SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM ENDOWMENT AND AFFILIATES

Consolidated Financial Statements and Schedules

September 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

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KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Independent Auditors' Report

The Board of Trustees
South County Hospital Healthcare System
Endowment and Affiliates:

We have audited the accompanying consolidated balance sheets of South County Hospital Healthcare System Endowment and Affiliates (the Endowment) as of September 30, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Endowment's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Endowment's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information shown in schedules 1 through 12 is presented for purposes of additional analysis of the consolidated financial statements and not to present the financial position, results of operations and changes in net assets of the individual entities. The consolidating information has been subjected to the auditing procedures applied in the 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.

KPMG LLP

January 21, 2010

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidated Balance Sheets

September 30, 2009 and 2008

Assets		**2009**	**2008**
Current assets:			
Cash and cash equivalents (note 3)	$	9,106,101	11,459,051
Short-term investments (note 4)		10,212,046	16,071,021
Assets limited as to use for current obligations		112,065	310,918
Patient accounts receivable, net of allowance for doubtful accounts of $6,335,000 in 2009 and $5,491,000 in 2008 (note 8)		9,162,442	12,029,092
Current portion of pledges receivable (note 17)		1,416,872	1,342,249
Inventories		1,843,214	1,774,622
Prepaid expenses and other current assets		1,963,790	1,788,805
Total current assets		33,816,530	44,775,758
Assets limited as to use:			
Internally designated for capital acquisition (note 4)		10,297,945	9,917,700
Held in trust under bond indenture (notes 4 and 7)		1,178,014	11,831,756
Assets held in trust (note 4)		10,939,083	11,634,651
Donor restricted and other funds (note 4)		1,187,228	1,035,341
Swap collateral (note 7)		5,750,000	—
		29,352,270	34,419,448
Less amount required to meet current obligations		(112,065)	(310,918)
		29,240,205	34,108,530
Property, plant, and equipment, net (notes 6 and 7)		61,969,760	63,136,024
Pledges receivable, net of current portion (note 17)		1,240,772	2,239,459
Other assets, less accumulated amortization of $1,545,000 in 2009 and $941,000 in 2008 (note 2)		2,720,750	3,499,625
Total assets	$	128,988,017	147,759,396

(Continued)

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidated Balance Sheets

September 30, 2009 and 2008

Liabilities and Net Assets	**2009**	**2008**
Current liabilities:		
Current installments of long-term debt (note 7)	$ 5,425,006	4,796,829
Accounts payable	5,914,659	6,669,734
Accrued expenses	6,992,466	6,731,338
Estimated third-party payor settlements (note 8)	2,702,770	1,999,539
Other current liabilities	30,251	32,340
Total current liabilities	21,065,152	20,229,780
Long-term debt, net of current installments (note 7)	54,115,140	64,516,046
Accrued pension cost (note 9)	14,544,987	4,788,716
Postretirement benefit obligation (note 10)	277,053	266,469
Fair value of swap agreements (note 7)	6,280,935	2,705,001
Other liabilities	2,712,019	1,842,597
Total liabilities	98,995,286	94,348,609
Net assets:		
Unrestricted	17,881,795	38,841,227
Temporarily restricted (notes 5, 13 and 17)	4,797,325	7,100,030
Permanently restricted (notes 5 and 13)	7,313,611	7,469,530
Total net assets	29,992,731	53,410,787
Commitments and contingencies (notes 7, 8, 11, 15 and 16)		
Total liabilities and net assets	$ 128,988,017	147,759,396

See accompanying notes to consolidated financial statements.

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidated Statements of Operations

Years ended September 30, 2009 and 2008

	2009	2008
Unrestricted revenues, gains, and other support:		
Net patient service revenue (notes 8 and 12)	$ 109,214,567	99,571,005
Contributions (note 13)	968,254	1,316,252
Other revenue	6,995,778	6,832,495
Total unrestricted revenues, gains, and other support	117,178,599	107,719,752
Expenses (note 14):		
Salaries and wages	47,834,809	45,720,513
Fringe benefits (notes 9 and 10)	12,218,584	12,036,493
Supplies and other expenses	37,571,882	34,596,269
State license fee	3,931,358	2,436,973
Depreciation and amortization	7,323,891	6,730,724
Interest	7,945,046	5,002,657
Provision for bad debts	7,342,154	7,098,363
Total operating expenses	124,167,724	113,621,992
Operating loss	(6,989,125)	(5,902,240)
Other income (loss):		
Investment (loss) income (note 4)	(1,881,578)	1,169,097
Unrealized change in equity interests in limited partnerships (note 4)	1,059,191	(2,744,915)
Unrealized loss on interest rate swap (note 7)	(3,575,934)	(2,861,782)
(Loss) gain on disposals of fixed assets	(6,354)	6,387
Deficiency of revenues over expenses	(11,393,800)	(10,333,453)
Change in net unrealized gains on marketable investments (note 4)	(917,266)	(1,447,549)
Change in funded status of employee benefit plans (notes 9 and 10)	(11,666,148)	(1,477,329)
Other changes	(114,170)	—
Net assets released for capital expenditures (note 13)	3,131,952	3,623,892
Decrease in unrestricted net assets	$ (20,959,432)	(9,634,439)

See accompanying notes to consolidated financial statements.

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2009 and 2008

		2009	2008
Unrestricted net assets:			
Deficiency of revenues over expenses	$	(11,393,800)	(10,333,453)
Change in net unrealized gains on marketable investments (note 4)		(917,266)	(1,447,549)
Change in funded status of employee benefit plans (notes 9 and 10)		(11,666,148)	(1,477,329)
Other changes		(114,170)	—
Net assets released for capital expenditures (note 13)		3,131,952	3,623,892
Change in unrestricted net assets		(20,959,432)	(9,634,439)
Temporarily restricted net assets:			
Contributions		1,282,033	1,634,915
Change in net realized and unrealized gains on investments		40,273	(299,781)
Net assets released from restrictions (note 13)		(3,625,011)	(3,930,129)
Change in temporarily restricted net assets		(2,302,705)	(2,594,995)
Permanently restricted net assets:			
Contributions		—	604,778
Other changes		(7,500)	—
Change in value of perpetual and charitable remainder trusts (note 13)		(148,419)	(728,860)
Change in permanently restricted net assets		(155,919)	(124,082)
Change in net assets		(23,418,056)	(12,353,516)
Net assets, beginning of year		53,410,787	65,764,303
Net assets, end of year	$	29,992,731	53,410,787

See accompanying notes to consolidated financial statements.

