

October 22, 2012

Via Facsimile and Regular Mail

Mr. Michael K. Dexter, Chief
Office of Health Systems Development
Rhode Island Department of Health
Cannon Building, Three Capitol Hill
Providence, Rhode Island 02908-5097

Re: Request for Expeditious Review

Dear Mr. Dexter:

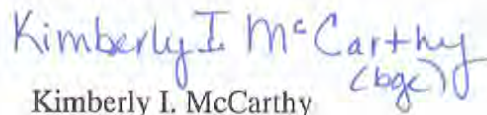
As we have discussed, Care New England Health System ("CNE") and The Memorial Hospital, d/b/a Memorial Hospital of Rhode Island ("MHRI") have executed a letter of intent regarding a transaction¹ that will result in a conversion requiring review and approval under the Hospital Conversions Act.

MHRI and CNE both are nonprofit corporations exempt from taxation under 26 U.S.C. § 501(a) as organizations described in 26 U.S.C. § 501(c)(3). Both MHRI and CNE have directly or indirectly continuously operated at least one licensed hospital for at least the preceding three (3) years. In addition, MHRI is a licensed hospital not under common control with another hospital, and CNE is a hospital system parent corporation. As a result, the conversion may be entitled to expeditious review under R.I. Gen. Laws Section 23-17.14-12.1.

We are filing the enclosed request for a determination that MHRI is "distressed" within the meaning of the statute. As demonstrated in the enclosed application and attachment, MHRI independently satisfies several of the statutory criteria on which the determination must be based.

We look forward to receiving your determination as soon as possible. If you have any questions, please contact me immediately, and I will be happy to assist you.

Sincerely,


Kimberly I. McCarthy

Enclosures

Cc: Michael G. Tauber, Esq.
1691147_1

¹ While the information on the application applies to the operations of MHRI, the transaction will likely also involve the parent of MHRI (as indicated in the Executive Summary), and certain subsidiaries and affiliates of MHRI.

Attachment to Request for Expeditious Review
Memorial Hospital of Rhode Island and Care New England Health System

Item 4. Executive Summary of Proposed Conversion

The proposed conversion involves The Memorial Hospital, d/b/a Memorial Hospital of Rhode Island ("MHRI") combining with, and becoming an integral part of, the health system operated by Care New England Health System ("CNE").

MHRI is a 294-bed community hospital serving the Blackstone Valley of Rhode Island and southeastern Massachusetts. It has approximately 1145 FTEs and 305 active members of its medical staff. The hospital is a teaching affiliate of The Warren Alpert Medical School of Brown University and the chief site for the medical school's primary care academic program housed in the Center for Primary Care. Last year it had approximately 6,800 discharges, provided almost 6,900 surgical procedures, and had more than 32,000 emergency department visits. Many of the patients that rely on MHRI for emergency and primary care reside in areas of Rhode Island that are predominantly poor and traditionally underserved, such as Pawtucket and Central Falls.

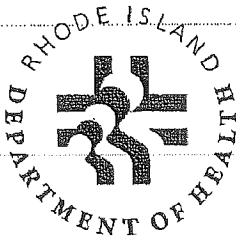
CNE is a Rhode Island health care system comprised of operating units that include Butler Hospital, Kent County Memorial Hospital, Women & Infants Hospital of Rhode Island, and VNA of Care New England. CNE has more than 5,000 FTEs and 730 active medical staff members. In total, CNE hospitals have 643 licensed beds and 80 NICU bassinets. Annually, CNE hospitals discharge approximately 42,000 patients, perform approximately 23,000 surgical procedures, and deliver over 9,400 babies. CNE hospitals had more than 88,000 emergency room visits and the VNA provides almost 60,000 skilled nursing visits each year. Additionally, CNE is dedicated to the advancement of medical education and research. Butler Hospital serves as the principal teaching affiliate for psychiatry and human behavior for The Warren Alpert Medical School of Brown University, Women & Infants is Brown's primary affiliate in obstetrics, gynecology, and newborn pediatrics, and Kent Hospital is affiliated with the University of New England College of Osteopathic Medicine. CNE has approximately \$800 million in annual revenue and \$750 million in assets.

It is anticipated that the proposed conversion will be accomplished by designating CNE as the sole member of Southeastern Health Care Systems, Inc., the parent organization and sole member of MHRI. As part of the proposed conversion, MHRI will be represented on the governing board of CNE, the CNE System will continue to provide charity care to the Blackstone Valley community in a manner similar to charity care heretofore provided by MHRI, and the CNE System will endeavor to make high-quality health care services available to the local communities that currently are served by MHRI in a manner similar to services heretofore provided by MHRI.

Item 6. Rating Agency Ratings.

MHRI does not have a rating assigned by any rating agency. Based solely on a letter of credit issued by Bank of America, MHRI's bonds (issued in 2003 by the Rhode Island Health and Educational Building Corporation) have been assigned a rating of A by Standard & Poor's. These bonds are not rated by either Moody's Investors Service or Fitch Ratings.

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

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

REQUEST FOR EXPEDITIOUS REVIEW
(Pursuant to R.I. Gen. Laws § 23-17.14-12.1)

1. Please provide the following information for the acquiree:

Name: The Memorial Hospital d/b/a Memorial Hospital of Rhode Island
Address: 111 Brewster Street, Pawtucket, RI 02860

Contact Information for the President or Chief Executive Officer:

Name: Arthur J. DeBlois, III	Telephone: (401) 729-2383
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Information for the person to contact regarding this proposal:

Name: Kimberly I. McCarthy, Esq.	Telephone: (401) 861-8256
E-mail: kim@psh.com	Fax number: (401) 861-8210

2. Please provide the following information for the acquiror:

Name: Care New England Health System
Address: 45 Willard Avenue, Providence, RI 02905

Contact Information for the President or Chief Executive Officer:

Name: Dennis D. Keefe	Telephone: (401) 453-7900
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Information for the person to contact regarding this proposal:

Name: Michael Tauber, Esq.	Telephone: (401) 274-2000
E-mail: mtauber@haslaw.com	Fax number: (401) 277-9600

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

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

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

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

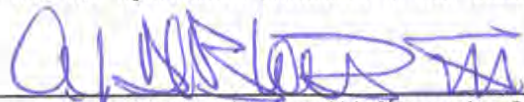
Fiscal Year	Operating Profit/(Loss)	Days Cash on Hand	Current Assets to Liability Ratio	Long-term Debt to Capitalization	Inpatient Occupancy Rate
20 10	(\$3.808M)	0.76	1.31	35.01%	28.59%
20 11	(\$8.582M)	1.77	1.39	76.16%	28.05%
1st Quarter of 20 12	(\$4.266M)	0.31	1.29	94.29%	26.85%
2nd Quarter of 20 12	(\$1.670M)	1.04	1.70	96.48%	29.17%
3rd Quarter of 20 12	(\$4.089M)	4.47	1.50	160.29%	24.52%

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

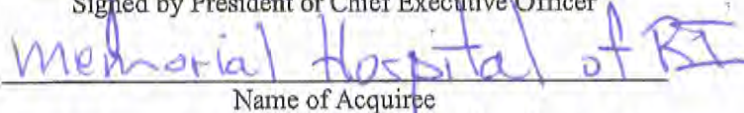
Rating Agency	Grade Assigned to Acquiree
Standard & Poor's	
Moody's	
Fitch Group	

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

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

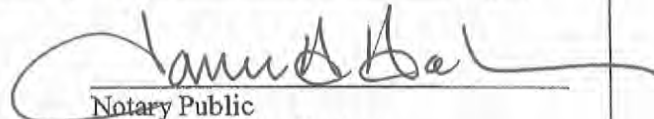


Signed by President or Chief Executive Officer



Name of Acquiree

Subscribed and sworn to before me on this 17th day of October 2012.



Notary Public

My Commission Expires: _____

James H. Hahn
State of Rhode Island
Notary Public #6322
My Commission Expires
8/23/2013

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

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

Dennis D. Keefe
Signed by President or Chief Executive Officer

Care New England
Name of Acquiror

Subscribed and sworn to before me on this 19th day of October 2012.

James J. Ginter
Notary Public # 41937
My Commission Expires: 9/17/2013

SOUTHEASTERN HEALTHCARE SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS

	<u>UNAUDITED</u> 06/30/12	<u>AUDITED</u> 09/30/11
<u>Assets</u>		
<u>Current assets:</u>		
Cash and cash equivalents	\$3,190,087	\$1,921,664
Current portion of assets whose use is limited	1,949,607	1,908,648
Patient accounts receivable - Net	31,229,877	33,269,225
Other accounts receivable - Net	1,273,202	1,209,686
Estimated settlements with third-party payors	1,000,422	1,695,156
Inventories	644,861	744,597
Prepaid expenses and other	<u>1,419,833</u>	<u>899,383</u>
 Total current assets	 <u>40,707,889</u>	 <u>41,648,359</u>
 <u>Assets whose use is limited or restricted</u>		
By the Board for designated purposes	10,138,654	19,634,907
Held by trustee under indenture agreement	1,313,784	0
Pledges Receivable	11,848	56,325
By donors for specific purposes	1,393,200	1,297,954
By donors for permanent endowment	3,124,215	3,124,215
By externally administered trusts	6,923,278	6,345,138
Deferred compensation trust	<u>0</u>	<u>0</u>
	22,904,979	30,458,539
 Less amount required to meet current obligations	 <u>(1,949,607)</u>	 <u>(1,908,648)</u>
 Noncurrent assets whose use is limited	 20,955,372	 28,549,891
Property & equipment - Net	31,543,258	33,558,383
Other assets	<u>187,262</u>	<u>207,326</u>
 Total assets	 <u><u>\$93,393,781</u></u>	 <u><u>\$103,963,959</u></u>

**SOUTHEASTERN HEALTHCARE SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS**

	<u>UNAUDITED</u> <u>06/30/12</u>	<u>AUDITED</u> <u>09/30/11</u>
<u>Liabilities and Net Assets</u>		
<u>Current liabilities:</u>		
Accounts payable and accrued expenses	\$23,712,967	\$22,610,478
Estimated settlements with third-party payors	0	0
Accrued interest payable	287,569	143,784
Current portion of long-term debt and capital lease obligations	1,581,789	1,587,385
Line of credit	0	5,000,000
	<hr/>	<hr/>
Total current liabilities	25,582,325	29,341,647
Additional minimum pension liability	48,295,374	48,295,374
Long-term debt - Net of current portion	11,094,906	11,106,099
Capital lease obligations - Net of current portion	0	0
Insurance reserves	1,153,539	977,468
Deferred compensation liability	0	0
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Total liabilities	86,126,144	89,720,588
<u>Net assets:</u>		
Unrestricted	(4,173,056)	3,476,064
Temporarily restricted	1,393,200	1,297,954
Permanently restricted	10,047,493	9,469,353
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Total net assets	7,267,637	14,243,371
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Total liabilities and net assets	<u>\$93,393,781</u>	<u>\$103,963,959</u>

SOUTHEASTERN HEALTHCARE SYSTEM, INC.
CONSOLIDATED STATEMENTS OF INCOME

	UNAUDITED NINE MONTHS ENDED 06/30/12	AUDITED TWELVE MONTHS ENDED 09/30/11
<u>Unrestricted revenue and other support:</u>		
Net patient service revenue	\$119,656,153	\$169,647,204
Other revenue	7,653,658	10,833,097
Net assets released from restrictions for operations	18,391	22,437
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Total unrestricted revenue and other support	127,328,202	180,502,738
<u>Expenses:</u>		
Salaries and wages	63,903,412	85,146,873
Employee benefits	24,535,250	30,440,944
Supplies, purchased services and other	33,546,281	44,306,769
Provision for bad debts - Net	11,488,124	16,371,134
Depreciation and amortization	3,285,781	4,280,101
Licensing fee	0	7,549,028
Interest	739,048	1,143,902
	<hr/>	<hr/>
Total expenses	137,497,896	189,238,751
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(Loss)/gain from operations	(10,169,694)	(8,736,013)
<u>Other income, gains and losses:</u>		
Investment income	(77,465)	314,262
Net realized gains on sales of investments	1,258,474	2,357,007
Unrestricted donations	80,684	104,252
Write-off of investment	0	0
Income on assets held in trust	244,765	303,954
	<hr/>	<hr/>
Total nonoperating gains	1,506,458	3,079,475
	<hr/>	<hr/>
Excess of revenue over expenses before change in appreciation of investments	(8,663,236)	(5,656,538)
	<hr/>	<hr/>
Change in appreciation of investments	826,179	-2,513,288
	<hr/>	<hr/>
Excess of revenue over expenses	(7,837,057)	(8,169,826)

SOUTHEASTERN HEALTHCARE SYSTEM, INC.
STATEMENTS OF CHANGES IN NET ASSETS

	UNAUDITED NINE MONTHS ENDED 06/30/12	AUDITED TWELVE MONTHS ENDED 09/30/11
<u>Change in unrestricted net assets:</u>		
Excess of revenue over expenses	(7,837,057)	(8,169,826)
Additional minimum pension liability	0	(12,124,629)
Contributions for capital expenditures	183,490	0
Net assets released from restrictions	<u>4,446</u>	<u>208,279</u>
Increase in unrestricted net assets	(7,649,121)	(20,086,176)
 <u>Change in temporarily restricted net assets:</u>		
Contributions	122,709	12,508
Investment income	(4,622)	144,467
Realized gains held to maintain purchasing power	0	356,423
Net assets released from restrictions used for purchase of PP&E	<u>(22,840)</u>	<u>(230,716)</u>
(Decrease)/Increase in temporarily restricted net assets	95,247	282,682
 <u>Change in permanently restricted net assets:</u>		
Net appreciation on assets held in externally administered trusts	578,140	(243,837)
Restricted donations	<u>0</u>	<u>23</u>
Increase in permanently restricted net assets	578,140	(243,814)
Increase in net assets	(6,975,734)	(20,047,308)
Net assets, beginning of year	<u>14,243,371</u>	<u>34,290,679</u>
Net assets, end of year	<u><u>7,267,637</u></u>	<u><u>14,243,371</u></u>

SOUTHEASTERN HEALTHCARE SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS
06/30/12

Assets

Current assets:

	MEMORIAL HOSPITAL	R. S. REALTY	SHS VENTURES	CONSOLIDATING ENTRIES	TOTAL MEMORIAL AND SUBS	PCCNE	BLACKSTONE HEALTH	SHS	TOTAL TOTAL	CONSOLIDATING ENTRIES	TOTAL SOUTHEASTERN HEALTHCARE SYSTEM, INC.
Cash and cash equivalents	\$2,098,230	\$324,980	\$18,144	-	\$2,439,354	\$3,569	\$218,898	\$528,266	\$3,190,087	-	\$3,190,087
Assets limited as to use	1,949,607	-	-	-	1,949,607	-	-	-	1,949,607	-	1,949,607
Patient accounts receivable, net	31,152,336	-	75,083	-	31,227,419	2,458	-	-	31,229,877	-	31,229,877
Other accounts receivable	1,007,033	19,878	14,881	0	1,041,592	62,663	221,257	-	1,325,512	(52,310)	1,273,202
Estimated third party settlements	1,000,422	-	-	-	1,000,422	-	-	-	1,000,422	-	1,000,422
Inventories	638,036	-	6,825	-	644,861	-	-	-	644,861	-	644,861
Prepaid expenses	1,386,504	11,424	731	-	1,398,659	-	21,174	-	1,419,833	-	1,419,833
Total current assets	39,230,168	356,282	115,464	0	39,701,914	68,690	461,329	528,266	40,760,199	(52,310)	40,707,889

Assets limited as to use:

By the Board for designated purposes	8,090,255	-	-	(197,129)	7,893,126	512,716	-	-	8,405,842	7,443	8,413,285
By the Board for designated purposes - DRF	1,725,369	-	-	-	1,725,369	-	-	-	1,725,369	-	1,725,369
Pledges Receivable	11,848	-	-	-	11,848	-	-	-	11,848	-	11,848
Held by Trustee under Loan Agreement	1,313,784	-	-	-	1,313,784	-	-	-	1,313,784	-	1,313,784
By donors for specific purposes	1,393,200	-	-	-	1,393,200	-	-	-	1,393,200	-	1,393,200
By donors for permanent endowment	3,124,215	-	-	-	3,124,215	-	-	-	3,124,215	-	3,124,215
By externally administered trusts	6,923,278	-	-	-	6,923,278	-	-	-	6,923,278	-	6,923,278
Deferred Compensation Trust	0	-	-	-	0	-	-	-	0	-	0
	22,581,949	0	0	(197,129)	22,384,820	512,716	0	0	22,897,536	7,443	22,904,979
Less amount required to meet current obligations	(1,949,607)	-	-	-	(1,949,607)	-	-	-	(1,949,607)	-	(1,949,607)
	20,632,342	0	0	(197,129)	20,435,213	512,716	0	0	20,947,929	7,443	20,955,372
Property & equipment, net	31,031,148	494,206	2,835	0	31,528,189	-	15,069	-	31,543,258	-	31,543,258
Deferred financing costs, net	187,262	-	-	-	187,262	-	-	-	187,262	-	187,262
Total assets	\$91,060,920	\$850,488	\$118,299	(\$197,129)	\$91,852,578	\$561,406	\$476,398	\$528,266	\$93,438,648	(\$44,867)	\$93,393,781

SOUTHEASTERN HEALTHCARE SYSTEM, INC.
CONSOLIDATED BALANCE SHEETS
06/30/12

Liabilities and Net Assets

Current liabilities:

	MEMORIAL HOSPITAL	R. S. REALTY	SHS VENTURES	CONSOLIDATING ENTRIES	TOTAL MEMORIAL AND SUBS	PCCNE	BLACKSTONE HEALTH	SHS	TOTAL TOTAL	CONSOLIDATING ENTRIES	TOTAL SOUTHEASTERN HEALTHCARE SYSTEM, INC.
Accounts payable and accrued expenses	24,269,487	143,154	302,305	(197,129)	24,517,817	39,086	92,437	-	24,649,340	(44,867)	24,604,473
Estimated third party settlements	0	-	-	-	0	-	-	-	0	-	0
Accrued interest payable	287,569	-	-	-	287,569	-	-	-	287,569	-	287,569
Current portion of long-term debt and capital lease obligations	1,581,789	-	-	-	1,581,789	-	-	-	1,581,789	-	1,581,789
Line of credit	0	-	-	-	0	-	-	-	0	-	0
Total current liabilities	26,138,845	143,154	302,305	(197,129)	26,387,175	39,086	92,437	0	26,518,698	(44,867)	26,473,831
Additional minimum pension liability	48,295,374	-	-	-	48,295,374	-	-	-	48,295,374	-	48,295,374
Deferred revenue	(1,000,482)	-	-	-	(1,000,482)	-	108,976	-	(891,506)	-	(891,506)
Long-term debt, net of current portion	11,094,906	-	-	-	11,094,906	-	-	-	11,094,906	-	11,094,906
Capital lease obligations	0	-	-	-	0	-	-	-	0	-	0
Estimated self-insurance and other liabilities	1,153,539	-	-	-	1,153,539	-	-	-	1,153,539	-	1,153,539
Other long-term liabilities	0	-	-	-	0	-	-	-	0	-	0
Total liabilities	85,682,182	143,154	302,305	(197,129)	85,930,512	39,086	201,413	0	86,171,011	(44,867)	86,126,144
<u>Net assets:</u>											
Unrestricted	(6,041,955)	707,334	(184,006)	-	(5,518,627)	542,320	274,985	528,266	(4,173,056)	-	(4,173,056)
Temporarily restricted	1,393,200	-	-	-	1,393,200	-	-	-	1,393,200	-	1,393,200
Permanently restricted	10,047,493	-	-	-	10,047,493	-	-	-	10,047,493	-	10,047,493
Total net assets	5,398,738	707,334	(184,006)	0	5,922,066	542,320	274,985	528,266	7,267,637	0	7,267,637
Total liabilities and net assets	\$91,080,920	\$850,488	\$118,299	(\$197,129)	\$91,852,578	\$581,406	\$476,398	\$528,266	\$93,438,648	(\$44,867)	\$93,393,781

SOUTHEASTERN HEALTHCARE SYSTEM, INC.
CONSOLIDATED STATEMENTS OF INCOME
NINE MONTHS ENDED 06/30/12

	MEMORIAL HOSPITAL	R. S. REALTY	SHS VENTURES	CONSOLIDATING ENTRIES	MEMORIAL AND SUBS	PCGNE	BLACKSTONE HEALTH	SHS	TOTAL	CONSOLIDATING ENTRIES	SOUTHEASTERN HEALTHCARE SYSTEM, INC.
<u>Unrestricted revenue, gains and other support:</u>											
Net patient service revenue	\$119,153,322		\$502,831		\$119,656,153				\$119,656,153	\$0	\$119,656,153
Other revenue	6,141,906	574,504	17,832	(154,894)	6,579,348	3,750	1,070,197	45,363	7,698,658	(45,000)	7,653,658
Assets released from restrictions for operations	18,391				18,391				18,391		18,391
Total revenue, gains and other support	125,313,619	574,504	520,663	(154,894)	126,253,892	3,750	1,070,197	45,363	127,373,202	(45,000)	127,328,202
<u>Expenses:</u>											
Salaries and wages	62,978,314		489,705	123,823	63,591,842	-	284,570	-	63,876,412	27,000	63,903,412
Employee benefits	24,270,854		143,645	-	24,414,499	-	120,751	-	24,535,250		24,535,250
Supplies, purchased services and other	32,628,265	468,913	166,477	(278,717)	32,984,938	3,882	584,416	45,045	33,618,281	(72,000)	33,546,281
Provision for bad debts	11,475,069		13,055	-	11,488,124	-	-	-	11,488,124	-	11,488,124
Depreciation and amortization	3,206,632	71,916	1,248	-	3,279,796	0	5,965	-	3,285,761	-	3,285,761
Licensing fee	0		-	-	0	-	-	-	0	-	0
Interest	739,048		-	-	739,048	-	-	-	739,048	-	739,048
Total expenses	135,298,182	540,829	814,130	(154,894)	136,498,247	3,882	995,722	45,045	137,542,896	(45,000)	137,497,896
(Loss)/gain from operations	(9,984,563)	33,675	(293,467)	0	(10,244,355)	(132)	74,475	318	(10,169,694)	0	(10,169,694)
<u>Other income, gains and losses:</u>											
Investment income	(77,465)	-	-	-	(77,465)	-	-	-	(77,465)	-	(77,465)
Net realized gains on sales of investments	1,258,474	-	-	-	1,258,474	-	-	-	1,258,474	-	1,258,474
Unrestricted donations	80,684	-	-	-	80,684	-	-	-	80,684	-	80,684
Income on assets held in trust	244,765	-	-	-	244,765	-	-	-	244,765	-	244,765
Write-off of investment	-	-	-	-	0	-	-	-	0	-	0
Total nonoperating gains	1,506,458	0	0	0	1,506,458	0	0	0	1,506,458	0	1,506,458
Excess of revenues over expenses before change in appreciation of investments	(8,478,105)	33,675	(293,467)	0	(8,737,897)	(132)	74,475	318	(8,663,236)	0	(8,663,236)
Change in appreciation of investments	826,179				826,179				826,179		826,179
Excess of revenues over expenses	(7,651,926)	33,675	(293,467)	0	(7,911,718)	(132)	74,475	318	(7,837,057)	0	(7,837,057)

SOUTHEASTERN HEALTHCARE SYSTEM, INC.
STATEMENTS OF CHANGES IN NET ASSETS
NINE MONTHS ENDED 06/30/12

	MEMORIAL HOSPITAL	R. S. REALTY	SHS VENTURES	CONSOLIDATING ENTRIES	MEMORIAL AND SUBS	PCCNE	BLACKSTONE HEALTH	SHS	TOTAL	CONSOLIDATING ENTRIES	SOUTHEASTERN HEALTHCARE SYSTEM, INC.
Change in unrestricted net assets:											
Excess of revenues over expenses	(7,651,926)	33,675	(293,467)	0	(7,911,718)	(132)	74,475	318	(7,837,057)	0	(7,837,057)
Additional minimum pension liability	0	-	-	-	0	-	-	-	0	-	0
Cummulative effect of a change in accounting principle	0	-	-	-	0	-	-	-	0	-	0
Intercompany Transfer	(225,000)	0	225,000	0	0	0	0	-	0	0	0
Contributions for capital expenditures	183,490	-	-	-	183,490	-	-	-	183,490	-	183,490
Net assets released from restrictions	0	-	-	-	0	-	-	-	0	-	0
Net assets released from restrictions used for purchase of PP&E	4,447	-	-	-	4,447	-	-	-	4,447	-	4,447
Increase in unrestricted net assets	(7,688,989)	33,675	(68,467)	0	(7,723,781)	(132)	74,475	318	(7,649,120)	0	(7,649,120)
Change in temporarily restricted net assets:											
Contributions	122,709	-	-	-	122,709	-	-	-	122,709	-	122,709
Investment income	(4,622)	-	-	-	(4,622)	-	-	-	(4,622)	-	(4,622)
Realized gains held to maintain purchasing power	0	-	-	-	0	-	-	-	0	-	0
Net assets released from restriction	(22,841)	-	-	-	(22,841)	-	-	-	(22,841)	-	(22,841)
Increase in temporarily restricted net assets	95,246	0	0	0	95,246	0	0	0	95,246	0	95,246
Change in permanently restricted net assets:											
Restricted donations	0	-	-	-	0	-	-	-	0	-	0
Net appreciation on assets held in externally administered trusts	578,140	-	-	-	578,140	-	-	-	578,140	-	578,140
Increase in permanently restricted net assets	578,140	0	0	0	578,140	0	0	0	578,140	0	578,140
Increase in net assets	(7,015,603)	33,675	(68,487)	0	(7,050,395)	(132)	74,475	318	(6,975,734)	0	(6,975,734)
Net assets, beginning of year	12,414,341	673,659	(115,539)	0	12,972,461	542,452	200,510	527,948	14,243,371	0	14,243,371
Net assets, end of year	\$5,398,738	\$707,334	(\$184,006)	\$0	\$5,922,066	\$542,320	\$274,985	\$528,266	\$7,267,637	\$0	\$7,267,637



AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

Southeastern Healthcare System, Inc. and Affiliates
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Southeastern Healthcare System, Inc. and Affiliates

Audited Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2011 and 2010

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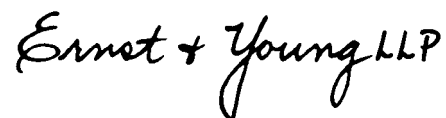
Report of Independent Auditors

Board of Trustees
Southeastern Healthcare System, Inc.

