



NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Consolidated Financial Statements
and Supplementary Information

September 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Consolidated Financial Statements and Supplementary Information

September 30, 2009 and 2008

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KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Independent Auditors' Report

The Board of Trustees
Newport Health Care Corporation:

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

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

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

As described in note 3 to the consolidated financial statements, in 2009 the Corporation adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 820-10, *Fair Value Measurements and Disclosures* and ASC Subtopic 958-250, *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*.

KPMG LLP

February 17, 2010

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Consolidated Statements of Financial Position

September 30, 2009 and 2008

(In thousands)

Assets	2009	2008
Current assets:		
Cash and cash equivalents	\$ 3,487	\$ 7,544
Patient accounts receivable	12,653	12,785
Less allowance for doubtful accounts	<u>(2,510)</u>	<u>(2,255)</u>
Net patient accounts receivable	10,143	10,530
Other receivables	28	37
Current portion of contributions receivable, net	<u>140</u>	<u>401</u>
Total receivables	10,311	10,968
Assets limited as to use	497	498
Inventories	1,599	466
Intercorporate financing	405	—
Prepaid expenses and other current assets	<u>514</u>	<u>470</u>
Total current assets	<u>16,813</u>	<u>19,946</u>
Assets limited as to use	200,576	208,049
Less amount required to meet current obligations	<u>(497)</u>	<u>(498)</u>
Noncurrent assets limited as to use	<u>200,079</u>	<u>207,551</u>
Property and equipment, net	<u>74,800</u>	<u>79,009</u>
Other assets:		
Contributions receivable, net	236	313
Deferred charges and financing costs, net	256	282
Other noncurrent assets	<u>905</u>	<u>10,006</u>
Total other assets	<u>1,397</u>	<u>10,601</u>
Total assets	\$ <u>293,089</u>	\$ <u>317,107</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 2,466	\$ 2,854
Intercorporate financing	—	213
Accrued employee benefits and compensation	5,544	4,494
Other accrued expenses	501	567
Current portion of long-term debt	720	1,690
Current portion of estimated third-party payor settlements	1,371	1,034
Estimated health care benefit self-insurance costs	<u>368</u>	<u>265</u>
Total current liabilities	10,970	11,117
Long term debt, net of current portion	23,535	29,255
Estimated third-party payor settlements, net of current portion	4,689	4,634
Accrued pension liability	11,463	—
Other liabilities	<u>628</u>	<u>605</u>
Total liabilities	<u>51,285</u>	<u>45,611</u>
Net assets:		
Unrestricted	187,770	217,002
Temporarily restricted	49,595	25,419
Permanently restricted	<u>4,439</u>	<u>29,075</u>
Total net assets	<u>241,804</u>	<u>271,496</u>
Total liabilities and net assets	\$ <u>293,089</u>	\$ <u>317,107</u>

See accompanying notes to consolidated financial statements.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2009 and 2008

(In thousands)

	<u>2009</u>	<u>2008</u>
Unrestricted revenues and other support:		
Net patient service revenue	\$ 105,973	\$ 102,777
Other revenue	2,649	2,402
Endowment earnings contributed toward community benefit	998	996
Net assets released from restrictions used for operations	709	1,236
Total unrestricted revenues and other support	<u>110,329</u>	<u>107,411</u>
Operating expenses:		
Compensation and benefits	65,104	60,495
Supplies and other expenses	15,558	19,169
Purchased services	15,414	14,858
Provision for bad debts	5,567	4,391
Depreciation and amortization	7,139	6,806
Interest	1,337	1,492
License fees	4,796	2,982
Total operating expenses	<u>114,915</u>	<u>110,193</u>
Loss from operations	<u>(4,586)</u>	<u>(2,782)</u>
Nonoperating gains and losses:		
Unrestricted gifts and bequests	153	348
Unrestricted income from board-designated investments	1,919	3,445
Net realized (losses) gains on board-designated investments	(5,823)	2,754
Grants to outside agencies	(234)	(127)
Fundraising expenses	(683)	(703)
Other nonoperating gains (losses), net	218	(177)
Total nonoperating (losses) gains, net	<u>(4,450)</u>	<u>5,540</u>
(Deficiency) excess of revenues over expenses	<u>(9,036)</u>	<u>2,758</u>
Other changes in unrestricted net assets:		
Change in funded status of pension plan other than net periodic pension cost	(21,654)	(3,328)
Effect of changing pension plan's measurement date pursuant to ASC Topic 715	(166)	—
Net change in unrealized gains on investments	1,184	(38,820)
Net assets released from restrictions used for purchase of property and equipment	440	4,445
Decrease in unrestricted net assets	<u>(29,232)</u>	<u>(34,945)</u>
Temporarily restricted net assets:		
Reclassification from adoption of UPMIFA (note 3(j))	24,687	—
Gifts, grants and bequests	852	1,147
Income from restricted endowment and other restricted investments	374	660
Net assets released from restrictions	(1,149)	(5,681)
Net realized and unrealized losses on investments	(504)	(6,160)
Transfers from affiliates	6	56
Other decreases	(90)	(162)
Increase (decrease) in temporarily restricted net assets	<u>24,176</u>	<u>(10,140)</u>
Permanently restricted net assets:		
Reclassification from adoption of UPMIFA (note 3(j))	(24,687)	—
Gifts and bequests	93	—
Net unrealized losses on investments held in perpetual trust by others	(42)	(306)
Realized gains retained to maintain purchasing power	—	1,314
(Decrease) increase in permanently restricted net assets	<u>(24,636)</u>	<u>1,008</u>
Decrease in net assets	<u>(29,692)</u>	<u>(44,077)</u>
Net assets, beginning of year	<u>271,496</u>	<u>315,573</u>
Net assets, end of year	\$ <u>241,804</u>	\$ <u>271,496</u>

See accompanying notes to consolidated financial statements.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Consolidated Statements of Cash Flows
 Years ended September 30, 2009 and 2008
 (In thousands)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (29,692)	\$ (44,077)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Change in funded status of pension plan other than net periodic pension cost	21,654	3,328
Effect of changing pension plan's measurement date pursuant to ASC Topic 715	166	—
Net realized and unrealized losses on investments	5,185	41,218
Depreciation and amortization	7,139	6,806
Provision for estimated health care benefit self-insurance costs	7,637	7,048
Decrease in liabilities for estimated health care benefit self-insurance costs resulting from claims paid	(7,534)	(7,001)
Decrease (increase) in patient accounts receivable, net	387	(379)
Decrease in contributions receivable, net	338	768
Decrease in accounts payable	(388)	(67)
Increase in accrued employee benefits and compensation	1,050	556
Increase in estimated third-party payor settlements	392	622
Increase in all other current and noncurrent assets and liabilities, net	(3,059)	(1,360)
Net cash provided by operating activities	<u>3,275</u>	<u>7,462</u>
Cash flows from investing activities:		
Purchase of property and equipment	(2,930)	(10,237)
Other net decreases in assets limited as to use	2,288	1,261
Net cash used in investing activities	<u>(642)</u>	<u>(8,976)</u>
Cash flows from financing activities:		
Payments on long-term debt	(6,690)	(1,660)
Net cash used in financing activities	<u>(6,690)</u>	<u>(1,660)</u>
Net decrease in cash and cash equivalents	(4,057)	(3,174)
Cash and cash equivalents, beginning of year	7,544	10,718
Cash and cash equivalents, end of year	\$ <u>3,487</u>	\$ <u>7,544</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ <u>1,357</u>	\$ <u>1,494</u>

See accompanying notes to consolidated financial statements.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

(1) Description of Organization

Newport Health Care Corporation and Affiliates (the Corporation) includes Newport Health Care Corporation (NHCC), Newport Hospital (the Hospital), Newport Hospital Foundation, Inc. (the Foundation), NHCC Medical Associates, Inc. (Medical Associates), and Newport Health Property Management, Inc. (Property Management).

NHCC is the sole corporate member of the Hospital, the Foundation and Medical Associates. NHCC is also the sole shareholder of Property Management. The Hospital is a 129-bed nonprofit acute care hospital which provides inpatient, outpatient and emergency care services for residents of southern Rhode Island. The Foundation manages fundraising activities of NHCC affiliates. Medical Associates was formed to employ physicians and other health care practitioners in developing integrated and comprehensive health care services. Property Management directs the operations of various health care properties.

Effective June 2, 2006, the Hospital removed 19 sub-acute beds from service, temporarily reducing the Hospital's licensed beds from 148 to 129 based on a review of services and community need. This was completed in accordance with Rhode Island Department of Health regulations.

Effective January 15, 1997, the Federal Trade Commission and the Health Services Council of the Rhode Island Department of Health approved NHCC's affiliation with Lifespan Corporation (Lifespan), a Rhode Island nonprofit corporation. The Corporation continues to maintain its own identity and Board of Trustees, its own campus and its own name. Lifespan has the responsibility for strategic planning and initiatives as well as capital and operating budgets, and overall governance of the consolidated organization.

(2) Charity Care and Other Community Benefits

The total net cost of charity care and other community benefits provided by the Corporation for the years ended September 30, 2009 and 2008 is summarized in the following table:

	<u>2009</u>	<u>2008</u>
Charity care	\$ 2,949	\$ 3,259
Subsidized health services	1,464	1,416
Community health improvement services and community benefit operations	<u>958</u>	<u>448</u>
Total	<u>\$ 5,371</u>	<u>\$ 5,123</u>

Charity Care

The Corporation provides full charity care for individuals at or below twice the federal poverty level, with a sliding scale for individuals up to four times the poverty level. In addition, a substantial charity allowance is offered to all other uninsured patients. The Corporation maintains records to identify and monitor the level of charity care it provides. The total cost incurred by the Corporation to provide charity care

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

amounted to \$2,949 and \$3,259 in 2009 and 2008, respectively. Charges forgone, based on established rates, amounted to \$6,476 and \$6,990 in 2009 and 2008, respectively.

Certain restricted funds have been designated by donors to fund charity care. Transfers totaling \$418 and \$1,083, respectively, have been made from these restricted funds in support of charity care in 2009 and 2008, and are reflected as net assets released from restrictions used for operations in the accompanying consolidated statement of operations and changes in net assets.

Subsidized Health Services

The Corporation subsidizes various health services including Vanderbilt Rehab and occupational health.

Community Health Improvement Services and Community Benefit Operations

The Corporation also provides numerous other services to the community for which charges are not generated. These services include certain emergency services, community health screenings for cardiac health, prostate cancer and other diseases, smoking cessation and weight loss programs, diabetes education, patient advocacy, foreign language translation, physician referral services and charitable contributions.