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended September 30, 2009 and 2008

		2009	2008
Cash flows from operating activities:			
Change in net assets	$	(23,418,056)	(12,353,516)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		6,665,881	6,526,090
Loss (gain) on disposals of fixed assets		6,354	(6,387)
Provision for bad debts		7,342,154	7,098,363
Amortization of bond discount		54,531	8,667
Amortization of deferred financing costs		498,088	89,000
Amortization of other assets		105,391	106,967
Change in funded status of employee benefit plans		11,666,148	1,477,329
Unrealized loss (gain) on interest rate swap		3,575,934	2,861,782
Permanently restricted contributions		—	(604,778)
Change in net unrealized gains on marketable investments		(33,779)	5,221,105
Restricted contributions received		(1,282,033)	(1,634,915)
Changes in assets and liabilities:			
Patient accounts receivable		(4,475,504)	(7,872,115)
Inventories		(68,592)	(93,635)
Prepaid expenses and other current assets		(174,985)	(481,839)
Other assets		175,396	280,081
Accounts payable		(755,075)	(2,476,990)
Accrued expenses		261,128	833,776
Estimated third-party payor settlements		703,231	734,081
Accrued postretirement benefit obligation		10,584	(41,567)
Accrued pension cost		(1,909,877)	(1,078,135)
Other liabilities		867,333	(78,907)
Net cash used in operating activities		(185,748)	(1,485,543)
Cash flows from investing activities:			
Purchase of property, plant, and equipment		(5,505,971)	(7,672,693)
Proceeds from sale of property		—	12,065
Decrease in assets limited as to use		6,371,487	2,204,234
Sales of investments		38,701,344	56,290,642
Purchases of investments		(33,188,834)	(40,907,591)
Net cash provided by investing activities		6,378,026	9,926,657
Cash flows from financing activities:			
Repayments on long-term debt and line of credit		(14,821,261)	(7,035,340)
Proceeds from long-term debt and line of credit		4,994,000	4,087,831
Proceeds from restricted contributions		1,282,033	1,634,915
Net cash used in financing activities		(8,545,228)	(1,312,594)
Net (decrease) increase in cash and cash equivalents		(2,352,950)	7,128,520
Cash and cash equivalents, beginning of year		11,459,051	4,330,531
Cash and cash equivalents, end of year	$	9,106,101	11,459,051
Supplemental disclosures:			
Cash paid for interest	$	7,731,819	4,918,500
Capital leases		99,769	92,116

See accompanying notes to consolidated financial statements.

(1) Organization

South County Hospital Healthcare System Endowment and Affiliates (the Endowment) is a not-for-profit corporation organized to support the advancement of medicine and other related health care activities for the benefit of South County Hospital Healthcare System and Affiliates (the Hospital). The Endowment controls the Hospital, a not-for-profit entity that provides inpatient, outpatient, and emergency care for residents of Southern Rhode Island and Connecticut. Admitting physicians are primarily practitioners in the local area. The table below is a summary of affiliated organizations which are controlled by the Hospital and are included in the consolidated financial statements. The Endowment also controls Circle Protection Insurance, LLC (the Captive). The Captive was formed in September 2007 as part of a strategy to monitor and manage the Hospital's professional liability exposure. As of September 30, 2008, all the assets and liabilities of the Captive were transferred to a self-insurance trust at the Hospital to reduce administrative costs. The Captive became dormant effective September 30, 2008. The Endowment's Board voted to dissolve the Captive on December 7, 2009. On December 10, 2009, approval was received from the Vermont Department of Banking, Insurance, Securities, and Health Care Administration for the dissolution of the Captive. All material intercompany accounts and transactions are eliminated in consolidation.

South County Hospital	A private, not-for-profit, multidisciplinary, acute care hospital formed to provide inpatient and outpatient services for the benefit of patients.
Silver Spring Health Care Management	A for-profit holding corporation which owns South County Surgical Supply Company, SSHM: Management Service Organization, Inc., and South County Quality Care.
VNS HomeCare, Inc.	A not-for-profit corporation which provides and administers a comprehensive multi-disciplinary, therapeutic, public health nursing program.

(2) Summary of Significant Accounting Policies

(a) Basis of Statement Presentation

The accompanying consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared consistent with U.S. generally accepted accounting principles and the American Institute of Certified Public Accountants Audit and Accounting Guide, Health Care Organizations (Audit Guide). Net assets and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, unrestricted net assets are amounts not subject to donor-imposed stipulation and are available for operations.

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

(b) Use of Estimates

The preparation of the consolidated financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The most significant areas which are affected by the use of estimates include the valuation of the allowance for doubtful accounts, certain investments, estimated third-party payor settlements, and pension and other postretirement obligations. Actual results could differ from those estimates.

(c) Excess of Revenues over Expenses

The consolidated statements of operations include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfer of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restrictions were to be used for the purposes of acquiring such assets), and changes in the funded status of employee benefit plans.

(d) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or as years are no longer subject to audits, reviews, and investigations.

(e) Charity Care and Provision for Bad Debt

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 Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party agreements.

Additions to the allowance for doubtful accounts are made by means of the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance and subsequent recoveries are offset against bad debt expense. The amounts of the provision for bad debts is based on management’s assessment of historical and expected net collections, business and economic conditions, trends in federal and state governmental healthcare coverage and other collection indicators.

(f) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. Cash equivalents exclude amounts limited as to use by board designation or by bond indenture agreements, as well as donor restricted amounts.

(g) Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

(h) Assets Limited as to Use

Assets limited as to use include assets held in trust under bond indenture agreements, assets held in outside trusts, donor restricted and other agreements, designated assets set aside by the board of trustees for future capital improvements over which the board retains control and may at its discretion subsequently use for other purposes, and assets held as collateral by the swap counterparty. Amounts required to meet current obligations of the Endowment have been reclassified to current assets in the consolidated balance sheets at September 30, 2009 and 2008.