We have audited the accompanying consolidated balance sheets of Southeastern Healthcare System, Inc. and Affiliates (the System) as of September 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the System's internal control over financial reporting. Our audits included 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 System'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 and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Southeastern Healthcare System, Inc. and Affiliates as of September 30, 2011 and 2010, and the consolidated 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.

A handwritten signature in cursive script that reads 'Ernst & Young LLP'.

March 9, 2012

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Balance Sheets

	September 30	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,921,664	\$ 1,501,838
Current portion of assets whose use is limited	1,908,648	2,936,344
Accounts receivable for services to patients, net of allowance for doubtful accounts and charity care of approximately \$10,431,000 in 2011 and \$9,772,000 in 2010	33,269,225	32,509,340
Other accounts receivable	1,209,686	1,503,613
Estimated settlements with third-party payors	1,695,156	2,466,273
Inventories	744,597	808,863
Prepaid expenses and other	899,383	862,032
Total current assets	41,648,359	42,588,303
Assets whose use is limited:		
By the Board for designated purposes	19,634,907	31,081,199
Pledges receivable	56,325	202,392
By donors for designated purposes	1,297,954	1,015,273
By donors for permanent endowment	3,124,215	3,124,192
By externally administered trusts	6,345,138	6,588,975
	30,458,539	42,012,031
Less amount required to meet current obligations	(1,908,648)	(2,936,344)
	28,549,891	39,075,687
Property and equipment, net	33,558,383	34,541,070
Deferred financing costs, net	207,326	234,078
Total assets	\$ 103,963,959	\$ 116,439,138

	September 30	
	2011	2010
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 22,610,478	\$ 25,057,378
Accrued interest payable	143,784	159,384
Current portion of long-term debt and capital lease obligations	1,587,385	1,582,385
Line of credit	5,000,000	5,000,000
Total current liabilities	<u>29,341,647</u>	31,799,147
Long-term pension liability	48,295,374	36,591,747
Long-term debt, net of current portion	11,106,099	12,693,483
Estimated self-insurance liabilities and other liabilities	977,468	981,582
Deferred compensation liability	–	82,500
Total liabilities	<u>89,720,588</u>	82,148,459
Commitments and contingencies		
Net assets:		
Unrestricted	3,476,064	23,562,239
Temporarily restricted	1,297,954	1,015,273
Permanently restricted	9,469,353	9,713,167
Total net assets	<u>14,243,371</u>	34,290,679
Total liabilities and net assets	<u><u>\$ 103,963,959</u></u>	<u><u>\$ 116,439,138</u></u>

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2011	2010
Operating revenues:		
Net patient service revenue	\$ 169,647,204	\$ 173,318,865
Other revenue	10,833,097	10,241,484
Net assets released from restrictions for operations	22,437	108,887
Total operating revenues	180,502,738	183,669,236
Operating expenses:		
Salaries and wages	85,146,873	84,425,033
Employee benefits	30,440,944	29,257,213
Supplies, purchased services, and other	44,306,769	45,794,792
Provision for bad debts	16,371,134	15,657,416
Depreciation and amortization	4,280,101	4,183,905
Licensing fee	7,549,028	7,178,101
Interest	1,143,902	1,287,152
Total operating expenses	189,238,751	187,783,612
Loss from operations	(8,736,013)	(4,114,376)
Nonoperating gains:		
Investment income	314,262	350,807
Net realized gains on sales of investments	2,357,007	715,584
Unrestricted donations	104,252	233,654
Income on assets held in externally administered trusts	303,954	285,654
Total nonoperating gains	3,079,475	1,585,699
Deficiency of revenue over expenses before change in fair value of investments	(5,656,538)	(2,528,677)
Change in fair value of investments	(2,513,288)	817,068
Deficiency of revenues over expenses	(8,169,826)	(1,711,609)

Continued on next page.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2011	2010
Deficiency of revenue over expenses (continued)	\$ (8,169,826)	\$ (1,711,609)
Change in pension liability	(12,124,629)	(281,586)
Net assets released from restrictions	208,280	62,638
Contribution of long-lived assets	–	5,370
Decrease in unrestricted net assets	(20,086,175)	(1,925,187)
Change in temporarily restricted net assets:		
Contributions	12,508	217,146
Investment income	144,467	166,402
Net appreciation (realized and unrealized)	356,423	111,935
Net assets released from restrictions	(230,717)	(171,525)
Increase in temporarily restricted net assets	282,681	323,958
Change in permanently restricted net assets:		
Change in unrealized (depreciation) appreciation on assets held in externally administered trusts	(243,837)	352,119
Permanently restricted endowment contributions	23	34
(Decrease) increase in permanently restricted net assets	(243,814)	352,153
Decrease in net assets	(20,047,308)	(1,249,076)
Net assets at beginning of year	34,290,679	35,539,755
Net assets at end of year	\$ 14,243,371	\$ 34,290,679

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2011	2010
Operating activities		
Decrease in net assets	\$ (20,047,308)	\$ (1,249,076)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and nonoperating gains:		
Depreciation and amortization	4,280,101	4,183,905
Provision for bad debts	16,371,134	15,657,416
Amortization of bond premium	(22,384)	(22,385)
Change in pension liability	12,124,629	281,586
Unrealized depreciation (appreciation) on assets held in externally administered trusts	243,837	(352,119)
Change in:		
Patient accounts receivable	(17,131,019)	(13,416,137)
Other accounts receivable	293,927	(289,846)
Estimated settlements with third-party payors	771,117	596,423
Inventories	64,266	(49,598)
Prepaid expenses and other	(37,351)	255,829
Investments classified as trading	11,152,657	1,629,393
Accounts payable, accrued expenses and long-term pension liability	(2,867,902)	(80,026)
Accrued interest payable	(15,600)	(15,600)
Estimated self-insurance liabilities and other liabilities	(4,114)	(173,170)
Deferred compensation liability	(82,500)	(2,317,225)
Net cash provided by operating activities and nonoperating gains	5,093,490	4,639,370
Investing activities		
Purchases of property and equipment, net	(3,270,662)	(3,753,089)
Net cash used in investing activities	(3,270,662)	(3,753,089)
Financing activities		
Restricted contributions and investment income	156,998	383,582
Repayments of long-term debt and additional financing costs	(1,560,000)	(1,560,000)
Net cash used in financing activities	(1,403,002)	(1,176,418)
Net increase (decrease) in cash and cash equivalents	419,826	(290,137)
Cash and cash equivalents at beginning of year	1,501,838	1,791,975
Cash and cash equivalents at end of year	\$ 1,921,664	\$ 1,501,838

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

September 30, 2011

1. Organization and Summary of Significant Accounting Policies

Organization

Southeastern Healthcare System, Inc. (SHSI), formed in 1997, is the sole corporate member or shareholder of Memorial Hospital of Rhode Island (the Hospital), Primary Care Centers of New England, Inc. (PCCNE), and Blackstone Health, Inc. (BHI) (collectively referred to as the System). The Hospital is the sole corporate member of R.S. Realty Company (RSR) and SHS Ventures, Inc. (Ventures).

The Hospital is a 294-bed, acute care, not-for-profit community teaching and research hospital located in Pawtucket, Rhode Island, and is affiliated with Brown University School of Medicine. RSR owns and leases apartments and office space primarily to Hospital employees. PCCNE provides staffing to Ventures and the Hospital. Ventures consists of Massachusetts-based physician practices. BHI receives and administers certain grant funds, and provides services to elderly and disabled residents in the local area.

Principles of Consolidation

The accompanying consolidated financial statements include the assets of SHSI and its controlled affiliates. The assets of any one of the members of the consolidated group may not be available to meet the obligations of other entities in the group. Intercompany balances and transactions between the organizations have been eliminated in consolidation.

Consolidated Statements of Operations and Changes in Net Assets

The consolidated statements of operations and changes in net assets include the deficiency of revenue over expenses. Changes in unrestricted net assets, which are excluded from the deficiency of revenue over expenses, consistent with industry practice, include contributions of long-lived assets, including assets acquired using contributions which, by donor restrictions, were to be used for the purpose of acquiring such assets, change in net assets related to pension, and net assets released from restrictions used to purchase property and equipment.

For presentation purposes, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and operating expenses. Other transactions not considered major or central to the provision of health care services are reported as nonoperating gains and losses, which primarily consist of investment income and unrestricted donations.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net Patient Service Revenue

The System has entered into payment agreements with Medicare, Medicaid, and various commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under those agreements includes prospectively determined rates per discharge, discounts from established charges, costs (subject to limits), fee screens, prospectively determined per diem rates, and capitation fees earned on a per-member-per-month basis. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations and statutes, certain elements of third-party reimbursements are subject to negotiation, audit, and final determination by the third-party payors. Variances between preliminary estimates of net patient service revenue and final third-party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs. During fiscal years 2011 and 2010, the System recorded increases in net patient service revenue of \$771,118 and \$225,478, respectively, related to changes in previously estimated third-party settlements.

Grant Revenue

The Hospital receives grants from agencies of the federal government and other sources to perform medical research and educational projects. Revenue related to these grants is recognized as the related costs are incurred. Grant revenues included in other revenue amounted to \$5,704,174 and \$4,861,889 for the years ended September 30, 2011 and 2010, respectively. Deferred revenues which relate to grant funds received prior to costs being incurred are included in accounts payable and accrued expenses and amounted to \$800,260 and \$1,079,789 at September 30, 2011 and 2010, respectively.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Expenses

Substantially all expenses in the accompanying consolidated statements of operations and changes in net assets are related to the delivery of health care services and the performance of medical research and educational projects.

Disproportionate Share Program

The Hospital is a participant in the State of Rhode Island's Disproportionate Share Program, which was established in 1995 to assist hospitals that provide a disproportionate amount of uncompensated care. Under the program, the Hospital receives federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. Payments to the Hospital under the Disproportionate Share Program of \$5,757,941 and \$8,489,049 for the years ended September 30, 2011 and 2010, respectively, are included in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

Assessments

The state of Rhode Island assesses a licensing fee to all Rhode Island hospitals based upon each hospital's gross patient service revenue as reported on filed cost reports. The Hospital's licensing fee amounted to \$7,549,028 and \$7,178,101 for the years ended September 30, 2011 and 2010, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of amounts restricted by donors for specific purposes. Permanently restricted net assets have been restricted by donors and are to be maintained by the System in perpetuity. Also included in permanently restricted net assets are assets held in externally administered irrevocable trusts which are not under the System's control. The System is the income beneficiary of certain perpetual trusts and has recognized its share of the fair value of the perpetual trusts as a permanently restricted asset. The System's share represents the percentage of interest the System has in the perpetual trust's income distributions. The System's share of the increase or decrease in fair value of the perpetual trusts is reported as an increase or decrease in permanently restricted net assets.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Donor Restricted Gifts

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

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with maturities of three months or less when purchased, excluding assets whose use is limited or restricted.

Accounts Receivable

Patient accounts receivable result from the health care services provided by the System. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators.

Inventories

Inventories are stated at the lower of cost or market, cost being determined on a weighted-average basis, except for the pharmacy and central processing departments, which utilize the first-in, first-out basis.

Assets Whose Use Is Limited

Resources set aside for board-designated purposes or limited under terms of loan agreements are considered to be assets whose use is limited. Assets whose use is limited that are required for obligations classified as current liabilities are classified as current assets.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Assets whose use is limited by donors for designated purposes consist of amounts contributed for the design and renovation of the Hospital's facility. Assets whose use is limited by donors for permanent endowment funds contain a donor-imposed restriction stipulating that these resources be maintained permanently. However, the restriction permits the Hospital to use or expend all of the income and net gains derived from the donated assets. Accordingly, investment income on the assets is unrestricted. Rhode Island general law allows organizations to permanently restrict investment earnings on permanently restricted funds to maintain the purchasing power of the original dollar value of the funds. The law also allows the governing board to expend such funds as permitted under other laws, the terms of the applicable gift instrument, or the charter of the institution. Each year, the Board of Trustees has designated all income of permanently restricted assets, other than externally administered trusts, for future Hospital use and, therefore, the income has been classified as unrestricted.

The Hospital is the beneficiary of the income from assets held in externally administered trusts, which are not under its control. Income from these trusts is unrestricted, and the annual distributions received by the Hospital are reported as nonoperating gains in the consolidated statements of operations and changes in net assets.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is generally determined based on quoted market price. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the deficiency of revenue over expenses.

Property and Equipment

Property and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in income from operations. Depreciation of property and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives ranging from 3 to 50 years. The cost of additions and improvements are capitalized and expenditures for repairs and maintenance, including the cost of replacing minor items not considered substantial enhancements, are expensed as incurred.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

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

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of debt, which are being amortized over the term of the related debt issue. Amortization expense amounted to \$26,752 and \$26,751 for the years ended September 30, 2011 and 2010, respectively.

Tax Status

SHSI, the Hospital, Ventures and BHI have been recognized as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the Code). RSR has been recognized as a tax-exempt organization under Section 501(c)(2) of the Code. Those organizations are, therefore, exempt from federal taxes on related income pursuant to Section 501(a) of the Code. PCCNE is organized as a for-profit corporation and is, therefore, subject to tax. The provision for income taxes on the earnings of PCCNE is immaterial to the consolidated financial statements.

As of September 30, 2011, PCCNE has net operating loss carryforwards of approximately \$600,000 for income tax purposes. These carryforwards resulted from PCCNE incurring operating losses in prior years. A deferred tax asset for these losses of approximately \$240,000 is offset by a corresponding valuation allowance of the same amount.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Standards

In August 2010, the Financial Accounting Standards Board (FASB) issued amended guidance relating to measuring charity care for disclosures. The amended guidance requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. Separate disclosure of the amount of any cash reimbursements received for providing charity care must also be disclosed. The amended guidance is effective for fiscal years beginning after December 15, 2010. SHSI will adopt the disclosures required by the amended guidance in fiscal 2012.

In August 2010, the FASB issued amended guidance related to the presentation of insurance claims and related insurance recoveries. Under the new guidance, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the balance sheet. The guidance is effective for fiscal years beginning after December 15, 2010. SHSI will adopt the presentation changes to the balance sheet in fiscal 2012.

In July 2011, the FASB issued new guidance, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*. The guidance requires certain health care entities to present the bad debt expense associated with the patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than operating expense. The guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 31, 2011, with early adoption permitted.

2. Accounts Receivable for Patients and Net Patient Service Revenue

During fiscal years 2011 and 2010, the Hospital's net revenues from services to patients were 31% and 34% from Medicare and 19% and 17% from Medicaid, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Accounts Receivable for Patients and Net Patient Service Revenue (continued)

Net revenues from services to patients are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Patient accounts receivable and revenues are recorded when patient services are performed. The Hospital has agreements with certain third-party payors, including health maintenance organizations, that provide for payments to the Hospital at amounts different from the Hospital's established billing rates. These differences are accounted for as allowances. Under those agreements, the Hospital receives reimbursement based on a number of different arrangements.

3. Uncompensated Care and Community Benefit

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The following table displays the level of charity care provided during the years ended September 30:

	<u>2011</u>	<u>2010</u>
Charges forgone, based on established rates	<u>\$ 6,888,579</u>	\$ 6,076,412
Estimated costs and expenses incurred to provide charity care	<u>\$ 3,002,479</u>	<u>\$ 2,823,790</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

3. Uncompensated Care and Community Benefit (continued)

In addition to the above-mentioned medical care rendered, the Hospital provides numerous other services to the community for which charges are not generated. These services include translation of medical information into various languages, physician referral services, health care screenings (including those done at employer sites), community support groups, health educational programs, physician services, and general community benefit services such as disaster relief. In addition, volunteer services are provided by Hospital staff to the community on their own time.

The Hospital also provides services to other indigent patients under the Medicaid program, which reimburses health care providers at amounts which are, in total, estimated to be less than the cost of services provided. The differences between the cost of services provided to indigent patients and the expected reimbursement are also considered to be charitable services by the Hospital but they have not been included in the amounts disclosed above.

In addition to the cost of charity care and other community service programs, the Hospital provided \$16,371,134 and \$15,657,416 for uncollectible patient accounts during the years ended September 30, 2011 and 2010, respectively.

4. Assets Whose Use is Limited

Assets whose use is limited consist of the following at fair value at September 30:

	<u>2011</u>	<u>2010</u>
Interest and other receivables	\$ 1,207,623	\$ 1,211,400
Pledges receivable	56,325	202,392
Assets held in externally administered trusts	6,345,138	6,588,975
Cash and money market investments	3,244,820	6,748,812
Marketable securities	19,604,633	27,260,452
	<u>\$ 30,458,539</u>	<u>\$ 42,012,031</u>

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

4. Assets Whose Use is Limited (continued)

Marketable securities consist of the following at fair value at September 30:

	<u>2011</u>	<u>2010</u>
U.S. government obligations	\$ 4,513,646	\$ 6,069,919
International fixed income mutual funds	558,483	605,123
Equity securities	12,544,637	16,815,587
International equity mutual funds	–	1,163,650
U.S. equity mutual funds	1,854,348	2,589,766
Real estate investment trusts	133,519	16,407
	<u>\$ 19,604,633</u>	<u>\$ 27,260,452</u>

The System's unrestricted investment income for the years ended September 30 consisted of the following:

	<u>2011</u>	<u>2010</u>
Interest income	\$ 314,262	\$ 350,807
Net realized gains on sales of investments	2,357,007	715,584
Income on assets held in externally administered trusts	303,954	285,654
	<u>2,975,223</u>	<u>1,352,045</u>
Change in fair value of investments	(2,513,288)	817,068
	<u>\$ 461,935</u>	<u>\$ 2,169,113</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

5. Endowment

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

The System classifies restricted donor funds in accordance with the state of Rhode Island and generally accepted accounting principles. The System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) the accumulation of the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by the state laws of Rhode Island and UPMIFA. The System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the System and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the System; and (7) the investment and spending policies of the System.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

For the years ended September 30, 2011 and 2010, the System had the following changes in the endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, October 1, 2009	\$ —	\$ 3,124,158	\$ 3,124,158
Investment returns:			
Investment income	657,837	—	657,837
Net appreciation (realized and unrealized)	111,935	—	111,935
Total investment return	769,772	—	769,772
Appropriation of endowment assets for expenditure	(657,837)	—	(657,837)
Permanently restricted endowment contributions	—	34	34
Endowment net assets, September 30, 2010	111,935	3,124,192	3,236,127
Investment returns:			
Investment income	620,084	—	620,084
Net appreciation (realized and unrealized)	356,423	—	356,423
Total investment return	976,507	—	976,507
Appropriation of endowment assets for expenditure	(620,084)	—	(620,084)
Permanently restricted endowment contributions	—	23	23
Endowment net assets, September 30, 2011	\$ 468,358	\$ 3,124,215	\$ 3,592,573

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

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

From time to time, the fair value of the assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. There are no deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2011.

6. Line of Credit

The Hospital has an unsecured revolving line of credit with a bank which provides for borrowings of up to \$5,000,000 for both fiscal 2011 and 2010. Interest accrues at an effective rate of LIBOR plus 3.5% (4.75% at September 30, 2011).

7. Property and Equipment

Property and equipment consisted of the following at September 30:

	<u>2011</u>	<u>2010</u>
Property and equipment:		
Land	\$ 1,912,714	\$ 1,912,714
Land improvements	1,585,672	1,561,672
Buildings and improvements	49,732,041	48,598,011
Equipment	62,133,700	60,915,758
	<u>115,364,127</u>	112,988,155
Less accumulated depreciation	(82,583,239)	(78,447,085)
	<u>32,780,888</u>	34,541,070
Construction in progress	777,495	-
	<u>\$ 33,558,383</u>	<u>\$ 34,541,070</u>

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt

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

	<u>2011</u>	<u>2010</u>
Rhode Island Health and Educational Building Corporation Hospital Financing Revenue Refunding Bonds	\$ 12,520,000	\$ 14,080,000
Add premium	173,484	195,868
	<u>12,693,484</u>	14,275,868
Less current portion	<u>(1,587,385)</u>	(1,582,385)
Long-term debt	<u>\$ 11,106,099</u>	<u>\$ 12,693,483</u>

In December 2003, the Rhode Island Health and Educational Building Corporation (RIHEBC) issued \$25,000,000 of Series 2003 Hospital Financing Revenue Refunding Bonds (the Bonds) on behalf of the Hospital. RIHEBC loaned the proceeds of the Bonds to the Hospital pursuant to the Loan and Trust Agreement (the Agreement) dated December 1, 2003. The terms of the Agreement stipulate that interest will be paid at fixed rates ranging from 4.00% to 5.25% per annum (weighted-average rate at September 30, 2011 and 2010, was 4.59% and 4.53%, respectively), with principal installments commencing July 1, 2004, and ending July 1, 2019.

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

As required by the Agreement, the bonds are secured by a letter of credit from a commercial bank. Accordingly, the Hospital has entered into a Reimbursement Agreement, dated December 1, 2003 (Reimbursement Agreement), and an Unrestricted Endowment Account Control Agreement dated July 31, 2009 (Account Control Agreement). Under the terms of the Reimbursement Agreement the Hospital must meet the requirements of certain covenants. The Account Control Agreement grants the bank a security interest in certain investments held by the Hospital. For the year ended September 30, 2011, the Hospital was not in compliance with the required minimum cash flow coverage ratio covenant required by the Reimbursement Agreement. Under the terms of an Amendment to the Reimbursement Agreement dated February 29, 2012 (Amendment), the required minimum cash flow coverage ratio covenant was

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

waived for each of the 4 quarters ending September 30, 2011 and December 31, 2011. In addition, the requirement to provide annual audited financial statements to the trustee by February 27, 2012 was also waived. The amendment to the reimbursement agreement amends certain sections of the original reimbursement agreement and requires the Hospital to: fund a debt service fund in an amount equal to the monthly pro-rata portion of the annual debt service on the bonds; release funds to repay the existing line of credit and fund operating losses; and meet certain transaction milestones in fiscal year 2013. The Amendment also limits the amount of monthly losses from operations. As of September 30, 2011, December 31, 2011 and March 8, 2012 the Hospital was in compliance with the terms of the amended Reimbursement Agreement.

The aggregate maturities of long-term debt (prior to amortization of premium) for the next five fiscal years ending September 30 and thereafter are approximately as follows:

2012	\$ 1,565,000
2013	1,565,000
2014	1,565,000
2015	1,565,000
2016	1,565,000
Thereafter	4,695,000

Cash paid for interest on all borrowings during the years ended September 30, 2011 and 2010, was approximately \$1,182,000 and \$1,325,000, respectively.

The fair value of long-term debt is reported in the accompanying consolidated balance sheets at principal value, plus unamortized premium, which totaled \$12,693,484 at September 30, 2011. The fair value of these obligations at September 30, 2011, as estimated based on quoted market prices for similar bonds, totaled \$12,967,120.

