	126,852,185	-	-	126,852,185
Deferred compensation funds	1,148,398	-	-	1,148,398	-	-	1,148,398
Total assets limited as to use	159,363,173	-	-	159,363,173	50,315,728	-	209,678,901
Less: Amounts required to meet current obligations	(283,735)	-	-	(283,735)	-	-	(283,735)
Noncurrent assets limited as to use	159,079,438	-	-	159,079,438	50,315,728	-	209,395,166
Property, plant, and equipment, net	152,382,422	-	-	152,382,422	1,074,169	-	153,456,591
Pledges receivable, net	224,715	-	-	224,715	-	-	224,715
Other assets	341,187	-	-	341,187	-	-	341,187
Total assets	\$ 453,543,403	\$ 12,910,087	\$ (15,949,298)	\$ 450,504,192	\$ 59,280,685	\$ (138,877)	\$ 509,646,000

The accompanying notes are an integral part of these consolidating financial statements.

**Care New England Health System and Affiliates  
Women and Infants Corporation**  
(A controlled affiliate of Care New England Health System)  
**Consolidating Balance Sheet (Unaudited)**  
**September 30, 2013**

	WIH	WIH Faculty Physicians, Inc.	Eliminating	Hospital Total	Corporate Entities	Eliminating	WIC and Affiliates
<b>Liabilities and Net Assets</b>							
Current liabilities							
Accounts payable and accrued expenses	\$ 44,803,398	\$ 2,048	\$ -	\$ 44,805,446	\$ 31,799	\$ -	\$ 44,837,245
Current portion of estimated third-party payor settlements and advances	5,171,083	-	-	5,171,083	-	-	5,171,083
Current portion of long-term debt and capital leases	187,500	-	-	187,500	-	-	187,500
Current portion of long-term debt, due to parent	2,064,618	-	-	2,064,618	-	-	2,064,618
Due to affiliates	11,207,571	-	-	11,207,571	-	-	11,207,571
Pension liability	2,936,521	-	-	2,936,521	-	-	2,936,521
Other current liabilities	5,163,620	-	-	5,163,620	-	-	5,163,620
Due to Women and Infants' entities	-	15,949,298	(15,949,298)	-	138,877	(138,877)	-
Total current liabilities	<u>71,534,311</u>	<u>15,951,346</u>	<u>(15,949,298)</u>	<u>71,536,359</u>	<u>170,676</u>	<u>(138,877)</u>	<u>71,568,158</u>
Long term liabilities							
Self-insurance reserves	90,256,541	-	-	90,256,541	-	-	90,256,541
Long-term portion of third-party payor settlements and advances	17,359,764	-	-	17,359,764	-	-	17,359,764
Long-term debt and capital leases	2,031,249	-	-	2,031,249	-	-	2,031,249
Pension liability	5,302,634	-	-	5,302,634	-	-	5,302,634
Other liabilities	2,011,021	-	-	2,011,021	-	-	2,011,021
Due to parent, long-term debt	50,475,755	-	-	50,475,755	-	-	50,475,755
Total long-term liabilities	<u>167,436,964</u>	<u>-</u>	<u>-</u>	<u>167,436,964</u>	<u>-</u>	<u>-</u>	<u>167,436,964</u>
Net assets							
Unrestricted	198,835,422	(3,041,259)	-	195,794,163	59,110,009	-	254,904,172
Temporarily restricted	11,487,214	-	-	11,487,214	-	-	11,487,214
Permanently restricted	4,249,492	-	-	4,249,492	-	-	4,249,492
Total net assets	<u>214,572,128</u>	<u>(3,041,259)</u>	<u>-</u>	<u>211,530,869</u>	<u>59,110,009</u>	<u>-</u>	<u>270,640,878</u>
Total liabilities and net assets	<u>\$ 453,543,403</u>	<u>\$ 12,910,087</u>	<u>\$ (15,949,298)</u>	<u>\$ 450,504,192</u>	<u>\$ 59,280,685</u>	<u>\$ (138,877)</u>	<u>\$ 509,646,000</u>

The accompanying notes are an integral part of these consolidating financial statements.