(i) Property, Plant, and Equipment

Property, plant, and equipment acquisitions are recorded at cost. Donated items are recorded at fair market value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed by using the straight-line method. Land improvements lives range from 7 to 15 years, buildings and equipment lives range from 5 to 40 years, and moveable equipment lives range from 3 to 20 years. Equipment recorded as a capital lease is stated at the present value of the minimum lease payments and is amortized using the straight line method over the lesser of the useful life of the equipment or the life of the lease.

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

(j) Asset Retirement Obligations

The fair value of a liability for legal obligations associated with asset retirements is recognized in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the asset retirement obligation is capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligations is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of operations.

(Continued)

(k) Other Assets

In January 2003, the Hospital paid approximately $1,300,000 to purchase two satellite laboratories and the exclusive right to operate a laboratory in each location. The Hospital recorded approximately $1,300,000 of intangible asset as a result of this acquisition, which is classified as a component of other assets in the accompanying consolidated balance sheets. The intangible asset is being amortized over 15 years. The asset is reviewed for indications of impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. During fiscal 2008 and 2009, there were no impairment charges related to the intangible asset.

(l) Investments and Investment Income

Investments are reported at estimated fair value. If an investment is held directly by the Endowment and an active market with quoted prices exists, the Endowment reports the fair value as the market price of an identical security. Shares in mutual funds are based on share values reported by the funds as of the last business day of the fiscal year. The Endowment also holds shares or units in alternative investment funds involving hedge strategies. Hedge strategies involve funds whose managers have the authority to invest in multiple asset classes at their discretion, including the ability to invest long and short in the markets. Funds with hedge strategies generally hold securities or other financial instruments for which a ready market exists and are priced accordingly.

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

Investments also include assets related to funds held in trust by others. Certain of the funds are held in trust by a third party for one or more beneficiaries. Under the terms of the trust, the Endowment has the irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the assets held in trust. The assets are recorded at fair value.

(Continued)

Investment income (including realized gains and losses on investments, interest and dividends) is recorded as investment income within the other income (loss), unless the asset is restricted by donor or law. The Endowment reflects losses resulting from other than temporary impairment charges and the unrealized change in equity interests in limited partnerships as other income (loss) included in the excess (deficiency) of revenues over expenses. Unrealized gains and losses on marketable investments are excluded from the excess (deficiency) of revenues over expenses, unless the investments are trading securities. The Endowment has determined that no investments in equity and debt securities are trading securities as of September 30, 2009 and 2008.

A decline in the market value of an investment security below its cost that is designated to be other than temporary is recognized through an impairment charge resulting in a new cost basis. Impairment charges in 2009 and 2008 amounted to $140,895 and $1,726,893, respectively.

(m) Fair Value of Financial Instruments

Effective, October 1, 2008, the Endowment adopted the recognition and disclosure provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) subtopic 820-10 which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. FASB ASC Subtopic 820-10 establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

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

The fair value hierarchy gives the highest level of priority to Level 1 input and the lowest priority to Level 3 input. In determining fair value, the Endowment utilizes valuation techniques that maximize the use of observable inputs and minimizes the use of unobservable input to the extent possible. The adoption of FASB ASC Subtopic 820-10 did not have a material impact on the Endowment’s financial position, change in net assets, or cash flows but did significantly expand fair value disclosures. See note 4 for more information on the fair value of Endowment’s investments.

(n) Costs of Borrowing

Deferred financing costs represent the costs associated with issuing bonds and are amortized over the term of the related bonds.

(o) Donor-Restricted Gifts

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

(p) Assets Held in Outside Trusts

The Endowment is a beneficiary of various trusts. Distributions of income are made at the discretion of the trustees, and are reflected as contributions in the accompanying consolidated statements of operations. The income from the trusts is recorded as investment income in the accompanying consolidated statements of operations. The change in value of the perpetual and charitable remainder trusts is reflected as a change in permanently or temporarily restricted net assets.

(q) Income Taxes

The not-for-profit entities (South County Healthcare System Endowment and South County Hospital Healthcare System) operate as described in Section 501(c)(3) of the Internal Revenue Code (Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The tax provisions and related liabilities for the taxable entities which are controlled by the Hospital are not significant.

(r) Derivatives

The Endowment accounts for derivatives and hedging activities in accordance with FASB ASC Subtopic 815-20, *Derivatives and Hedging*, as amended, which requires that all derivative instruments be recorded in the consolidated balance sheets at their respective fair values. When specific hedge accounting criteria are not met, ASC Subtopic 815-20 requires that all changes in a derivative’s fair value be recognized currently in earnings. The Endowment may enter into derivative transactions in order to hedge its exposure to certain market risks. The Endowment does not hold or issue derivative instruments for trading purposes.

(s) Professional and General Liability

The Endowment is self-insured for losses arising from professional liability/medical malpractice and general liability claims. The provision for self-insured losses includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. Independent actuaries have been retained to assist the Endowment with determining both the provision for self-insured losses and amounts to be deposited in funds available for self-insurance liabilities.

(Continued)

(t) Classification of Net Assets

Effective September 30, 2009, the Endowment adopted the provisions of FASB ASC Subtopic 958-250: *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act* (ASC 958-250). ASC 958-250 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires disclosures about endowment funds, including donor-restricted endowment funds and board-designated endowment funds.

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

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

Prior to 2009, the Endowment was subject to Rhode Island Uniform Management of Institutional Funds Act (UMIFA), as amended. Rhode Island’s enacted version of UMIFA required the Endowment to maintain the purchasing power of the historic dollar value of its donor-restricted endowment funds. This requirement was eliminated by the enactment of UPMIFA. There was not any financial statement impact related to this change.

(u) Adoption of New Accounting Pronouncements

On October 1, 2008 the Endowment adopted the provisions of FASB ASC Topic 825 (ASC 825) which permits entities to choose to measure certain financial assets and liabilities at fair value. The adoption of (ASC 825) had no impact on the consolidated financial statements since management did not elect to measure any additional eligible financial assets or liabilities at fair value as a result of adopting ASC 825.