Nursing Education

The Corporation has developed formal and informal nursing educational affiliations with the University of Rhode Island College of Nursing; the Community College of Rhode Island; Salve Regina University; University of Massachusetts-Dartmouth and Yale University, pursuant to which their nursing students obtain clinical training and experience at Newport Hospital, which does not receive any compensation from the various schools for providing a clinical setting for the student nurse training.

(3) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements include the accounts of NHCC and its affiliates after elimination of significant intercompany accounts and transactions.

The Corporation considers events and transactions that occur after the statement of financial position date, but before the consolidated financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on February 17, 2010 and subsequent events have been evaluated through that date.

(b) Use of Estimates

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

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

(c) *Accounting Pronouncements Adopted in 2009*

On October 1, 2008 the Corporation adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 820-10, *Fair Value Measurements and Disclosures* (ASC 820-10). ASC 820-10 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. See note 5 for disclosures of fair value required by ASC 820-10.

Effective October 1, 2008, the Corporation adopted the provisions of FASB ASC Subtopic 958-250, *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act* (ASC 958-250). ASC 958-250 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds. See note 5 for disclosures of endowment funds required by ASC 958-250.

Effective September 30, 2009, the Corporation adopted the provisions of FASB ASC Subtopic 855-10, *Subsequent Events* (ASC 855-10). ASC 855-10 defines subsequent events and transaction periods, those circumstances under which the events or transactions should be recognized, and disclosures regarding subsequent events or transactions. ASC 855-10 is effective for annual periods ending after June 15, 2009. Although the adoption of ASC 855-10 did not affect the Corporation's consolidated financial statements, additional disclosures are now included under *Basis of Presentation* above.

In June 2009, the FASB issued Accounting Standards Update (ASU) 2009-1 (Codification). The Codification does not change U.S. generally accepted accounting principles, but combines all authoritative standards issued by organizations that are in levels A through D of the generally accepted accounting principles hierarchy, such as the FASB, American Institute of Certified Public Accountants, and Emerging Issues Task Force, into a comprehensive, topically organized online database. No accounting impact occurred since this is an accumulation of existing guidance. The Codification became effective for reporting periods that end after September 15, 2009.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

(d) Accounting Pronouncements Not Yet Adopted

In December 2008, the FASB issued FASB ASC Sections 715-20-50 and 55, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which require additional disclosures for employers' pension and other postretirement benefit plan assets. The guidance requires employers to disclose information about fair value measurements of plan assets similar to the disclosures required under ASC Subtopic 820-10. Those disclosures will include the investment policies and strategies for the major categories of plan assets, as well as significant concentrations of risk within plan assets. ASC Sections 715-20-50 and 55 are effective for annual periods ending after December 15, 2009. The Corporation does not believe the adoption of ASC Sections 715-20-50 and 55 will have a material impact on its consolidated financial position, results of operations or cash flows since their requirements are limited to additional disclosures.

(e) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with maturities of three months or less when purchased, excluding amounts limited as to use by board-designation or other arrangements under trust agreements.

(f) Investments and Investment Income

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

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The adoption of ASC 820-10 did not have an impact on the Corporation's consolidated financial position, changes in net assets, or cash flows, but did significantly expand fair value disclosures.

Following is a description of the valuation methodologies used for investments measured at fair value:

Cash and short-term investments: Valued at the net asset value (NAV) reported by the financial institution.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

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(In thousands)

U.S. government/agency and corporate obligations: Valued using market quotations or prices obtained from independent pricing sources which may employ various pricing methods to value the investments.

Corporate equity securities: Valued at the closing price reported by an active market in which the individual securities are traded.

Collective investment funds: Valued using NAV as reported by the investment manager, which approximates the market values of the underlying investments within the fund or realizable value as estimated by the investment manager.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Investments in collective investment funds with monthly pricing and liquidity are measured based on the fair value of the underlying investments; otherwise, such investments are recorded at historical cost. Investments of less than 5% in limited partnerships are also recorded at historical cost. Investments of 5% or more in limited partnerships, limited liability corporations or similar investments are accounted for at fair value, with changes in fair value recorded as realized gains or losses in each net asset class using the equity method. Investments in derivative financial instruments are not material.

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

Effective October 1, 2008, the Corporation reclassified \$83,314 of its assets limited as to use from available-for-sale securities to trading securities. Investments designated by the Corporation as trading assets are reported at fair value, with gains or losses resulting from changes in fair value recognized in the consolidated statement of operations and changes in net assets as realized gains or losses on investments.

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments other than those designated as trading assets or those accounted for using the equity method are excluded from the excess of revenues over expenses.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

Realized gains (losses) on sales of investments are determined by the average cost method. Realized gains (losses) on unrestricted investments are recorded as nonoperating gains (losses); realized gains (losses) on restricted investments are recorded as an addition to (deduction from) the appropriate restricted net assets. A decline in the market value of an investment security below its cost that is designated to be other than temporary is recognized through an impairment charge classified as a realized loss and a new cost basis is established.

Participation units in pooled investment funds held within unrestricted, temporarily restricted and permanently restricted net assets are determined monthly based on the market value of the underlying investments at the calculation date. Income earned on pooled investments is allocated to participating funds based on their respective unit shares of the pool.

Investment income from funds held by trustees under bond indenture agreements is recorded as other revenue. Lifespan maintains a spending policy for certain board-designated funds of its patient care affiliates which provides that investment income from such funds is recorded within unrestricted revenues as endowment earnings contributed toward community benefit.

Income from permanently restricted investments is recorded as nonoperating gains when unrestricted by donor and as an addition to the net assets of the appropriate temporarily restricted fund when restricted by donor.

(g) *Assets Limited as to Use*

Assets limited as to use primarily include designated assets set aside by the Corporation's Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and assets whose use by the Corporation has been permanently restricted by donors or limited by donors to a specific purpose, as well as assets held by trustees under bond indenture agreements and irrevocable trusts. Amounts required to meet current liabilities of the Corporation are reported in current assets in the consolidated statements of financial position.

(h) *Property and Equipment*

Property and equipment acquisitions are recorded at cost. Depreciation is computed over the estimated useful life of each class of depreciable asset using the straight-line method. Buildings and improvements lives range from 5 to 40 years and equipment from 3 to 20 years. Net 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.

(i) *Deferred Financing Costs*

Deferred financing costs, which relate to the issuance of long-term bonds payable to the Rhode Island Health and Educational Building Corporation (RIHEBC), are being amortized ratably over the periods the bonds are outstanding.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

(j) *Classification of Net Assets*

As noted above, effective October 1, 2008, the Corporation adopted the provisions of ASC 958-250, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires disclosures about endowment funds, including donor-restricted endowment funds and board-designated endowment funds.

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

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

Prior to 2009, the Corporation was subject to the Rhode Island Uniform Management of Institutional Funds Act (UMIFA), as amended. Rhode Island's enacted version of UMIFA required the Corporation to maintain the purchasing power of the historic dollar value of its donor-restricted endowment funds and, as a result, the Corporation annually added a portion of the funds' return to permanently restricted net assets to account for inflation. This requirement was eliminated by the enactment of UPMIFA and, accordingly, in 2009 the Corporation reclassified the \$24,687 cumulative amount of such additions from permanently restricted net assets to temporarily restricted net assets. See note 5 for more information about the Corporation's endowment.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

(k) *Excess of Revenues over Expenses*

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include the change in the funded status of pension plan other than net periodic pension cost, the effect of changing pension plan's measurement date pursuant to ASC Topic 715, unrealized gains and losses on investments, and net assets released from restrictions used for purchase of property and equipment.

(l) *Net Patient Service Revenue*

The Corporation provides care to patients under Medicare, Medicaid, managed care and commercial insurance contractual arrangements. The Corporation has agreements with many third-party payors that provide for payments to the Corporation at amounts less than its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with some third-party payors.

Medicare utilizes a prospective payment system for most inpatient hospital services rendered to Medicare program beneficiaries based on the classification of each case into a diagnostic-related group (DRG). Medicare outpatient hospital services are also paid using an ambulatory payment classification system.

Most hospital services to Rhode Island Medicaid patients are reimbursed based on negotiated costs under a prospective cost arrangement. The tentative hospital reimbursement rates are determined by certain negotiated budgeted expenditures and budgeted volume. Variances from budgeted volume are reimbursable at rates which may differ from the budgeted rate.

The majority of payments from managed care and commercial insurance companies are based upon negotiated fixed pricing arrangements, whereby a combination of per diem rates and specific case rates are utilized for inpatient services, along with fixed fees applicable to outpatient services.

Settlements and adjustments arising under reimbursement arrangements with some third-party payors, primarily Medicare, Medicaid and Blue Cross, are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Corporation has classified a portion of accrued estimated third-party payor settlements as long-term because such amounts, by their nature or by virtue of regulation or legislation, will not be paid within one year. Changes in the Medicare and Medicaid programs, such as the reduction of reimbursement, could have an adverse impact on the Corporation.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

(m) *Provision for Bad Debts*

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Additions to the allowance for doubtful accounts are made by means of the provision for bad debts. Accounts deemed uncollectible are deducted from the allowance and subsequent recoveries are added. The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal and state governmental health care coverage and other collection indicators.

(n) *Charity Care*

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

(o) *Donor-Restricted Gifts*

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor restriction expires, that is, when a stipulated 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.

(p) *Inventories*

Inventories, consisting primarily of medical/surgical supplies and pharmaceuticals, are stated at the lower of cost or market.

(q) *Estimated Self-Insurance Costs*

The Corporation participates in Lifespan self-insurance programs with other Lifespan affiliates for losses arising from medical malpractice claims, health benefits to its employees, and losses arising from workers' compensation claims. The Corporation has recorded provisions for estimated claims, which are based on Lifespan's own experience. The provisions for these self-insured losses include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(r) *Fair Value of Financial Instruments*

The carrying amounts recorded in the consolidated statements of financial position for cash and cash equivalents, patient accounts receivable, contributions receivable, assets limited as to use, accounts payable, intercorporate financing, accrued expenses, estimated third-party payor settlements, and

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estimated health care benefit self-insurance costs approximate their respective fair values. The estimated fair values of the Corporation's assets limited as to use and long-term debt are disclosed in notes 5 and 10, respectively.

(s) ***Reclassifications***

Certain 2008 amounts have been reclassified to conform with the 2009 reporting format.