9. Pension Plan

The Hospital has a defined benefit pension plan (the Plan) covering substantially all of its employees. The plan benefits are based on years of service and employees' compensation during the last five years of covered employment. The Hospital makes annual contributions to the Plan, which approximates the amount of net periodic pension cost. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

The following table sets forth the status of the Plan as of September 30:

	<u>2011</u>	<u>2010</u>
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 117,225,365	\$ 107,433,658
Service cost	3,983,898	3,657,470
Interest cost	6,493,864	6,134,459
Benefits paid	(3,380,071)	(3,116,215)
Actuarial loss	6,700,716	3,115,993
Projected benefit obligation at end of year	<u>131,023,772</u>	<u>117,225,365</u>
Change in plan assets		
Fair value of plan assets at beginning of year	80,633,618	70,534,801
Actual return on plan assets	(483,104)	6,938,041
Contributions and transfers	5,957,955	6,276,991
Benefits paid	(3,380,071)	(3,116,215)
Fair value of plan assets at end of year	<u>82,728,398</u>	<u>80,633,618</u>
Unfunded status	<u>\$ (48,295,374)</u>	<u>\$ (36,591,747)</u>

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic benefit cost:

	<u>2011</u>	<u>2010</u>
Unrecognized actuarial loss	\$ 47,573,253	\$ 35,457,212
Unrecognized prior service credit	(43,390)	(51,978)
	<u>\$ 47,529,863</u>	<u>\$ 35,405,234</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

The actuarial loss and prior service credit included in unrestricted net assets at September 30, 2011, and expected to be recognized in net periodic benefit cost during the year ending September 30, 2012, are as follows:

Unrecognized actuarial loss	\$ 3,565,188
Unrecognized prior service credit	<u>(11,020)</u>
	<u>\$ 3,554,168</u>

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

	2011	2010
Service cost – benefits earned during the year	\$ 3,983,898	\$ 3,657,470
Interest cost on projected benefit obligation	6,493,864	6,134,459
Actual return on plan assets	(7,353,230)	(6,461,353)
Net amortization and deferral	2,412,421	2,149,489
Net periodic pension cost	<u>\$ 5,536,953</u>	<u>\$ 5,480,065</u>

Assumptions

Weighted-average assumptions used to determine benefit obligations and net periodic pension cost at September 30, 2011 and 2010, and for the years then ended are as follows:

	Benefit Obligations		Net Periodic Pension Cost	
	2011	2010	2011	2010
Discount rate	5.40%	5.63%	5.63%	5.80%
Expected rate of return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	2.00%	2.00%	2.00%	2.00%

The expected rate of return on plan assets was determined by the expected return on each asset class based on a model that considers historical and expected future performance.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

The accumulated benefit obligation was \$120,867,716 and \$106,313,277 at September 30, 2011 and 2010, respectively.

Plan Assets

The Plan weighted-average asset allocations as of September 30, by asset category, are as follows:

	Target Allocation	2011	2010
Equity securities	33%	30%	34%
Annuities	50	52	47
Debt securities	13	13	12
Alternative investments	4	2	2
Cash equivalents	0	3	5
Total	100%	100%	100%

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

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

Financial instruments in the Plan, carried at fair value as of September 30, 2011, are classified in the following table in the following categories (see Note 14 for a description):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,522,006	\$ —	\$ —	\$ 2,522,006
U.S. government fixed income	1,915,474	—	—	1,915,474
U.S. government asset backed fixed income	2,188,533	—	—	2,188,533
U.S. fixed income mutual funds	2,079,734	—	—	2,079,734
International fixed income mutual funds	4,585,669	—	—	4,585,669
Equity securities:				
Consumer goods	4,509,776	—	—	4,509,776
Energy	1,721,414	—	—	1,721,414
Financials	2,762,042	—	—	2,762,042
Health care	3,737,057	—	—	3,737,057
Industrials	1,951,437	—	—	1,951,437
Information technology	4,142,975	—	—	4,142,975
Materials	653,178	—	—	653,178
Telecommunication services	437,620	—	—	437,620
Utilities	764,083	—	—	764,083
Total equity securities	20,679,583	—	—	20,679,583
International equity mutual funds	2,317,637	—	—	2,317,637
U.S. equity mutual funds	2,118,733	—	—	2,118,733
Real estate investment trusts	1,269,466	—	—	1,269,466
Investments at fair value	<u>\$ 39,676,836</u>	<u>\$ —</u>	<u>\$ —</u>	<u>39,676,836</u>
Investments not at fair value – guaranteed annuity contracts				43,051,562
Total investments				<u>\$ 82,728,398</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

Financial instruments in the Plan, carried at fair value as of September 30, 2010, are classified in the following table in the following categories (see Note 14 for a description):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,787,989	\$ —	\$ —	\$ 2,787,989
U.S. government fixed income	2,506,359	—	—	2,506,359
U.S. government asset backed fixed income	1,106,642	—	—	1,106,642
U.S. fixed income mutual funds	4,215,221	—	—	4,215,221
International fixed income mutual funds	2,174,770	—	—	2,174,770
Equity securities:				
Consumer goods	4,658,347	—	—	4,658,347
Energy	2,237,292	—	—	2,237,292
Financials	2,944,568	—	—	2,944,568
Health care	4,347,529	—	—	4,347,529
Industrials	2,082,547	—	—	2,082,547
Information technology	5,296,819	—	—	5,296,819
Materials	1,052,634	—	—	1,052,634
Telecommunication services	479,340	—	—	479,340
Utilities	767,062	—	—	767,062
Total equity securities	23,866,138	—	—	23,866,138
International equity mutual funds	2,620,520	—	—	2,620,520
U.S. equity mutual funds	2,533,313	—	—	2,533,313
Real estate investment trusts	1,374,645	—	—	1,374,645
Investments at fair value	<u>\$ 43,185,597</u>	<u>\$ —</u>	<u>\$ —</u>	<u>43,185,597</u>
Investments not at fair value – guaranteed annuity contracts				37,448,021
Total investments				<u>\$ 80,633,618</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

Cash Flows

Contributions

The Hospital funds the Plan in accordance with guidelines prescribed by the Employee Retirement Income Security Act of 1974 (ERISA). The Plan's contribution requirement is not yet known. Actual contributions for the fiscal year ending September 30, 2012, will be based on the contribution requirement and other factors, including the September 30, 2012, disclosure status.

Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, are expected to be paid as follows:

2012	\$ 4,720,000
2013	5,028,000
2014	5,332,000
2015	5,596,000
2016	6,090,000
2017 – 2021	37,923,000

10. Estimated Self-Insurance Liabilities

Professional Liability Insurance

Effective July 1, 2004, professional liability insurance coverage was provided on an occurrence basis. Such coverage was provided on a claims-made basis through June 30, 2004. The claims-made policies cover only claims made during the terms of the policies and not those occurrences for which claims may be made after expiration of the policies. The System is self-insured with respect to incurred but not reported (IBNR) claims incurred prior to July 1, 2004. Accordingly, the System has established a liability for such IBNR exposure of \$579,313 and \$582,000 at September 30, 2011 and 2010, respectively.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

10. Estimated Self-Insurance Liabilities (continued)

Workers' Compensation Insurance

The System is self-insured with respect to workers' compensation risks up to a maximum of \$350,000 per claim. The provision for estimated self-insured workers' IBNR compensation claims includes estimates of the ultimate costs for both reported claims and claims. The estimates incorporate the System's past experience, as well as other considerations.

11. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The percentage of accounts receivable from patients and various third-party payors was as follows at September 30:

	2011	2010
Medicare	28%	26%
Blue Cross	17	19
Medicaid	13	18
Other third-party payors	26	24
Patients	16	13
	100%	100%

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at September 30:

	2011	2010
General activities	\$ 741,145	\$ 805,860
Research	88,451	97,478
Net appreciation (realized and unrealized)	468,358	111,935
	\$ 1,297,954	\$ 1,015,273

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

12. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets consist of the following at September 30:

	2011	2010
Principal portion of contributions restricted in perpetuity by donors	\$ 3,124,215	\$ 3,124,192
Assets held in externally administered trusts	6,345,138	6,588,975
	\$ 9,469,353	\$ 9,713,167

13. Commitments and Contingencies

The System is a defendant in several lawsuits, which are in various stages of progress or discovery. Management believes that its insurance coverage is adequate to cover claims made under all such lawsuits and, accordingly, no provision for loss has been reflected in the accompanying consolidated financial statements.

14. Fair Value Measurement

The System applies the methods of calculating fair value defined in Accounting Standards Codification (ASC) 820-10 to value its financial assets and liabilities, where applicable. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. ASC 820-10 applies to other accounting pronouncements that require or permit fair value measurements, and does not require new fair value measurements. Fair value measurements are applied based on the unit of account from the reporting entity's perspective.

The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurement (continued)

ASC 820 establishes a three-tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.

Level 2: Observable inputs that are based on data not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

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

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurement (continued)

Financial assets, excluding assets held in the Plan, carried at fair value as of September 30, 2011, are classified in the following table in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,244,820	\$ —	\$ —	\$ 3,244,820
U.S. government fixed income	632,308	—	—	632,308
U.S. government asset backed fixed income	491,089	—	—	491,089
U.S. fixed income mutual funds	3,390,249	—	—	3,390,249
International fixed income mutual funds	558,483	—	—	558,483
Equity securities:				
Consumer goods	1,734,679	—	—	1,734,679
Energy	960,040	—	—	960,040
Financials	1,461,567	—	—	1,461,567
Health care	1,520,878	—	—	1,520,878
Industrials	1,568,441	—	—	1,568,441
Information technology	2,273,925	—	—	2,273,925
Materials	330,008	—	—	330,008
Telecommunication services	249,729	—	—	249,729
Utilities	273,392	—	—	273,392
Other	442,572	—	—	442,572
Real estate	1,729,406	—	—	1,729,406
U.S. equity mutual funds	1,854,348	—	—	1,854,348
Real estate investment trusts	133,519	—	—	133,519
Common collective trusts	—	6,345,138	—	6,345,138
Investments at fair value	<u>\$ 22,849,453</u>	<u>\$ 6,345,138</u>	<u>\$ —</u>	<u>29,194,591</u>
Interest and other receivables				1,207,623
Pledge receivable				<u>56,325</u>
Total cash and cash equivalents and investments				<u>\$ 30,458,539</u>

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurement (continued)

Financial assets carried at fair value as of September 30, 2010, are classified in the following table in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 6,748,811	\$ —	\$ —	\$ 6,748,811
U.S. government fixed income	631,504	—	—	631,504
U.S. government asset backed fixed income	1,013,848	—	—	1,013,848
U.S. fixed income mutual funds	4,424,567	—	—	4,424,567
International fixed income mutual funds	605,123	—	—	605,123
Equity securities:				
Consumer goods	2,437,634	—	—	2,437,634
Energy	1,169,031	—	—	1,169,031
Financials	2,265,342	—	—	2,265,342
Health care	2,108,055	—	—	2,108,055
Industrials	2,588,240	—	—	2,588,240
Information technology	2,958,926	—	—	2,958,926
Materials	701,779	—	—	701,779
Telecommunication services	285,393	—	—	285,393
Utilities	289,241	—	—	289,241
Other	681,677	—	—	681,677
Real estate	1,330,269	—	—	1,330,269
U.S. equity mutual funds	2,589,766	—	—	2,589,766
International equity mutual funds	1,163,650	—	—	1,163,650
Real estate investment trusts	16,407	—	—	16,407
Common collective trusts	—	6,588,975	—	6,588,975
Investments at fair value	<u>\$ 34,009,263</u>	<u>\$ 6,588,975</u>	<u>\$ —</u>	<u>40,598,238</u>
Interest and other receivables				1,211,401
Pledge receivable				202,392
Total cash and cash equivalents and investments				<u>\$ 42,012,031</u>

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurement (continued)

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 assets is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers. The valuation for alternative investments included in Level 2 are stated at fair value, as estimated in an unquoted market. Fair value for alternative investments is determined for each investment using net asset values as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

15. Subsequent Events

In accordance with ASC 855-10, *Subsequent Events*, management has evaluated subsequent events through March 9, 2012, which is the date the consolidated financial statements were issued. No events have occurred that require disclosure or adjustment of the consolidated financial statements.

Other Financial Information

Report of Independent Auditors on Other Financial Information

Board of Trustees
Southeastern Healthcare System, Inc.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the 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.

Ernst & Young LLP

March 9, 2012

Southeastern Healthcare System, Inc.

Consolidating Balance Sheet

September 30, 2011

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 789,126	\$ 374,867	\$ 2,366	\$ -	\$ 1,166,359	\$ 14,361	\$ 212,996	\$ 527,948	\$ 1,921,664	\$ -	\$ 1,921,664
Current portion of assets whose use is limited	1,908,648	-	-	-	1,908,648	-	-	-	1,908,648	-	1,908,648
Accounts receivable for services to patients, net of allowance for doubtful accounts and charity care of approximately \$10,431,000 in 2011	33,188,335	-	78,432	-	33,266,767	2,458	-	-	33,269,225	-	33,269,225
Other accounts receivable	1,091,996	10,358	5,105	-	1,107,459	35,359	98,671	-	1,241,489	(31,803)	1,209,686
Estimated settlements with third-party payors	1,695,156	-	-	-	1,695,156	-	-	-	1,695,156	-	1,695,156
Inventories	737,772	-	6,825	-	744,597	-	-	-	744,597	-	744,597
Prepaid expenses and other	876,596	7,693	-	-	884,289	-	15,094	-	899,383	-	899,383
Total current assets	40,287,629	392,918	92,728	-	40,773,275	52,178	326,761	527,948	41,680,162	(31,803)	41,648,359
Assets limited as to use:											
By the Board for designated purposes	17,814,556	-	-	(225,022)	17,589,534	512,716	-	-	18,102,250	6,557	18,108,807
By the Board for designated purposes – Littlefield	1,526,100	-	-	-	1,526,100	-	-	-	1,526,100	-	1,526,100
Pledges receivable	56,325	-	-	-	56,325	-	-	-	56,325	-	56,325
By donors for designated purposes	1,297,954	-	-	-	1,297,954	-	-	-	1,297,954	-	1,297,954
By donors for permanent endowment	3,124,215	-	-	-	3,124,215	-	-	-	3,124,215	-	3,124,215
By externally administered trusts	6,345,138	-	-	-	6,345,138	-	-	-	6,345,138	-	6,345,138
	30,164,288	-	-	(225,022)	29,939,266	512,716	-	-	30,451,982	6,557	30,458,539
Less amount required to meet current obligations	(1,908,648)	-	-	-	(1,908,648)	-	-	-	(1,908,648)	-	(1,908,648)
	28,255,640	-	-	(225,022)	28,030,618	512,716	-	-	28,543,334	6,557	28,549,891
Property and equipment, net	33,011,001	525,029	4,083	-	33,540,113	-	18,270	-	33,558,383	-	33,558,383
Deferred financing costs, net	207,326	-	-	-	207,326	-	-	-	207,326	-	207,326
Total assets	\$ 101,761,596	\$ 917,947	\$ 96,811	\$ (225,022)	\$ 102,551,332	\$ 564,894	\$ 345,031	\$ 527,948	\$ 103,989,205	\$ (25,246)	\$ 103,963,959

Southeastern Healthcare System, Inc.
Consolidating Balance Sheet (continued)

September 30, 2011

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 22,237,145	\$ 244,288	\$ 212,350	\$ (225,022)	\$ 22,468,761	\$ 22,442	\$ 89,717	\$ –	\$ 22,580,920	\$ (25,246)	\$ 22,555,674
Deferred revenue	–	–	–	–	–	–	54,804	–	54,804	–	54,804
Accrued interest payable	143,784	–	–	–	143,784	–	–	–	143,784	–	143,784
Current portion of long-term debt and capital lease obligations	1,587,385	–	–	–	1,587,385	–	–	–	1,587,385	–	1,587,385
Line of credit	5,000,000	–	–	–	5,000,000	–	–	–	5,000,000	–	5,000,000
Total current liabilities	28,968,314	244,288	212,350	(225,022)	29,199,930	22,442	144,521	–	29,366,893	(25,246)	29,341,647
Long-term pension liability	48,295,374	–	–	–	48,295,374	–	–	–	48,295,374	–	48,295,374
Long-term debt, net of current portion	11,106,099	–	–	–	11,106,099	–	–	–	11,106,099	–	11,106,099
Estimated self-insurance liabilities and other liabilities	977,468	–	–	–	977,468	–	–	–	977,468	–	977,468
Total liabilities	89,347,255	244,288	212,350	(225,022)	89,578,871	22,442	144,521	–	89,745,834	(25,246)	89,720,588
Net assets:											
Unrestricted	1,647,034	673,659	(115,539)	–	2,205,154	542,452	200,510	527,948	3,476,064	–	3,476,064
Temporarily restricted	1,297,954	–	–	–	1,297,954	–	–	–	1,297,954	–	1,297,954
Permanently restricted	9,469,353	–	–	–	9,469,353	–	–	–	9,469,353	–	9,469,353
Total net assets	12,414,341	673,659	(115,539)	–	12,972,461	542,452	200,510	527,948	14,243,371	–	14,243,371
Total liabilities and net assets	\$ 101,761,596	\$ 917,947	\$ 96,811	\$ (225,022)	\$ 102,551,332	\$ 564,894	\$ 345,031	\$ 527,948	\$ 103,989,205	\$ (25,246)	\$ 103,963,959

Southeastern Healthcare System, Inc.

Consolidating Balance Sheet

September 30, 2010

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 337,609	\$ 370,642	\$ 14,926	\$ -	\$ 723,177	\$ 6,856	\$ 254,673	\$ 517,132	\$ 1,501,838	\$ -	\$ 1,501,838
Current portion of assets whose use is limited	2,936,344	-	-	-	2,936,344	-	-	-	2,936,344	-	2,936,344
Accounts receivable for services to patients, net of allowance for doubtful accounts and charity care of approximately \$9,772,000 in 2010	32,482,006	-	24,876	-	32,506,882	2,458	-	-	32,509,340	-	32,509,340
Other accounts receivable	1,375,803	5,299	6,671	-	1,387,773	31,146	102,101	10,000	1,531,020	(27,407)	1,503,613
Estimated settlements with third-party payors	2,466,273	-	-	-	2,466,273	-	-	-	2,466,273	-	2,466,273
Inventories	802,038	-	6,825	-	808,863	-	-	-	808,863	-	808,863
Prepaid expenses and other	843,458	10,798	1,058	-	855,314	-	6,718	-	862,032	-	862,032
Total current assets	41,243,531	386,739	54,356	-	41,684,626	40,460	363,492	527,132	42,615,710	(27,407)	42,588,303
Assets limited as to use:											
By the Board for designated purposes	29,326,415	-	-	(213,804)	29,112,611	512,716	-	-	29,625,327	16,739	29,642,066
By the Board for designated purposes – Littlefield	1,439,133	-	-	-	1,439,133	-	-	-	1,439,133	-	1,439,133
Pledges receivable	202,392	-	-	-	202,392	-	-	-	202,392	-	202,392
By donors for designated purposes	1,015,273	-	-	-	1,015,273	-	-	-	1,015,273	-	1,015,273
By donors for permanent endowment	3,124,192	-	-	-	3,124,192	-	-	-	3,124,192	-	3,124,192
By externally administered trusts	6,588,975	-	-	-	6,588,975	-	-	-	6,588,975	-	6,588,975
Deferred compensation	-	-	-	-	-	-	-	-	-	-	-
	41,696,380	-	-	(213,804)	41,482,576	512,716	-	-	41,995,292	16,739	42,012,031
Less amount required to meet current obligations	(2,936,344)	-	-	-	(2,936,344)	-	-	-	(2,936,344)	-	(2,936,344)
	38,760,036	-	-	(213,804)	38,546,232	512,716	-	-	39,058,948	16,739	39,075,687
Property and equipment, net	33,908,209	600,775	6,796	-	34,515,780	-	25,290	-	34,541,070	-	34,541,070
Deferred financing costs, net	234,078	-	-	-	234,078	-	-	-	234,078	-	234,078
Total assets	\$ 114,145,854	\$ 987,514	\$ 61,152	\$ (213,804)	\$ 114,980,716	\$ 553,176	\$ 388,782	\$ 527,132	\$ 116,449,806	\$ (10,668)	\$ 116,439,138

Southeastern Healthcare System, Inc.
Consolidating Balance Sheet (continued)

September 30, 2010

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 24,669,860	\$ 298,255	\$ 165,284	\$ (213,804)	\$ 24,919,595	\$ 12,849	\$ 91,769	\$ –	\$ 25,024,213	\$ (10,668)	\$ 25,013,545
Deferred revenue	–	–	–	–	–	–	43,833	–	43,833	–	43,833
Accrued interest payable	159,384	–	–	–	159,384	–	–	–	159,384	–	159,384
Current portion of long-term debt and capital lease obligations	1,582,385	–	–	–	1,582,385	–	–	–	1,582,385	–	1,582,385
Line of credit	5,000,000	–	–	–	5,000,000	–	–	–	5,000,000	–	5,000,000
Total current liabilities	31,411,629	298,255	165,284	(213,804)	31,661,364	12,849	135,602	–	31,809,815	(10,668)	31,799,147
Long-term pension liability	36,591,747	–	–	–	36,591,747	–	–	–	36,591,747	–	36,591,747
Long-term debt, net of current portion	12,693,483	–	–	–	12,693,483	–	–	–	12,693,483	–	12,693,483
Estimated self-insurance liabilities and other liabilities	981,582	–	–	–	981,582	–	–	–	981,582	–	981,582
Other long-term liabilities	82,500	–	–	–	82,500	–	–	–	82,500	–	82,500
Total liabilities	81,760,941	298,255	165,284	(213,804)	82,010,676	12,849	135,602	–	82,159,127	(10,668)	82,148,459
Net assets:											
Unrestricted	21,656,473	689,259	(104,132)	–	22,241,600	540,327	253,180	527,132	23,562,239	–	23,562,239
Temporarily restricted	1,015,273	–	–	–	1,015,273	–	–	–	1,015,273	–	1,015,273
Permanently restricted	9,713,167	–	–	–	9,713,167	–	–	–	9,713,167	–	9,713,167
Total net assets	32,384,913	689,259	(104,132)	–	32,970,040	540,327	253,180	527,132	34,290,679	–	34,290,679
Total liabilities and net assets	\$ 114,145,854	\$ 987,514	\$ 61,152	\$ (213,804)	\$ 114,980,716	\$ 553,176	\$ 388,782	\$ 527,132	\$ 116,449,806	\$ (10,668)	\$ 116,439,138

Southeastern Healthcare System, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2011

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Operating revenues:														
Net patient service revenue	\$ 149,274,990	\$ 7,411,065	\$ 12,184,977	\$ 168,871,032	\$ –	\$ 776,172	\$ –	\$ 169,647,204	\$ –	\$ –	\$ –	\$ 169,647,204	\$ –	\$ 169,647,204
Other revenue	8,930,250	–	–	8,930,250	761,079	26,370	(245,840)	9,471,859	5,002	1,355,420	60,816	10,893,097	(60,000)	10,833,097
Net assets released from restrictions for operations	22,437	–	–	22,437	–	–	–	22,437	–	–	–	22,437	–	22,437
Total operating revenues	158,227,677	7,411,065	12,184,977	177,823,719	761,079	802,542	(245,840)	179,141,500	5,002	1,355,420	60,816	180,562,738	(60,000)	180,502,738
Operating expenses:														
Salaries and wages	71,312,913	5,192,191	7,430,763	83,935,867	–	651,131	146,154	84,733,152	–	377,721	–	85,110,873	36,000	85,146,873
Employee benefits	27,604,158	1,713,423	795,886	30,113,467	–	170,318	–	30,283,785	–	157,159	–	30,440,944	–	30,440,944
Supplies, purchased services and other	39,905,572	425,808	2,794,301	43,125,681	569,476	271,422	(391,994)	43,574,585	2,877	765,307	60,000	44,402,769	(96,000)	44,306,769
Provision for bad debts	15,132,284	–	1,220,485	16,352,769	–	18,365	–	16,371,134	–	–	–	16,371,134	–	16,371,134
Depreciation and amortization	4,162,282	–	–	4,162,282	107,203	2,713	–	4,472,198	–	7,903	–	4,280,101	–	4,280,101
Licensing fee	7,549,028	–	–	7,549,028	–	–	–	7,549,028	–	–	–	7,549,028	–	7,549,028
Interest	1,143,902	–	–	1,143,902	–	–	–	1,143,902	–	–	–	1,143,902	–	1,143,902
Total expenses	166,810,139	7,331,422	12,241,435	186,382,996	676,679	1,113,949	(245,840)	187,927,784	2,877	1,308,090	60,000	189,298,751	(60,000)	189,238,751
(Loss) gain from operations	(8,582,462)	79,643	(56,458)	(8,559,277)	84,400	(311,407)	–	(8,786,284)	2,125	47,330	816	(8,736,013)	–	(8,736,013)
Nonoperating gains (losses):														
Investment income	314,262	–	–	314,262	–	–	–	314,262	–	–	–	314,262	–	314,262
Net realized gains on sales of investments	2,357,007	–	–	2,357,007	–	–	–	2,357,007	–	–	–	2,357,007	–	2,357,007
Unrestricted donations	104,252	–	–	104,252	–	–	–	104,252	–	–	–	104,252	–	104,252
Income on externally administered trusts	303,954	–	–	303,954	–	–	–	303,954	–	–	–	303,954	–	303,954
Total nonoperating gains	3,079,475	–	–	3,079,475	–	–	–	3,079,475	–	–	–	3,079,475	–	3,079,475
(Deficiency) excess of revenue over expenses before change in appreciation of investments	(5,502,987)	79,643	(56,458)	(5,479,802)	84,400	(311,407)	–	(5,706,809)	2,125	47,330	816	(5,656,538)	–	(5,656,538)
Change in fair value of investments	(2,513,288)	–	–	(2,513,288)	–	–	–	(2,513,288)	–	–	–	(2,513,288)	–	(2,513,288)
(Deficiency) excess of revenue over expenses	\$ (8,016,275)	\$ 79,643	\$ (56,458)	\$ (7,993,090)	\$ 84,400	\$ (311,407)	\$ –	\$ (8,220,097)	\$ 2,125	\$ 47,330	\$ 816	\$ (8,169,826)	\$ –	\$ (8,169,826)

Southeastern Healthcare System, Inc.