In May 2009, the FASB issued FASB ASC 855-10, *Subsequent Events* (ASC 855-10). ASC 855-10 defines the subsequent events or transaction period, those circumstances under which the events or transactions should be recognized, and disclosures regarding subsequent events or transactions. ASC 855-10 is effective for annual periods beginning after June 15, 2009. On September 30, 2009, the Endowment adopted the provisions ASC 855-10. Although the adoption of ASC 855-10 did not materially affect the Endowment's consolidated financial statements, additional disclosures are now included in note 18.

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

(3) Concentration of Credit Risk

The Endowment has approximately $7,816,969 in cash at September 30, 2009 which is not encompassed by coverage provided by the Federal Depository Insurance Corporation. The financial institutions have strong credit ratings and management believes the credit risk related to these deposits is minimal.

(4) Investments

The following table summarizes the Endowment's investments and assets held in trust by others in the FASB ASC Subtopic 820-10 fair value hierarchy as of September 30, 2009, with comparative totals as of September 30, 2008:

	2009				2008
	Level 1	**Level 2**	**Level 3**	**Total**	**Total**
Investments:					
Cash	$ 8,480,464	—	—	8,480,464	1,144,537
Fixed income	1,269,581	608	—	1,270,189	13,242,485
Public equity and mutual funds	3,945,737	—	—	3,945,737	6,796,142
Hedged strategies and commingled funds	—	8,638,543	540,300	9,178,843	17,672,654
Total	$ 13,695,782	8,639,151	540,300	22,875,233	38,855,818
Assets held in trust	$ 3,138,395	—	7,800,688	10,939,083	11,634,651

The above investments are displayed in the consolidated balance sheets as follows at September 30:

		2009	2008
Short-term investments	$	10,212,046	16,071,021
Assets limited as to use:			
Internally designated for capital acquisition		10,297,945	9,917,700
Held in trust under bond indenture		1,178,014	11,831,756
Assets held in trust		10,939,083	11,634,651
Donor restricted and other funds		1,187,228	1,035,341
	$	33,814,316	50,490,469

The hedged strategies classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of the Endowment's interest therein, its classification in Level 2 or 3 is based on the Endowment's ability to redeem its interest at or near the date of the statements of financial position. If the interest can be redeemed in the near term, the investment is classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

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

		Hedge strategies and commingled funds	Assets held in trust	Total
Fair value at October 1, 2008	$	681,757	7,913,039	8,594,796
Purchases		—	—	—
Distributions		(150,000)	—	(150,000)
Net realized and unrealized gains (losses)		8,543	(112,351)	(103,808)
Fair value at September 30, 2009	$	540,300	7,800,688	8,340,988

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

		2009	2008
Interest and dividends	$	287,666	1,458,559
Net realized gain (loss) on sales of securities		(2,028,349)	1,437,431
Investment loss		(140,895)	(1,726,893)
Total investment (loss) income		(1,881,578)	1,169,097
Unrealized change in equity interest in limited partnerships		1,059,191	(2,744,915)
Total	$	(822,387)	(1,575,818)

Total investment management fees for the years ended September 30, 2009 and 2008 were $348,344 and $432,955, respectively, and are netted with net realized and unrealized (losses) gains.

(a) Liquidity

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

		Fair values
Investment redemption period or sale:		
Daily	$	15,870,848
Monthly		3,224,528
Quarterly		6,377,952
Annually		540,300
Locked-up until liquidation		7,800,688
Total	$	33,814,316

Locked-up until liquidation includes assets held in trust by others and real estate.

(b) Commitments

Private equity investments are generally made through limited partnerships. Under the terms of these agreements, the partner is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund’s strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The partner cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future

(Continued)

year is uncertain. As of September 30, 2009, the Endowment does not have any commitments associated with private equity investments.

(5) Endowments

The Endowment's endowment (the Fund) consists of approximately 30 individual funds established for a variety of purposes, including both donor-restricted endowment funds (true endowment) and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Board of Trustees of the Endowment has interpreted the version of the Uniform Prudent Management of Institutional Funds Act enacted by the legislature of the State of Rhode Island (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Endowment classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Endowment in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Endowment 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 Endowment 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 Endowment
7. The investment policies of the Endowment

Net assets comprising true endowment funds and funds designated by the Board of Trustees to function as endowments were are follows at September 30:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
2009:				
Donor-restricted endowment funds	$ —	2,139,681	7,313,611	9,453,292
Board-designated endowment funds	22,894,932	—	—	22,894,932
Total endowment net assets	$ 22,894,932	2,139,681	7,313,611	32,348,224
2008:				
Donor-restricted endowment funds	$ —	3,518,323	7,469,530	10,987,853
Board-designated endowment funds	27,418,851	—	—	27,418,851
Total endowment net assets	$ 27,418,851	3,518,323	7,469,530	38,406,704

The following table summarizes the changes in endowment net assets for the year ended September 30, 2009:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, October 1, 2008	$ 27,418,851	3,518,323	7,469,530	38,406,704
Contributions	—	2,372,834	—	2,372,834
Investment loss	(1,793,815)	(126,465)	(148,419)	(2,068,699)
Release of endowment assets	(4,613,347)	(3,625,011)	(7,500)	(8,245,858)
Additions (deductions) from operations	1,883,243	—	—	1,883,243
Endowment net assets, September 30, 2009	$ 22,894,932	2,139,681	7,313,611	32,348,224

The following table summarizes the changes in endowment net assets for the year ended September 30, 2008:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, October 1, 2007	$ 46,012,754	4,769,421	7,593,612	58,375,787
Contributions	—	3,210,131	604,778	3,814,909
Investment return	(4,377,253)	(531,100)	(728,860)	(5,637,213)
Release of endowment assets	(15,967,162)	(3,930,129)	—	(19,897,291)
Additions from operations	1,750,512	—	—	1,750,512
Endowment net assets, September 30, 2008	$ 27,418,851	3,518,323	7,469,530	38,406,704

(b) Objectives of the Fund

The Fund consists of funds established both by donor-restricted endowment funds (true endowment) and funds designated by the Board of Trustees to function as endowments. The board designated fund was established to provide a core level of funding to support an ever broadening array of services.