**Care New England Health System and Affiliates**  
**Women and Infants Corporation**  
(A controlled affiliate of Care New England Health System)  
**Consolidating Statement of Operations (Unaudited)**  
**September 30, 2014**

	WIH	WIH Faculty Physicians, Inc.	Hospital Total	Corporate Entities	Eliminating	WIC and Affiliates
<b>Revenues and gains</b>						
Net patient service revenue (net of contractual allowances and discounts)	\$ 445,654,930	\$ 1,646,408	\$ 447,301,338	\$ -	\$ -	\$ 447,301,338
Provision for bad debts	(8,973,539)	(83,397)	(9,056,936)	-	-	(9,056,936)
Net patient service revenue less provision for bad debts	436,681,391	1,563,011	438,244,402	-	-	438,244,402
Net assets released from restrictions and used for operations	1,676,717	-	1,676,717	-	-	1,676,717
Research revenue	10,917,279	-	10,917,279	-	-	10,917,279
Other revenue	38,013,364	-	38,013,364	3,206,461	(3,206,461)	38,013,364
Total revenues and gains	487,288,751	1,563,011	488,851,762	3,206,461	(3,206,461)	488,851,762
<b>Operating expenses</b>						
Salaries and benefits	252,996,859	1,861,131	254,857,990	-	-	254,857,990
Supplies and other expenses	156,648,481	479,385	157,127,866	2,845,320	(3,206,461)	156,766,725
Research expenses	10,443,213	-	10,443,213	-	-	10,443,213
Depreciation and amortization	14,831,265	-	14,831,265	121,056	-	14,952,321
Insurance	10,263,328	-	10,263,328	-	-	10,263,328
Licensure fee	19,483,539	-	19,483,539	-	-	19,483,539
Interest	1,920,156	-	1,920,156	-	-	1,920,156
Loss on debt refinancing	202,082	-	202,082	-	-	202,082
Total operating expenses	466,788,923	2,340,516	469,129,439	2,966,376	(3,206,461)	468,889,354
Income (loss) from operations	20,499,828	(777,505)	19,722,323	240,085	-	19,962,408
<b>Nonoperating gains and (losses)</b>						
Investment income on assets limited as to use	-	-	-	1,342,035	-	1,342,035
Unrestricted gifts and bequests	282,234	-	282,234	28,923	-	311,157
Change in net unrealized gains (losses) on trading securities	(1,804,360)	-	(1,804,360)	1,900,990	-	96,630
Net nonoperating gains (losses)	(1,522,126)	-	(1,522,126)	3,271,948	-	1,749,822
Excess (deficiency) of revenues and gains over expenses	\$ 18,977,702	\$ (777,505)	\$ 18,200,197	\$ 3,512,033	\$ -	\$ 21,712,230

The accompanying notes are an integral part of these consolidating financial statements.

**Care New England Health System and Affiliates**  
**Women and Infants Corporation**  
(A controlled affiliate of Care New England Health System)  
**Consolidating Statement of Operations (Unaudited)**  
**September 30, 2013**

	WIH	WIH Faculty Physicians, Inc.	Hospital Total	Corporate Entities	Eliminating	WIC and Affiliates
<b>Revenues and gains</b>						
Net patient service revenue (net of contractual allowances and discounts)	\$ 420,000,819	\$ 1,865,635	\$ 421,866,454	\$ -	\$ -	\$ 421,866,454
Provision for bad debts	(10,362,362)	(91,523)	(10,453,885)	-	-	(10,453,885)
Net patient service revenue less provision for bad debts	409,638,457	1,774,112	411,412,569	-	-	411,412,569
Net assets released from restrictions and used for operations	1,726,004	-	1,726,004	-	-	1,726,004
Research revenue	13,185,417	-	13,185,417	-	-	13,185,417
Other revenue	36,249,822	-	36,249,822	3,356,751	(3,176,751)	36,429,822
Total revenues and gains	460,799,700	1,774,112	462,573,812	3,356,751	(3,176,751)	462,753,812
<b>Operating expenses</b>						
Salaries and benefits	256,253,222	1,859,053	258,112,275	-	-	258,112,275
Supplies and other expenses	129,670,589	522,483	130,193,072	2,836,176	(3,176,751)	129,852,497
Research expenses	13,079,721	-	13,079,721	-	-	13,079,721
Insurance	12,289,852	-	12,289,852	-	-	12,289,852
Depreciation and amortization	14,063,774	-	14,063,774	121,050	-	14,184,824
Licensure fee	18,401,048	-	18,401,048	-	-	18,401,048
Interest	2,167,214	-	2,167,214	-	-	2,167,214
Total operating expenses	445,925,420	2,381,536	448,306,956	2,957,226	(3,176,751)	448,087,431
Income (loss) from operations	14,874,280	(607,424)	14,266,856	399,525	-	14,666,381
<b>Nonoperating gains and (losses)</b>						
Unrestricted gifts and bequests	220,792	-	220,792	23,366	-	244,158
Nonoperating expenditures	(828,913)	-	(828,913)	-	-	(828,913)
Investment income on assets limited as to use	292,494	-	292,494	2,229,198	-	2,521,692
Change in net unrealized gains (losses) on trading securities	(2,658,824)	-	(2,658,824)	1,310,374	-	(1,348,450)
Net nonoperating gains (losses)	(2,974,451)	-	(2,974,451)	3,562,938	-	588,487
Excess (deficiency) of revenues and gains over expenses	\$ 11,899,829	\$ (607,424)	\$ 11,292,405	\$ 3,962,463	\$ -	\$ 15,254,868