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

Year Ended September 30, 2011

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
(Deficiency) excess of revenues over expenses	\$ (7,993,090)	\$ 84,400	\$ (311,407)	\$ -	\$ (8,220,097)	\$ 2,125	\$ 47,330	\$ 816	\$ (8,169,826)	\$ -	\$ (8,169,826)
Change in pension liability	(12,124,629)	-	-	-	(12,124,629)	-	-	-	(12,124,629)	-	(12,124,629)
Cumulative effect of a change in accounting principle											
Intercompany transfer	(100,000)	(100,000)	300,000	-	100,000	-	(100,000)	-	-	-	-
Contribution of long-lived assets											
Net assets released from restrictions	155,906	-	-	-	155,906	-	-	-	155,906	-	155,906
Net assets released from restrictions used for purchase of property, plant and equipment	52,374	-	-	-	52,374	-	-	-	52,374	-	52,374
(Decrease) increase in unrestricted net assets	(20,009,439)	(15,600)	(11,407)	-	(20,036,446)	2,125	(52,670)	816	(20,086,175)	-	(20,086,175)
Change in temporarily restricted net assets:											
Contributions	12,508	-	-	-	12,508	-	-	-	12,508	-	12,508
Investment income	144,467	-	-	-	144,467	-	-	-	144,467	-	144,467
Net appreciation (realized and unrealized)	356,423	-	-	-	356,423	-	-	-	356,423	-	356,423
Net assets released from restrictions	(230,717)	-	-	-	(230,717)	-	-	-	(230,717)	-	(230,717)
Increase in temporarily restricted net assets	282,681	-	-	-	282,681	-	-	-	282,681	-	282,681
Change in permanently restricted net assets:											
Restricted donations	23	-	-	-	23	-	-	-	23	-	23
Net depreciation on assets held in externally administered trusts	(243,837)	-	-	-	(243,837)	-	-	-	(243,837)	-	(243,837)
Increase in permanently restricted net assets	(243,814)	-	-	-	(243,814)	-	-	-	(243,814)	-	(243,814)
(Decrease) increase in net assets	(19,970,572)	(15,600)	(11,407)	-	(19,997,579)	2,125	(52,670)	816	(20,047,308)	-	(20,047,308)
Net assets, beginning of year	32,384,913	689,259	(104,132)	-	32,970,040	540,327	253,180	527,132	34,290,679	-	34,290,679
Net assets, end of year	\$ 12,414,341	\$ 673,659	\$ (115,539)	\$ -	\$ 12,972,461	\$ 542,452	\$ 200,510	\$ 527,948	\$ 14,243,371	\$ -	\$ 14,243,371

Southeastern Healthcare System, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2010

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Operating revenues:														
Net patient service revenue	\$ 153,671,942	\$ 7,157,061	\$ 11,781,163	\$ 172,610,166	\$ –	\$ 708,699	\$ –	\$ 173,318,865	\$ –	\$ –	\$ –	\$ 173,318,865	\$ –	\$ 173,318,865
Other revenue	8,181,027	–	–	8,181,027	792,381	50,840	(261,094)	8,763,154	5,004	1,473,320	60,006	10,301,484	(60,000)	10,241,484
Net assets released from restrictions for operations	108,887	–	–	108,887	–	–	–	108,887	–	–	–	108,887	–	108,887
Total operating revenues	161,961,856	7,157,061	11,781,163	180,900,080	792,381	759,539	(261,094)	182,190,906	5,004	1,473,320	60,006	183,729,236	(60,000)	183,669,236
Operating expenses:														
Salaries and wages	71,194,286	4,955,029	7,095,175	83,244,490	–	614,676	153,730	84,012,896	–	376,137	–	84,389,033	36,000	84,425,033
Employee benefits	26,508,509	1,635,161	784,828	28,928,498	–	174,785	–	29,103,283	–	153,930	–	29,257,213	–	29,257,213
Supplies, purchased services and other	41,256,370	464,134	2,808,782	44,529,286	570,642	305,607	(414,824)	44,990,711	5,771	834,274	60,036	45,890,792	(96,000)	45,794,792
Provision for bad debts	14,281,122	–	1,355,452	15,636,574	–	20,842	–	15,657,416	–	–	–	15,657,416	–	15,657,416
Depreciation and amortization	4,064,590	–	–	4,064,590	107,318	2,807	–	4,174,715	–	9,190	–	4,183,905	–	4,183,905
Licensing fee	7,178,101	–	–	7,178,101	–	–	–	7,178,101	–	–	–	7,178,101	–	7,178,101
Interest	1,287,152	–	–	1,287,152	–	–	–	1,287,152	–	–	–	1,287,152	–	1,287,152
Total expenses	165,770,130	7,054,324	12,044,237	184,868,691	677,960	1,118,717	(261,094)	186,404,274	5,771	1,373,531	60,036	187,843,612	(60,000)	187,783,612
(Loss) gain from operations	(3,808,274)	102,737	(263,074)	(3,968,611)	114,421	(359,178)	–	(4,213,368)	(767)	99,789	(30)	(4,114,376)	–	(4,114,376)
Nonoperating gains (losses):														
Investment income	500,621	–	–	500,621	–	–	150,000	350,621	–	186	500,000	850,807	(500,000)	350,807
Net realized gains on sales of investments	715,584	–	–	715,584	–	–	–	715,584	–	–	–	715,584	–	715,584
Unrestricted donations	233,654	–	–	233,654	–	–	–	233,654	–	–	–	233,654	–	233,654
Income on externally administered trusts	285,654	–	–	285,654	–	–	–	285,654	–	–	–	285,654	–	285,654
Total nonoperating gains	1,735,513	–	–	1,735,513	–	–	(150,000)	1,585,513	–	186	500,000	2,085,699	(500,000)	1,585,699
(Deficiency) excess of revenue over expenses before change in appreciation of investments	(2,072,761)	102,737	(263,074)	(2,233,098)	114,421	(359,178)	(150,000)	(2,627,855)	(767)	99,975	499,970	(2,028,677)	(500,000)	(2,528,677)
Change in fair value of investments	817,068	–	–	817,068	–	–	–	817,068	–	–	–	817,068	–	817,068
(Deficiency) excess of revenue over expenses	\$ (1,255,693)	\$ 102,737	\$ (263,074)	\$ (1,416,030)	\$ 114,421	\$ (359,178)	\$ (150,000)	\$ (1,810,787)	\$ (767)	\$ 99,975	\$ 499,970	\$ (1,211,609)	\$ (500,000)	\$ (1,711,609)

Southeastern Healthcare System, Inc.

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

Year Ended September 30, 2010

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
(Deficiency) excess of revenues over expenses	\$ (1,416,030)	\$ 114,421	\$ (359,178)	\$ (150,000)	\$ (1,810,787)	\$ (767)	\$ 99,975	\$ 499,970	\$ (1,211,609)	\$ (500,000)	\$ (1,711,609)
Change in pension liability	(281,586)	-	-	-	(281,586)	-	-	-	(281,586)	-	(281,586)
Cumulative effect of a change in accounting principle	-	-	-	-	-	-	-	-	-	-	-
Intercompany transfer	(360,000)	(150,000)	360,000	150,000	-	-	(500,000)	-	(500,000)	500,000	-
Contribution of long-lived assets	5,370	-	-	-	5,370	-	-	-	5,370	-	5,370
Net assets released from restrictions	5,707	-	-	-	5,707	-	-	-	5,707	-	5,707
Net assets released from restrictions used for purchase of property, plant and equipment	56,931	-	-	-	56,931	-	-	-	56,931	-	56,931
(Decrease) increase in unrestricted net assets	(1,989,608)	(35,579)	822	-	(2,024,365)	(767)	(400,025)	499,970	(1,925,187)	-	(1,925,187)
Change in temporarily restricted net assets:											
Contributions	217,146	-	-	-	217,146	-	-	-	217,146	-	217,146
Investment income	166,402	-	-	-	166,402	-	-	-	166,402	-	166,402
Net appreciation (realized and unrealized)	111,935	-	-	-	111,935	-	-	-	111,935	-	111,935
Net assets released from restrictions	(171,525)	-	-	-	(171,525)	-	-	-	(171,525)	-	(171,525)
Increase in temporarily restricted net assets	323,958	-	-	-	323,958	-	-	-	323,958	-	323,958
Change in permanently restricted net assets:											
Restricted donations	34	-	-	-	34	-	-	-	34	-	34
Net appreciation on assets held in externally administered trusts	352,119	-	-	-	352,119	-	-	-	352,119	-	352,119
Increase in permanently restricted net assets	352,153	-	-	-	352,153	-	-	-	352,153	-	352,153
(Decrease) increase in net assets	(1,313,497)	(35,579)	822	-	(1,348,254)	(767)	(400,025)	499,970	(1,249,076)	-	(1,249,076)
Net assets, beginning of year	33,698,410	724,838	(104,954)	-	34,318,294	541,094	653,205	27,162	35,539,755	-	35,539,755
Net assets, end of year	\$ 32,384,913	\$ 689,259	\$ (104,132)	\$ -	\$ 32,970,040	\$ 540,327	\$ 253,180	\$ 527,132	\$ 34,290,679	\$ -	\$ 34,290,679

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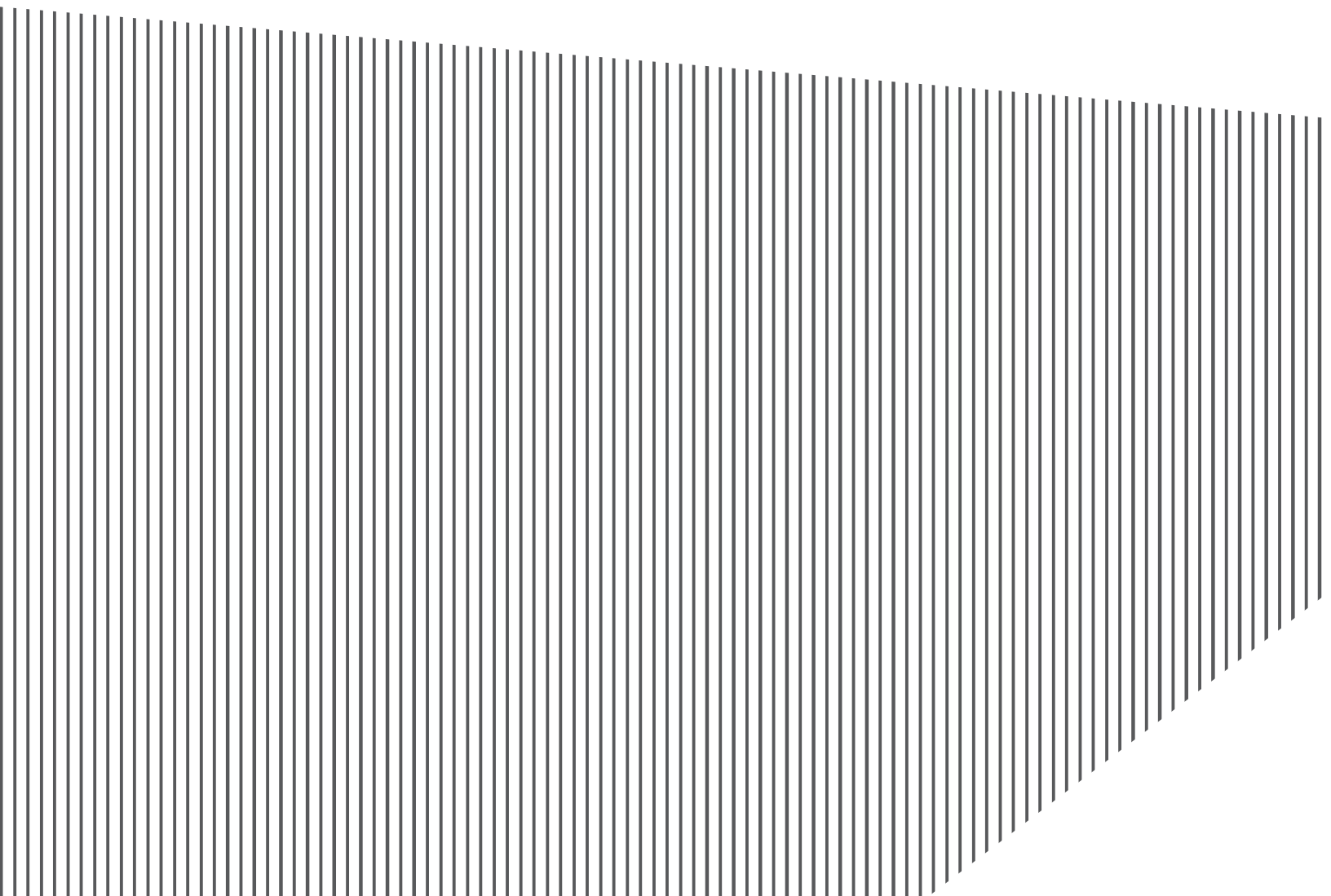
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AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

Southeastern Healthcare System, Inc. and Affiliates
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Southeastern Healthcare System, Inc. and Affiliates

Audited Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2010 and 2009

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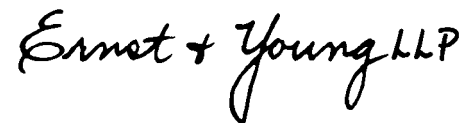
Report of Independent Auditors

Board of Trustees
Southeastern Healthcare System, Inc.

We have audited the accompanying consolidated balance sheets of Southeastern Healthcare System, Inc. and Affiliates (the System) as of September 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Organization's internal control over financial reporting. Our audits included 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 Organization'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 and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the System as of September 30, 2010 and 2009, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

February 25, 2011

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Balance Sheets

	September 30	
	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,501,838	\$ 1,791,975
Current portion of assets whose use is limited	2,936,344	1,789,391
Accounts receivable for services to patients, net of allowance for doubtful accounts and charity care of approximately \$9,772,000 in 2010 and \$8,270,000 in 2009	32,509,340	34,750,619
Other accounts receivable	1,503,613	1,213,767
Estimated settlements with third-party payors	2,466,273	3,062,696
Inventories	808,863	759,265
Prepaid expenses and other	862,032	1,117,861
Total current assets	42,588,303	44,485,574
Assets whose use is limited:		
By the Board for designated purposes	31,081,199	30,817,515
Pledges receivable	202,392	403,319
By donors for designated purposes	1,015,273	691,314
By donors for permanent endowment	3,124,192	3,124,158
By externally administered trusts	6,588,975	6,236,856
Deferred compensation	–	2,399,725
	42,012,031	43,672,887
Less amount required to meet current obligations	(2,936,344)	(1,789,391)
	39,075,687	41,883,496
Property and equipment, net	34,541,070	34,945,135
Deferred financing costs, net	234,078	260,829
Total assets	\$ 116,439,138	\$ 121,575,034

	September 30	
	2010	2009
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 25,057,378	\$ 24,667,002
Accrued interest payable	159,384	174,984
Current portion of long-term debt and capital lease obligations	1,582,385	1,582,385
Line of credit	5,000,000	5,000,000
Total current liabilities	<u>31,799,147</u>	31,424,371
Long-term pension liability	36,591,747	36,780,563
Long-term debt, net of current portion	12,693,483	14,275,868
Estimated self-insurance liabilities and other liabilities	981,582	1,154,752
Deferred compensation liability	82,500	2,399,725
Total liabilities	<u>82,148,459</u>	86,035,279
Commitments and contingencies		
Net assets:		
Unrestricted	23,562,239	25,487,427
Temporarily restricted	1,015,273	691,314
Permanently restricted	9,713,167	9,361,014
Total net assets	<u>34,290,679</u>	35,539,755
Total liabilities and net assets	<u><u>\$ 116,439,138</u></u>	<u><u>\$ 121,575,034</u></u>

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2010	2009
Operating revenues:		
Net patient service revenue	\$ 173,318,865	\$ 168,605,400
Other revenue	10,241,484	7,818,184
Net assets released from restrictions for operations	108,887	60,434
Total operating revenues	183,669,236	176,484,018
Operating expenses:		
Salaries and wages	84,425,033	84,391,373
Employee benefits	29,257,213	27,434,032
Supplies, purchased services, and other	45,794,792	44,243,266
Provision for bad debts	15,657,416	12,688,221
Depreciation and amortization	4,183,905	4,302,288
Licensing fee	7,178,101	7,303,539
Interest	1,287,152	1,219,502
Total operating expenses	187,783,612	181,582,221
Loss from operations	(4,114,376)	(5,098,203)
Non-operating gains (losses):		
Investment income	350,807	321,158
Net realized gains (losses) on sales of investments	715,584	(3,115,944)
Unrestricted donations	233,654	368,144
Income on assets held in externally administered trusts	285,654	245,442
Total nonoperating gains (losses)	1,585,699	(2,181,200)
Deficiency of revenue over expenses before change in fair value of investments	(2,528,677)	(7,279,403)
Change in fair value of investments	817,068	3,314,461
Deficiency of revenue over expenses	(1,711,609)	(3,964,942)

Continued on next page.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2010	2009
Deficiency of revenue over expenses (continued)	(1,711,609)	(3,964,942)
Change in pension liability	(281,586)	(21,789,804)
Effect of early measurement date (ASC No. 715)	–	(882,733)
Net assets released from restrictions	62,638	57,218
Contribution of long-lived assets	5,370	33,253
Decrease in unrestricted net assets	(1,925,187)	(26,547,008)
Change in temporarily restricted net assets:		
Contributions	217,146	87,147
Investment income (loss)	166,402	(35,707)
Net appreciation (realized and unrealized)	111,935	–
Net assets released from restrictions	(171,525)	(117,652)
Increase (decrease) in temporarily restricted net assets	323,958	(66,212)
Change in permanently restricted net assets:		
Change in unrealized appreciation (depreciation) on assets held in externally administered trusts	352,119	(77,646)
Permanently restricted endowment contributions	34	–
Increase (decrease) in permanently restricted net assets	352,153	(77,646)
Decrease in net assets	(1,249,076)	(26,690,866)
Net assets at beginning of year	35,539,755	62,230,621
Net assets at end of year	\$ 34,290,679	\$ 35,539,755

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2010	2009
Operating activities		
Decrease in net assets	\$ (1,249,076)	\$ (26,690,866)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and non-operating gains:		
Depreciation and amortization	4,183,905	4,302,288
Provision for bad debts	15,657,416	12,688,221
Amortization of bond premium	(22,385)	(22,385)
Change in pension liability	281,586	22,672,537
Unrealized (appreciation) depreciation on assets held in externally administered trusts	(352,119)	(77,646)
Change in:		
Patient accounts receivable	(13,416,137)	(12,274,739)
Other accounts receivable	(289,846)	(328,972)
Estimated settlements with third-party payors	596,423	(416,139)
Inventories	(49,598)	181,338
Prepaid expenses and other	255,829	(361,180)
Investments classified as trading	1,629,393	2,629,336
Accounts payable and accrued expenses	(80,026)	(339,017)
Accrued interest payable	(15,600)	(12,675)
Estimated self-insurance liabilities and other liabilities	(173,170)	220,487
Deferred compensation liability	(2,317,225)	23,171
Net cash provided by operating activities and non-operating gains	4,639,370	2,193,759
Investing activities		
Purchases of property and equipment, net	(3,753,089)	(1,598,905)
Net cash used in investing activities	(3,753,089)	(1,598,905)
Financing activities		
Restricted contributions and investment income	383,582	51,440
Repayments of long-term debt and additional financing costs	(1,560,000)	(1,560,000)
Net cash used in financing activities	(1,176,418)	(1,508,560)
Net decrease in cash and cash equivalents	(290,137)	(913,706)
Cash and cash equivalents at beginning of year	1,791,975	2,705,681
Cash and cash equivalents at end of year	\$ 1,501,838	\$ 1,791,975

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

September 30, 2010

1. Organization and Summary of Significant Accounting Policies

Organization

Southeastern Healthcare System, Inc. (SHSI), formed in 1997, is the sole corporate member or shareholder of Memorial Hospital of Rhode Island (the Hospital), Primary Care Centers of New England, Inc. (PCCNE), and Blackstone Health, Inc. (BHI) (collectively referred to as the System). The Hospital is the sole corporate member of R.S. Realty Company (RSR) and SHS Ventures, Inc. (Ventures).

The Hospital is a 294-bed, acute care, not-for-profit community teaching and research hospital located in Pawtucket, Rhode Island, and is affiliated with Brown University School of Medicine. RSR owns and leases apartments and office space primarily to Hospital employees. PCCNE provides staffing to Ventures and the Hospital. Ventures consists of Massachusetts-based physician practices. BHI receives and administers certain grant funds, and provides services to elderly and disabled residents in the local area.

Principles of Consolidation

The accompanying consolidated financial statements include the assets of SHSI and its controlled affiliates. The assets of any one of the members of the consolidated group may not be available to meet the obligations of other entities in the group. Intercompany balances and transactions between the organizations have been eliminated in consolidation.

Consolidated Statements of Operations and Changes in Net Assets

The consolidated statements of operations and changes in net assets include the deficiency of revenue over expenses. Changes in unrestricted net assets, which are excluded from the deficiency of revenue over expenses, consistent with industry practice, include contributions of long-lived assets, including assets acquired using contributions which, by donor restrictions, were to be used for the purpose of acquiring such assets, change in net assets related to pension, and net assets released from restrictions used to purchase property and equipment.

For presentation purposes, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and operating expenses. Other transactions not considered major or central to the provision of health care services are reported as non-operating gains and losses, which primarily consist of investment income and unrestricted donations.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Net Patient Service Revenue

The System has entered into payment agreements with Medicare, Medicaid, and various commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under those agreements includes prospectively determined rates per discharge, discounts from established charges, costs (subject to limits), fee screens, prospectively determined per diem rates, and capitation fees earned on a per-member-per-month basis. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations and statutes, certain elements of third-party reimbursements are subject to negotiation, audit, and final determination by the third-party payors. Variances between preliminary estimates of net patient service revenue and final third-party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs. During fiscal years 2010 and 2009, the System recorded increases in net patient service revenue of \$225,478 and \$923,712, respectively, related to changes in previously estimated third-party settlements.

Grant Revenue

The Hospital receives grants from agencies of the federal government and other sources to perform medical research and educational projects. Revenue related to these grants is recognized as the related costs are incurred. Grant revenues included in other revenue amounted to \$4,861,889 and \$3,333,161 for the years ended September 30, 2010 and 2009, respectively. Deferred revenues which relate to grant funds received prior to costs being incurred are included in accounts payable and accrued expenses and amounted to \$1,079,789 and \$910,973 at September 30, 2010 and 2009, respectively.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Functional Expenses

Substantially all expenses in the accompanying consolidated statements of operations and changes in net assets are related to the delivery of health care services and the performance of medical research and educational projects.

Disproportionate Share Program

The Hospital is a participant in the State of Rhode Island's Disproportionate Share Program, which was established in 1995 to assist hospitals that provide a disproportionate amount of uncompensated care. Under the program, the Hospital receives federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. Payments to the Hospital under the Disproportionate Share Program of \$8,489,049 and \$8,346,204 for the years ended September 30, 2010 and 2009, respectively, are included in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

Assessments

The State of Rhode Island assesses a licensing fee to all Rhode Island hospitals based upon each hospital's gross patient service revenue as reported on filed cost reports. The Hospital's licensing fee amounted to \$7,178,101 and \$7,303,539 for the years ended September 30, 2010 and 2009, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of amounts restricted by donors for specific purposes. Permanently restricted net assets have been restricted by donors and are to be maintained by the System in perpetuity. Also included in permanently restricted net assets are assets held in externally administered irrevocable trusts which are not under the System's control. The System is the income beneficiary of certain perpetual trusts and has recognized its share of the fair value of the perpetual trusts as a permanently restricted asset. The System's share represents the percentage of interest the System has in the perpetual trust's income distributions. The System's share of the increase or decrease in fair value of the perpetual trusts is reported as an increase or decrease in permanently restricted net assets.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Donor Restricted Gifts

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

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly-liquid debt instruments with maturities of three months or less when purchased, excluding assets whose use is limited or restricted.

Accounts Receivable

Patient accounts receivable result from the health care services provided by the System. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators.

Inventories

Inventories are stated at the lower of cost or market, cost being determined on a weighted-average basis, except for the pharmacy and central processing departments, which utilize the first-in, first-out basis.