The relative objective of the endowment fund is to seek competitive investment performance versus appropriate or relative capital market indices. This objective shall be measured primarily by comparing investment results, over a moving annualized five-year time period, to representative benchmarks.

(c) Spending Policy and How the Investment Objectives Relate to Spending Policy

It is the Endowment's policy for the board designated funds to distribute income for current operations at an annual level of between 4.5% and 6.5% of a trailing 12-quarter average of these funds total asset value. This annual spending rate is reviewed annually by the Endowment. However, the Board maintains the authority to modify or change this policy; additional outlays beyond the annual spending rate are allowable with approval by the Board. The Board approved annual spending above the policy in the amount of $3,979,050 and $2,966,349 for the periods ending September 30, 2009 and 2008, respectively, due to the impact from the excess interest paid on Series 2006 A bonds as a result of the failure of the auction market.

(Continued)

(d) Funds with Deficiencies

From time to time, the fair value of assets associated with an individual donor restricted endowment may fall below the historic dollar value. These deficiencies result principally from investment losses and continued appropriation for certain programs that was deemed prudent by the Endowment. Subsequent gains that restore the fair value of the assets of these endowment funds to the required level will be classified as increases in unrestricted net assets. There were no such deficiencies or gains as of September 30, 2009 and 2008.

(e) Strategies Employed for Achieving Objectives

In order to meet its needs, the investment strategy of the Fund is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. The overriding objective of the Fund is to preserve purchasing power by striving for long-term returns that either match or exceed the annual spending including fees, by inflation.

(6) Property, Plant, and Equipment

Property, plant, and equipment was comprised of the following at September 30:

	2009	2008
Land	$ 983,672	983,672
Land improvements	1,933,406	1,933,406
Buildings and equipment	85,193,237	83,253,263
Movable equipment	39,058,540	36,273,754
Construction in progress	668,703	1,351,863
	127,837,558	123,795,958
Less accumulated depreciation	(65,867,798)	(60,659,934)
	$ 61,969,760	63,136,024

(7) Long-Term Debt

Long-term debt was comprised of the following at September 30:

		2009	2008
Series 2006 A tax-exempt revenue bonds of $41,595,000, with an annual interest rate of 2.0% as of September 30, 2009 thru September 30, 2010; payable through 2033	$	41,595,000	52,000,000
Series 2003 B and C tax-exempt revenue bonds of $7,060,000, with interest rates ranging from 0.44% to 4.18%, payable through 2033; tax-exempt revenue bonds of $6,025,000, with interest rates ranging from 0.44% to 4.18%, payable through 2033		12,670,000	12,960,000
Line of credit, due upon demand, subject to annual renewal with interest at 30-day LIBOR plus 150 basis points (1.759% at September 30, 2009)		4,999,569	4,005,569
Other term notes		234,010	260,502
Capital lease obligations		224,647	324,415
Unamortized bond discount		(183,080)	(237,611)
Total long-term debt		59,540,146	69,312,875
Less current installments		5,425,006	4,796,829
	$	54,115,140	64,516,046

On April 7, 2009, the Bond Trustee issued a partial optional redemption from the remaining proceeds in the Rhode Island Health and Education Building Corporation Series 2006A Bonds Project Fund in the amount of $7,050,000 reducing the amount of debt outstanding from $52,000,000 to $44,950,000. The redemption resulted in a loss of $308,475.

On September 15, 2009, the Rhode Island Health and Education Building Corporation Series 2006A Bonds were remarketed in the Term Rate mode as a tax exempt issue. The initial term ends September 30, 2010; prior to the end of the initial term the interest rate and term will be established as per the bond purchase agreement. In the event of any unsuccessful remarketing of the bonds and provided there is no liquidity facility in effect, the current bond holder shall continue to hold the bonds. The Remarketed Bonds have been issued under and are secured by the Bond Indenture dated February 23, 2006, as supplemented. The bond insurer purchased all the outstanding bonds as per the terms of the bond purchase agreement. On September 16, 2009, the Bond Trustee issued an optional redemption from the proceeds of the debt service reserve fund in the amount of $3,355,000 reducing the amount of debt outstanding from $44,950,000 to $41,595,000. The initial term expires on September 30, 2010. The loss on the remarketing was $585,451.

On November 15, 2007, the Rhode Island Health and Educational Building Corporation Series 2003 B and C Bonds were remarketed to a weekly rate mode as a tax-exempt issue. The Remarketed Bonds have been issued under and are secured by the Bond Indentures as per the Master Trust Indenture dated December 1, 2003. The bonds are secured with a Letter of Credit from Citizen's Bank that will expire on December 1, 2011.

In connection with the Series 2006 A Bonds, the Hospital entered into an interest rate swap transaction on December 14, 2005 with Merrill Lynch Capital Services, Inc (Swap Counterparty); maturity date of September 15, 2035. The purpose of the swap agreement is to convert the floating rate for Series 2006 A Bonds to a fixed rate. The swap agreement provides that the Hospital will pay to the Swap Counterparty a fixed rate of 3.52% and the Swap Counterparty will pay to the Hospital a floating rate equal to 67% of one month LIBOR. Payments to the Swap Counterparty are a general obligation of the Hospital. The obligation of the Hospital to make payments on the Series 2006 A Bonds with respect to interest on the Series 2006 A Bonds is in no way conditional upon the Hospital's receipt of payments from the Swap Counterparty. The fair value of the swap agreement amounted to $6,280,935 and $2,705,001 as of September 30, 2009 and 2008, respectively. Recent market conditions have resulted in an unusually high degree of volatility in the fair value of the swap agreement. Subsequent to September 30, 2008 and as a result of a change in the rating of the swap insurer, the Hospital is obligated to collateralize at 100% of the fair market value of the swap agreement. As of September 30, 2009 the amount held in collateral was $5,750,000, representing the fair value of the swap on September 25, 2009. Effective December 21, 2009, the swap agreement was amended such that the Hospital is now only required to collateralize the fair market value of the swap agreement in excess of $8,500,000 and funds held in collateral were released.