The accompanying notes are an integral part of these consolidating financial statements.

**Care New England Health System and Affiliates**  
**Women and Infants Corporation**  
(A controlled affiliate of Care New England Health System)  
**Consolidating Statement of Changes in Net Assets (Unaudited)**  
**September 30, 2014**

	WIH	WIH Faculty Physicians, Inc.	Hospital Total	Corporate Entities	Eliminating	WIC and Affiliates
<b>Unrestricted net assets</b>						
Excess (deficiency) of revenues and gains over expenses	\$ 18,977,702	\$ (777,505)	\$ 18,200,197	\$ 3,512,033	\$ -	\$ 21,712,230
Pension and post retirement adjustment	(3,273,822)	-	(3,273,822)	-	-	(3,273,822)
Net assets released from restrictions and used for purchase of property and equipment	5,413,664	-	5,413,664	-	-	5,413,664
Transfer from temporarily restricted	-	-	-	47,728	-	47,728
Transfer from/(to) Women & Infants entities	(12,500,000)	-	(12,500,000)	12,500,000	-	-
Increase (decrease) in unrestricted net assets	<u>8,617,544</u>	<u>(777,505)</u>	<u>7,840,039</u>	<u>16,059,761</u>	<u>-</u>	<u>23,899,800</u>
<b>Temporarily restricted net assets</b>						
Contributions	5,623,394	-	5,623,394	-	-	5,623,394
Income from investments	98,993	-	98,993	-	-	98,993
Net realized & unrealized gains from investments	490,798	-	490,798	-	-	490,798
Net assets released from restrictions	(7,090,381)	-	(7,090,381)	-	-	(7,090,381)
Transfer to unrestricted net assets	(47,728)	-	(47,728)	-	-	(47,728)
Increase in temporarily restricted net assets	<u>(924,924)</u>	<u>-</u>	<u>(924,924)</u>	<u>-</u>	<u>-</u>	<u>(924,924)</u>
<b>Permanently restricted net assets</b>						
Net realized and unrealized gains from investments	-	-	-	-	-	-
Contributions	-	-	-	-	-	-
Increase in permanently restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets	<u>7,692,620</u>	<u>(777,505)</u>	<u>6,915,115</u>	<u>16,059,761</u>	<u>-</u>	<u>22,974,876</u>
<b>Net assets</b>						
Beginning of year	<u>214,572,128</u>	<u>(3,041,259)</u>	<u>211,530,869</u>	<u>59,110,009</u>	<u>-</u>	<u>270,640,878</u>
End of year	<u>\$ 222,264,748</u>	<u>\$ (3,818,764)</u>	<u>\$ 218,445,984</u>	<u>\$ 75,169,770</u>	<u>\$ -</u>	<u>\$ 293,615,754</u>

The accompanying notes are an integral part of these consolidating financial statements.