Assets Whose Use Is Limited

Resources set aside for board-designated purposes or limited under terms of loan agreements are considered to be assets whose use is limited. Assets whose use is limited that are required for obligations classified as current liabilities are classified as current assets.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Assets whose use is limited by donors for designated purposes consist of amounts contributed for the design and renovation of the Hospital's facility. Assets whose use is limited by donors for permanent endowment funds contain a donor-imposed restriction stipulating that these resources be maintained permanently. However, the restriction permits the Hospital to use or expend all of the income and net gains derived from the donated assets. Accordingly, investment income on the assets is unrestricted. Rhode Island general law allows organizations to permanently restrict investment earnings on permanently restricted funds to maintain the purchasing power of the original dollar value of the funds. The law also allows the governing board to expend such funds as permitted under other laws, the terms of the applicable gift instrument, or the charter of the institution. Each year, the Board of Trustees has designated all income of permanently restricted assets, other than externally administered trusts, for future Hospital use and, therefore, the income has been classified as unrestricted.

The Hospital is the beneficiary of the income from assets held in externally administered trusts, which are not under its control. Income from these trusts is unrestricted, and the annual distributions received by the Hospital are reported as non-operating gains in the consolidated statements of operations and changes in net assets.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is generally determined based on quoted market price. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the deficiency of revenue over expenses.

Property and Equipment

Property and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in income from operations. Depreciation of property and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives ranging from 3 to 50 years. The cost of additions and improvements are capitalized and expenditures for repairs and maintenance, including the cost of replacing minor items not considered substantial enhancements, are expensed as incurred.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

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

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of debt, which are being amortized over the term of the related debt issue. Amortization expense amounted to \$26,751 and \$26,751 for the years ended September 30, 2010 and 2009, respectively.

Fair Value of Financial Instruments

The fair value of the System's financial instruments approximates the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, receivables, and payables. See Note 14 for the fair value of investments and assets whose use is limited and Note 8 for the fair value of long-term debt.

Deficiency of Revenue over Expenses

In the accompanying consolidated statements of operations and changes in net assets, deficiency of revenue over expenses is the performance indicator. Peripheral or incidental transactions are included in deficiency of revenue over expenses. Those gains and losses deemed by management to be closely related to ongoing operations are included in other revenue; other gains and losses are classified as non-operating.

Consistent with industry practice, contributions of, or restricted to, property and equipment, transfers of assets to and from affiliates for other than goods and services, net assets released from restrictions used for purchase of property and equipment, and changes in pension liabilities are excluded from the performance indicator but are included in the change in net assets.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Tax Status

SHSI, the Hospital, Ventures and BHI have been recognized as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the Code). RSR has been recognized as a tax-exempt organization under Section 501(c)(2) of the Code. Those organizations are, therefore, exempt from federal taxes on related income pursuant to Section 501(a) of the Code. PCCNE is organized as a for-profit corporation and is, therefore, subject to tax. The provision for income taxes on the earnings of PCCNE is immaterial to the consolidated financial statements.

As of September 30, 2010, PCCNE has net operating loss carryforwards of approximately \$1,380,000 for income tax purposes. These carryforwards resulted from PCCNE incurring operating losses in prior years. A deferred tax asset for these losses of approximately \$552,000 is offset by a corresponding valuation allowance of the same amount.

Adoption of New Accounting Standards

In August 2010 (ASU), the Financial Accounting Standards Board (FASB) issued Accounting Standard Update 2010-24, *Topic 954 – Presentation of Insurance Claims and Related Insurance Recoveries* (“ASU 2010-24”). The amendments in this update clarify that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The amendments in this update permit retrospective application and are effective for fiscal years beginning after December 15, 2010. The System has not yet determined the effect that the adoption of ASU 2010-24 will have on its consolidated financial statements.

In December 2008, the FASB issued additional authoritative guidance regarding an employer’s disclosures about postretirement benefit plan assets, currently included in Accounting Standards Codification (ASC) 715, *Compensation — Retirement Benefits*. This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. The adoption of this guidance did not have a significant impact on the System’s consolidated financial statements for the year ended September 30, 2010.

In January 2010, the FASB issued Accounting Standards Update ASU 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amended ASC 820 to clarify certain

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each “class” of assets and liabilities measured at fair value, and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2, and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances, and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 becomes effective for reporting periods beginning after December 15, 2009. Management is currently evaluating the effect that the provisions of ASU 2010-06 will have on the consolidated financial statements.

2. Accounts Receivable for Patients and Net Patient Service Revenue

During fiscal years 2010 and 2009, the Hospital’s net revenues from services to patients were 34% and 32% from Medicare and 17% and 17% from Medicaid, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

Net revenues from services to patients is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Third-party payor receivables included in accounts receivable for services to patients were \$2.5 million and \$3.1 million at September 30, 2010 and 2009, respectively.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Accounts Receivable for Patients and Net Patient Service Revenue (continued)

Patient accounts receivable and revenues are recorded when patient services are performed. The Hospital has agreements with certain third-party payors, including health maintenance organizations, that provide for payments to the Hospital at amounts different from the Hospital's established billing rates. These differences are accounted for as allowances. Under those agreements, the Hospital receives reimbursement based on a number of different arrangements.

The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

3. Uncompensated Care and Community Benefit

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The following table displays the level of charity care provided during the years ended September 30:

	<u>2010</u>	<u>2009</u>
Charges forgone, based on established rates	<u>\$ 6,076,412</u>	<u>\$ 4,851,732</u>
Estimated costs and expenses incurred to provide charity care	<u>\$ 2,823,790</u>	<u>\$ 2,374,879</u>

In addition to the above-mentioned medical care rendered, the Hospital provides numerous other services to the community for which charges are not generated. These services include translation of medical information into various languages, physician referral services, health care screenings (including those done at employer sites), community support groups, health educational programs, physician services, and general community benefit services such as disaster relief. In addition, volunteer services are provided by Hospital staff to the community on their own time.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

3. Uncompensated Care and Community Benefit (continued)

The Hospital also provides services to other indigent patients under the Medicaid program, which reimburses health care providers at amounts which are, in total, estimated to be less than the cost of services provided. The differences between the cost of services provided to indigent patients and the expected reimbursement is also considered to be charitable services by the Hospital but they have not been included in the amounts disclosed above.

In addition to the cost of charity care and other community service programs, the Hospital provided \$15,657,416 and \$12,688,221 for uncollectible patient accounts during the years ended September 30, 2010 and 2009, respectively.

4. Assets Whose Use is Limited

Assets whose use is limited consists of the following at fair value at September 30:

	2010	2009
Interest and other receivables	\$ 1,211,400	\$ 1,282,145
Pledges receivable	202,392	403,319
Deferred compensation trust	–	2,399,725
Assets held in externally administered trusts	6,588,975	6,236,856
Cash and money market investments	6,748,812	6,810,242
Marketable securities	27,260,452	26,540,600
	\$ 42,012,031	\$ 43,672,887

Marketable securities consist of the following at fair value at September 30:

	2010	2009
Equity securities	\$ 16,815,587	\$ 16,172,893
Corporate bonds	5,029,690	4,134,555
Mutual funds	3,769,823	3,707,015
U.S. government obligations	1,645,352	2,526,137
	\$ 27,260,452	\$ 26,540,600

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

4. Assets Whose Use is Limited (continued)

The System's unrestricted investment income for the years ended September 30 consisted of the following:

	2010	2009
Interest income	\$ 350,807	\$ 321,158
Net realized gains (losses) on sales of investments	715,584	(3,115,944)
Income on assets held in externally administered trusts	285,654	245,442
	1,352,045	(2,549,344)
 Change in fair value of investments	 817,068	 3,314,461
	\$ 2,169,113	\$ 765,117

5. Endowment

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

The System classifies restricted donor funds in accordance with the State of Rhode Island and generally accepted accounting principles. The System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) the accumulation of the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by the state laws of Rhode Island and UPMIFA. The System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the System and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the System; and (7) the investment and spending policies of the System.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

For the year ended September 30, 2010, the System had the following changes in the endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ —	\$ 3,124,158	\$ 3,124,158
Investment returns:			
Investment income	657,837	—	657,837
Net appreciation (realized and unrealized)	111,935	—	111,935
Total investment return	769,772	—	769,772
Appropriation of endowment assets for expenditure	(657,837)	—	(657,837)
Permanently restricted endowment contributions		34	34
Endowment net assets, end of year	<u>\$ 111,935</u>	<u>\$ 3,124,192</u>	<u>\$ 3,236,127</u>

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

From time to time, the fair value of the assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration. There are no deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2010.

6. Line of Credit

The Hospital has an unsecured revolving line of credit with a bank which provides for borrowings of up to \$5,000,000 for both fiscal 2010 and 2009. Interest accrues at an effective rate of LIBOR plus 3.5% (4.75% at September 30, 2010).

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

7. Property and Equipment

Property and equipment consisted of the following at September 30:

	2010	2009
Property and equipment:		
Land	\$ 1,912,714	\$ 1,912,714
Land improvements	1,561,672	1,539,572
Buildings and improvements	48,598,011	48,444,254
Equipment	60,915,758	57,003,672
	112,988,155	108,900,212
Less accumulated depreciation	(78,447,085)	(74,358,061)
	34,541,070	34,542,151
Construction in progress	-	402,984
	\$ 34,541,070	\$ 34,945,135

8. Long-Term Debt

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

	2010	2009
Rhode Island Health and Educational Building Corporation Hospital Financing Revenue Refunding Bonds	\$ 14,080,000	\$ 15,640,000
Add premium	195,868	218,253
Less current portion	(1,582,385)	(1,582,385)
Long-term debt	\$ 12,693,483	\$ 14,275,868

In December 2003, the Rhode Island Health and Educational Building Corporation (RIHEBC) issued \$25,000,000 of Series 2003 Hospital Financing Revenue Refunding Bonds (the Bonds) on behalf of the Hospital. RIHEBC loaned the proceeds of the Bonds to the Hospital pursuant to the Loan and Trust Agreement (the Agreement) dated December 1, 2003. The terms of the Agreement stipulate that interest will be paid at fixed rates ranging from 2.00% to 5.25% per annum (weighted-average rate at September 30, 2010 and 2009 was 4.53% and 4.48%, respectively), with principal installments commencing July 1, 2004 and ending July 1, 2019.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

8. Long-Term Debt (continued)

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

As security for the payment of the principal amount of the Bonds, a bank letter of credit was issued under the terms of a Reimbursement Agreement between the Hospital and the bank dated December 31, 2003 (Reimbursement Agreement). Section 7 of the Reimbursement Agreement contains various covenants with which the Hospital must comply. As of September 30, 2010 and 2009, the Hospital was in compliance with all its covenants.

The aggregate maturities of long-term debt (prior to amortization of premium) for the next five fiscal years ending September 30 and thereafter are approximately as follows:

2011	\$ 1,560,000
2012	1,565,000
2013	1,565,000
2014	1,565,000
2015	1,565,000
Thereafter	6,260,000

Cash paid for interest on all borrowings during the years ended September 30, 2010 and 2009 was approximately \$1,325,000 and \$1,255,000, respectively.

9. Pension Plan

The Hospital has a defined benefit pension plan (the Plan) covering substantially all of its employees. The plan benefits are based on years of service and employees' compensation during the last five years of covered employment. The Hospital makes annual contributions to the Plan, which approximates the amount of net periodic pension cost. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

On September 29, 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 123(R)* (hereafter referred to as ASC 715). In 2009, the System adopted the measurement date provisions of ASC 715. ASC 715 required the System to measure defined benefit plan assets and obligations as of September 30, the date of its fiscal year-end consolidated balance sheet. Prior to the implementation of this change, the measurement date for the System's pension and postretirement benefit plans was June 30. The adjustment to unrestricted net assets at adoption represents a decrease to net assets of \$882,733 and an increase to accrued pension obligation.

The following table sets forth the status of the Plan as of September 30:

	2010	2009
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 107,433,658	\$ 90,314,749
Service cost	3,657,470	4,329,294
Interest cost	6,134,459	7,512,867
Benefits paid	(3,116,215)	(2,712,676)
Actuarial gain	3,115,993	7,989,424
Projected benefit obligation at end of year	117,225,365	107,433,658
Change in plan assets		
Fair value of plan assets at beginning of year	70,534,801	72,078,175
Actual return on plan assets	6,938,041	(3,744,785)
Contributions and transfers	6,276,991	4,914,087
Benefits paid	(3,116,215)	(2,712,676)
Fair value of plan assets at end of year	80,633,618	70,534,801
Unfunded status	\$ (36,591,747)	\$ (36,898,857)

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic benefit cost:

	2010	2009
Unrecognized actuarial loss	\$ 35,457,212	\$ 34,975,731
Unrecognized prior service credit	(51,978)	(60,313)
	\$ 35,405,234	\$ 34,915,418

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

The actuarial loss and prior service credit included in unrestricted net assets at September 30, 2010, and expected to be recognized in net periodic benefit cost during the year ending September 30, 2011, are as follows:

Unrecognized actuarial loss	\$ 2,380,609
Unrecognized prior service credit	<u>(8,335)</u>
	<u>\$ 2,372,274</u>

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

	2010	2009
Service cost – benefits earned during the year	\$ 3,657,470	\$ 4,329,294
Interest cost on projected benefit obligation	6,134,459	7,512,867
Actual return on plan assets	(6,461,353)	(8,217,105)
Net amortization and deferral	2,149,489	823,294
Net periodic pension cost	<u>\$ 5,480,065</u>	<u>\$ 4,448,350</u>

In 2009, the adoption of ASC 715 resulted in an additional three months of net periodic pension costs. The additional expense of \$882,733 as a result of the adoption was recognized as a reduction of unrestricted net assets. The remaining \$3,565,617 of expense is included within employee benefits expense.

Assumptions

Weighted-average assumptions used to determine benefit obligations and net periodic pension cost at September 30, 2010 and 2009 and for the years then ended are as follows:

	Benefit Obligations		Net Periodic Pension Cost	
	2010	2009	2010	2009
Discount rate	5.63%	5.80%	5.80%	6.75%
Expected rate of return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	2.00%	2.00%	2.00%	2.00%

The expected rate of return on plan assets was determined by the expected return on each asset class based on a model that considers historical and expected future performance.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

The accumulated benefit obligation was \$106,313,277 and \$96,899,855 at September 30, 2010 and 2009, respectively.

Plan Assets

The Plan weighted-average asset allocations as of September 30, by asset category, are as follows:

	Target Allocation	2010	2009
Equity securities	38%	34%	34%
Annuities	42	47	47
Debt securities	20	12	12
Alternative investments	–	2	–
Cash equivalents	–	5	7
Total	100%	100%	100%

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

Financial assets carried at fair value as of September 30, 2010 are classified in the following table in the following categories (see Note 14 for a description):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 4,373,639	\$ –	\$ –	\$ 4,373,639
Common stock	27,434,321	–	–	27,434,321
Fixed income	10,002,992	–	–	10,002,992
Alternative investments	–	–	1,374,645	1,374,645
Investments at fair value	\$ 41,810,952	\$ –	\$ 1,374,645	43,185,597
Investments not at fair value - annuities				37,448,021
Total investments				\$ 80,633,618

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

9. Pension Plan (continued)

The following is a rollforward of the plan assets classified as Level 3 of the valuation hierarchy as described in Note 14:

	Level 3
Fair value at September 30, 2009	\$ —
2010 Unrealized gains, net	(12,162)
2010 Purchases, sales, transfers, issuances and settlements, net	1,386,807
Fair value at September 30, 2010	\$ 1,374,645

Cash Flows

Contributions

The Hospital funds the Plan in accordance with guidelines prescribed by the Employee Retirement Income Security Act of 1974 (ERISA). The Hospital expects to contribute \$5,496,807 to the Plan in fiscal 2011.

Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, are expected to be paid as follows:

2011	\$ 3,911,000
2012	4,432,000
2013	4,792,000
2014	5,109,000
2015	5,352,000
2016 – 2020	33,922,000

10. Estimated Self-Insurance Liabilities

Professional Liability Insurance

Effective July 1, 2004, professional liability insurance coverage was provided on an occurrence basis. Such coverage was provided on a claims-made basis through June 30, 2004. The claims-made policies cover only claims made during the terms of the policies and not those occurrences for which claims may be made after expiration of the policies. The System is self-insured with respect to incurred but not reported (IBNR) claims incurred prior to July 1, 2004. Accordingly, the System has established a liability of \$582,000 for such IBNR exposure.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

10. Estimated Self-Insurance Liabilities (continued)

Workers' Compensation Insurance

The System is self-insured with respect to workers' compensation risks up to a maximum of \$350,000 per claim. The provision for estimated self-insured workers' IBNR compensation claims includes estimates of the ultimate costs for both reported claims and claims. The estimates incorporate the System's past experience, as well as other considerations.

11. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The percentage of accounts receivable from patients and various third-party payors was as follows at September 30:

	2010	2009
Medicare	34%	32%
Blue Cross	26	30
Medicaid	17	17
Other third-party payors	17	15
Patients	6	6
	100%	100%

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at September 30:

	2010	2009
General activities	\$ 805,860	\$ 559,977
Research	97,478	131,337
Net appreciation (realized and unrealized)	111,935	-
	\$1,015,273	\$ 691,314

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

12. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets consist of the following at September 30:

	2010	2009
Principal portion of contributions restricted in perpetuity by donors	\$ 3,124,192	\$ 3,124,158
Assets held in externally administered trusts	\$ 6,588,975	6,236,856
	\$ 9,713,167	\$ 9,361,014

13. Commitments and Contingencies

The System is a defendant in several lawsuits, which are in various stages of progress or discovery. Management believes that its insurance coverage is adequate to cover claims made under all such lawsuits and, accordingly, no provision for loss has been reflected in the accompanying consolidated financial statements.

14. Fair Value Measurement

The System has adopted the methods of calculating fair value as defined in ASC 820 to value its financial assets and liabilities, where applicable. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

ASC 820 establishes a three-tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.

Level 2: Observable inputs that are based on data not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

In determining fair value, the System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The System also considers nonperformance risk in the overall assessment of fair value.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurement (continued)

Financial assets, excluding assets held in the Plan, carried at fair value as of September 30, 2010 are classified in the following table in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 8,250,649	\$ —	\$ —	\$ 8,250,649
Mutual funds	3,769,823	—	—	3,769,823
Equity securities	16,815,587	—	—	16,815,587
U.S. government obligations	1,645,352	—	—	1,645,352
Corporate bonds	5,029,690	—	—	5,029,690
Common collective trusts	—	6,588,975	—	6,588,975
Investments at fair value	<u>\$ 35,511,101</u>	<u>\$ 6,588,975</u>	<u>\$ —</u>	<u>42,100,076</u>
Interest and other receivables				1,211,401
Pledge receivable				<u>202,392</u>
Total cash and cash equivalents and investments				<u>\$ 43,513,869</u>

Financial assets carried at fair value as of September 30, 2009 are classified in the following table in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 8,602,217	\$ —	\$ —	\$ 8,602,217
Mutual funds	3,707,015	—	—	3,707,015
Equity securities	16,172,893	—	—	16,172,893
U.S. government obligations	2,526,137	—	—	2,526,137
Corporate bonds	4,134,555	—	—	4,134,555
Common collective trusts	—	8,636,581	—	8,636,581
Investments at fair value	<u>\$ 35,142,817</u>	<u>\$ 8,636,581</u>	<u>\$ —</u>	<u>43,779,398</u>
Interest and other receivables				1,282,145
Pledge receivable				<u>403,319</u>
Total cash and cash equivalents and investments				<u>\$ 45,464,862</u>

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

15. Subsequent Events

In accordance with ASC 855-10, *Subsequent Events*, management has evaluated subsequent events through February 25, 2011, which is the date the consolidated financial statements were available to be issued. No events have occurred that require disclosure or adjustment of the consolidated financial statements.

Other Financial Information

Report of Independent Auditors on Other Financial Information

Board of Trustees
Southeastern Healthcare System, Inc.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the 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.

Ernst & Young LLP

February 25, 2011

Southeastern Healthcare System, Inc.

Consolidating Balance Sheet

September 30, 2010

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 337,609	\$ 370,642	\$ 14,926	\$ -	\$ 723,177	\$ 6,856	\$ 254,673	\$ 517,132	\$ 1,501,838	\$ -	\$ 1,501,838
Current portion of assets whose use is limited	2,936,344	-	-	-	2,936,344	-	-	-	2,936,344	-	2,936,344
Accounts receivable for services to patients, net of allowance for doubtful accounts and charity care of approximately \$9,772,000 in 2010	32,482,006	-	24,876	-	32,506,882	2,458	-	-	32,509,340	-	32,509,340
Other accounts receivable	1,375,803	5,299	6,671	-	1,387,773	31,146	102,101	10,000	1,531,020	(27,407)	1,503,613
Estimated settlements with third-party payors	2,466,273	-	-	-	2,466,273	-	-	-	2,466,273	-	2,466,273
Inventories	802,038	-	6,825	-	808,863	-	-	-	808,863	-	808,863
Prepaid expenses and other	843,458	10,798	1,058	-	855,314	-	6,718	-	862,032	-	862,032
Total current assets	41,243,531	386,739	54,356	-	41,684,626	40,460	363,492	527,132	42,615,710	(27,407)	42,588,303
Assets limited as to use:											
By the Board for designated purposes	29,326,415	-	-	(213,804)	29,112,611	512,716	-	-	29,625,327	16,739	29,642,066
By the Board for designated purposes – Littlefield	1,439,133	-	-	-	1,439,133	-	-	-	1,439,133	-	1,439,133
Pledges receivable	202,392	-	-	-	202,392	-	-	-	202,392	-	202,392
By donors for designated purposes	1,015,273	-	-	-	1,015,273	-	-	-	1,015,273	-	1,015,273
By donors for permanent endowment	3,124,192	-	-	-	3,124,192	-	-	-	3,124,192	-	3,124,192
By externally administered trusts	6,588,975	-	-	-	6,588,975	-	-	-	6,588,975	-	6,588,975
Deferred compensation	-	-	-	-	-	-	-	-	-	-	-
	41,696,380	-	-	(213,804)	41,482,576	512,716	-	-	41,995,292	16,739	42,012,031
Less amount required to meet current obligations	(2,936,344)	-	-	-	(2,936,344)	-	-	-	(2,936,344)	-	(2,936,344)
	38,760,036	-	-	(213,804)	38,546,232	512,716	-	-	39,058,948	16,739	39,075,687
Property and equipment, net	33,908,209	600,775	6,796	-	34,515,780	-	25,290	-	34,541,070	-	34,541,070
Deferred financing costs, net	234,078	-	-	-	234,078	-	-	-	234,078	-	234,078
Total assets	\$ 114,145,854	\$ 987,514	\$ 61,152	\$ (213,804)	\$ 114,980,716	\$ 553,176	\$ 388,782	\$ 527,132	\$ 116,449,806	\$ (10,668)	\$ 116,439,138

Southeastern Healthcare System, Inc.
Consolidating Balance Sheet (continued)

September 30, 2010

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 24,669,860	\$ 298,255	\$ 165,284	\$ (213,804)	\$ 24,919,595	\$ 12,849	\$ 91,769	\$ –	\$ 25,024,213	\$ (10,668)	\$ 25,013,545
Deferred revenue	–	–	–	–	–	–	43,833	–	43,833	–	43,833
Accrued interest payable	159,384	–	–	–	159,384	–	–	–	159,384	–	159,384
Current portion of long-term debt and capital lease obligations	1,582,385	–	–	–	1,582,385	–	–	–	1,582,385	–	1,582,385
Line of credit	5,000,000	–	–	–	5,000,000	–	–	–	5,000,000	–	5,000,000
Total current liabilities	31,411,629	298,255	165,284	(213,804)	31,661,364	12,849	135,602	–	31,809,815	(10,668)	31,799,147
Long-term pension liability	36,591,747	–	–	–	36,591,747	–	–	–	36,591,747	–	36,591,747
Long-term debt, net of current portion	12,693,483	–	–	–	12,693,483	–	–	–	12,693,483	–	12,693,483
Estimated self-insurance liabilities and other liabilities	981,582	–	–	–	981,582	–	–	–	981,582	–	981,582
Other long-term liabilities	82,500	–	–	–	82,500	–	–	–	82,500	–	82,500
Total liabilities	81,760,941	298,255	165,284	(213,804)	82,010,676	12,849	135,602	–	82,159,127	(10,668)	82,148,459
Net assets:											
Unrestricted	21,656,473	689,259	(104,132)	–	22,241,600	540,327	253,180	527,132	23,562,239	–	23,562,239
Temporarily restricted	1,015,273	–	–	–	1,015,273	–	–	–	1,015,273	–	1,015,273
Permanently restricted	9,713,167	–	–	–	9,713,167	–	–	–	9,713,167	–	9,713,167
Total net assets	32,384,913	689,259	(104,132)	–	32,970,040	540,327	253,180	527,132	34,290,679	–	34,290,679
Total liabilities and net assets	\$ 114,145,854	\$ 987,514	\$ 61,152	\$ (213,804)	\$ 114,980,716	\$ 553,176	\$ 388,782	\$ 527,132	\$ 116,449,806	\$ (10,668)	\$ 116,439,138

Southeastern Healthcare System, Inc.