In connection with the Series 2003 B and C and Series 2006 A bond agreements, the Hospital is required to maintain with a trustee a debt service reserve fund consisting of cash and government obligations. The fair value of this fund, which is included in funds held in trust by bond indenture, amounted to $1,065,949 and $4,441,615 at September 30, 2009 and 2008, respectively. The decrease from the prior fiscal year reflects the optional tender on September 16, 2009 of the Series 2006 A debt service reserve fund. As per the bond agreements, the project fund is also maintained with a trustee. The fair value of these funds, which are included in funds held in trust by bond indenture, amounted to $0 and $7,192,605 at September 30, 2009 and 2008, respectively. The decrease from the prior year reflects the optional tender on April 7, 2009 of the Series 2006 A project fund.

Under the terms of the Series 2003 B and C and Series 2006 A bond indenture agreements, the Hospital is required to make deposits at regular intervals into debt service funds in amounts sufficient to fund monthly interest payments and annual principal payments. The balance in these funds, which are included in funds held in trust by bond indenture, at fair value amounted to $112,065 and $197,536 at September 30, 2009 and 2008, respectively.

Under the terms of the Series 2003 B and C bond agreements, and the Series 2006 A bond agreement, the Hospital is required to satisfy certain measures of financial performance as long as the bonds are outstanding. Section 6.03 of the Reimbursement Agreement for the Series 2003 B and C bonds requires that the Hospital and Endowment maintain a liquidity covenant of Days Cash on Hand of not less than 125 days; measured semi-annually. As a result of the market value declines, collateral posting for the 2006 Swap Agreement and default rate of interest paid on the Series 2006A debt, the Days Cash on Hand measure was not met at September 30, 2009. The Hospital has secured waivers from all relevant parties relating to any obligations of the Hospital associated with not meeting the required Days Cash on Hand requirement for September 30, 2009. In December 2009, a term sheet was executed by all parties agreeing to amend the Reimbursement Agreement reducing the liquidity covenant measure going forward. As of September 30, 2009, management believes the Hospital was in compliance with all other financial covenants.

The aggregate annual maturities of total long-term debt, including sinking fund requirements for each of the five years in the years ending September 30, 2014 and thereafter, are as follows:

2010	$	5,425,006
2011		410,869
2012		692,101
2013		1,730,904
2014		1,815,000
Thereafter		49,649,346
		59,723,226
Unamortized bond discount		(183,080)
Total long-term debt	$	59,540,146

The Series 2003 B and C and the Series 2006A bonds are secured by a pledge of gross receipts of the Hospital as well as the Hospital's major patient care facilities, ancillary facilities, and parking areas located on such lots. In addition, the Series 2003 B and C and the Series 2006A bonds are secured by a pledge of and security interest in the gross receipts and revenues of the Endowment, the Guarantor.

(8) Third-Party Reimbursement

The Hospital maintains agreements with the Social Security Administration under the Medicare Program and the State of Rhode Island under the Medicaid Program that governs payment to the Hospital for services rendered to patients covered by these programs. These agreements require the Hospital to prepare and file various actual and allowable cost reports annually. Final settlements have been made with Medicare through 2007 and with Medicaid through 2003. Provisions have been made in the consolidated financial statements for estimated final settlements with all third-party payors. The differences between the amounts provided and the actual final settlements are recorded as an adjustment to net revenues in the year the final settlements are determined. Management believes that these settlements did not have a significant effect on net patient service revenue for the years ended September 30, 2009 and 2008.

Inpatient acute care services provided to Medicare program beneficiaries are paid at prospectively determined rates-per-discharge. These rates vary according to a patient classification system that is based on diagnostic, clinical and other factors. In addition, inpatient capital costs (depreciation and interest) are reimbursed by Medicare on the basis of a prospectively determined rate per discharge. Medicare outpatient services are paid on a prospective payment system. Under the system, outpatient services are reimbursed based on a predetermined amount for each outpatient procedure, subject to various mandated modifications. Final settlement is determined after the submission of an annual cost report and subsequent audit of this report by the Medicare fiscal intermediary.

Inpatient and outpatient services rendered to Medicaid and Blue Cross patients are reimbursed under the terms of a prospective contract. Under the Medicaid contract, reimbursement rates are determined annually in advance based on budgeted costs and anticipated patient care statistics for the applicable year, as negotiated with and agreed to by the third-party contracting agencies. Adjustments to amounts reimbursed during each year are made in accordance with provisions in the contract which recognize actual volume. Blue Cross utilizes a prospective reimbursement system for inpatient services wherein payment is based on the classification of a case into fixed per diem rates. Outpatient services related to Blue Cross beneficiaries are paid based on an established fee schedule.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined daily rates.

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

Revenue for major third-party payors as a percent of gross patient service revenues approximated the following for the years ended September 30:

	2009	2008
Medicare	45%	41%
Blue Cross	27	29
Other commercial	17	19
Medicaid	7	7
Workers’ compensation insurance	1	1
	97	97
Self pay	3	3
	100%	100%

Of total gross patient accounts receivable at September 30, 2009, $10,994,484 is reimbursable under the provisions of the federal Medicare program, $1,889,687 is reimbursable by United Healthcare and $2,570,672 is reimbursable under the provisions of the Medicaid program of the State of Rhode Island.

The United States Congress has recognized the financial burdens which are borne by hospitals which serve an unusually large number, or “disproportionate share” of low income patients. The Hospital received disproportionate share payments of $3,985,483 and $2,242,080 for the years ended September 30, 2009 and 2008, respectively. The disproportionate share payments are included in net patient service revenue.

(9) Pension Plan

(a) Defined Benefit Plan

The Hospital has a noncontributory, defined benefit pension plan (Plan) that covers substantially all of its full-time employees hired prior to October 1, 2003. Plan participants' benefits are computed as a percentage of the higher of their final three-year or five years average earnings less a portion of their social security benefit, proportionately reduced for service less than 26 years for participants hired prior to October 1, 2003. The Hospital's funding policy is to contribute amounts to the Plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the Hospital may determine to be appropriate from time to time. Plan assets consist principally of investments in equity and long-term debt securities. As of October 1, 2003, all new hires are only eligible for the Hospital's defined contribution retirement plan.