(4) **Disproportionate Share**

The Hospital is a participant in the State of Rhode Island's Disproportionate Share Program, established in 1995 to assist hospitals which provide a disproportionate amount of uncompensated care. Under the program, Rhode Island hospitals, including the Hospital, receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low income patients. Total payments to the Hospital under the Disproportionate Share Program aggregated \$4,076 and \$3,310 in 2009 and 2008, respectively, and are reflected as part of net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

The State of Rhode Island has assessed a license fee to all Rhode Island hospitals, based on each hospital's 2007 net patient service revenue as defined. The Hospital's license fee expense was \$4,796 and \$2,982 in 2009 and 2008, respectively. The hospitals in the State of Rhode Island accepted the fee as part of an agreement with the State's Department of Health and Human Services in return for an equitable distribution of funds to those hospitals meeting certain criteria in providing services to the Medicaid population.

For periods beyond 2009, the federal government could change the level of federal matching funds for the Disproportionate Share Program. Accordingly, it may be necessary for the State of Rhode Island to modify the program and the reimbursement to Rhode Island hospitals under the program. At this time, the scope of such modifications or their effect on the Hospital cannot be reasonably determined.

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(5) Investments

The composition of assets limited as to use at September 30, 2009 and 2008 is set forth in the following table.

	<u>2009</u>	<u>2008</u>
Unrestricted board-designated funds:		
Cash and short-term investments	\$ 728	\$ —
U.S. government and agency obligations	11,942	6,277
Corporate equity securities	16,747	35,062
Corporate obligations	9,611	9,187
Collective investment funds	106,599	102,583
Other investments	254	355
	<u>145,881</u>	<u>153,464</u>
Held by trustee under bond indenture agreement:		
Cash and short-term investments	<u>497</u>	<u>498</u>
Temporarily restricted funds:		
Cash and short-term investments	667	413
U.S. government and agency obligations	4,032	1,004
Corporate equity securities	5,654	5,609
Corporate obligations	3,245	1,470
Collective investment funds	35,990	16,410
Other investments	171	106
	<u>49,759</u>	<u>25,012</u>
Permanently restricted funds:		
Cash and short-term investments	20	32
U.S. government and agency obligations	628	1,464
Corporate equity securities	1,120	7,138
Corporate obligations	220	1,666
Collective investment funds	2,438	18,603
Other investments	13	172
	<u>4,439</u>	<u>29,075</u>
Total	\$ <u>200,576</u>	\$ <u>208,049</u>

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Trading Securities

Effective October 1, 2008, the Corporation reclassified certain of its assets limited as to use from available-for-sale securities to trading securities. The gains recognized as a result of this transfer amounted to \$8,039.

Assets limited as to use at September 30 are classified as follows:

	<u>2009</u>		<u>2008</u>	
Available-for-sale	\$	127,832	\$	208,049
Trading		72,744		—
Total	\$	<u>200,576</u>	\$	<u>208,049</u>

Fair Value

The following table summarizes the Corporation's investments and assets held in trust in the ASC 820-10 fair value hierarchy as of September 30, 2009:

	<u>Level 1</u>		<u>Level 2</u>		<u>Level 3</u>		<u>Total</u>	
Investments:								
Cash and short-term investments	\$	5,394	\$	—	\$	—	\$	5,394
U.S. government and agency obligations		5,146		—		—		5,146
Corporate equity securities		22,523		—		—		22,523
Corporate obligations		—		20,088		—		20,088
Collective investment funds		<u>27,513</u>		<u>92,165</u>		<u>—</u>		<u>119,678</u>
		60,576		112,253		—		172,829
Assets held in trust		<u>—</u>		<u>—</u>		<u>1,095</u>		<u>1,095</u>
Total	\$	<u>60,576</u>	\$	<u>112,253</u>	\$	<u>1,095</u>	\$	<u>173,924</u>

Investments in collective funds which do not have monthly pricing and liquidity are recorded at historical cost. Investments of less than 5% in limited partnerships are also recorded at historical cost. The aggregate historical cost of these investments, which approximates market value as reported by investment managers, amounted to \$26,652 at September 30, 2009. During 2009 and 2008 there were no declines in market values of any of these investments below their cost which were designated to be other than temporary.

Most investments classified in Level 2 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each

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fund is used as a practical expedient to estimate the fair value of the Corporation's interest therein, its classification in Level 2 is based on the Corporation's ability to redeem its interest at or near the date of the consolidated statement of financial position. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following table presents the Corporation's activity for the fiscal year ended September 30, 2009 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820-10:

	Assets held in trust
Fair value at October 1, 2008	\$ 1,137
Net realized and unrealized losses	<u>(42)</u>
Fair value at September 30, 2009	<u><u>\$ 1,095</u></u>

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Investment Income, Gains and Losses

Investment income, gains and losses for cash equivalents and assets limited as to use are comprised of the following for the years ended September 30:

	<u>2009</u>	<u>2008</u>
Endowment earnings contributed toward community benefit:		
Dividend and interest income	\$ <u>998</u>	\$ <u>996</u>
Nonoperating gains and losses:		
Unrestricted income from board-designated investments	\$ 1,919	\$ 3,445
Net realized (losses) gains on board-designated investments	<u>(5,823)</u>	<u>2,754</u>
	\$ <u>(3,904)</u>	\$ <u>6,199</u>
Other changes in unrestricted net assets:		
Net change in unrealized gains on investments	\$ <u>1,184</u>	\$ <u>(38,820)</u>
Changes in temporarily restricted net assets:		
Income from restricted endowment and other restricted investments	\$ 374	\$ 660
Net realized and unrealized losses on investments	<u>(504)</u>	<u>(6,160)</u>
	\$ <u>(130)</u>	\$ <u>(5,500)</u>
Changes in permanently restricted net assets:		
Net realized and unrealized (losses) gains on permanently restricted investments	\$ <u>(42)</u>	\$ <u>1,008</u>

Liquidity

Investments as of September 30, 2009 are summarized below based on when they may be redeemed or sold:

Investment redemption or sale period:	
Daily	\$ 125,986
Monthly	21,984
Quarterly	24,362
One-to-five years	<u>497</u>
Total	\$ <u>172,829</u>

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Commitments

Energy, venture capital, private equity and certain real asset investments are generally made through limited partnerships. Under the terms of these agreements, the Corporation is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Corporation cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with the above noted investment categories as of September 30, 2009 was \$4,284.

Investments With Unrealized Losses

Information regarding investments with unrealized losses at September 30, 2009 and 2008 is presented below, segregated between those that have been in a continuous unrealized loss position for less than twelve months and those that have been in a continuous unrealized loss position for twelve or more months:

	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
September 30, 2009:						
Internally board-designated, temporarily restricted and permanently restricted funds:						
Collective investment funds	\$ —	\$ —	\$ 14,013	\$ 2,559	\$ 14,013	\$ 2,559
Total temporarily impaired securities	\$ —	\$ —	\$ 14,013	\$ 2,559	\$ 14,013	\$ 2,559
	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
September 30, 2008:						
Internally board-designated, temporarily restricted and permanently restricted funds:						
Collective investment funds	\$ 63,426	\$ 10,372	\$ —	\$ —	\$ 63,426	\$ 10,372
Total temporarily impaired securities	\$ 63,426	\$ 10,372	\$ —	\$ —	\$ 63,426	\$ 10,372

In the evaluation of whether an impairment is other than temporary, the Corporation considers the reasons for the impairment, its ability and intent to hold the investment until the market price recovers, the severity

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and duration of the impairment, and expected future performance. Based on this evaluation, no impairment was considered to be other than temporary.

Securities Lending

The Corporation participates in a securities lending program in which it lends a portion of its investments to pre-approved third party borrowers that meet certain criteria through a lending agent. All securities on loan are fully collateralized by cash or debt instruments in amounts greater than the market value of the securities on loan. The lending agent is responsible for ensuring the creditworthiness of the borrowers and investing collateral assets in high quality securities. These investments consist primarily of U.S. dollar-denominated fixed income adjustable rate securities and U.S. government securities with short maturities.

Endowments

The Corporation's endowment consists of approximately 56 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Corporation to function as endowments. Investments associated with endowment funds, including funds designated by the Corporation to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment funds consist of the following at September 30, 2009:

	<u>Unrestricted board-designated</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	\$ 49,759	\$ 4,439	\$ 54,198
Internally board-designated endowment funds	<u>145,881</u>	<u>—</u>	<u>—</u>	<u>145,881</u>
Total endowment funds	<u>\$ 145,881</u>	<u>\$ 49,759</u>	<u>\$ 4,439</u>	<u>\$ 200,079</u>

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Endowments (continued)

Endowment funds consist of the following at September 30, 2008:

	<u>Unrestricted board-designated</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	\$ 25,012	\$ 29,075	\$ 54,087
Internally board-designated endowment funds	<u>153,464</u>	<u>—</u>	<u>—</u>	<u>153,464</u>
Total endowment funds	<u>\$ 153,464</u>	<u>\$ 25,012</u>	<u>\$ 29,075</u>	<u>\$ 207,551</u>

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

	<u>Unrestricted board-designated</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds, October 1, 2008	\$ 153,464	\$ 25,012	\$ 29,075	\$ 207,551
Reclassification from adoption of UPMIFA	—	24,687	(24,687)	—
Interest and dividend income	1,919	374	—	2,293
Net realized and unrealized losses	(4,639)	(504)	(42)	(5,185)
Cash gifts, grants and bequests	153	1,429	93	1,675
Net assets released from restrictions	—	(1,149)	—	(1,149)
Withdrawals	(5,016)	—	—	(5,016)
Other decreases	<u>—</u>	<u>(90)</u>	<u>—</u>	<u>(90)</u>
Endowment funds, September 30, 2009	<u>\$ 145,881</u>	<u>\$ 49,759</u>	<u>\$ 4,439</u>	<u>\$ 200,079</u>

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Endowments (continued)

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

	<u>Unrestricted board-designated</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds, October 1, 2007	\$ 188,037	\$ 33,926	\$ 28,067	\$ 250,030
Interest and dividend income	3,445	660	—	4,105
Net realized and unrealized (losses) gains	(36,066)	(6,160)	1,008	(41,218)
Cash gifts, grants and bequests	348	2,429	—	2,777
Net assets released from restrictions	—	(5,681)	—	(5,681)
Deposits	2,108	—	—	2,108
Withdrawals	(4,408)	—	—	(4,408)
Other decreases	—	(162)	—	(162)
Endowment funds, September 30, 2008	<u>\$ 153,464</u>	<u>\$ 25,012</u>	<u>\$ 29,075</u>	<u>\$ 207,551</u>

(a) *Interpretation of Relevant Law*

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

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

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(In thousands)

Endowments (continued)

(b) Return Objectives and Risk Parameters

Lifespan has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, including both donor-restricted funds and unrestricted board-designated funds. Under this policy, as approved by Lifespan, the endowment assets are invested in a manner that is intended to produce results that exceed the total benchmark return while assuming a moderate level of investment risk. The Corporation expects its endowment funds, over a full market cycle, to provide an average annual real rate of return of approximately 5.5% plus inflation annually. Actual returns in any given year or period of years may vary from this amount.