Consolidating Balance Sheet

September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 588,412	\$ 491,194	\$ 8,533	\$ –	\$ 1,088,139	\$ 21,323	\$ 655,351	\$ 27,162	\$ 1,791,975	\$ –	\$ 1,791,975
Current portion of assets whose use is limited	1,789,391	–	–	–	1,789,391	–	–	–	1,789,391	–	1,789,391
Accounts receivable for services to patients, net of allowance for doubtful accounts and charity care of approximately \$8,270,000 in 2009	34,705,649	–	42,512	–	34,748,161	2,458	–	–	34,750,619	–	34,750,619
Other accounts receivable	972,639	6,820	27,516	–	1,006,975	51,849	209,367	–	1,268,191	(54,424)	1,213,767
Estimated settlements with third-party payors	3,062,696	–	–	–	3,062,696	–	–	–	3,062,696	–	3,062,696
Inventories	752,440	–	6,825	–	759,265	–	–	–	759,265	–	759,265
Prepaid expenses and other	1,081,771	13,343	11,174	–	1,106,288	–	11,573	–	1,117,861	–	1,117,861
Total current assets	42,952,998	511,357	96,560	–	43,560,915	75,630	876,291	27,162	44,539,998	(54,424)	44,485,574
Assets limited as to use:											
By the Board for designated purposes	29,271,022	–	–	(200,000)	29,071,022	512,716	–	–	29,583,738	–	29,583,738
By the Board for designated purposes – Littlefield	1,233,777	–	–	–	1,233,777	–	–	–	1,233,777	–	1,233,777
Pledges receivable	403,319	–	–	–	403,319	–	–	–	403,319	–	403,319
By donors for designated purposes	691,314	–	–	–	691,314	–	–	–	691,314	–	691,314
By donors for permanent endowment	3,124,158	–	–	–	3,124,158	–	–	–	3,124,158	–	3,124,158
By externally administered trusts	6,236,856	–	–	–	6,236,856	–	–	–	6,236,856	–	6,236,856
Deferred compensation	2,399,725	–	–	–	2,399,725	–	–	–	2,399,725	–	2,399,725
	43,360,717	–	–	(200,000)	43,160,717	512,716	–	–	43,672,887	–	43,672,887
Less amount required to meet current obligations	(1,789,391)	–	–	–	(1,789,391)	–	–	–	(1,789,391)	–	(1,789,391)
	41,570,780	–	–	(200,000)	41,370,780	512,716	–	–	41,883,496	–	41,883,496
Property and equipment, net	34,324,599	586,063	9,603	–	34,920,265	–	24,870	–	34,945,135	–	34,945,135
Deferred financing costs, net	260,829	–	–	–	260,829	–	–	–	260,829	–	260,829
Total assets	\$ 119,109,206	\$ 1,097,420	\$ 106,163	\$ (200,000)	\$ 120,112,789	\$ 588,346	\$ 901,161	\$ 27,162	\$ 121,629,458	\$ (54,424)	\$ 121,575,034

Southeastern Healthcare System, Inc.
Consolidating Balance Sheet (continued)

September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 24,042,519	\$ 372,582	\$ 211,117	\$ (200,000)	\$ 24,426,218	\$ 47,252	\$ 132,917	\$ –	\$ 24,606,387	\$ (54,424)	\$ 24,551,963
Deferred revenue	–	–	–	–	–	–	115,039	–	115,039	–	115,039
Accrued interest payable	174,984	–	–	–	174,984	–	–	–	174,984	–	174,984
Current portion of long-term debt and capital lease obligations	1,582,385	–	–	–	1,582,385	–	–	–	1,582,385	–	1,582,385
Line of credit	5,000,000	–	–	–	5,000,000	–	–	–	5,000,000	–	5,000,000
Total current liabilities	30,799,888	372,582	211,117	(200,000)	31,183,587	47,252	247,956	–	31,478,795	(54,424)	31,424,371
Long-term pension liability	36,780,563	–	–	–	36,780,563	–	–	–	36,780,563	–	36,780,563
Long-term debt, net of current portion	14,275,868	–	–	–	14,275,868	–	–	–	14,275,868	–	14,275,868
Estimated self-insurance liabilities and other liabilities	1,154,752	–	–	–	1,154,752	–	–	–	1,154,752	–	1,154,752
Deferred compensation liability	2,399,725	–	–	–	2,399,725	–	–	–	2,399,725	–	2,399,725
Total liabilities	85,410,796	372,582	211,117	(200,000)	85,794,495	47,252	247,956	–	86,089,703	(54,424)	86,035,279
Net assets:											
Unrestricted	23,646,082	724,838	(104,954)	–	24,265,966	541,094	653,205	27,162	25,487,427	–	25,487,427
Temporarily restricted	691,314	–	–	–	691,314	–	–	–	691,314	–	691,314
Permanently restricted	9,361,014	–	–	–	9,361,014	–	–	–	9,361,014	–	9,361,014
Total net assets	33,698,410	724,838	(104,954)	–	34,318,294	541,094	653,205	27,162	35,539,755	–	35,539,755
Total liabilities and net assets	\$ 119,109,206	\$ 1,097,420	\$ 106,163	\$ (200,000)	\$ 120,112,789	\$ 588,346	\$ 901,161	\$ 27,162	\$ 121,629,458	\$ (54,424)	\$ 121,575,034

Southeastern Healthcare System, Inc.

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2010

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Operating revenues:														
Net patient service revenue	\$ 153,671,942	\$ 7,157,061	\$ 11,781,163	\$ 172,610,166	\$ –	\$ 708,699	\$ –	\$ 173,318,865	\$ –	\$ –	\$ –	\$ 173,318,865	\$ –	\$ 173,318,865
Other revenue	8,181,027	–	–	8,181,027	792,381	50,840	(261,094)	8,763,154	5,004	1,473,320	60,006	10,301,484	(60,000)	10,241,484
Net assets released from restrictions for operations	108,887	–	–	108,887	–	–	–	108,887	–	–	–	108,887	–	108,887
Total operating revenues	161,961,856	7,157,061	11,781,163	180,900,080	792,381	759,539	(261,094)	182,190,906	5,004	1,473,320	60,006	183,729,236	(60,000)	183,669,236
Operating expenses:														
Salaries and wages	71,194,286	4,955,029	7,095,175	83,244,490	–	614,676	153,730	84,012,896	–	376,137	–	84,389,033	36,000	84,425,033
Employee benefits	26,508,509	1,635,161	784,828	28,928,498	–	174,785	–	29,103,283	–	153,930	–	29,257,213	–	29,257,213
Supplies, purchased services and other	41,256,370	464,134	2,808,782	44,529,286	570,642	305,607	(414,824)	44,990,711	5,771	834,274	60,036	45,890,792	(96,000)	45,794,792
Provision for bad debts	14,281,122	–	1,355,452	15,636,574	–	20,842	–	15,657,416	–	–	–	15,657,416	–	15,657,416
Depreciation and amortization	4,064,590	–	–	4,064,590	107,318	2,807	–	4,174,715	–	9,190	–	4,183,905	–	4,183,905
Licensing fee	7,178,101	–	–	7,178,101	–	–	–	7,178,101	–	–	–	7,178,101	–	7,178,101
Interest	1,287,152	–	–	1,287,152	–	–	–	1,287,152	–	–	–	1,287,152	–	1,287,152
Total expenses	165,770,130	7,054,324	12,044,237	184,868,691	677,960	1,118,717	(261,094)	186,404,274	5,771	1,373,531	60,036	187,843,612	(60,000)	187,783,612
(Loss) gain from operations	(3,808,274)	102,737	(263,074)	(3,968,611)	114,421	(359,178)	–	(4,213,368)	(767)	99,789	(30)	(4,114,376)	–	(4,114,376)
Non-operating gains (losses):														
Investment income	500,621	–	–	500,621	–	–	150,000	350,621	–	186	500,000	850,807	(500,000)	350,807
Net realized gains on sales of investments	715,584	–	–	715,584	–	–	–	715,584	–	–	–	715,584	–	715,584
Unrestricted donations	233,654	–	–	233,654	–	–	–	233,654	–	–	–	233,654	–	233,654
Income on externally administered trusts	285,654	–	–	285,654	–	–	–	285,654	–	–	–	285,654	–	285,654
Total nonoperating gains	1,735,513	–	–	1,735,513	–	–	(150,000)	1,585,513	–	186	500,000	2,085,699	(500,000)	1,585,699
(Deficiency) excess of revenue over expenses before change in appreciation of investments	(2,072,761)	102,737	(263,074)	(2,233,098)	114,421	(359,178)	(150,000)	(2,627,855)	(767)	99,975	499,970	(2,028,677)	(500,000)	(2,528,677)
Change in fair value of investments	817,068	–	–	817,068	–	–	–	817,068	–	–	–	817,068	–	817,068
(Deficiency) excess of revenue over expenses	\$ (1,255,693)	\$ 102,737	\$ (263,074)	\$ (1,416,030)	\$ 114,421	\$ (359,178)	\$ (150,000)	\$ (1,810,787)	\$ (767)	\$ 99,975	\$ 499,970	\$ (1,211,609)	\$ (500,000)	\$ (1,711,609)

Southeastern Healthcare System, Inc.

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

Year Ended September 30, 2010

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
(Deficiency) excess of revenues over expenses	\$ (1,416,030)	\$ 114,421	\$ (359,178)	\$ (150,000)	\$ (1,810,787)	\$ (767)	\$ 99,975	\$ 499,970	\$ (1,211,609)	\$ (500,000)	\$ (1,711,609)
Change in pension liability	(281,586)	-	-	-	(281,586)	-	-	-	(281,586)	-	(281,586)
Cumulative effect of a change in accounting principle	-	-	-	-	-	-	-	-	-	-	-
Intercompany transfer	(360,000)	(150,000)	360,000	150,000	-	-	(500,000)	-	(500,000)	500,000	-
Contribution of long-lived assets	5,370	-	-	-	5,370	-	-	-	5,370	-	5,370
Net assets released from restrictions	5,707	-	-	-	5,707	-	-	-	5,707	-	5,707
Net assets released from restrictions used for purchase of property, plant and equipment	56,931	-	-	-	56,931	-	-	-	56,931	-	56,931
(Decrease) increase in unrestricted net assets	(1,989,608)	(35,579)	822	-	(2,024,365)	(767)	(400,025)	499,970	(1,925,187)	-	(1,925,187)
Change in temporarily restricted net assets:											
Contributions	217,146	-	-	-	217,146	-	-	-	217,146	-	217,146
Investment income	166,402	-	-	-	166,402	-	-	-	166,402	-	166,402
Net appreciation (realized and unrealized)	111,935	-	-	-	111,935	-	-	-	111,935	-	111,935
Net assets released from restrictions	(171,525)	-	-	-	(171,525)	-	-	-	(171,525)	-	(171,525)
Increase in temporarily restricted net assets	323,958	-	-	-	323,958	-	-	-	323,958	-	323,958
Change in permanently restricted net assets:											
Restricted donations	34	-	-	-	34	-	-	-	34	-	34
Net appreciation on assets held in externally administered trusts	352,119	-	-	-	352,119	-	-	-	352,119	-	352,119
Increase in permanently restricted net assets	352,153	-	-	-	352,153	-	-	-	352,153	-	352,153
(Decrease) increase in net assets	(1,313,497)	(35,579)	822	-	(1,348,254)	(767)	(400,025)	499,970	(1,249,076)	-	(1,249,076)
Net assets, beginning of year	33,698,410	724,838	(104,954)	-	34,318,294	541,094	653,205	27,162	35,539,755	-	35,539,755
Net assets, end of year	\$ 32,384,913	\$ 689,259	\$ (104,132)	\$ -	\$ 32,970,040	\$ 540,327	\$ 253,180	\$ 527,132	\$ 34,290,679	\$ -	\$ 34,290,679

Southeastern Healthcare System, Inc.

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

Year Ended September 30, 2009

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Operating revenues:														
Net patient service revenue	\$ 150,788,168	\$ 6,611,666	\$ 10,359,442	\$ 167,759,276	\$ –	\$ 846,124	\$ –	\$ 168,605,400	\$ –	\$ –	\$ –	\$ 168,605,400	\$ –	\$ 168,605,400
Other revenue	6,069,366	–	–	6,069,366	780,811	96,470	(268,286)	6,678,361	72,505	1,257,709	60,008	8,068,583	(250,399)	7,818,184
Net assets released from restrictions for operations	60,434	–	–	60,434	–	–	–	60,434	–	–	–	60,434	–	60,434
Total operating revenues	156,917,968	6,611,666	10,359,422	173,889,076	780,811	942,594	(268,286)	175,344,195	72,505	1,257,709	60,008	176,734,417	(250,399)	176,484,018
Operating expenses:														
Salaries and wages	71,080,045	4,819,219	7,265,060	83,163,324	–	669,085	120,290	83,952,699	62,000	376,674	–	84,391,373	–	84,391,373
Employee benefits	24,731,991	1,590,342	730,744	27,053,077	–	233,053	–	27,286,130	5,029	142,873	–	27,434,032	–	27,434,032
Supplies, purchased services and other	40,162,863	172,673	2,875,296	43,210,832	817,319	356,134	(588,576)	43,795,709	3,824	634,132	60,000	44,493,665	(250,399)	44,243,266
Provision for bad debts	12,654,073	–	–	12,654,073	–	34,148	–	12,688,221	–	–	–	12,688,221	–	12,688,221
Depreciation and amortization	4,183,525	–	–	4,183,525	100,825	2,854	–	4,287,204	–	15,084	–	4,302,288	–	4,302,288
Licensing fee	7,303,539	–	–	7,303,539	–	–	–	7,303,539	–	–	–	7,303,539	–	7,303,539
Interest	1,219,502	–	–	1,219,502	–	–	–	1,219,502	–	–	–	1,219,502	–	1,219,502
Total operating expenses	161,335,538	6,582,234	10,870,100	178,787,872	918,144	1,295,274	(468,286)	180,533,004	70,853	1,168,763	60,000	181,832,620	(250,399)	181,582,221
(Loss) gain from operations	(4,417,570)	29,432	(510,658)	(4,898,796)	(137,333)	(352,680)	200,000	(5,188,809)	1,652	88,946	8	(5,098,203)	–	(5,098,203)
Non-operating gains (losses):														
Investment income	521,158	–	–	521,158	–	–	(200,000)	321,158	–	–	–	321,158	–	321,158
Net realized gains on sales of investments	(3,115,944)	–	–	(3,115,944)	–	–	–	(3,115,944)	–	–	–	(3,115,944)	–	(3,115,944)
Unrestricted donations	368,144	–	–	368,144	–	–	–	368,144	–	–	–	368,144	–	368,144
Income on externally administered trusts	245,442	–	–	245,442	–	–	–	245,442	–	–	–	245,442	–	245,442
Total nonoperating losses	(1,981,200)	–	–	(1,981,200)	–	–	(200,000)	(2,181,200)	–	–	–	(2,181,200)	–	(2,181,200)
(Deficiency) excess of revenue over expenses before change in fair value of investments	(6,879,996)	–	–	(6,879,996)	(137,333)	(352,680)	–	(7,370,009)	1,652	88,946	8	(7,279,403)	–	(7,279,403)
Change in fair value of investments	3,314,461	–	–	3,314,461	–	–	–	3,314,461	–	–	–	(3,314,461)	–	3,314,461
(Deficiency) excess of revenue over expenses	\$ (3,565,535)	\$ –	\$ –	\$ (3,565,535)	\$ (137,333)	\$ (352,680)	\$ –	\$ (4,055,548)	\$ 1,652	\$ 88,946	\$ 8	\$ (3,964,942)	\$ –	\$ (3,964,942)

Southeastern Healthcare System, Inc.

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

Year Ended September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
(Deficiency) excess of revenue over expenses	\$ (3,565,535)	\$ (137,333)	\$ (352,680)	\$ -	\$ (4,055,548)	\$ 1,652	\$ 88,946	\$ 8	\$ (3,964,942)	\$ -	\$ (3,964,942)
Additional minimum pension liability	(21,789,804)	-	-	-	(21,789,804)	-	-	-	(21,789,804)	-	(21,789,804)
Cumulative effect of a change in accounting principle	(882,733)	-	-	-	(882,733)	-	-	-	(882,733)	-	(882,733)
Intercompany transfer	(225,000)	-	225,000	-	-	-	-	-	-	-	-
Contributions for capital expenditures	33,253	-	-	-	33,253	-	-	-	33,253	-	33,253
Net assets released from restrictions	(37,907)	-	-	-	(37,907)	-	-	-	(37,907)	-	(37,907)
Net assets released from restrictions used for purchase of property, plant and equipment	95,125	-	-	-	95,125	-	-	-	95,125	-	95,125
(Decrease) increase in unrestricted net assets	(26,372,601)	(137,333)	(127,680)	-	(26,637,614)	1,652	88,946	8	(26,547,008)	-	(26,547,008)
Change in temporarily restricted net assets:											
Contributions	87,147	-	-	-	87,147	-	-	-	87,147	-	87,147
Investment loss	(35,707)	-	-	-	(35,707)	-	-	-	(35,707)	-	(35,707)
Net assets released from restrictions	(117,652)	-	-	-	(117,652)	-	-	-	(117,652)	-	(117,652)
Decrease in temporarily restricted net assets	(66,212)	-	-	-	(66,212)	-	-	-	(66,212)	-	(66,212)
Change in permanently restricted net assets:											
Restricted donations	-	-	-	-	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-	-	-	-	-
Net depreciation on assets held in externally administered trusts	(77,646)	-	-	-	(77,646)	-	-	-	(77,646)	-	(77,646)
Decrease in permanently restricted net assets	(77,646)	-	-	-	(77,646)	-	-	-	(77,646)	-	(77,646)
(Decrease) increase in net assets	(26,516,459)	(137,333)	(127,680)	-	(26,781,472)	1,652	88,946	8	(26,690,866)	-	(26,690,866)
Net assets, beginning of year	60,214,869	862,171	22,726	-	61,099,766	539,442	564,259	27,154	62,230,621	-	62,230,621
Net assets, end of year	\$ 33,698,410	\$ 724,838	\$ (104,954)	\$ -	\$ 34,318,294	\$ 541,094	\$ 653,205	\$ 27,162	\$ 35,539,755	\$ -	\$ 35,539,755

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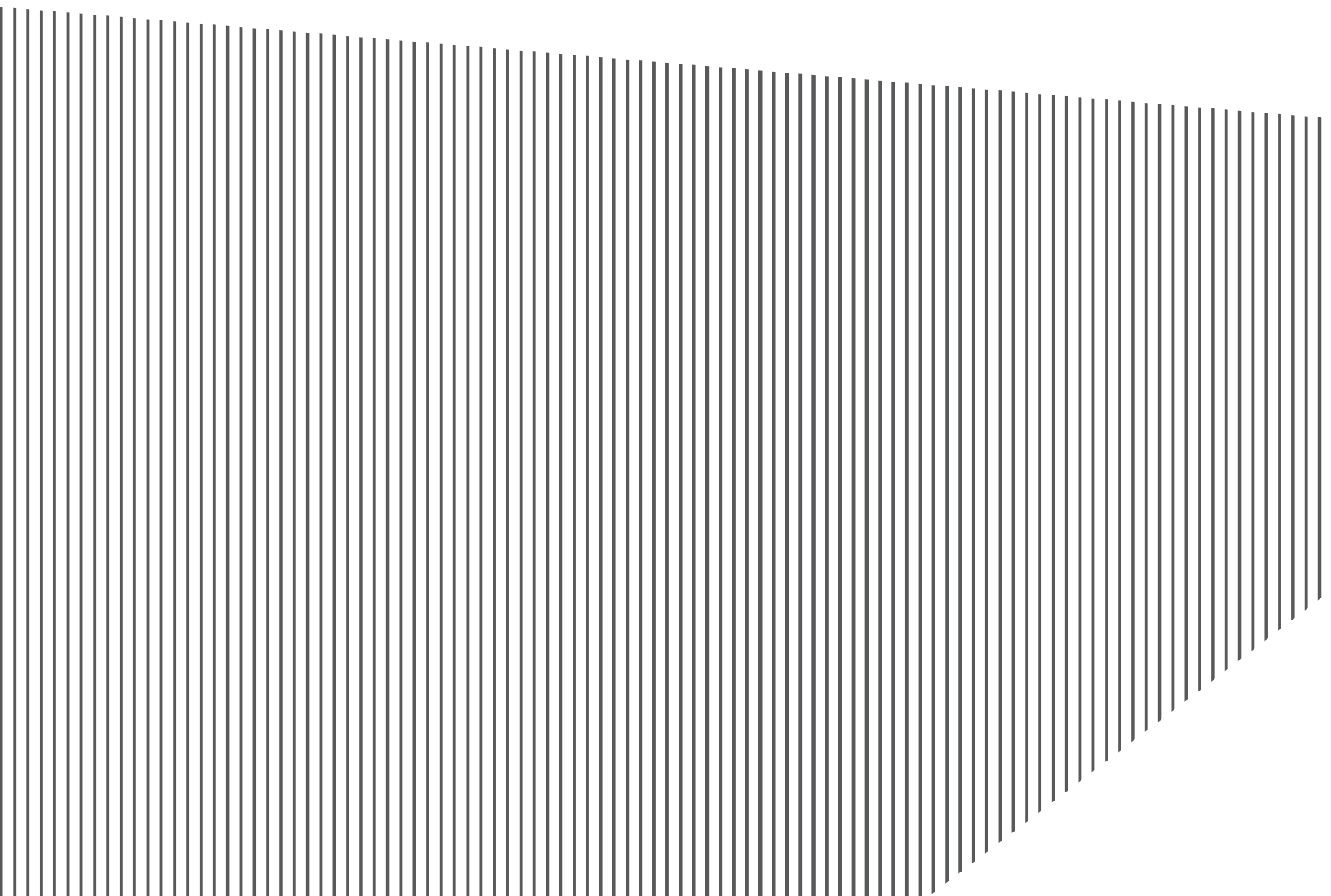
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AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

Southeastern Healthcare System, Inc. and Affiliates
Years Ended September 30, 2009 and 2008
With Report of Independent Auditors

Southeastern Healthcare System, Inc. and Affiliates

Audited Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2009 and 2008

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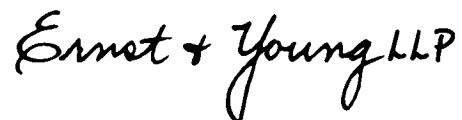
Report of Independent Auditors

Board of Trustees
Southeastern Healthcare System, Inc. and Affiliates

We have audited the accompanying consolidated balance sheets of Southeastern Healthcare System, Inc. and Affiliates (the System) 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 financial statements are the responsibility of SHSI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the System's internal control over financial reporting. Our audits included 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 System'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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Southeastern Healthcare System, Inc. and Affiliates at September 30, 2009 and 2008, and the consolidated 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.