**Care New England Health System and Affiliates**  
**Women and Infants Corporation**  
(A controlled affiliate of Care New England Health System)  
**Consolidating Statement of Changes in Net Assets (Unaudited)**  
**September 30, 2013**

	WIH	WIH Faculty Physicians, Inc.	Hospital Total	Corporate Entities	Eliminating	WIC and Affiliates
<b>Unrestricted net assets</b>						
Excess (deficiency) of revenues and gains over expenses	\$ 11,899,829	\$ (607,424)	\$ 11,292,405	\$ 3,962,463	\$ -	\$ 15,254,868
Pension and post retirement adjustment	4,874,338	-	4,874,338	-	-	4,874,338
Net assets released from restrictions and used for purchase of property and equipment	798,990	-	798,990	-	-	798,990
Transfer from/(to) Women & Infants entities	(8,097,118)	-	(8,097,118)	8,097,118	-	-
Increase (decrease) in unrestricted net assets	<u>9,476,039</u>	<u>(607,424)</u>	<u>8,868,615</u>	<u>12,059,581</u>	<u>-</u>	<u>20,928,196</u>
<b>Temporarily restricted net assets</b>						
Contributions	3,692,541	-	3,692,541	-	-	3,692,541
Income from investments	139,275	-	139,275	-	-	139,275
Net realized & unrealized gains from investments	659,546	-	659,546	-	-	659,546
Net assets released from restrictions	(2,524,994)	-	(2,524,994)	-	-	(2,524,994)
Increase in temporarily restricted net assets	<u>1,966,368</u>	<u>-</u>	<u>1,966,368</u>	<u>-</u>	<u>-</u>	<u>1,966,368</u>
<b>Permanently restricted net assets</b>						
Net realized and unrealized gains from investments	-	-	-	-	-	-
Contributions	50,000	-	50,000	-	-	50,000
Increase in permanently restricted net assets	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Increase (decrease) in net assets	<u>11,492,407</u>	<u>(607,424)</u>	<u>10,884,983</u>	<u>12,059,581</u>	<u>-</u>	<u>22,944,564</u>
<b>Net assets</b>						
Beginning of year	<u>203,079,722</u>	<u>(2,433,836)</u>	<u>200,645,886</u>	<u>47,050,428</u>	<u>-</u>	<u>247,696,314</u>
End of year	<u>\$ 214,572,129</u>	<u>\$ (3,041,260)</u>	<u>\$ 211,530,869</u>	<u>\$ 59,110,009</u>	<u>\$ -</u>	<u>\$ 270,640,878</u>

The accompanying notes are an integral part of these consolidating financial statements.

**Care New England Health System and Affiliates**  
**Butler Hospital and Affiliates**  
(A controlled affiliate of Care New England Health System)  
**Consolidating Statement of Cash Flows (Unaudited)**  
**Years Ended September 30, 2014 and 2013**

	2014	2013
<b>Operating activities</b>		
Change in net assets	\$ (3,622,597)	\$ 8,613,049
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on redemption of debt	12,169	-
Pension adjustment	2,929,993	(9,868,031)
Depreciation and amortization	3,761,280	3,387,337
Provision for bad debt	3,330,269	4,449,706
Income and gains on assets limited as to use	(842,690)	(958,984)
Net unrealized gains on investments	(186,267)	(185,750)
Restricted contributions and investment income	230,008	(200,740)
Changes in		
Patient accounts receivable	(2,940,014)	(7,111,985)
Investments	3,793,527	9,403,142
Other current and long-term assets	1,123,066	896,037
Accounts payable and accrued expenses	(3,064,291)	3,282,826
Estimated third-party payor settlements	423,089	106,548
Due to/from affiliates	5,523,175	1,531,833
Other current and long-term liabilities	(1,558,671)	34,180
Net pension liability	(1,517,517)	(364,202)
Self-insurance reserves	248,977	(85,991)
Net cash provided by operating activities	<u>7,643,506</u>	<u>12,928,975</u>
<b>Investing activities</b>		
Purchase of property and equipment	(3,288,028)	(13,448,482)
Purchase of investments	(11,511,283)	(9,594,942)
Proceeds from the sale of investments	8,370,626	8,033,389
Net cash used in investing activities	<u>(6,428,685)</u>	<u>(15,010,035)</u>
<b>Financing activities</b>		
Proceeds from issuance of long-term debt and capital leases	4,964,358	803,421
Debt repayments	(4,065,842)	-
Payments on long-term debt and capital leases	(1,003,915)	(920,212)
Restricted contributions and investment income (losses)	(230,008)	200,740
Net cash (used in) provided by financing activities	<u>(335,407)</u>	<u>83,949</u>
Net increase (decrease) in cash and cash equivalents	879,414	(1,997,111)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>12,058,552</u>	<u>14,055,663</u>
Ending of year	<u>\$ 12,937,966</u>	<u>\$ 12,058,552</u>
<b>Supplemental disclosures</b>		
Cash paid for interest	\$ 714,314	\$ 413,760

The accompanying notes are an integral part of these consolidating financial statements.