(c) Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, Lifespan relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Lifespan targets a diversified asset allocation that places emphasis on investments in public equity, marketable alternatives, real assets and fixed income to achieve its long-term return objectives within prudent risk constraints.

(d) Spending Policy

As noted, the Corporation invests its endowment funds in accordance with the total return concept. Applicable endowments include unrestricted board-designated endowment funds and donor-restricted endowment funds. The Corporation's governing board will be formalizing an endowment spending rate determination in 2010 based on all of the above factors. This spending rate will be applied to the average fair value of the applicable endowments for the immediately preceding three years.

Trustees' Accounts

Under the terms of the will of the late George N. Buckhout, the Trustees of the Hospital (Trustees) were appointed trustees of a fund established for the benefit of persons requiring financial aid for any type of medical or surgical care. Applications for assistance from the Buckhout fund are to be submitted to a committee of three physicians. Upon approval by this committee, disbursements are made from the fund. The investments of this fund, which are included in assets limited as to use and temporarily restricted net assets in the accompanying consolidated statements of financial position, amounted to \$4,522 and \$4,557 at September 30, 2009 and 2008, respectively.

Under the terms of the will of the late Harold W. Brooks, the Trustees were appointed trustees of a fund established to purchase or rent diagnostic or therapeutic equipment to be used at the Hospital. Applications for disbursements from the Brooks fund are to be submitted to a group of physicians for approval. Upon approval from the Brooks committee, disbursements are made from the fund. The investments of this fund, which are included in assets limited as to use and temporarily restricted net assets in the accompanying consolidated statements of financial position, amounted to \$12,886 and \$12,987 at September 30, 2009 and 2008, respectively.

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Trustees' Accounts (continued)

The composition of the above two Trustees' accounts at September 30, 2009 and 2008 is set forth in the following table.

	<u>2009</u>		<u>2008</u>
Cash and short-term investments	\$ 87	\$	—
U.S. government and agency obligations	1,423		716
Corporate equity securities	1,995		4,001
Corporate obligations	1,145		1,048
Collective investment funds	12,701		11,704
Other investments	57		75
	<u>\$ 17,408</u>	\$	<u>17,544</u>

Assets Held in Trust

The Hospital is the sole beneficiary of a trust held in perpetuity by Bank of America. Under the terms of the will of the late Adelaide Roberts, the income from the trust is to be used to provide financial aid for persons requiring medical and nursing services. The trust's investments, which are included in assets limited as to use and permanently restricted net assets in the accompanying consolidated statements of financial position, totaled \$1,095 and \$1,137 at September 30, 2009 and 2008, respectively.

The composition of this trust at September 30, 2009 and 2008 is set forth in the following table.

	<u>2009</u>		<u>2008</u>
Corporate equity securities	\$ 737	\$	780
U.S. government and agency obligations	355		325
Cash and short-term investments	3		32
	<u>\$ 1,095</u>	\$	<u>1,137</u>

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(6) Property and Equipment

Property and equipment, by major category, is as follows at September 30:

	<u>2009</u>		<u>2008</u>
Land and improvements	\$ 2,875	\$	2,901
Buildings and improvements	99,372		98,636
Equipment	<u>52,715</u>		<u>50,609</u>
	154,962		152,146
Less accumulated depreciation and amortization	<u>80,569</u>		<u>73,645</u>
	74,393		78,501
Construction in progress	<u>407</u>		<u>508</u>
Property and equipment, net	<u>\$ 74,800</u>	\$	<u>79,009</u>

Depreciation and amortization expense for the years ended September 30, 2009 and 2008 amounted to \$7,139 and \$6,806, respectively.

The estimated cost of completion of construction in progress approximated \$93 at September 30, 2009, comprised principally of building renovation projects.

(7) Pension and Other Postretirement Benefits

Change in Measurement Date of Pension Plan

Beginning in fiscal 2009, FASB ASC Topic 715, *Compensation-Retirement Benefits: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (ASC 715)*, requires Lifespan to measure the funded status of its benefit plans as of September 30. Lifespan formerly used a measurement date of June 30 for its benefit plans. Implementation of this change reduced Lifespan's unrestricted net assets by \$5,596, comprised of the following effects from July 1, 2008 through September 30, 2008:

Service cost	\$	5,559
Interest cost		5,442
Expected return on plan assets		(5,706)
Amortization of net actuarial loss		77
Amortization of prior service cost		<u>224</u>
Total reduction to unrestricted net assets of Lifespan	\$	<u>5,596</u>
Total reduction to unrestricted net assets of the Corporation	\$	<u>166</u>

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Pension Benefits

Effective December 31, 1997, the Pension Plan for Employees of Newport Health Care Corporation and Subsidiaries (the Newport Plan) merged into the Lifespan Corporation Retirement Plan (the Plan). Each employee who was a participant in the Newport Plan and was an eligible employee on December 31, 1997 continues to be a participant in the Plan on and after December 31, 1997, subject to the provisions of the Plan. Employees are included in the Plan on the first of the month which is the later of their first anniversary of employment or the attainment of age 18.

The Plan is intended to constitute a plan described in Section 414(k) of the Internal Revenue Code, under which benefits are derived from employer contributions based on the separate account balances of participants in addition to the defined benefits provided under the Plan, which are based on an employee's years of credited service and annual compensation. Lifespan's funding policy is to contribute amounts to the Plan sufficient to meet minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code as amended, plus such additional amounts as may be determined to be appropriate by Lifespan.

Substantially all employees of Lifespan Corporation who meet the above requirements are eligible to participate in the Plan.

The provisions of ASC 715 require an employer to recognize in its statement of financial position an asset for a benefit plan's overfunded status or a liability for a plan's underfunded status, and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. The funded-status amount is measured as the difference between the fair value of plan assets and the benefit obligation including all actuarial gains and losses and prior service cost. Based on September 30, 2009 funded-status amounts for the Corporation's portion of the Plan, the Corporation recorded a decrease in unrestricted net assets of \$21,654.

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in 2010 are as follows:

Net actuarial loss	\$	1,262
Prior service cost		93
		<hr/>
	\$	<u>1,355</u>

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The following tables set forth the Plan's projected benefit obligations and the fair value of plan assets.

	<u>2009</u>	<u>2008</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 389,966	\$ 382,309
Effects of changing the Plan's measurement date:		
Service cost and interest cost for July 1-September 30, 2008	11,001	—
Benefits paid for July 1-September 30, 2008	(3,716)	—
Service cost	22,237	21,052
Interest cost	21,769	24,904
Actuarial loss (gain)	26,505	(21,619)
Benefits paid	(13,858)	(15,844)
Administrative expenses	<u>(928)</u>	<u>(836)</u>
Projected benefit obligation at end of year	\$ <u>452,976</u>	\$ <u>389,966</u>

The accumulated benefit obligation at the end of 2009 and 2008 was \$387,586 and \$339,725, respectively.

	<u>2009</u>	<u>2008</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 351,770	\$ 357,548
Effects of changing the Plan's measurement date:		
Benefits paid for July 1-September 30, 2008	(3,716)	—
Administrative expenses paid for July 1-September 30, 2008	(322)	—
Actual return on plan assets	(47,725)	(7,217)
Employer contributions	22,554	18,119
Benefits paid	(13,858)	(15,844)
Administrative expenses	<u>(928)</u>	<u>(836)</u>
Fair value of plan assets at end of year	\$ <u>307,775</u>	\$ <u>351,770</u>

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The funded status of the Plan and amounts recognized in Lifespan's consolidated statements of financial position at September 30, pursuant to ASC Topic 715 (as opposed to ERISA), are as follows:

	<u>2009</u>		<u>2008</u>
Funded status, end of year:			
Fair value of plan assets	\$ 307,775	\$	351,770
Projected benefit obligation	<u>452,976</u>		<u>389,966</u>
	<u>\$ (145,201)</u>	\$	<u>(38,196)</u>
	<u>2009</u>		<u>2008</u>
Amounts not yet reflected in net periodic pension cost and included in unrestricted net assets:			
Prior service cost	\$ (2,477)	\$	(3,698)
Accumulated net actuarial loss	<u>(105,606)</u>		<u>(2,764)</u>
Amounts not yet recognized as a component of net periodic pension cost	(108,083)		(6,462)
Accumulated net periodic pension cost in excess of employer contributions	<u>(37,118)</u>		<u>(31,734)</u>
Net amount recognized	<u>\$ (145,201)</u>	\$	<u>(38,196)</u>

Amounts recognized in the Corporation's consolidated statements of financial position at September 30, 2009 and 2008 are as follows:

	<u>2009</u>		<u>2008</u>
Accrued pension liability	<u>\$ 11,463</u>	\$	<u>—</u>
Net pension asset:			
Noncurrent asset (included in other noncurrent assets)	<u>\$ —</u>	\$	<u>9,460</u>

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

	<u>2009</u>		<u>2008</u>
Sources of change in unrestricted net assets:			
Net loss arising during the year	\$ (21,364)	\$	(3,482)
Amortizations:			
Net actuarial (gain) loss	(395)		5
Prior service cost	105		149
Total unrestricted net asset loss recognized during the year	\$ <u>(21,654)</u>	\$	<u>(3,328)</u>

Net Periodic Pension Cost

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

	<u>2009</u>		<u>2008</u>
Service cost	\$ 22,237	\$	21,052
Interest cost	21,769		24,904
Expected return on plan assets	(22,861)		(27,144)
Amortization of net actuarial loss (gain)	208		(798)
Amortization of prior service cost	997		997
Net periodic pension cost for Lifespan	\$ <u>22,350</u>	\$	<u>19,011</u>
Net periodic pension cost for the Corporation	\$ <u>1,028</u>	\$	<u>221</u>

The following weighted average assumptions were used by the Plan's actuary to determine net periodic pension cost and benefit obligations:

	<u>2009</u>		<u>2008</u>
Discount rate for benefit obligations	5.74%		6.92%
Discount rate for net periodic pension cost	6.92		6.25
Rate of compensation increase	4.50		4.50
Expected long-term rate of return on Plan assets	8.00		8.00

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

The asset allocation for the Plan at September 30, 2009 and June 30, 2008, and the target allocation for 2010, by asset category, are as follows:

Asset category	Target allocation 2010	Percentage of plan assets September 30, 2009	June 30, 2008
U.S. equity	15 – 35%	13.6%	18.8%
Absolute return	0 – 25%	18.4	10.5
International equity	10 – 35%	19.0	23.0
Venture capital	0 – 10%	1.7	1.7
Commodities	0 – 20%	6.9	14.9
Real estate	0 – 15%	4.8	6.8
Fixed income	10 – 50%	33.5	21.8
Cash and cash equivalents	0 – 10%	2.1	2.5
Total		100.0%	100.0%

The above table does not include \$63,508 and \$68,862 of Plan assets at September 30, 2009 and June 30, 2008, respectively, attributable to the separate savings account balances of participants which are managed in various mutual funds by Fidelity Investments.