March 1, 2010

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Balance Sheets

	September 30	
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,791,975	\$ 2,705,681
Current portion of assets whose use is limited	1,789,391	2,409,152
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$8,270,000 and \$7,730,000 for 2009 and 2008, respectively	34,750,619	35,164,101
Other accounts receivable	1,213,767	884,795
Estimated settlements with third-party payors	3,062,696	2,646,557
Inventories	759,265	940,603
Prepaid expenses and other	1,117,861	756,681
Total current assets	44,485,574	45,507,570
Assets whose use is limited:		
By the Board for designated purposes	30,817,515	32,447,532
Held by trustee under indenture agreement	—	788,320
Pledges receivable	403,319	467,425
By donors for designated purposes	691,314	757,526
By donors for permanent endowment	3,124,158	3,124,158
By externally administered trusts	6,236,856	6,314,502
Deferred compensation	2,399,725	2,376,554
	43,672,887	46,276,017
Less amount required to meet current obligations	(1,789,391)	(2,409,152)
Total non-current assets whose use is limited	41,883,496	43,866,865
Property and equipment, net	34,945,135	37,621,766
Other assets, net	260,829	287,581
Total assets	\$ 121,575,034	\$ 127,283,782

	September 30	
	2009	2008
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 24,667,002	\$ 25,897,424
Accrued interest payable	174,984	187,659
Current portion of long-term debt and capital lease obligations	1,582,385	1,582,385
Line of credit	5,000,000	5,000,000
Total current liabilities	<u>31,424,371</u>	<u>32,667,468</u>
Long-term pension liability	36,780,563	13,216,621
Long-term debt, net of current portion	14,275,868	15,858,253
Estimated self-insurance liabilities and other liabilities	1,154,752	934,265
Deferred compensation liability	2,399,725	2,376,554
Total liabilities	<u>86,035,279</u>	<u>65,053,161</u>
Net assets:		
Unrestricted	25,487,427	52,034,435
Temporarily restricted	691,314	757,526
Permanently restricted	9,361,014	9,438,660
Total net assets	<u>35,539,755</u>	<u>62,230,621</u>
Total liabilities and net assets	<u><u>\$ 121,575,034</u></u>	<u><u>\$ 127,283,782</u></u>

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Operations and Changed in Net Assets

	Year Ended September 30	
	2009	2008
Operating revenues:		
Net patient service revenue	\$ 168,605,400	\$ 165,491,224
Other revenue	7,818,184	8,524,051
Net assets released from restrictions for operations	60,434	202,724
Total operating revenues	176,484,018	174,217,999
Operating expenses:		
Salaries and wages	84,391,373	86,954,079
Employee benefits	27,434,032	25,528,232
Supplies, purchased services, and other	44,243,266	46,429,117
Provision for bad debts	12,688,221	12,397,208
Depreciation and amortization	4,302,288	4,425,073
Licensing fee	7,303,539	4,567,793
Interest	1,219,502	1,256,611
Total operating expenses	181,582,221	181,558,113
Loss from operations	(5,098,203)	(7,340,114)
Non-operating (losses) gains:		
Investment income	321,158	800,262
Net realized (losses) gains on sales of investments	(3,115,944)	2,536,900
Unrestricted donations	368,144	761,039
Income on assets held in trust	245,442	256,679
Total nonoperating (losses) gains	(2,181,200)	4,354,880
Deficiency of revenue over expenses before change in appreciation (depreciation) of investments	(7,279,403)	(2,985,234)
Change in appreciation (depreciation) of investments	3,314,461	(10,382,330)
Deficiency of revenue over expenses	(3,964,942)	(13,367,564)

(Continued on next page)

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2009	2008
Change in unrestricted net assets (continued):		
Deficiency of revenue over expenses	(3,964,942)	(13,367,564)
Change in pension liability	(21,789,804)	(1,772,482)
Effect of change in measurement date for pension liability	(882,733)	-
Net assets released from restrictions	(37,907)	-
Contribution of long-lived assets	33,253	13,000
Net assets released from restrictions used for purchase of property and equipment	95,125	1,783,180
Decrease in unrestricted net assets	(26,547,008)	(13,343,866)
Change in temporarily restricted net assets:		
Contributions	87,147	484,594
Investment income	(35,707)	871,944
Net assets released from restrictions	(117,652)	(1,985,904)
Decrease in temporarily restricted net assets	(66,212)	(629,366)
Change in permanently restricted net assets:		
Change in unrealized depreciation on assets held in externally administered trusts	(77,646)	(1,009,236)
Permanently restricted contributions to externally administered trusts	-	69
Decrease in permanently restricted net assets	(77,646)	(1,009,167)
Decrease in net assets	(26,690,866)	(14,982,399)
Net assets at beginning of year	62,230,621	77,213,020
Net assets at end of year	\$ 35,539,755	\$ 62,230,621

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2009	2008
Operating activities		
Decrease in net assets	\$ (26,690,866)	\$ (14,982,399)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and non-operating gains:		
Depreciation and amortization	4,302,288	4,425,073
Provision for bad debts	12,688,221	12,397,208
Amortization of bond premium	(22,385)	(22,385)
Change in pension liability and effect of change in measurement date for pension liability	22,672,537	1,772,482
Restricted contributions and investment income	(51,440)	(1,356,607)
Change in:		
Patient accounts receivable	(12,274,739)	(12,923,389)
Other accounts receivable	(328,972)	(341,911)
Estimated settlements with third-party payors	(416,139)	(1,838,674)
Inventories	181,338	149,282
Prepaid expenses and other	(361,180)	100,874
Investments classified as trading	2,603,130	17,241,787
Accounts payable, accrued expenses and pension	(339,017)	2,738,281
Accrued interest payable	(12,675)	(15,600)
Estimated self-insurance liabilities and other liabilities	220,487	240,078
Deferred compensation liability	23,171	(279,125)
Net cash provided by operating activities and non-operating gains	2,193,759	7,304,975
Investing activities		
Purchases of property and equipment, net	(1,598,905)	(6,127,166)
Net cash used in investing activities	(1,598,905)	(6,127,166)
Financing activities		
Restricted contributions and investment income	51,440	1,356,607
Repayments of long-term debt and additional financing costs	(1,560,000)	(1,560,000)
Borrowings on line of credit, net	-	406,000
Net cash (used) provided by financing activities	(1,508,560)	202,607
Net (decrease) increase in cash and cash equivalents	(913,706)	1,380,416
Cash and cash equivalents at beginning of year	2,705,681	1,325,265
Cash and cash equivalents at end of year	\$ 1,791,975	\$ 2,705,681

See accompanying notes.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements

September 30, 2009

1. Summary of Significant Accounting Policies

Organization

Southeastern Healthcare System, Inc. (SHSI), formed in 1997, is the sole corporate member or shareholder of Memorial Hospital of Rhode Island (the Hospital), Primary Care Centers of New England, Inc. (PCCNE), and Blackstone Health, Inc. (BHI) (collectively referred to as the System). The Hospital is the sole corporate member of R.S. Realty Company (RSR) and SHS Ventures, Inc. (Ventures).

The Hospital is a 294-bed, acute care, not-for-profit community teaching and research hospital located in Pawtucket, Rhode Island, and is affiliated with Brown University School of Medicine. RSR owns and leases apartments and office space primarily to Hospital employees. PCCNE provides staffing to Ventures and the Hospital. Ventures consists of Massachusetts-based physician practices. BHI receives and administers certain grant funds, and provides services to elderly and disabled residents in the local area.

Principles of Consolidation

The accompanying consolidated financial statements include the assets of SHSI and its controlled affiliates. The assets of any one of the members of the consolidated group may not be available to meet the obligations of other entities in the group. Intercompany balances and transactions between the organizations have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Net Patient Service Revenue

The System has entered into payment agreements with Medicare, Medicaid, and various commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the System under those agreements includes prospectively determined rates per discharge, discounts from established charges, costs (subject to limits), fee screens, prospectively determined per diem rates, and capitation fees earned on a per-member-per-month basis. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and final determination by the third-party payors. Variances between preliminary estimates of net patient service revenue and final third-party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs. During fiscal year 2009 and 2008, the System recorded a change in estimate of \$923,712 and \$ (12,188), respectively.

Consolidated Statements of Operations

The consolidated statements of operations include the excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets, including assets acquired using contributions which, by donor restrictions, were to be used for the purpose of acquiring such assets, change in pension liability, the effect of change in measurement date for pension liability, and net assets released from restrictions used to purchase property and equipment.

For presentation purposes, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenue and operating expenses. Other transactions not considered major or central to the provision of health care services are reported as non-operating gains and losses, which primarily consist of investment income and unrestricted donations.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Grant Revenue

The Hospital receives grants from agencies of the federal government and other sources to perform medical research and educational projects. Revenue related to the grants is recognized as the related costs are incurred. Grant revenues included in other revenue amounted to \$3,333,161 and \$3,891,994 for the years ended September 30, 2009 and 2008, respectively. Deferred revenues which relate to grant funds received prior to costs being incurred are included in accounts payable and accrued expenses and amounted to \$910,973 and \$755,538 at September 30, 2009 and 2008, respectively.

Functional Expenses

Substantially all expenses in the accompanying consolidated statements of operations are related to the delivery of health care services and the performance of medical research and educational projects.

Disproportionate Share Program

The Hospital is a participant in the State of Rhode Island's Disproportionate Share Program, which was established in 1995 to assist hospitals that provide a disproportionate amount of uncompensated care. Under the program, the Hospital receives federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low-income patients. Payments to the Hospital under the Disproportionate Share Program of \$8,346,204 and \$6,349,608 for the years ended September 30, 2009 and 2008, respectively, are included in net patient service revenue in the accompanying consolidated statements of operations.

Assessments

The State of Rhode Island assesses a licensing fee to all Rhode Island hospitals based upon each hospital's gross patient service revenue as reported on filed cost reports. The Hospital's licensing fee amounted to \$7,303,539 and \$4,567,793 for the years ended September 30, 2009 and 2008, respectively.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of amounts restricted by donors for specific purposes. Permanently restricted net assets have been restricted by donors and are to be maintained by the System in perpetuity. Also included in permanently restricted net assets are assets held in externally administered irrevocable trusts which are not under the System's control. The System is the income beneficiary of certain perpetual trusts and has recognized its share of the fair value of the perpetual trusts as a permanently restricted asset. The System's share represents the percentage of interest the System has in the perpetual trust's income distributions. The System's share of the increase or decrease in fair value of the perpetual trusts is reported as an increase or decrease in permanently restricted net assets.

Donor Restricted Gifts

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

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly-liquid debt instruments with maturities of three months or less when purchased, excluding assets whose use is limited or restricted.

Inventories

Inventories are stated at the lower of cost or market, cost being determined on a weighted-average basis, except for the pharmacy and central processing department, which utilize the first-in, first-out basis.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Assets Whose Use Is Limited

Resources set aside for board-designated purposes or limited under terms of loan agreements are considered to be assets whose use is limited. Assets whose use is limited that are required for obligations classified as current liabilities are classified as current assets.

Assets whose use is limited by donors for designated purposes consist of amounts contributed for the design and renovation of the Hospital's facility. Assets whose use is limited by donors for permanent endowment funds contain a donor-imposed restriction stipulating that these resources be maintained permanently. However, the restriction permits the Hospital to use or expend all of the income and net gains derived from the donated assets. Accordingly, investment income on the assets is unrestricted. Rhode Island general law allows organizations to permanently restrict investment earnings on permanently restricted funds to maintain the purchasing power of the original dollar value of the funds. The law also allows the governing board to expend such funds as permitted under other laws, the terms of the applicable gift instrument, or the charter of the institution. Each year, the Board of Trustees has designated all income of permanently restricted assets, other than externally administered trusts, for future Hospital use and, therefore, the income has been classified as unrestricted.

The Hospital is the beneficiary of the income from externally administered trusts, which are not under its control. Income from these trusts is unrestricted, and the annual distributions received by the Hospital are reported as non-operating gains in the consolidated statements of operations.

Investments and Investment Income

The Hospital has designated its investment portfolio as trading. Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is generally determined based on quoted market price. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses, net of investment expenses.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Equipment under capital leases is amortized using the straight-line method over the shorter of the period of the lease term or the estimated useful life of the equipment. Such amortization of capitalized leases is included with depreciation expense in the accompanying consolidated statements of operations.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of debt, which are being amortized over the term of the related debt issue. Amortization expense amounted to \$26,753 and \$26,753 for the years ended September 30, 2009 and 2008, respectively.

Fair Value of Financial Instruments

The fair value of the System's financial instruments approximates the carrying amount reported in the consolidated balance sheets for cash and cash equivalents, receivables, and payables. See Note 13 for the fair value of investments and assets whose use is limited and Note 6 for the fair value of long-term debt.

Tax Status

SHSI, the Hospital, Ventures and BHI have been recognized as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code (the Code). RSR has been recognized as a tax-exempt organization under Section 501(c)(2) of the Code. Those organizations are, therefore, exempt from federal taxes on related income pursuant to Section 501(a) of the Code. PCCNE is organized as a for-profit corporation and is, therefore, subject to tax. The provision for income taxes on the earnings of PCCNE is immaterial to the consolidated financial statements.

As of September 30, 2009, PCCNE has net operating loss carryforwards of approximately \$1,380,000 for income tax purposes. These carryforwards resulted from PCCNE incurring operating losses in prior years. A deferred tax asset for these losses of approximately \$552,000 is offset by a corresponding valuation allowance of the same amount.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (Statement 168). Statement 168 establishes the FASB Accounting Standards Codification (ASC, also collectively known as the Codification) as the single source of authoritative GAAP to be applied by nongovernmental entities. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. Statement 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The System has adopted Statement 168 for its year ended September 30, 2009. Accounting references have been updated and replaced with ASC references.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*, (hereafter referred to as ASC No. 820) which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosure about fair value measurements. The System adopted ASC No. 820 effective October 1, 2008. The effect of adopting ASC No. 820 was not material to the System's financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (hereafter referred to as ASC No. 825) which permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. The System adopted ASC No. 825 effective October 1, 2008. The System did not elect the option to value any other assets or liabilities at fair value.

In June 2009, the FASB issued a Statement on Subsequent Events. This statement provides authoritative accounting guidance and disclosure requirements for material events occurring subsequent to the balance sheet date and prior to the issuance of the financial statements. This statement is effective for the System for the year ended September 30, 2009. The System has evaluated the impact of subsequent events through March 1, 2010, representing the date at which the financial statements were issued.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2008 balances previously reported in the balance sheets in order to conform with the year ended September 30, 2009 presentation.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Revenues from Services to Patients and Uncompensated Care

During fiscal years 2009 and 2008, the Hospital's net revenues from services to patients were 32% and 33% from Medicare and 17% and 16% from Medicaid, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

Patient accounts receivable and revenues are recorded when patient services are performed. The Hospital has agreements with certain third-party payors, including health maintenance organizations, that provide for payments to the Hospital at amounts different from the Hospital's established billing rates. These differences are accounted for as allowances. Under those agreements, the Hospital receives reimbursement based on a number of different payment arrangements.

Net revenues from services to patients is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition to the above-mentioned medical care rendered, the Hospital provides numerous other services to the community for which charges are not generated. These services include translation of medical information into various languages, physician referral services, health care screenings (including those done at employer sites), community support groups, health educational programs, physician services, and general community benefit services such as disaster relief. In addition, volunteer services are provided by Hospital staff to the community on their own time.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

2. Revenues from Services to Patients and Uncompensated Care (continued)

The Hospital also provides services to other indigent patients under the Medicaid program, which reimburses health care providers at amounts which are, in total, estimated to be less than the cost of services provided. The differences between the cost of services provided to indigent patients and the expected reimbursement is also considered to be charitable services by the Hospital but they have not been included in the amounts disclosed above.

In addition to the cost of charity care and other community service programs, the Hospital provided \$12,688,221 and \$12,397,208 for uncollectible patient accounts during the years ended September 30, 2009 and 2008, respectively.

3. Assets Whose Use is Limited

Assets whose use is limited consists of the following at fair value at September 30:

	2009	2008
Interest and other receivables	\$ 1,282,145	\$ 1,219,524
Pledges receivable	403,319	467,425
Deferred compensation trust	2,399,725	2,376,554
Assets held in externally administered trusts	6,236,856	6,314,502
Cash and money market investments	6,810,242	6,357,090
Marketable securities	26,540,600	29,540,922
	\$ 43,672,887	\$ 46,276,017

Marketable securities consist of the following at fair value at September 30:

	2009	2008
Equity securities	\$ 16,172,893	\$ 15,658,736
Corporate bonds	4,134,555	5,076,358
Mutual funds	3,707,015	4,597,555
U.S. government obligations	2,526,137	4,208,273
	\$ 26,540,600	\$ 29,540,922

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

3. Assets Whose Use is Limited (continued)

The System's unrestricted investment return for the years ended September 30 consisted of the following:

	2009	2008
Interest income	\$ 321,158	\$ 800,262
Net realized (losses) gains on sales of investments	(3,115,944)	2,536,900
Income on assets held in trust	245,442	256,679
	(2,549,344)	3,593,841
Interest and dividend income on trustee funds included in other operating revenue	-	37,783
Change in (depreciation) appreciation of investments	3,314,461	(10,382,330)
	\$ 765,117	\$ (6,750,706)

4. Endowment

The System has interpreted the Rhode Island Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, beginning in fiscal year 2010, the System will classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment related to the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the System and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the System; and (7) the investment and spending policies of the System.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

4. Endowment (continued)

The System's endowment consists of funds established for a variety of purposes. The endowment includes donor-restricted endowment funds. The System's net asset composition by fund type as of September 30, 2009 includes:

Changes in endowment net asset for the year ended September 30, 2009 is as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ –	\$ 9,438,660	\$ 9,438,660
Change in value of beneficial interest trust	–	(77,646)	(77,646)
Endowment net assets, end of year	\$ –	\$ 9,361,014	\$ 9,361,014

From time to time, the fair value of assets associated with permanently restricted endowment funds may fall below the level determined under UPMIFA.

The System has adopted investment practices for endowment assets that attempt to provide a predictable stream of funding to programs supported by the endowment. To satisfy its long-term rate-of-return objectives, the System 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).

5. Property and Equipment

Property and equipment consisted of the following at September 30:

	2009	2008
Land	\$ 1,912,714	\$ 1,912,714
Land improvements	1,539,572	1,539,572
Buildings and improvements	48,444,254	48,332,401
Equipment	57,003,672	66,912,616
Construction-in-progress	402,984	257,610
	109,303,196	118,954,913
Less accumulated depreciation and amortization	(74,358,061)	(81,333,147)
Property and equipment, net	\$ 34,945,135	\$ 37,621,766

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

6. Line of Credit

The Hospital has an unsecured revolving line of credit with a bank which provides for borrowings of up to \$5,000,000 for both fiscal 2009 and 2008. Interest accrues at the effective LIBOR rate of LIBOR plus 3.5% (4.75% at September 30, 2009).

7. Long-term Debt

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

	2009	2008
Rhode Island Health and Educational Building Corporation Hospital Financing Revenue Refunding Bonds	\$ 15,640,000	\$ 17,200,000
Add premium	218,253	240,638
Less current portion	(1,582,385)	(1,582,385)
Long-term debt	<u>\$ 14,275,868</u>	<u>\$ 15,858,253</u>

In December 2003, the Rhode Island Health and Educational Building Corporation (RIHEBC) issued \$25,000,000 of Series 2003 Hospital Financing Revenue Refunding Bonds (the Bonds) on behalf of the Hospital. RIHEBC loaned the proceeds of the Bonds to the Hospital pursuant to the Loan and Trust Agreement (the Agreement) dated December 1, 2003. The terms of the Agreement stipulate that interest will be paid at fixed rates ranging from 2.00% to 5.25% per annum (weighted-average rate at September 30, 2008 and 2009 was 4.36% and 4.48%, respectively), with principal installments commencing July 1, 2004 and ending July 1, 2019.

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

As security for the payment of the principal amount of the bonds, a bank letter of credit was issued under the terms of a Reimbursement Agreement between the Hospital and the bank dated December 31, 2003 (Reimbursement Agreement). Section 7 of the Reimbursement Agreement contains various covenants with which the Hospital must comply.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

7. Long-term Debt (continued)

At September 30, 2008 the Hospital was not in compliance with Section 7(k) of the Reimbursement Agreement which relates to leverage. This situation was primarily due to the deterioration of the financial markets and the related decline in the Hospital's investment portfolio. On March 13, 2009 the Hospital received a waiver from the bank whereby the bank agreed to waive such defaults as of September 30, 2008. On July 31, 2009 the Hospital received an amendment, which modified several terms of the Reimbursement Agreement, including certain financial ratios. At September 30, 2009 the Hospital was in compliance with all covenants contained in the Reimbursement Agreement. The aggregate maturities of long-term debt (prior to amortization of premium) for the next five fiscal years ending September 30 and thereafter are approximately as follows:

2010	\$ 1,560,000
2011	1,560,000
2012	1,560,000
2013	1,560,000
2014	1,560,000
Thereafter	7,840,000

Cash paid for interest on all borrowings during the years ended September 30, 2009 and 2008 was approximately \$1,255,000 and \$1,295,000, respectively.

8. Pension Plan

The Hospital has a defined benefit pension plan (the Plan) covering substantially all of its employees. The plan benefits are based on years of service and employees' compensation during the last five years of covered employment. The Hospital makes annual contributions to the Plan, which approximates the amount of net periodic pension cost. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

On September 29, 2006, the FASB issued Statement No., 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, and amendment of FASB Statements No. 87, 88, 106 and 123(R)* (hereafter referred to as ASC No. 715). In 2009, the System adopted the measurement date provisions of ASC No. 715. ASC No. 715 required the System to measure defined benefit plan assets and obligations as of September 30, the date of its fiscal year end statement of financial position. Prior to the implementation of this change, the measurement date for the System's pension and postretirement benefit plans was June 30. The adjustment to unrestricted net assets at adoption represents a decrease to net assets of \$882,733 and an increase to accrued pension obligation. The adoption of the measurement date provision of ASC No. 715 had no effect on the System's financial results for fiscal 2009 or any prior period presented. It will not affect the System's operating results in future periods.

The following table sets forth the status of the retirement plan as of September 30:

	2009	2008
Change in benefit obligation		
Projected benefit obligation at beginning of year	\$ 90,314,749	\$ 86,998,357
Service cost	4,329,294	3,449,380
Interest cost	7,512,867	5,566,320
Benefits paid	(2,712,676)	(2,405,638)
Actuarial gain (loss)	7,989,424	(3,293,670)
Projected benefit obligation at end of year	107,433,658	90,314,749
Change in plan assets		
Fair value of plan assets at beginning of year	72,078,175	73,104,188
Actual return on plan assets	(3,626,491)	(1,425,712)
Contributions and transfers	4,914,087	2,805,337
Benefits paid	(2,712,676)	(2,405,638)
Fair value of plan assets at end of year	70,653,095	72,078,175
Unfunded status	\$ (36,780,563)	\$ (18,236,574)

Accrued pension cost included in accounts payable and accrued expenses as of September 30, 2008 was \$5,019,953.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

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

	<u>2009</u>	<u>2008</u>
Service cost – benefits earned during the year	\$ 4,329,294	\$ 3,449,380
Interest cost on projected benefit obligation	7,512,867	5,566,320
Actual return on plan assets	(8,217,105)	(6,599,179)
Net amortization and deferral	823,294	387,964
Net periodic pension cost	<u>\$ 4,448,350</u>	<u>\$ 2,804,485</u>

The adoption of ASC No. 715 resulted in an addition three months of net periodic pension costs. Costs of \$882,733 as a result of the adoption were recognized as a reduction of unrestricted net assets. The remaining \$3,565,617 of expense is included within employee benefits expense.

Assumptions

Weighted-average assumptions used to determine benefit obligations and net cost at September 30, 2009 and 2008 and the years then ended are as follows:

	<u>Benefit Obligations</u>		<u>Net Periodic Pension Cost</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Discount rate	5.80%	6.75%	6.75%	6.50%
Expected rate of return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	2.00%	4.00%	2.00%	4.00%

The expected rate of return on plan assets was determined by the expected return on each asset class based on a model that considers historical and expected future performance.

The accumulated benefit obligation was \$96,899,855 and \$77,673,717 at September 30, 2009 and 2008, respectively.

The measurement date for determining plan assets and obligations is September 30.

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

8. Pension Plan (continued)

Plan Assets

The pension plan weighted-average asset allocations as of September 30, 2009 and 2008, by asset category, are as follows:

	Target Allocation	2009	2008
Equity securities	38%	34%	37%
Annuities	42	47	41
Debt securities	20	12	16
Cash equivalents	–	7	6
Total	100%	100	100%

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

Cash Flows

Contributions

The Hospital funds its pension plan in accordance with guidelines prescribed by the Employee Retirement Income Security Act of 1974 (ERISA). The Hospital expects to contribute \$5,480,065 to its pension plan in fiscal 2010.

Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, are expected to be paid as follows:

2010	\$ 3,544,000
2011	3,690,000
2012	4,215,000
2013	4,640,000
2014	4,963,000
2015 – 2019	30,721,000

Southeastern Healthcare System, Inc. and Affiliates

Notes to Consolidated Financial Statements (continued)

9. Estimated Self-Insurance Liabilities

Professional Liability Insurance

Effective July 1, 2004, professional liability insurance coverage was provided on an occurrence basis. Such coverage was provided on a claims-made basis through June 30, 2004. The claims-made policies cover only claims made during the terms of the policies and not those occurrences for which claims may be made after expiration of the policies. The System is self-insured with respect to incurred but not reported (IBNR) claims incurred prior to July 1, 2004. Accordingly, the System has recorded a liability of \$444,037 at September 30, 2009 for such IBNR exposure.

Workers' Compensation Insurance

The System is self-insured with respect to workers' compensation risks up to a maximum of \$350,000 per claim. The provision for estimated self-insured workers' IBNR compensation claims includes estimates of the ultimate costs for both reported claims and claims. The estimates incorporate the System's past experience, as well as other considerations.

10. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are local residents and are insured under third-party payor agreements. The percentage of accounts receivable from patients and various third-party payors was as follows at September 30:

	<u>2009</u>	<u>2008</u>
Medicare	32%	33%
Blue Cross	30	31
Medicaid	17	16
Other third-party payors	15	15
Patients	6	5
	<u>100%</u>	<u>100%</u>

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

11. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consist of the following at September 30:

	<u>2009</u>	<u>2008</u>
General activities	\$ 559,977	\$ 604,235
Research	131,337	153,292
	<u>\$ 691,314</u>	<u>\$ 757,527</u>

Permanently restricted net assets consist of the following at September 30:

	<u>2009</u>	<u>2008</u>
Principal portion of contributions restricted in perpetuity by donors	\$ 3,124,158	\$ 3,124,158
Assets held in externally administered trusts	6,236,856	6,314,502
	<u>\$ 9,361,014</u>	<u>\$ 9,438,660</u>

12. Commitments and Contingencies

The System is a defendant in several lawsuits, which are in various stages of progress or discovery. Management believes that its insurance coverage is adequate to cover claims made under all such lawsuits and, accordingly, no provision for loss has been reflected in the accompanying consolidated financial statements.