**Care New England Health System and Affiliates**  
**Kent County Memorial Hospital and Affiliates**  
(A controlled affiliate of Care New England Health System)  
**Consolidating Statement of Cash Flows (Unaudited)**  
**Years Ended September 30, 2014 and 2013**

	2014	2013
<b>Operating activities</b>		
Change in net assets	\$ (107,308)	\$ 14,420,576
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on redemption of debt	33,405	-
Pension and postretirement adjustment	5,741,845	(11,754,020)
Depreciation and amortization	9,944,176	9,607,045
Provision for bad debt	14,148,112	37,399,364
Investment income on assets limited as to use	(398,231)	(788,993)
Net unrealized gains on investments	(792,150)	(369,955)
Restricted contributions and investment income	(363,877)	(449,543)
Changes in		
Patient accounts receivable	(7,561,109)	(37,250,804)
Investments	4,159,935	6,019,008
Other current and long-term assets	969,559	2,187,608
Accounts payable and accrued expenses	311,943	667,779
Estimated third-party payor settlements	(2,661,521)	(1,357,768)
Due to/from affiliates	5,750,023	7,004,451
Self-insurance reserves	1,878,636	4,606,940
Other current and long-term liabilities	233,521	(921)
Pension and postretirement liability	<u>(3,843,699)</u>	<u>(1,308,187)</u>
Net cash provided by operating activities	<u>27,443,260</u>	<u>28,632,580</u>
<b>Investing activity</b>		
Purchase of property and equipment	(7,511,967)	(18,483,589)
Purchase of investments	(17,248,362)	(27,930,360)
Proceeds from the sale of investments	<u>14,214,984</u>	<u>24,739,257</u>
Net cash used in investing activity	<u>(10,545,345)</u>	<u>(21,674,692)</u>
<b>Financing activities</b>		
Proceeds from issuance of long-term debt and capital leases	16,899,227	1,906,291
Debt repayments	(14,563,721)	-
Payments on long-term debt and capital leases	(2,699,354)	(2,999,017)
Restricted contributions and investment income	<u>363,877</u>	<u>449,543</u>
Net cash provided by (used in) financing activities	<u>29</u>	<u>(643,183)</u>
Net increase in cash and cash equivalents	16,897,944	6,314,705
<b>Cash and cash equivalents</b>		
Beginning of year	<u>(2,897,924)</u>	<u>(9,212,629)</u>
Ending of year	<u>\$ 14,000,020</u>	<u>\$ (2,897,924)</u>
<b>Supplemental disclosures</b>		
Cash paid for interest	\$ 1,215,363	\$ 1,211,610

The accompanying notes are an integral part of these consolidating financial statements.

**Care New England Health System and Affiliates  
Women and Infants Corporation and Affiliates**  
(A controlled affiliate of Care New England Health System)  
**Consolidating Statement of Cash Flows (Unaudited)**  
**Years Ended September 30, 2014 and 2013**

	2014	2013
<b>Operating activities</b>		
Change in net assets	\$ 22,974,876	\$ 22,944,564
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Loss on redemption of debt	202,082	-
Pension adjustment	3,273,822	(4,874,338)
Depreciation and amortization	14,952,321	14,184,824
Provision for bad debt	9,056,936	10,453,885
Income and gains on assets limited as to use	(1,342,035)	(2,521,692)
Net unrealized (gains) losses on investments	(96,630)	1,348,450
Restricted contributions and investment income	(98,993)	(189,274)
Changes in		
Patient accounts receivable	(3,159,154)	(25,038,323)
Investments	(2,350,648)	(31,822,530)
Other current and long-term assets	(423,791)	2,336,720
Accounts payable and accrued expenses	(6,731,681)	7,246,969
Due to/from affiliates	(21,075,423)	2,399,966
Estimated third-party payor settlements	(782,372)	(406,360)
Other current and long-term liabilities	(1,246,226)	69,730
Net pension liability	(1,920,430)	(661,426)
Self-insurance reserves	1,708,323	6,955,945
Net cash provided by operating activities	<u>12,940,977</u>	<u>2,427,110</u>
<b>Investing activities</b>		
Purchase of property and equipment	(10,386,873)	(13,478,713)
Purchase of investments	(98,595,658)	(81,289,136)
Proceeds from the sale of investments	95,140,205	97,308,241
Net cash (used in) provided by investing activities	<u>(13,842,326)</u>	<u>2,540,392</u>
<b>Financing activities</b>		
Proceeds from issuance of long-term debt and capital leases	54,214,096	2,384,920
Debt repayments	(44,758,442)	-
Payments on long-term debt and capital leases	(1,951,522)	(2,191,926)
Restricted contributions and investment income	98,993	189,274
Net cash provided by financing activities	<u>7,603,125</u>	<u>382,268</u>
Net increase in cash and cash equivalents	6,701,776	5,349,770
<b>Cash and cash equivalents</b>		
Beginning of year	<u>70,398,845</u>	<u>65,049,075</u>
Ending of year	<u>\$ 77,100,621</u>	<u>\$ 70,398,845</u>
<b>Supplemental disclosures</b>		
Cash paid for interest	\$ 1,997,848	\$ 2,177,983