The overall financial objective of the Plan is to meet present and future obligations to beneficiaries, while minimizing long-term contributions to the Plan (by earning an adequate return on Plan assets), with moderate volatility in year-to-year contribution levels.

The primary investment objective of the Plan is to attain the expected long-term rate of return on Plan assets in support of the above objective. The Plan's specific investment objective is to attain an average annual real total return (net of investment management fees) of at least 5% over the long term (rolling five-year periods). Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation by the Consumer Price Index.

Lifespan employs a rigorous process to annually determine the expected long-term rate of return on Plan assets which is only changed based on significant shifts in economic and financial market conditions. These estimates are primarily driven by actual historical asset-class returns along with our long-term outlook for a globally diversified portfolio. Asset allocations are regularly updated based on evaluations of future market returns for each asset class.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

Expected Cash Flows

Information about the expected cash flows for the Plan follows:

Employer contributions:		
2010 (expected)	\$	25,727
Expected benefit payments:		
2010	\$	23,065
2011		22,233
2012		23,889
2013		26,738
2014		27,766
2015 through 2019		167,108

Management evaluates its Plan assumptions annually and the expected contribution in 2010 could increase.

Other Postretirement Benefits

In addition to providing pension benefits, the Corporation provides a life insurance benefit to retirees and employees who were age 60 or older with at least 10 years of service as of October 1, 2004. The benefit liability is included in other liabilities in the accompanying consolidated statements of financial position, totaling \$520 and \$605 at September 30, 2009 and 2008, respectively.

(8) Patient Service Revenue and Related Reimbursement

A major portion of the Corporation's revenue is received from third-party payors. The following is an approximate percentage breakdown of gross patient service revenue by payor type for the years ended September 30:

	<u>2009</u>	<u>2008</u>
Medicare and Senior Care	38%	38%
Blue Cross	20	20
Medicaid and RItE Care	8	9
Managed care	11	12
Commercial, self-pay, and other	23	21
	<u>100%</u>	<u>100%</u>

The Corporation grants credit to patients, most of whom are local residents. The Corporation generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross, managed care and commercial insurance policies).

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

Cost reports filed annually with third party payors are subject to audit prior to final settlement. The 2009 cost reports have not been filed and, therefore, not settled with either Medicare or Medicaid. In addition, the Medicare cost reports for 2007 and 2008 and the Medicaid cost reports for 2004 through 2008 have not been settled.

Regulations in effect require annual settlements based upon cost reports filed by the Hospital. These settlements are estimated and recorded in the accompanying consolidated financial statements. Changes in these estimates are reflected in the consolidated financial statements in the year in which they occur. Net patient service revenue in the accompanying consolidated statements of operations and changes in net assets was increased by \$312 in 2009 to reflect changes in the estimated settlements for certain prior years.

Revenues from Medicare and Medicaid programs accounted for approximately 38% and 8%, respectively, of the Corporation's gross patient service revenue for the year ended September 30, 2009. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant regulatory action; failure to comply with such laws and regulations can result in fines, penalties and exclusion from Medicare and Medicaid programs.

(9) Income Tax Status

NHCC and its affiliates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from Federal income taxes pursuant to Section 501(a) of the Code.

(10) Long-Term Debt

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

	<u>2009</u>	<u>2008</u>
Hospital Financing Revenue fixed rate serial and term bonds due July 1, 2010 through 2029 in annual amounts ranging from \$720 to \$1,890 at rates ranging from 4.75% to 5.3% (1999 Series – Newport Hospital)	\$ 24,255	\$ 24,945
Hospital Financing Revenue variable rate bonds due each March 1 in an annual amount of \$1,000 (2004 Series – Newport Hospital)	<u>—</u>	<u>6,000</u>
	24,255	30,945
Less current portion	<u>720</u>	<u>1,690</u>
Long-term debt, excluding current portion	<u>\$ 23,535</u>	<u>\$ 29,255</u>

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

The estimated fair value of the Corporation's long-term debt at September 30, 2009 amounts to \$24,036 and is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

On March 1, 2004 RIHEBC issued, on behalf of the Hospital, \$10,000 of tax-exempt bonds (the 2004 Bonds) to finance the renovation of medical/surgical inpatient beds, replace a CT Scan, purchase new beds and pay costs of issuance.

On September 30, 2009, the Hospital defeased the remaining \$5,000 outstanding principal amount of the 2004 Bonds. The Hospital elected, pursuant to Section 310(d) of the Indenture, to redeem the Bonds on October 1, 2009 (the Redemption Date) using proceeds from the Credit Facility furnished for the Bonds. On September 30, 2009, the trustee drew on the Credit Facility provided for the Bonds an amount equal to the outstanding principal of and accrued but unpaid interest on the Bonds due on the Redemption Date (the Purchase Price) and the trustee deposited such funds in the Bond Fund for application on the Redemption Date (October 1, 2009) to the payment of the Purchase Price. Also on September 30, 2009, the Hospital reimbursed the provider of the Credit Facility, Bank of America, N.A., in full for the trustee's draw on the Credit Facility.

On February 1, 1999, RIHEBC issued, on behalf of the Hospital, \$30,000 of tax-exempt bonds (the 1999 Bonds) to finance the acquisition, construction, renovation and equipping of various Hospital facilities. The 1999 Bonds are secured by a pledge of the gross receipts of the Hospital.

Payment of the principal and interest on the 1999 Bonds when due is guaranteed by Newport Hospital Foundation, Inc. Under the terms of the 1999 Bonds, the Hospital is required to satisfy certain measures of financial performance as long as the bonds are outstanding. At September 30, 2009, management believes the Hospital was in compliance with all covenants of the bonds.

The Corporation's aggregate maturities of long-term debt for the five fiscal years ending in September 2014 are as follows: 2010, \$720; 2011, \$755; 2012, \$795; 2013, \$835; and 2014, \$875.

Agreements underlying the 1999 Hospital Financing Revenue Bonds require that the Hospital maintain certain trustee-held funds, included with assets limited as to use in the consolidated statements of financial position, as follows:

Bond Fund – The Hospital is required to make quarterly deposits to the trustee sufficient to provide sinking funds for the payment of principal and interest to bondholders when due.

The balance of the 1999 Series Bond Fund at September 30, 2009 and 2008 is \$497 and \$498, respectively.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

(11) Temporarily and Permanently Restricted Assets

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

	<u>2009</u>		<u>2008</u>
Capital and equipment	\$ 34,070	\$	15,245
General health care service activities	14,634		9,440
Awards (employee recognition and education)	891		734
Total	<u>\$ 49,595</u>	\$	<u>25,419</u>

Permanently restricted net assets are as follows at September 30:

	<u>2009</u>		<u>2008</u>
Investments held in perpetuity, the income from which is expendable for general health care service activities	\$ 3,344	\$	27,938
Interest in perpetual trust, the income from which is to be used to provide financial aid for persons requiring medical and nursing services	1,095		1,137
Total	<u>\$ 4,439</u>	\$	<u>29,075</u>

(12) Leases

The Corporation leases building space and equipment under various noncancelable operating lease agreements. Future minimum lease payments, by year and in the aggregate, under noncancelable operating leases with terms of one year or more consist of the following at September 30, 2009:

Year ending September 30:	<u>Amount</u>
2010	\$ 1,084
2011	945
2012	737
2013	680
2014	565
Total minimum lease payments	<u>\$ 4,011</u>

Rental expense, including rentals under leases with terms of less than one year, for the years ended September 30, 2009 and 2008 was \$1,376 and \$1,034, respectively.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

(13) Concentrations of Credit Risk

Financial instruments which potentially subject the Corporation to concentrations of credit risk consist primarily of accounts receivable and certain investments. The risk associated with temporary cash investments is mitigated by the fact that the investments are placed with what management believes are high credit quality financial institutions. Investments, which include government and agency obligations, stocks, and corporate bonds, are not concentrated in any corporation or industry.

The Corporation receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, including Medicare, Blue Cross, Medicaid and various managed care entities. The Corporation has not historically incurred any significant concentrated credit losses in the normal course of business.

(14) Malpractice and Other Litigation

Professional Liability/Medical Malpractice and General Liability

Professional liability/medical malpractice coverage for the Hospital is supplied on a claims-made basis by Rhode Island Sound Enterprises Insurance Co. Ltd. (RISE), Lifespan's affiliated captive insurance company, which underwrites the medical malpractice risk of the Hospital. The adequacy of the coverage provided and the funding levels are reviewed annually by independent actuaries and consultants. The professional liability/medical malpractice insurance provided by RISE has liability limits of \$4 million per claim with no annual aggregate. RISE provides a second layer of coverage which has limits of an additional \$2 million per claim with a \$2 million annual aggregate. In addition, commercial umbrella excess insurance has been obtained by Lifespan to increase the professional liability limits to \$22 million per claim.

The Hospital has been named as a defendant in a number of pending actions seeking damages for alleged general or medical malpractice liability. In the opinion of management, any liability and legal defense costs resulting from these actions will be within the limits of the Hospital's malpractice insurance coverage provided by RISE and/or commercial excess carriers.

General liability coverage is provided to the Corporation by RISE amounting to \$4 million per claim and \$4 million in the annual aggregate. Commercial excess liability insurance has been obtained by Lifespan which provides aggregate general liability coverage of \$80 million.