The Hospital recognizes the funded status, the difference between the fair value of the plan assets and the projected benefit obligation, of its defined benefit pension plan as an asset or liability in its consolidated balance sheet and recognizes the change in that funded status in the year in which the change occurred through changes in unrestricted net assets. The measurement date for plan assets and projected benefit obligations is September 30.

The following tables set forth the funded status of the Hospital's pension plan and amounts recognized in the consolidated balance sheets as of September 30:

		2009	2008
Change in benefit obligation:			
Projected benefit obligation at beginning of year	$	39,245,418	42,978,634
Service cost		1,333,526	1,637,508
Interest cost		2,866,412	2,703,865
Benefits paid		(1,489,506)	(1,243,347)
Actuarial loss (gain)		10,102,981	(6,831,242)
Projected benefit obligation at end of year		52,058,831	39,245,418
Change in plan assets:			
Fair value of plan assets at beginning of year		34,456,702	38,589,112
Actual return on plan assets		1,890,398	(5,254,814)
Employer contributions		2,656,250	2,365,751
Benefits paid		(1,489,506)	(1,243,347)
Fair value of plan assets at end of year		37,513,844	34,456,702
Funded status	$	(14,544,987)	(4,788,716)

Amounts not yet reflected in net periodic pension expense and included in the change in unrestricted net assets as of September 30, 2009 and 2008 are as follows:

		2009	2008
Net loss	$	12,991,878	1,381,388
Net prior service credit		(340,287)	(395,945)
Charge	$	12,651,591	985,443

The estimated amount that will be amortized from unrestricted net assets into net periodic pension cost in 2010 is approximately $56,000.

Additional actuarial gains and losses that both arise in subsequent periods and are not recognized as net periodic pension cost in the same period will be recognized as a component of unrestricted net assets. These future actuarial gains and losses will be recognized as a component of net periodic pension cost on the same basis as the amounts recognized in unrestricted net assets.

The accumulated benefit obligation was $46,468,927 and $34,182,948 at September 30, 2009 and 2008, respectively.

Net pension expense included the following components:

		2009	2008
Service cost-benefits earned during the period	$	1,333,526	1,637,508
Interest cost on the projected benefit obligation		2,866,412	2,703,865
Expected return on plan assets		(3,397,907)	(3,044,113)
Net loss recognition		—	43,175
Net amortization and deferral		(55,658)	(55,658)
Net pension expense	$	746,373	1,284,777

Changes in the plan assets and benefit obligations recognized in accumulated charges to net assets are as follows:

		2009	2008
Net loss	$	11,610,490	1,424,510
Prior service cost		55,658	55,658
	$	11,666,148	1,480,168
Total recognized in net periodic benefit cost and charges to net assets	$	12,412,521	2,764,945

(Continued)

Assumptions used in determining pension expense and the actuarial present value of benefit obligations of the Hospital's pension plan at September 30 was as follows:

	2009	2008
Discount rate – pension expense	7.60%	6.30%
Discount rate – benefit obligations	5.75	7.60
Rate of compensation increases	3.75	4.00
Expected long-term rate of investment return	8.75	8.75

The discount rate is based on high-grade bond yield curve under which benefits were projected and discounted at spot rates along the curve. The discount rate was then determined as a single rate yielding the same present value.

Information about the expected cash flows for the Plan is as follows:

Employer contributions 2010:	
2010 (expected)	$ 3,570,000
Expected benefit payments:	
2010	1,648,701
2011	1,802,796
2012	1,978,225
2013	2,201,441
2014	2,465,215
2015 – 2019	17,546,807

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

Asset category	Target allocations 2010	Percentage of plan assets at year end 2009	2008
Equity	53.0%	54.1%	50.3%
Fixed income	13.0	19.1	16.8
Alternative investments	25.0	14.7	22.2
Absolute return	9.0	12.0	10.6

The asset allocation strategy above is designed to meet ongoing obligations while minimizing contributions and controlling risks. The asset allocation is structured such that; short-term liabilities are funded by short-term assets, intermediate-term liabilities are funded by intermediate-term assets and long-term liabilities are funded by long-term assets. The objective of this strategy is to minimize the probability and impact of liabilities rising at a rate not supported by asset growth which would increase the size and necessity of contributions.

(b) Defined Contribution Plan

The Hospital offers a defined contribution retirement plan for all new hires on or after October 1, 2003, who meet the requirements of the plan. The Hospital contributes 3.5% of gross compensation for all eligible participants annually. The Hospital made contributions of $305,706 and $293,373 for the years ended September 30, 2009 and 2008, respectively.

VNS HomeCare, Inc. (VNS) offers a savings plan to substantially all VNS employees. Employees may contribute up to 15% of pre-taxed compensation into the Plan. In addition, VNS matches up to 2% of each participant's compensation. VNS recognized expense of $84,941 and $76,060 for the years ended September 30, 2009 and 2008, respectively, representing matching funds paid in to the Plan.

(10) Postretirement Benefits Other Than Pensions

In addition to providing pension benefits, the Hospital also sponsors a postretirement health care plan for employees who were vested as of April 1, 2001 and who retire between the ages of 62 and 65 meeting the plan criteria.

The total accrued postretirement benefit obligation is $277,053 and $266,469 at September 30, 2009 and 2008, respectively.

Net periodic postretirement benefit costs for the years ended September 30, 2009 and 2008 included the following components:

		2009	2008
Service cost-benefits attributed to service upon retirement	$	41,734	42,253
Interest cost on accumulated post-retirement benefit obligation		18,425	15,525
Amortization of prior service cost		(12,992)	(39,726)
	$	47,167	18,052

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009; the rate was assumed to decrease gradually down to 5.0% for the year 2013, and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rate one percentage point would increase the accumulated postretirement benefit obligation as of September 30, 2009 by $12,782 (or by 4.19%).