The accompanying notes are an integral part of these consolidating financial statements.

**Care New England Health System and Affiliates**  
**Southeastern Healthcare System**  
(A controlled affiliate of Care New England Health System)  
**Consolidating Statement of Cash Flows (Unaudited)**  
**Years Ended September 30, 2014 and 2013**

	2014	2013
<b>Operating activities</b>		
Change in net assets	\$ (21,390,493)	\$ (2,396,296)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Loss on redemption of debt	24,017	-
Pension and postretirement adjustment	13,245,450	232,607
Depreciation and amortization	4,818,614	321,311
Provision for bad debt	13,380,796	1,383,820
Amortization of bond premium	-	-
Investment income on assets limited as to use	(404,463)	219,023
Net unrealized (gains) losses on investments	(91,265)	(95,682)
Restricted contributions and investment income	(67,944)	-
Gain on sale of property, plant and equipment	-	-
Changes in		
Patient accounts receivable	(12,382,261)	(789,790)
Other current and long-term assets	(1,189,578)	(39,600)
Accounts payable and accrued expenses	(7,339,454)	(425,396)
Estimated third-party payor settlements	(3,437,600)	47,187
Due to/from affiliates	8,657,153	-
Self-insurance reserves	(284,688)	111,557
Other current and long-term liabilities	(156,917)	-
Pension and postretirement liability	(2,213,365)	-
Net cash used in operating activities	<u>(8,831,998)</u>	<u>(1,431,259)</u>
<b>Investing activity</b>		
Purchase of property, plant and equipment	(2,353,183)	(120,163)
Proceeds from sales of property, plant and equipment	-	-
Purchase of investments	(7,002,044)	-
Proceeds from the sale of investments	344,081	143,657
Net cash (used in) provided by investing activity	<u>(9,011,146)</u>	<u>23,494</u>
<b>Financing activities</b>		
Proceeds from issuance of long-term debt and capital leases	10,145,196	-
Debt repayments	(9,390,000)	-
Payments on long-term debt and capital leases	(622,437)	(1,865)
Restricted contributions and investment income	67,944	-
Net cash provided by (used in) financing activities	<u>200,703</u>	<u>(1,865)</u>
Net decrease in cash and cash equivalents	<u>(17,642,441)</u>	<u>(1,409,630)</u>
<b>Cash and cash equivalents</b>		
Beginning of year	1,049,627	2,459,257
Ending of year	<u>\$ (16,592,814)</u>	<u>\$ 1,049,627</u>
<b>Supplemental disclosures</b>		
Cash paid for interest	\$ 591,355	\$ 53,129

The accompanying notes are an integral part of these consolidating financial statements.

**Care New England Health System and Affiliates**  
**Supporting Schedule-Property, Plant and Equipment (Unaudited)**  
**Year Ended September 30, 2014**