Workers' Compensation

The Corporation has incurred a number of workers' compensation claims and, in the opinion of management, the liability of the Corporation will be within the limits of the assets of Lifespan's workers' compensation self-insurance trust fund.

Other Litigation

The Corporation is also involved in a number of miscellaneous suits and general liability suits arising in the course of business. After consultation with legal counsel, management estimates that these matters will

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

be resolved without material adverse effect on the Corporation's future financial position or results from operations.

(15) Related-Party Transactions

The Corporation was charged a management fee by Lifespan of \$7.9 million and \$7.7 million in 2009 and 2008, respectively, representing approximately 7% of Lifespan's operating expenses in each year. Lifespan provides information services, human resources, financial, and various other support services to the Corporation.

In the normal course of business, the Corporation enters into transactions with Lifespan and other related entities. Included in intercorporate financing are the following amounts due (to) from certain related entities at September 30:

	<u>2009</u>		<u>2008</u>
Lifespan	\$ (26)	\$	(21)
Rhode Island Hospital	208		(231)
The Miriam Hospital	<u>223</u>		<u>39</u>
Total intercorporate financing	<u>\$ 405</u>	\$	<u>(213)</u>

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

(In thousands)

(16) Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended September 30:

	<u>2009</u>	<u>2008</u>
Health care services	\$ 88,880	\$ 84,398
General and administrative:		
Depreciation and amortization	7,139	6,806
Interest	1,337	1,492
Other	<u>17,559</u>	<u>17,497</u>
Total general and administrative	<u>26,035</u>	<u>25,795</u>
	<u>\$ 114,915</u>	<u>\$ 110,193</u>

(17) Promises to Give

Included in contributions receivable are the following unconditional promises to give:

	<u>2009</u>	<u>2008</u>
Capital campaign	\$ 166	\$ 460
Other restricted	<u>280</u>	<u>359</u>
Unconditional promises to give before unamortized discount and allowance for uncollectibles	446	819
Less unamortized discount at rates ranging from 2.3% to 4.6%	<u>(28)</u>	<u>(60)</u>
Subtotal	418	759
Less allowance for uncollectibles	<u>(42)</u>	<u>(45)</u>
Net unconditional promises to give	<u>\$ 376</u>	<u>\$ 714</u>
Amounts due in:		
Less than one year	\$ 166	\$ 460
One to five years	277	359
More than five years	<u>3</u>	<u>—</u>
Total	<u>\$ 446</u>	<u>\$ 819</u>



KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

**Independent Auditors' Report on
Supplementary Information**

The Board of Trustees
Newport Health Care Corporation:

We have audited and reported separately herein on the consolidated financial statements of Newport Health Care Corporation and Affiliates (the Corporation) as of and for the years ended September 30, 2009 and 2008.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of the Corporation taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and changes in net assets (deficit), and cash flows of the individual entities. The consolidating information as of and for the years ended September 30, 2009 and 2008 has been subjected to auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

As described in note 3 to the consolidated financial statements, in 2009 Lifespan adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 820-10, *Fair Value Measurements and Disclosures* and ASC Subtopic 958-250 *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*.

KPMG LLP

February 17, 2010

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Supplementary Consolidating Statement of Financial Position

September 30, 2009

(In thousands)

Assets	Newport Hospital	Newport Health Property Management	Newport Hospital Foundation	Newport Health Care Corporation	NHCC Medical Associates	Total	Eliminations	Consolidated total
Current assets:								
Cash and cash equivalents	\$ 2,508	\$ 110	\$ 460	\$ 12	\$ 397	\$ 3,487	\$ —	\$ 3,487
Patient accounts receivable	11,622	—	—	—	1,031	12,653	—	12,653
Less allowance for doubtful accounts	(2,375)	—	—	—	(135)	(2,510)	—	(2,510)
Net patient accounts receivable	9,247	—	—	—	896	10,143	—	10,143
Other receivables	—	11	—	17	—	28	—	28
Current portion of contributions receivable, net	—	—	140	—	—	140	—	140
Total receivables	9,247	11	140	17	896	10,311	—	10,311
Assets limited as to use	497	—	—	—	—	497	—	497
Inventories	1,599	—	—	—	—	1,599	—	1,599
Intercompany financing	6,328	465	—	—	—	6,793	(6,388)	405
Prepaid expenses and other current assets	427	78	—	—	9	514	—	514
Total current assets	20,606	664	600	29	1,302	23,201	(6,388)	16,813
Interest in net assets of Newport Hospital Foundation	128,107	—	—	—	—	128,107	(128,107)	—
Assets limited as to use	73,732	22	126,822	—	—	200,576	—	200,576
Less amount required to meet current obligations	(497)	—	—	—	—	(497)	—	(497)
Noncurrent assets limited as to use	73,235	22	126,822	—	—	200,079	—	200,079
Property and equipment, net	69,555	5,076	—	—	169	74,800	—	74,800
Other assets:								
Contributions receivable, net	—	—	236	—	—	236	—	236
Deferred charges and financing costs, net	256	—	—	—	—	256	—	256
Investments in affiliates	—	—	1,000	—	—	1,000	(1,000)	—
Other noncurrent assets	905	—	—	—	—	905	—	905
Total other assets	1,161	—	1,236	—	—	2,397	(1,000)	1,397
Total assets	\$ 292,664	\$ 5,762	\$ 128,658	\$ 29	\$ 1,471	\$ 428,584	\$ (135,495)	\$ 293,089
Liabilities and Net Assets (Deficit)								
Current liabilities:								
Accounts payable	\$ 2,368	\$ 48	\$ —	\$ —	\$ 50	\$ 2,466	\$ —	\$ 2,466
Intercompany financing	—	—	472	4	5,912	6,388	(6,388)	—
Accrued employee benefits and compensation	4,349	—	—	—	1,195	5,544	—	5,544
Other accrued expenses	406	4	79	—	12	501	—	501
Current portion of long-term debt	720	—	—	—	—	720	—	720
Current portion of estimated third-party payor settlements	1,371	—	—	—	—	1,371	—	1,371
Estimated health care benefit self-insurance costs	292	—	—	—	76	368	—	368
Total current liabilities	9,506	52	551	4	7,245	17,358	(6,388)	10,970
Long term debt, net of current portion	23,535	—	—	—	—	23,535	—	23,535
Estimated third-party payor settlements, net of current portion	4,689	—	—	—	—	4,689	—	4,689
Accrued pension liability	11,463	—	—	—	—	11,463	—	11,463
Other liabilities	628	—	—	—	—	628	—	628
Total liabilities	49,821	52	551	4	7,245	57,673	(6,388)	51,285
Net assets (deficit):								
Unrestricted	188,809	5,710	126,943	25	(5,774)	315,713	(127,943)	187,770
Temporarily restricted	49,595	—	1,164	—	—	50,759	(1,164)	49,595
Permanently restricted	4,439	—	—	—	—	4,439	—	4,439
Total net assets (deficit)	242,843	5,710	128,107	25	(5,774)	370,911	(129,107)	241,804
Total liabilities and net assets	\$ 292,664	\$ 5,762	\$ 128,658	\$ 29	\$ 1,471	\$ 428,584	\$ (135,495)	\$ 293,089

See accompanying independent auditors' report on supplementary information.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Supplementary Consolidating Statement of Financial Position

September 30, 2008

(In thousands)

Assets	Newport Hospital	Newport Health Property Management	Newport Hospital Foundation	Newport Health Care Corporation	NHCC Medical Associates	Total	Eliminations	Consolidated total
Current assets:								
Cash and cash equivalents	\$ 6,172	\$ 227	\$ 791	\$ 15	\$ 339	\$ 7,544	\$ —	\$ 7,544
Patient accounts receivable	11,716	—	—	—	1,069	12,785	—	12,785
Less allowance for doubtful accounts	(2,178)	—	—	—	(77)	(2,255)	—	(2,255)
Net patient accounts receivable	9,538	—	—	—	992	10,530	—	10,530
Other receivables	—	12	—	25	—	37	—	37
Current portion of contributions receivable, net	—	—	401	—	—	401	—	401
Total receivables	9,538	12	401	25	992	10,968	—	10,968
Assets limited as to use	498	—	—	—	—	498	—	498
Inventories	466	—	—	—	—	466	—	466
Intercompany financing	4,132	255	—	—	—	4,387	(4,387)	—
Prepaid expenses and other current assets	388	66	—	—	16	470	—	470
Total current assets	21,194	560	1,192	40	1,347	24,333	(4,387)	19,946
Interest in net assets of Newport Hospital Foundation	130,284	—	—	—	—	130,284	(130,284)	—
Assets limited as to use	79,081	23	128,945	—	—	208,049	—	208,049
Less amount required to meet current obligations	(498)	—	—	—	—	(498)	—	(498)
Noncurrent assets limited as to use	78,583	23	128,945	—	—	207,551	—	207,551
Property and equipment, net	73,646	5,210	—	—	153	79,009	—	79,009
Other assets:								
Contributions receivable, net	—	—	313	—	—	313	—	313
Deferred charges and financing costs, net	282	—	—	—	—	282	—	282
Investments in affiliates	—	—	1,000	—	—	1,000	(1,000)	—
Other noncurrent assets	10,006	—	—	—	—	10,006	—	10,006
Total other assets	10,288	—	1,313	—	—	11,601	(1,000)	10,601
Total assets	\$ 313,995	\$ 5,793	\$ 131,450	\$ 40	\$ 1,500	\$ 452,778	\$ (135,671)	\$ 317,107
Liabilities and Net Assets (Deficit)								
Current liabilities:								
Accounts payable	\$ 2,693	\$ 52	\$ —	\$ —	\$ 109	\$ 2,854	\$ —	\$ 2,854
Intercompany financing	—	—	1,072	3	3,525	4,600	(4,387)	213
Accrued employee benefits and compensation	3,725	—	—	—	769	4,494	—	4,494
Other accrued expenses	436	23	94	—	14	567	—	567
Current portion of long-term debt	1,690	—	—	—	—	1,690	—	1,690
Current portion of estimated third-party payor settlements	1,034	—	—	—	—	1,034	—	1,034
Estimated health care benefit self-insurance costs	216	—	—	—	49	265	—	265
Total current liabilities	9,794	75	1,166	3	4,466	15,504	(4,387)	11,117
Long term debt, net of current portion	29,255	—	—	—	—	29,255	—	29,255
Estimated third-party payor settlements, net of current portion	4,634	—	—	—	—	4,634	—	4,634
Other liabilities	605	—	—	—	—	605	—	605
Total liabilities	44,288	75	1,166	3	4,466	49,998	(4,387)	45,611
Net assets (deficit):								
Unrestricted	215,213	5,718	128,867	37	(2,966)	346,869	(129,867)	217,002
Temporarily restricted	25,419	—	1,417	—	—	26,836	(1,417)	25,419
Permanently restricted	29,075	—	—	—	—	29,075	—	29,075
Total net assets (deficit)	269,707	5,718	130,284	37	(2,966)	402,780	(131,284)	271,496
Total liabilities and net assets	\$ 313,995	\$ 5,793	\$ 131,450	\$ 40	\$ 1,500	\$ 452,778	\$ (135,671)	\$ 317,107