13. Fair Value Measurement

The System has adopted the methods of calculating fair value as defined in ASC No. 820 to value its financial assets and liabilities, where applicable. ASC No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

ASC No. 820 establishes a three tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.

Southeastern Healthcare System, Inc. and Affiliates
Notes to Consolidated Financial Statements (continued)

13. Fair Value Measurement (continued)

Level 2: Observable inputs that are based on data not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

In determining fair value, the System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The System also considers nonperformance risk in the overall assessment of fair value.

Financial assets carried at fair value as of September 30, 2009 are classified in the following table in one of the three categories described above (in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 8,602,217	\$ –	\$ –	\$ 8,602,217
Mutual Funds	3,707,015	–	–	3,707,015
Equity securities	16,172,893			16,172,893
U.S. government obligations	2,526,137	–	–	2,526,137
Corporate bonds	4,134,555	–	–	4,134,555
Common collective trusts	–	8,636,581		8,636,581
Investments at fair value	<u>\$ 35,142,817</u>	<u>\$ 8,636,581</u>	<u>\$ –</u>	43,779,398
Interest and other receivables				1,282,145
Pledge receivable				403,319
Total investments				<u>\$ 45,464,862</u>

The fair value of long-term debt, which is not required to be carried at fair value, is approximately \$16,172,000 and 16,419,000 at September 30, 2009 and 2008, respectively. Fair value of long-term debt is based on current borrowing rate for similar types of debt using undiscounted cash flow analysis.

Other Financial Information

Report of Independent Auditors on Other Financial Information

Board of Trustees
Southeastern Healthcare System, Inc. and Affiliates

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the 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.

Ernst & Young LLP

March 1, 2010

Southeastern Healthcare System, Inc.

Consolidating Balance Sheets

September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 588,412	\$ 491,194	\$ 8,533	\$ –	\$ 1,088,139	\$ 21,323	\$ 655,351	\$ 27,162	\$ 1,791,975	\$ –	\$ 1,791,975
Assets limited as to use	1,789,391	–	–	–	1,789,391	–	–	–	1,789,391	–	1,789,391
Patient accounts receivable, net	34,705,649	–	42,512	–	34,748,161	2,458	–	–	34,750,619	–	34,750,619
Other accounts receivable	972,639	6,820	27,516	–	1,006,975	51,849	209,367	–	1,268,191	(54,424)	1,213,767
Estimated third party settlements	3,062,696	–	–	–	3,062,696	–	–	–	3,062,696	–	3,062,696
Inventories	752,440	–	6,825	–	759,265	–	–	–	759,265	–	759,265
Prepaid expenses	1,081,771	13,343	11,174	–	1,106,288	–	11,573	–	1,117,861	–	1,117,861
Total current assets	42,952,998	511,357	96,560	–	43,560,95	75,630	876,291	27,162	44,539,998	(54,424)	44,485,574
Assets limited as to use:											
By the Board for designated purposes	29,271,022	–	–	(200,000)	29,071,022	512,716	–	–	29,583,738	–	29,583,738
By the Board for designated purposes – Littlefield	1,233,777	–	–	–	1,233,777	–	–	–	1,233,777	–	1,233,777
Pledges receivable	403,319	–	–	–	403,319	–	–	–	403,319	–	403,319
By donors for specific purposes	691,314	–	–	–	691,314	–	–	–	691,314	–	691,314
By donors for permanent endowment	3,124,158	–	–	–	3,124,158	–	–	–	3,124,158	–	3,124,158
By externally administered trusts	6,236,856	–	–	–	6,236,856	–	–	–	6,236,856	–	6,236,856
Deferred compensation trust	2,399,725	–	–	–	2,399,725	–	–	–	2,399,725	–	2,399,725
	43,360,717	–	–	(200,000)	43,160,717	512,716	–	–	43,672,887	–	43,672,887
Less amount required to meet current obligations											
	(1,789,391)	–	–	–	(1,789,391)	–	–	–	(1,789,391)	–	(1,789,391)
	41,570,780	–	–	(200,000)	41,370,780	512,716	–	–	41,883,496	–	41,883,496
Property and equipment, net	34,324,599	586,063	9,603	–	34,920,265	–	24,870	–	34,945,135	–	34,945,135
Deferred financing costs, net	260,829	–	–	–	260,829	–	–	–	260,829	–	260,829
Total assets	\$ 119,109,206	\$ 1,097,420	\$ 106,163	\$ (200,000)	\$ 120,112,789	\$ 588,346	\$ 901,161	\$ 27,162	\$ 121,629,458	\$ (54,424)	\$ 121,575,034

Southeastern Healthcare System, Inc.
Consolidating Balance Sheets (continued)

September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 24,042,519	\$ 372,582	\$ 211,117	\$ (200,000)	\$ 24,426,218	\$ 47,252	\$ 132,917	\$ –	\$ 24,606,387	\$ (54,424)	\$ 24,551,963
Deferred revenue	–	–	–	–	–	–	115,039	–	115,039	–	115,039
Estimated third party settlements	–	–	–	–	–	–	–	–	–	–	–
Accrued interest payable	174,984	–	–	–	174,984	–	–	–	174,984	–	174,984
Current portion of long-term debt and capital lease obligations	1,582,385	–	–	–	1,582,385	–	–	–	1,582,385	–	1,582,385
Line of credit	5,000,000	–	–	–	5,000,000	–	–	–	5,000,000	–	5,000,000
Total current liabilities	30,799,888	372,582	211,117	(200,000)	31,183,587	47,252	247,956	–	31,478,795	(54,424)	31,424,371
Additional minimum pension liability	36,780,563	–	–	–	36,780,563	–	–	–	36,780,563	–	36,780,563
Long-term debt, net of current portion	14,275,868	–	–	–	14,275,868	–	–	–	14,275,868	–	14,275,868
Capital lease obligations	–	–	–	–	–	–	–	–	–	–	–
Estimated self-insurance and other liabilities	1,154,752	–	–	–	1,154,752	–	–	–	1,154,752	–	1,154,752
Other long-term liabilities	2,399,725	–	–	–	2,399,725	–	–	–	2,399,725	–	2,399,725
Total liabilities	85,410,796	372,582	211,117	(200,000)	85,794,495	47,252	247,956	–	86,089,703	(54,424)	86,035,279
Net assets:											
Unrestricted	23,646,082	724,838	(104,954)	–	24,265,966	541,094	653,205	27,162	25,487,427	–	25,487,427
Temporarily restricted	691,314	–	–	–	691,314	–	–	–	691,314	–	691,314
Permanently restricted	9,361,014	–	–	–	9,361,014	–	–	–	9,361,014	–	9,361,014
Total net assets	33,698,410	724,838	(104,954)	–	34,318,294	541,094	653,205	27,162	35,539,755	–	35,539,755
Total liabilities and net assets	\$ 119,109,206	\$ 1,097,420	\$ 106,163	\$ (200,000)	\$ 120,112,789	\$ 588,346	\$ 901,161	\$ 27,162	\$ 121,629,458	\$ (54,424)	\$ 121,575,034

Southeastern Healthcare System, Inc.

Consolidating Balance Sheets

September 30, 2008

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Assets											
Current assets:											
Cash and cash equivalents	\$ 1,791,014	\$ 320,255	\$ 382	\$ -	\$ 2,111,651	\$ 19,701	\$ 547,175	\$ 27,154	\$ 2,705,681	\$ -	\$ 2,705,681
Assets limited as to use	2,409,152	-	-	-	2,409,152	-	-	-	2,409,152	-	2,409,152
Patient accounts receivable, net	35,109,474	-	52,169	-	35,161,643	2,458	-	-	35,164,101	-	35,164,101
Other accounts receivable	697,696	19,214	15,339	-	732,250	49,238	144,091	-	925,579	(40,784)	884,795
Estimated third party settlements	2,646,557	-	-	-	2,646,557	-	-	-	2,646,557	-	2,644,557
Inventories	933,778	-	6,825	-	940,603	-	-	-	940,603	-	940,603
Prepaid expenses	720,208	21,386	9,330	-	750,924	-	5,757	-	756,681	-	756,681
Total current assets	44,307,880	360,855	84,045	-	44,752,780	71,397	697,023	27,154	45,548,354	(40,784)	45,507,570
Assets limited as to use:											
By the Board for designated purposes	31,273,038	-	-	-	31,273,038	512,716	-	-	31,785,754	-	31,785,754
By the Board for designated purposes – Littlefield	1,129,203	-	-	-	1,129,203	-	-	-	1,129,203	-	1,129,203
Held by trustee under loan agreement	788,320	-	-	-	788,320	-	-	-	788,320	-	788,320
By donors for specific purposes	757,526	-	-	-	757,526	-	-	-	757,526	-	757,526
By donors for permanent endowment	3,124,158	-	-	-	3,124,158	-	-	-	3,124,158	-	3,124,158
By externally administered trusts	6,314,502	-	-	-	6,314,502	-	-	-	6,314,502	-	6,314,502
Deferred compensation trust	2,376,554	-	-	-	2,376,554	-	-	-	2,376,554	-	2,376,554
	45,763,301	-	-	-	45,763,301	512,716	-	-	46,276,017	-	46,276,017
Less amount required to meet current obligations	(2,409,152)	-	-	-	(2,409,152)	-	-	-	(2,409,152)	-	(2,409,152)
	43,354,149	-	-	-	43,354,149	512,716	-	-	43,866,865	-	43,866,865
Property and equipment, net	36,921,702	648,162	12,457	-	37,582,321	-	39,445	-	37,621,766	-	37,621,766
Deferred financing costs, net	287,581	-	-	-	287,581	-	-	-	287,581	-	287,581
Total assets	\$ 124,871,312	\$ 1,009,017	\$ 96,502	\$ -	\$ 125,976,831	\$ 584,113	\$ 736,468	\$ 27,154	\$ 127,324,566	\$ (40,784)	\$ 127,283,782

Southeastern Healthcare System, Inc.
Consolidating Balance Sheets (continued)

September 30, 2008

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Liabilities and net assets											
Current liabilities:											
Accounts payable and accrued expenses	\$ 25,500,706	\$ 146,846	\$ 73,776	\$ —	\$ 25,721,328	\$ 44,671	\$ 104,714	\$ —	\$ 25,870,713	\$ (40,784)	\$ 25,829,929
Deferred revenue	—	—	—	—	—	—	67,495	—	67,495	—	67,495
Estimated third party settlements	—	—	—	—	—	—	—	—	—	—	—
Accrued interest payable	187,659	—	—	—	187,659	—	—	—	187,659	—	187,659
Current portion of long-term debt and capital lease obligations	1,582,385	—	—	—	1,582,385	—	—	—	1,582,385	—	1,582,385
Line of credit	5,000,000	—	—	—	5,000,000	—	—	—	5,000,000	—	5,000,000
Total current liabilities	32,270,750	146,846	73,776	—	32,491,372	44,671	172,209	—	32,708,252	(40,784)	32,667,468
Additional minimum pension liability	13,216,621	—	—	—	13,216,621	—	—	—	13,216,621	—	13,216,621
Long-term debt, net of current portion	15,858,253	—	—	—	15,858,253	—	—	—	15,858,253	—	15,858,253
Capital lease obligations	—	—	—	—	—	—	—	—	—	—	—
Estimated self-insurance and other liabilities	934,265	—	—	—	934,265	—	—	—	934,265	—	934,265
Other long-term liabilities	2,376,554	—	—	—	2,376,554	—	—	—	2,376,554	—	2,376,554
Total liabilities	64,656,443	146,846	73,776	—	64,877,065	44,671	172,209	—	65,093,945	(40,784)	65,053,161
Net assets:											
Unrestricted	50,018,683	862,171	22,726	—	50,903,580	539,442	564,259	27,154	52,034,435	—	52,034,435
Temporarily restricted	757,526	—	—	—	757,526	—	—	—	757,526	—	757,526
Permanently restricted	9,438,660	—	—	—	9,438,660	—	—	—	9,438,660	—	9,438,660
Total net assets	60,214,869	862,171	22,726	—	61,099,766	539,442	564,259	27,154	62,230,621	—	62,230,621
Total liabilities and net assets	\$ 124,871,312	\$ 1,009,017	\$ 96,502	\$ —	\$ 125,976,831	\$ 584,113	\$ 736,468	\$ 27,154	\$ 127,324,566	\$ (40,784)	\$ 127,283,782

Southeastern Healthcare System, Inc.

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2009

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Unrestricted revenue, gains and other support:														
Net patient service revenue	\$ 150,788,168	\$ 6,611,666	\$ 10,359,442	\$ 167,759,276	\$ -	\$ 846,124	\$ -	\$ 168,605,400	\$ -	\$ -	\$ -	\$ 168,605,400	\$ -	\$ 168,605,400
Other revenue	6,069,366	-	-	6,069,366	780,811	96,470	(268,286)	6,678,361	72,505	1,257,709	60,008	8,068,583	(250,399)	7,818,184
Assets released from restrictions for operations	60,434	-	-	60,434	-	-	-	60,434	-	-	-	60,434	-	60,434
Total revenue, gains and other support	156,917,968	6,611,666	10,359,442	173,889,076	780,811	942,594	(268,286)	175,344,195	72,505	1,257,709	60,008	176,734,417	(250,399)	176,484,018
Expenses:														
Salaries and wages	71,080,045	4,819,219	7,264,060	83,163,324	-	669,085	120,290	83,952,699	62,000	376,674	-	84,391,373	-	84,391,373
Employee benefits	24,731,991	1,590,342	730,744	27,053,077	-	233,053	-	27,286,130	5,029	142,873	-	27,434,032	-	27,434,032
Supplies, purchased services and other	40,162,863	172,673	2,875,296	43,210,832	817,319	356,134	(588,576)	43,795,709	3,824	634,132	60,000	44,493,665	(250,399)	44,243,266
Provision for bad debts	12,654,073	-	-	12,654,073	-	34,148	-	12,688,221	-	-	-	12,688,221	-	12,688,221
Depreciation and amortization	4,183,525	-	-	4,183,525	100,825	2,854	-	4,287,204	-	15,084	-	4,302,288	-	4,302,288
Licensing fee	7,303,539	-	-	7,303,539	-	-	-	7,303,539	-	-	-	7,303,539	-	7,303,539
Interest	1,219,502	-	-	1,219,502	-	-	-	1,219,502	-	-	-	1,219,502	-	1,219,502
Total expenses	161,335,538	6,582,234	10,870,100	178,787,872	918,144	1,295,274	(468,286)	180,533,004	70,853	1,168,763	60,000	181,832,620	(250,399)	181,582,221
(Loss) gain from operations	(4,417,570)	29,432	(510,658)	(4,898,796)	(137,333)	(352,680)	200,000	(5,188,809)	1,652	88,946	8	(5,098,203)	-	(5,098,203)
Other income, gains and losses:														
Investment income	521,158	-	-	521,158	-	-	(200,000)	321,158	-	-	-	321,158	-	321,158
Net realized gains on sales of investments	(3,115,944)	-	-	(3,115,944)	-	-	-	(3,115,944)	-	-	-	(3,115,944)	-	(3,115,944)
Unrestricted donations	368,144	-	-	368,144	-	-	-	368,144	-	-	-	368,144	-	368,144
Income on assets held in trust	245,442	-	-	245,442	-	-	-	245,442	-	-	-	245,442	-	245,442
Write-off of investment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total nonoperating gains	(1,981,200)	-	-	(1,981,200)	-	-	(200,000)	(2,181,200)	-	-	-	(2,181,200)	-	(2,181,200)
Excess of revenues over expenses before change in appreciation of investments	(6,879,996)	-	-	(6,879,996)	(137,333)	(352,680)	-	(7,370,009)	1,652	88,946	8	(7,279,403)	-	(7,279,403)
Change in appreciation of investments	3,314,461	-	-	3,314,461	-	-	-	3,314,461	-	-	-	3,314,461	-	3,314,461
Excess of revenues over expenses	\$ (3,565,535)	\$ -	\$ -	(3,565,535)	(137,333)	(352,680)	-	(4,055,548)	1,652	88,946	8	(3,964,942)	-	(3,964,942)

Southeastern Healthcare System, Inc.

Consolidating Statements of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2009

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
Excess (deficiency) of revenues over expenses	(3,565,535)	62,667	(352,680)	(200,000)	(4,055,548)	1,652	88,946	8	(3,964,942)	–	(3,964,942)
Change in pension liability	(21,789,804)	–	–	–	(21,789,804)	–	–	–	(21,789,804)	–	(21,789,804)
Effect of a change in measurement date for pension liability	(882,733)	–	–	–	(882,733)	–	–	–	(882,733)	–	(882,733)
Intercompany transfer	(225,000)	(200,000)	225,000	200,000	–	–	–	–	–	–	–
Contributions for capital expenditures	33,253	–	–	–	33,253	–	–	–	33,253	–	33,253
Net assets released from restrictions	(37,907)	–	–	–	(37,907)	–	–	–	(37,907)	–	(37,907)
Net assets released from restrictions used for purchase of property, plant and equipment	95,125	–	–	–	95,125	–	–	–	95,125	–	95,125
Decrease in unrestricted net assets	(26,372,601)	(137,333)	(127,680)	–	(26,637,614)	1,652	88,946	8	(26,557,008)	–	(26,557,008)
Change in temporarily restricted net assets:											
Contributions	87,147	–	–	–	87,147	–	–	–	87,147	–	87,147
Investment income	(35,707)	–	–	–	(35,707)	–	–	–	(35,707)	–	(35,707)
Net assets released from restrictions	(117,652)	–	–	–	(117,652)	–	–	–	(117,652)	–	(117,652)
Decrease in temporarily restricted net assets	(66,212)	–	–	–	(66,212)	–	–	–	(66,212)	–	(66,212)
Change in permanently restricted net assets:											
Restricted donations	–	–	–	–	–	–	–	–	–	–	–
Investment income	–	–	–	–	–	–	–	–	–	–	–
Net appreciation on assets held in externally administered trusts	(77,646)	–	–	–	(77,646)	–	–	–	(77,646)	–	(77,646)
Decrease in permanently restricted net assets	(77,646)	–	–	–	(77,646)	–	–	–	(77,646)	–	(77,646)
Decrease in net assets	(26,516,459)	(137,333)	(127,680)	–	(26,781,472)	1,652	88,946	8	(26,690,866)	–	(26,690,866)
Net assets, beginning of year	60,214,869	862,171	22,726	–	61,099,766	539,442	564,259	27,154	62,230,62	–	62,230,621
Net assets, end of year	\$ 33,698,410	\$ 724,838	\$ (104,954)	\$ –	\$ 34,318,294	\$ 541,094	\$ 653,205	\$ 27,162	\$ 35,539,755	\$ –	\$ 35,539,755

Southeastern Healthcare System, Inc.

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2008

	Memorial Hospital of Rhode Island	Home Care	Physicians	Subtotal Memorial Hospital	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Unrestricted revenue, gains and other support:														
Net patient service revenue	\$ 146,809,770	\$ 6,451,734	\$ 10,273,524	\$ 163,535,028	\$ -	\$ 1,956,196	\$ -	\$ 165,491,224	\$ -	\$ -	\$ -	\$ 165,491,224	\$ -	\$ 165,491,224
Other revenue	6,910,922			6,910,922	761,291	85,694	(302,187)	7,455,720	72,512	1,186,202	60,016	8,774,450	(250,399)	8,524,051
Assets released from restrictions for operations	202,724			202,724	-	-	-	202,724	-	-	-	202,724	-	202,724
Total revenue, gains and other support	153,923,416	6,451,734	10,273,524	170,648,674	761,291	2,041,890	(302,187)	173,149,668	72,512	1,186,202	60,016	174,468,398	(250,399)	174,217,999
Expenses:														
Salaries and wages	73,476,266	4,401,203	7,653,036	85,530,505	-	894,621	102,925	86,528,051	62,000	364,028	-	86,954,079	-	86,954,079
Employee benefits	22,943,799	1,452,397	752,746	25,148,942	-	236,115	-	25,385,057	13,647	129,528	-	25,528,232	-	25,528,232
Supplies, purchased services and other	41,946,573	429,843	2,969,533	45,345,949	592,518	466,305	(405,112)	45,999,660	4,563	615,293	60,000	46,679,516	(250,399)	46,429,117
Provision for bad debts	11,730,714			11,730,714	-	666,494	-	12,397,208	-	-	-	12,397,208	-	12,397,208
Depreciation and amortization	4,295,785			4,295,785	104,288	2,976	-	4,403,049	-	22,024	-	4,425,073	-	4,425,073
Licensing fee	4,567,793			4,567,793	-	-	-	4,567,793	-	-	-	4,567,793	-	4,567,793
Interest	1,256,611			1,256,611	-	-	-	1,256,611	-	-	-	1,256,611	-	1,256,611
Total expenses	160,217,541	6,283,443	11,375,315	177,876,299	696,806	2,266,511	(302,187)	180,537,429	80,210	1,130,873	60,000	181,808,512	(250,399)	181,558,113
(Loss) gain from operations	(6,294,125)	168,291	(1,101,791)	(7,227,625)	64,485	(224,621)	-	(7,387,761)	(7,698)	55,329	16	(7,340,114)	-	(7,340,114)
Other income, gains and losses:														
Investment income				800,262	-	-	-	800,262	-	-	-	800,262	-	800,262
Net realized gains on sales of investments				2,536,900	-	-	-	2,536,900	-	-	-	2,536,900	-	2,536,900
Unrestricted donations				761,039	-	-	-	761,039	-	-	-	761,039	-	761,039
Income on assets held in trust				256,679	-	-	-	256,679	-	-	-	256,679	-	256,679
Write-off of investment				-	-	-	-	-	-	-	-	-	-	-
Total nonoperating gains				4,354,880	-	-	-	4,354,880	-	-	-	4,354,880	-	4,354,880
Excess of revenues over expenses before change in appreciation of investments				(2,872,745)	64,485	(224,621)	-	(3,032,881)	(7,698)	55,329	16	(2,985,234)	-	(2,985,234)
Change in appreciation of investments				(10,382,330)	-	-	-	(10,382,330)	-	-	-	(10,382,330)	-	(10,382,330)
Excess of revenues over expenses	\$	\$	\$	(13,255,075)	64,485	(224,621)	-	(13,415,211)	(7,698)	55,329	16	(13,367,564)	-	(13,367,564)

Southeastern Healthcare System, Inc.

Consolidating Statements of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2008

	Memorial Hospital of Rhode Island	R.S. Realty Company	SHS Ventures, Inc.	Consolidating Entries	Total Memorial Hospital of Rhode Island and Subsidiaries	Primary Care Centers of New England, Inc.	Blackstone Health, Inc.	Southeastern Healthcare System, Inc.	Total	Consolidating Entries	Total Southeastern Healthcare System, Inc.
Change in unrestricted net assets:											
Excess (deficiency) of revenues over expenses	(13,255,075)	64,485	(224,621)	-	(13,415,211)	(7,698)	55,329	16	(13,367,564)	-	(13,367,564)
Additional minimum pension liability	(1,772,482)	-	-	-	(1,772,482)	-	-	-	(1,772,482)	-	(1,772,482)
Cumulative effect of a change in accounting principle	-	-	-	-	-	-	-	-	-	-	-
Intercompany transfer	(120,000)	-	120,000	-	-	-	-	-	-	-	-
Contributions for capital expenditures	13,000	-	-	-	13,000	-	-	-	13,000	-	13,000
Net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions used for purchase of property, plant and equipment	1,783,180	-	-	-	1,783,180	-	-	-	1,783,180	-	1,783,180
Increase in unrestricted net assets	(13,351,377)	64,485	(104,621)	-	(13,391,513)	(7,698)	55,329	16	(13,343,866)	-	(13,343,866)
Change in temporarily restricted net assets:											
Contributions	484,594	-	-	-	485,594	-	-	-	485,594	-	484,594
Investment income	871,944	-	-	-	871,944	-	-	-	871,944	-	871,944
Net assets released from restrictions	(1,985,904)	-	-	-	(1,985,904)	-	-	-	(1,985,904)	-	(1,985,904)
Increase in temporarily restricted net assets	(629,366)	-	-	-	(629,366)	-	-	-	(629,366)	-	(629,366)
Change in permanently restricted net assets:											
Restricted donations	69	-	-	-	69	-	-	-	69	-	69
Investment income	-	-	-	-	-	-	-	-	-	-	-
Net appreciation on assets held in externally administered trusts	(1,009,236)	-	-	-	(1,009,236)	-	-	-	(1,009,236)	-	(1,009,236)
Increase in permanently restricted net assets	(1,009,167)	-	-	-	(1,009,167)	-	-	-	(1,009,167)	-	(1,009,167)
Increase in net assets	(14,989,910)	64,485	(104,621)	-	(15,030,046)	(7,698)	55,329	16	(14,982,399)	-	(14,982,399)
Net assets, beginning of year	75,204,779	797,686	127,347	-	76,129,812	547,140	508,930	27,138	77,213,020	-	77,213,020
Net assets, end of year	\$ 60,214,869	\$ 862,171	\$ 23,726	\$ -	\$ 61,099,766	\$ 539,442	\$ 564,259	\$ 27,154	\$ 62,230,621	\$ -	\$ 62,230,621