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	<b>Butler</b>	<b>Kent</b>	<b>WIH</b>	<b>SHS</b>	<b>All Other</b>	<b>Total</b>
<b>Property, plant and equipment</b>						
Land and improvements	\$ 4,487,966	\$ 4,582,169	\$ 3,254,245	\$ 2,927,010	\$ 2,352,089	\$ 17,603,479
Building and improvements	62,004,778	104,962,263	215,400,123	16,260,569	13,898,569	412,526,302
Furniture and equipment	16,360,574	104,585,753	142,419,914	14,968,481	7,366,174	285,700,896
Construction in progress	119,997	914,979	556,596	611,132	17,544,667	19,747,371
	<u>82,973,315</u>	<u>215,045,164</u>	<u>361,630,878</u>	<u>34,767,192</u>	<u>41,161,499</u>	<u>735,578,048</u>
Accumulated depreciation	<u>50,430,873</u>	<u>140,325,000</u>	<u>213,692,848</u>	<u>5,242,462</u>	<u>13,900,356</u>	<u>423,591,539</u>
Net property, plant and equipment	<u>\$ 32,542,442</u>	<u>\$ 74,720,164</u>	<u>\$ 147,938,030</u>	<u>\$ 29,524,730</u>	<u>\$ 27,261,143</u>	<u>\$ 311,986,509</u>

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Supporting Schedule-Charity Care (Unaudited)**  
**Year Ended September 30, 2014**

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	<b>Butler</b>	<b>Kent</b>	<b>WIH</b>	<b>SHS</b>	<b>All Other</b>	<b>Total</b>
<b>Charity care</b>						
Revenues foregone	<u>\$ 9,739,478</u>	<u>\$ 20,088,155</u>	<u>\$ 9,587,403</u>	<u>\$ 4,509,125</u>	<u>\$ 15,506</u>	<u>\$ 43,939,667</u>
Uncollectible accounts	<u>\$ 3,330,269</u>	<u>\$ 14,148,112</u>	<u>\$ 9,056,936</u>	<u>\$ 13,380,796</u>	<u>\$ 152,854</u>	<u>\$ 40,068,967</u>

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Supporting Schedule-Investments (Unaudited)**  
**Year Ended September 30, 2014**

	Market Value					Total
	Butler	Kent	WIH	SHS	All Other	
<b>Summary of investments</b>						
Fixed income securities	\$ 1,434,144	\$ 17,611,536	\$ 5,171,477	\$ 850,610	\$ 27,527,683	\$ 52,595,450
Equity securities	7,293,973	10,573,532	20,703,932	2,372,460	16,761,319	57,705,216
Cash and cash equivalents	1,236,970	4,370,060	10,151,831	12,409,435	32,542,906	60,711,202
Alternative investments	14,097,234	17,650,455	22,525,602	-	39,962,411	94,235,702
Mutual funds	2,583,571	2,392,731	69,059,040	-	6,667,643	80,702,985
Interest and other receivables	-	-	-	-	-	-
Assets held under split - interest agreements	31,848	11,583,128	-	7,550,227	-	19,165,203
Cash surrender value of life insurance	-	6,734,862	22,939,530	-	-	29,674,392
	<u>\$ 26,677,740</u>	<u>\$ 70,916,304</u>	<u>\$ 150,551,412</u>	<u>\$ 23,182,732</u>	<u>\$ 123,461,962</u>	<u>\$ 394,790,150</u>

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Supporting Schedule-Disproportionate Share (Unaudited)**  
**Year Ended September 30, 2014**

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	<b>Butler</b>	<b>Kent</b>	<b>WIH</b>	<b>SHS</b>	<b>All Other</b>	<b>Total</b>
<b>Disproportionate share</b>						
Disproportionate share-Medicaid	<u>\$ 8,828</u>	<u>\$ 12,663,985</u>	<u>\$ 23,630,665</u>	<u>\$ 11,622,332</u>	<u>\$ -</u>	<u>\$ 47,925,810</u>
Disproportionate share-Medicare	<u>\$ -</u>	<u>\$ 1,289,037</u>	<u>\$ 223,127</u>	<u>\$ 544,058</u>	<u>\$ -</u>	<u>\$ 2,056,222</u>
Disproportionate share-Medicare Uncompensated care pool	<u>\$ -</u>	<u>\$ 4,159,178</u>	<u>\$ 9,245,600</u>	<u>\$ 2,313,386</u>	<u>\$ -</u>	<u>\$ 15,718,164</u>

The accompanying notes are an integral part of these financial statements.

**Care New England Health System and Affiliates**  
**Supporting Schedule-Licensure Fee (Unaudited)**  
**Year Ended September 30, 2014**

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	<b>Kent</b>	<b>WIH</b>	<b>SHS</b>	<b>All Other</b>	<b>Total</b>
<b>Licensure fee</b>					
Licensure fee	\$ 14,583,914	\$ 19,483,539	\$ 6,984,804	\$ -	\$ 41,052,257

The accompanying notes are an integral part of these financial statements.