See accompanying independent auditors' report on supplementary information.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES
Supplementary Consolidating Statement of Operations and Changes in Net Assets (Deficit)
Year ended September 30, 2009
(In thousands)

	Newport Hospital	Newport Health Property Management	Newport Hospital Foundation	Newport Health Care Corporation	NHCC Medical Associates	Total	Eliminations	Consolidated total
Unrestricted revenues and other support:								
Net patient service revenue	\$ 102,210	\$ —	\$ —	\$ —	\$ 5,442	\$ 107,652	\$ (1,679)	\$ 105,973
Other revenue	1,409	724	—	—	3,233	5,366	(2,717)	2,649
Endowment earnings contributed toward community benefit	998	—	—	—	—	998	—	998
Net assets released from restrictions used for operations	709	—	—	—	—	709	—	709
Total unrestricted revenues and other support	<u>105,326</u>	<u>724</u>	<u>—</u>	<u>—</u>	<u>8,675</u>	<u>114,725</u>	<u>(4,396)</u>	<u>110,329</u>
Operating expenses:								
Compensation and benefits	59,471	—	—	—	9,671	69,142	(4,038)	65,104
Supplies and other expenses	14,476	409	—	—	1,031	15,916	(358)	15,558
Purchased services	14,722	231	—	7	454	15,414	—	15,414
Provision for bad debts	5,408	—	—	—	159	5,567	—	5,567
Depreciation and amortization	6,792	310	—	—	37	7,139	—	7,139
Interest	1,337	—	—	—	—	1,337	—	1,337
License fees	4,796	—	—	—	—	4,796	—	4,796
Total operating expenses	<u>107,002</u>	<u>950</u>	<u>—</u>	<u>7</u>	<u>11,352</u>	<u>119,311</u>	<u>(4,396)</u>	<u>114,915</u>
Loss from operations	<u>(1,676)</u>	<u>(226)</u>	<u>—</u>	<u>(7)</u>	<u>(2,677)</u>	<u>(4,586)</u>	<u>—</u>	<u>(4,586)</u>
Nonoperating gains and losses:								
Unrestricted gifts and bequests	—	—	153	—	—	153	—	153
Unrestricted income from board-designated investments	487	—	1,432	—	—	1,919	—	1,919
Net realized losses on board-designated investments	(2,172)	—	(3,651)	—	—	(5,823)	—	(5,823)
Grants to outside agencies	—	—	—	(103)	(131)	(234)	—	(234)
Fundraising expenses	—	—	(683)	—	—	(683)	—	(683)
Other nonoperating gains, net	—	218	—	—	—	218	—	218
Total nonoperating (losses) gains, net	<u>(1,685)</u>	<u>218</u>	<u>(2,749)</u>	<u>(103)</u>	<u>(131)</u>	<u>(4,450)</u>	<u>—</u>	<u>(4,450)</u>
Deficiency of revenues over expenses	<u>(3,361)</u>	<u>(8)</u>	<u>(2,749)</u>	<u>(110)</u>	<u>(2,808)</u>	<u>(9,036)</u>	<u>—</u>	<u>(9,036)</u>
Other changes in unrestricted assets:								
Change in funded status of pension plan other than net periodic pension cost	(21,654)	—	—	—	—	(21,654)	—	(21,654)
Effect of changing pension plan's measurement date pursuant to ASC Topic 715	(166)	—	—	—	—	(166)	—	(166)
Decrease in interest in net assets of Newport Hospital Foundation	(1,924)	—	—	—	—	(1,924)	1,924	—
Net change in unrealized gains on investments	261	—	923	—	—	1,184	—	1,184
Net assets released from restrictions used for purchase of property and equipment	440	—	—	—	—	440	—	440
Transfers from (to) affiliates	—	—	(98)	98	—	—	—	—
Decrease in unrestricted net assets	<u>(26,404)</u>	<u>(8)</u>	<u>(1,924)</u>	<u>(12)</u>	<u>(2,808)</u>	<u>(31,156)</u>	<u>1,924</u>	<u>(29,232)</u>
Temporarily restricted net assets:								
Reclassification from adoption of UPMIFA (note 3(j))	24,687	—	—	—	—	24,687	—	24,687
Gifts, grants and bequests	170	—	682	—	—	852	—	852
Income from restricted endowment and other restricted investments	374	—	—	—	—	374	—	374
Net assets released from restrictions	(1,149)	—	—	—	—	(1,149)	—	(1,149)
Net realized and unrealized losses on investments	(504)	—	—	—	—	(504)	—	(504)
Decrease in interest in net assets of Newport Hospital Foundation	(253)	—	—	—	—	(253)	253	—
Transfers from (to) affiliates	941	—	(935)	—	—	6	—	6
Other decreases	(90)	—	—	—	—	(90)	—	(90)
Increase (decrease) in temporarily restricted net assets	<u>24,176</u>	<u>—</u>	<u>(253)</u>	<u>—</u>	<u>—</u>	<u>23,923</u>	<u>253</u>	<u>24,176</u>
Permanently restricted net assets:								
Reclassification from adoption of UPMIFA (note 3(j))	(24,687)	—	—	—	—	(24,687)	—	(24,687)
Gifts and bequests	(42)	—	93	—	—	93	—	93
Net unrealized losses on investments held in perpetual trust by others	93	—	(93)	—	—	(42)	—	(42)
Transfers from (to) affiliates	—	—	—	—	—	—	—	—
Decrease in permanently restricted net assets	<u>(24,636)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(24,636)</u>	<u>—</u>	<u>(24,636)</u>
Decrease in net assets	<u>(26,864)</u>	<u>(8)</u>	<u>(2,177)</u>	<u>(12)</u>	<u>(2,808)</u>	<u>(31,869)</u>	<u>2,177</u>	<u>(29,692)</u>
Net assets (deficit), beginning of year	<u>269,707</u>	<u>5,718</u>	<u>130,284</u>	<u>37</u>	<u>(2,966)</u>	<u>402,780</u>	<u>(131,284)</u>	<u>271,496</u>
Net assets (deficit), end of year	<u>\$ 242,843</u>	<u>\$ 5,710</u>	<u>\$ 128,107</u>	<u>\$ 25</u>	<u>\$ (5,774)</u>	<u>\$ 370,911</u>	<u>\$ (129,107)</u>	<u>\$ 241,804</u>

See accompanying independent auditors' report on supplementary information.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES
 Supplementary Consolidating Statement of Operations and Changes in Net Assets (Deficit)
 Year ended September 30, 2008
 (In thousands)

	Newport Hospital	Newport Health Property Management	Newport Hospital Foundation	Newport Health Care Corporation	NHCC Medical Associates	Total	Eliminations	Consolidated total
Unrestricted revenues and other support:								
Net patient service revenue	\$ 98,692	\$ —	\$ —	\$ —	\$ 5,881	\$ 104,573	\$ (1,796)	\$ 102,777
Other revenue	1,564	669	—	—	2,424	4,657	(2,255)	2,402
Endowment earnings contributed toward community benefit	996	—	—	—	—	996	—	996
Net assets released from restrictions used for operations	1,228	—	—	8	—	1,236	—	1,236
Total unrestricted revenues and other support	<u>102,480</u>	<u>669</u>	<u>—</u>	<u>8</u>	<u>8,305</u>	<u>111,462</u>	<u>(4,051)</u>	<u>107,411</u>
Operating expenses:								
Compensation and benefits	56,026	—	—	—	8,163	64,189	(3,694)	60,495
Supplies and other expenses	17,789	413	—	8	1,313	19,523	(354)	19,169
Purchased services	14,364	229	—	8	260	14,861	(3)	14,858
Provision for bad debts	4,288	—	—	—	103	4,391	—	4,391
Depreciation and amortization	6,480	303	—	—	23	6,806	—	6,806
Interest	1,492	—	—	—	—	1,492	—	1,492
License fees	2,982	—	—	—	—	2,982	—	2,982
Total operating expenses	<u>103,421</u>	<u>945</u>	<u>—</u>	<u>16</u>	<u>9,862</u>	<u>114,244</u>	<u>(4,051)</u>	<u>110,193</u>
Loss from operations	<u>(941)</u>	<u>(276)</u>	<u>—</u>	<u>(8)</u>	<u>(1,557)</u>	<u>(2,782)</u>	<u>—</u>	<u>(2,782)</u>
Nonoperating gains and losses:								
Unrestricted gifts and bequests	—	—	348	—	—	348	—	348
Unrestricted income from board-designated investments	899	—	2,546	—	—	3,445	—	3,445
Net realized (losses) gains on board-designated investments	(672)	—	3,426	—	—	2,754	—	2,754
Grants to outside agencies	—	—	—	(127)	—	(127)	—	(127)
Fundraising expenses	—	—	(703)	—	—	(703)	—	(703)
Other nonoperating losses, net	(82)	—	(7)	(88)	—	(177)	—	(177)
Total nonoperating gains (losses), net	<u>145</u>	<u>—</u>	<u>5,610</u>	<u>(215)</u>	<u>—</u>	<u>5,540</u>	<u>—</u>	<u>5,540</u>
Excess (deficiency) of revenues over expenses	<u>(796)</u>	<u>(276)</u>	<u>5,610</u>	<u>(223)</u>	<u>(1,557)</u>	<u>2,758</u>	<u>—</u>	<u>2,758</u>
Other changes in unrestricted assets:								
Change in funded status of pension plan other than net periodic pension cost	(3,328)	—	—	—	—	(3,328)	—	(3,328)
Decrease in interest in net assets of Newport Hospital Foundation	(22,000)	—	—	—	—	(22,000)	22,000	—
Net change in unrealized gains on investments	(10,117)	(4)	(28,699)	—	—	(38,820)	—	(38,820)
Net assets released from restrictions used for purchase of property and equipment	2,361	—	2,084	—	—	4,445	—	4,445
Transfers from (to) affiliates	—	1,675	(995)	(680)	—	—	—	—
(Decrease) increase in unrestricted net assets	<u>(33,880)</u>	<u>1,395</u>	<u>(22,000)</u>	<u>(903)</u>	<u>(1,557)</u>	<u>(56,945)</u>	<u>22,000</u>	<u>(34,945)</u>
Temporarily restricted net assets:								
Gifts, grants and bequests	215	—	932	—	—	1,147	—	1,147
Income from restricted endowment and other restricted investments	642	—	18	—	—	660	—	660
Net assets released from restrictions	(3,589)	—	(2,092)	—	—	(5,681)	—	(5,681)
Net realized and unrealized losses on investments	(6,160)	—	—	—	—	(6,160)	—	(6,160)
Decrease in interest in net assets of Newport Hospital Foundation	(3,770)	—	—	—	—	(3,770)	3,770	—
Transfers from (to) affiliates	2,684	—	(2,628)	—	—	56	—	56
Other decreases	(162)	—	—	—	—	(162)	—	(162)
Decrease in temporarily restricted net assets	<u>(10,140)</u>	<u>—</u>	<u>(3,770)</u>	<u>—</u>	<u>—</u>	<u>(13,910)</u>	<u>3,770</u>	<u>(10,140)</u>
Net unrealized losses on investments held in perpetual trust by others	(306)	—	—	—	—	(306)	—	(306)
Realized gains retained to maintain purchasing power	1,314	—	—	—	—	1,314	—	1,314
Permanently increase in permanently restricted net assets	<u>1,008</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,008</u>	<u>—</u>	<u>1,008</u>
(Decrease) increase in net assets	<u>(43,012)</u>	<u>1,395</u>	<u>(25,770)</u>	<u>(903)</u>	<u>(1,557)</u>	<u>(69,847)</u>	<u>25,770</u>	<u>(44,077)</u>
	<u>312,719</u>	<u>4,323</u>	<u>156,054</u>	<u>940</u>	<u>(1,409)</u>	<u>472,627</u>	<u>(157,054)</u>	<u>315,573</u>
	<u>\$ 269,707</u>	<u>\$ 5,718</u>	<u>\$ 130,284</u>	<u>\$ 37</u>	<u>\$ (2,966)</u>	<u>\$ 402,780</u>	<u>\$ (131,284)</u>	<u>\$ 271,496</u>

Net assets (deficit), beginning of year
 Net assets (deficit), end of year
 See accompanying independent auditors' report on supplementary information.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Supplementary Consolidating Statement of Cash Flows

Year ended September 30, 2009

(In thousands)

	Newport Hospital	Newport Health Property Management	Newport Hospital Foundation	Newport Health Care Corporation	NHCC Medical Associates	Total	Eliminations	Consolidated total
Cash flows from operating activities:								
Decrease in net assets	\$ (26,864)	\$ (8)	\$ (2,177)	\$ (12)	\$ (2,808)	\$ (31,869)	\$ 2,177	\$ (29,692)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:								
Change in funded status of pension plan other than net periodic pension cost	21,654	—	—	—	—	21,654	—	21,654
Effect of changing pension plan's measurement date pursuant to ASC Topic 715	166	—	—	—	—	166	—	166
Net realized and unrealized losses on investments	2,457	—	2,728	—	—	5,185	—	5,185
Undistributed portion of change in interest in net assets of Newport Hospital Foundation	2,177	—	—	—	—	2,177	(2,177)	—
Transfers (from) to affiliates	(941)	—	935	—	—	(6)	6	—
Depreciation and amortization	6,792	310	—	—	37	7,139	—	7,139
Provision for estimated health care benefit self-insurance costs	6,926	—	—	—	711	7,637	—	7,637
Decrease in liabilities for estimated health care benefit self-insurance costs resulting from claims paid	(6,850)	—	—	—	(684)	(7,534)	—	(7,534)
Decrease in patient accounts receivable, net	291	—	—	—	96	387	—	387
Decrease in contributions receivable, net	—	—	338	—	—	338	—	338
Decrease in accounts payable	(325)	(4)	—	—	(59)	(388)	—	(388)
Increase in accrued employee benefits and compensation	624	—	—	—	426	1,050	—	1,050
Increase in estimated third-party payor settlements	392	—	—	—	—	392	—	392
(Increase) decrease in all other current and noncurrent assets and liabilities, net	(4,605)	(240)	(615)	9	2,392	(3,059)	—	(3,059)
Net cash provided by (used in) operating activities	<u>1,894</u>	<u>58</u>	<u>1,209</u>	<u>(3)</u>	<u>111</u>	<u>3,269</u>	<u>6</u>	<u>3,275</u>
Cash flows from investing activities:								
Purchase of property and equipment	(2,701)	(176)	—	—	(53)	(2,930)	—	(2,930)
Other net decreases (increases) in assets limited to use	2,892	1	(605)	—	—	2,288	—	2,288
Net cash (used in) provided by investing activities	<u>191</u>	<u>(175)</u>	<u>(605)</u>	<u>—</u>	<u>(53)</u>	<u>(642)</u>	<u>—</u>	<u>(642)</u>
Cash flows from financing activities:								
Payments on long-term debt	(6,690)	—	—	—	—	(6,690)	—	(6,690)
Transfers from (to) affiliates	941	—	(935)	—	—	6	(6)	—
Net cash used in financing activities	<u>(5,749)</u>	<u>—</u>	<u>(935)</u>	<u>—</u>	<u>—</u>	<u>(6,684)</u>	<u>(6)</u>	<u>(6,690)</u>
Net (decrease) increase in cash and cash equivalents	<u>(3,664)</u>	<u>(117)</u>	<u>(331)</u>	<u>(3)</u>	<u>58</u>	<u>(4,057)</u>	<u>—</u>	<u>(4,057)</u>
Cash and cash equivalents, beginning of year	6,172	227	791	15	339	7,544	—	7,544
Cash and cash equivalents, end of year	<u>\$ 2,508</u>	<u>\$ 110</u>	<u>\$ 460</u>	<u>\$ 12</u>	<u>\$ 397</u>	<u>\$ 3,487</u>	<u>\$ —</u>	<u>\$ 3,487</u>
Supplemental disclosure of cash flow information:								
Cash paid for interest	<u>\$ 1,357</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,357</u>	<u>\$ —</u>	<u>\$ 1,357</u>

See accompanying independent auditors' report on supplementary information.

NEWPORT HEALTH CARE CORPORATION AND AFFILIATES

Supplementary Consolidating Statement of Cash Flows

Year ended September 30, 2008

(In thousands)

	Newport Hospital	Newport Health Property Management	Newport Hospital Foundation	Newport Health Care Corporation	NHCC Medical Associates	Total	Eliminations	Consolidated total
Cash flows from operating activities:								
(Decrease) increase in net assets	\$ (43,012)	\$ 1,395	\$ (25,770)	\$ (903)	\$ (1,557)	\$ (69,847)	\$ 25,770	\$ (44,077)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:								
Change in funded status of pension plan other than net periodic pension cost	3,328	—	—	—	—	3,328	—	3,328
Net realized and unrealized losses on investments	15,941	4	25,273	—	—	41,218	—	41,218
Undistributed portion of change in interest in net assets of Newport Hospital Foundation	25,770	—	—	—	—	25,770	(25,770)	—
Transfers (from) to affiliates	(2,684)	(1,675)	3,679	680	—	—	—	—
Depreciation and amortization	6,480	303	—	—	23	6,806	—	6,806
Provision for estimated health care benefit self-insurance costs	6,466	—	—	—	582	7,048	—	7,048
Decrease in liabilities for estimated health care benefit self-insurance costs resulting from claims paid	(6,442)	—	—	—	(559)	(7,001)	—	(7,001)
Decrease (increase) in patient accounts receivable, net	260	—	—	—	(639)	(379)	—	(379)
Decrease in contributions receivable, net	—	—	768	—	—	768	—	768
Increase (decrease) in accounts payable	(182)	41	—	—	74	(67)	—	(67)
Increase in accrued employee benefits and compensation	288	—	—	—	268	556	—	556
Increase in estimated third-party payor settlements	622	—	—	—	—	622	—	622
(Increase) decrease in all other current and noncurrent assets and liabilities, net	(3,058)	(113)	(596)	904	1,503	(1,360)	—	(1,360)
Net cash provided by (used in) operating activities	<u>3,777</u>	<u>(45)</u>	<u>3,354</u>	<u>681</u>	<u>(305)</u>	<u>7,462</u>	<u>—</u>	<u>7,462</u>
Cash flows from investing activities:								
Purchase of property and equipment	(8,640)	(1,508)	—	—	(89)	(10,237)	—	(10,237)
Other net decreases in assets limited to use	853	—	408	—	—	1,261	—	1,261
Net cash (used in) provided by investing activities	<u>(7,787)</u>	<u>(1,508)</u>	<u>408</u>	<u>—</u>	<u>(89)</u>	<u>(8,976)</u>	<u>—</u>	<u>(8,976)</u>
Cash flows from financing activities:								
Payments on long-term debt	(1,660)	—	—	—	—	(1,660)	—	(1,660)
Transfers from (to) affiliates	2,684	1,675	(3,679)	(680)	—	—	—	—
Net cash provided by (used in) financing activities	<u>1,024</u>	<u>1,675</u>	<u>(3,679)</u>	<u>(680)</u>	<u>—</u>	<u>(1,660)</u>	<u>—</u>	<u>(1,660)</u>
Net (decrease) increase in cash and cash equivalents	<u>(2,986)</u>	<u>122</u>	<u>83</u>	<u>1</u>	<u>(394)</u>	<u>(3,174)</u>	<u>—</u>	<u>(3,174)</u>
Cash and cash equivalents, beginning of year	9,158	105	708	14	733	10,718	—	10,718
Cash and cash equivalents, end of year	<u>\$ 6,172</u>	<u>\$ 227</u>	<u>\$ 791</u>	<u>\$ 15</u>	<u>\$ 339</u>	<u>\$ 7,544</u>	<u>\$ —</u>	<u>\$ 7,544</u>
Supplemental disclosure of cash flow information:								
Cash paid for interest	<u>\$ 1,494</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,494</u>	<u>\$ —</u>	<u>\$ 1,494</u>

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