The average discount rate used in determining the accumulated postretirement benefit obligation was 5.75% and 7.6% for September 30, 2009 and 2008, respectively. As the plan is unfunded, no assumption was needed as to the long-term rate of return on assets.

(11) Malpractice Insurance Coverage

Effective October 1, 1995, the Endowment changed its medical malpractice insurance from a policy providing coverage on a time-of-occurrence basis to one providing coverage on a claims made basis. Claims based upon occurrences prior to October 1, 1995 are insured under the old policy.

Effective October 1, 2006, the Endowment's professional and general liability primary layer of coverage was provided by Circle Protection Insurance, LLC, the Endowment's affiliated captive insurance company, which underwrites the professional liability of the Endowment. The Endowment had purchased excess coverage in the commercial insurance marketplace.

Effective October 1, 2008, a self-insurance program and irrevocable trust, with limits of $1 million per occurrence/$3 million annual aggregate, was established for the Endowment's professional and general liability primary layer of coverage replacing the primary layer of coverage previously provided by Circle Protection Insurance, LLC. All the assets and liabilities of Circle Protection Insurance, LLC was transferred to the self-insurance trust as of September 30, 2008. The adequacy of the coverage provided and the funding levels are reviewed annually by independent actuaries and consultants. The Endowment has purchased excess coverage in the commercial marketplace with limits of $5 million per occurrence/$5 million annual aggregate. Effective October 1, 2009, the limits have been increased to $10 million per occurrence/$10 million annual aggregate. The actuarial determined liability for medical malpractice, which is included in other liabilities, amounted to $2,051,397 and $1,216,896 at September 30, 2009 and 2008, respectively.

(12) Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. The following information measures the level of charity care provided during the years ended September 30:

		2009	2008
Charges foregone, based upon established rates	$	1,134,409	1,096,105

(13) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at September 30, 2009 and 2008 are restricted to:

		2009	2008
Borda wing expenditures	$	1,247,937	2,788,716
Healthcare capital expenditures		2,682,571	3,714,773
Healthcare services		622,950	385,167
Education		243,867	211,374
	$	4,797,325	7,100,030

In 2009 and 2008, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of operating expenses of $609,877 and $306,237, respectively, and purchases of equipment of $3,015,134 and $3,623,892, respectively.

Permanently restricted net assets at September 30, 2009 and 2008 are restricted to:

		2009	2008
Investments to be held in perpetuity, the income from which is expendable to support healthcare services (reported as operating income)	$	7,313,611	7,469,530

(14) Functional Expenses

The Hospital provides healthcare services to residents within their geographic location. Expenses related to providing these services for the years ended September 30, are as follows:

		2009	2008
Healthcare services	$	81,553,643	76,492,204
General and administrative		42,614,081	37,129,788
	$	124,167,724	113,621,992

(15) Commitments and Contingencies

The Hospital has been named as co-defendant in several complaints filed by former patients. In the opinion of management and legal counsel, claims are adequately covered by trust assets and insurance.

(16) Leases

The Hospital leases office space to various doctors and organizations. Terms of the leases range from one to five years, include a fixed monthly rate, and are renewable upon expiration. At September 30, 2009 future minimum lease payments to be received under these renewable operating leases total $1,846,799 for 2010 through 2014.

The Hospital leases various equipment under operating leases which provide for minimum annual rentals as follows:

Year ending September 30:		
2010	$	235,074
2011		235,074
2012		187,055
2013		79,408
2014		18,274
	$	754,885

Rental expense for the years ended September 30, 2009 and 2008 was $647,076 and $307,416, respectively.

The Hospital leases various equipment under capital leases. The present value of future minimum capital lease payments as of September 30, 2009 are:

Year ending September 30:		
2010	$	98,130
2011		68,760
2012		68,760
2013		11,460
Total minimum lease payments		247,110
Less amount representing interest (rate of 7.22%)		22,463
Present value of net minimum capital lease payments		224,647
Less current portion of capital lease obligations		87,123
Long-term capital lease obligations	$	137,524

(17) Pledges Receivable

Pledges receivable as of September 30, 2009 included the following:

Amounts due in:		
Less than one year	$	1,416,872
One to five years		1,420,622
Greater than five years		10,000
Less discount and allowance for uncollectible pledges		(189,850)
		2,657,644
Less current portion		1,416,872
	$	1,240,772

Pledges receivable have been discounted at rates ranging from 0.4% to 2.9%.

(18) Subsequent Events

On December 10, 2009, approval was received from the Vermont Department of Banking, Insurance, Securities, and Health Care Administration for the dissolution of Circle Protection Insurance, LLC. For the purposes of determining the effects of subsequent events on these financial statements, management has evaluated events to September 30, 2009 and through January 21, 2010, which is the date on which the financial statements were issued.

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidating Balance Sheet

September 30, 2009

Assets	South County Hospital	VNS HomeCare, Inc.	Silver Spring Healthcare Management	Intercompany eliminations	South County Hospital Healthcare System and Affiliates	Endowment	Circle Protection, LLC	Intercompany eliminations	Total
Current assets:									
Cash and cash equivalents	$ 7,907,574	406,992	326,584	—	8,641,150	211,205	253,746	—	9,106,101
Short-term investments	4,126,899	299,320	324,788	—	4,751,007	5,461,039	—	—	10,212,046
Assets limited as to use for current obligations	112,065	—	—	—	112,065	—	—	—	112,065
Patient accounts receivable, net	8,046,578	750,686	365,178	—	9,162,442	—	—	—	9,162,442
Current portion of pledges receivable	—	—	—	—	—	1,416,872	—	—	1,416,872
Inventories	1,648,973	—	194,241	—	1,843,214	—	—	—	1,843,214
Prepaid expenses and other current assets	1,566,347	113,719	187,152	—	1,867,218	96,572	—	—	1,963,790
Due from affiliates, current portion	64,758	—	—	(64,758)	—	—	—	—	—
Total current assets	23,473,194	1,570,717	1,397,943	(64,758)	26,377,096	7,185,688	253,746	—	33,816,530
Assets limited as to use:									
Internally designated for capital acquisition	3,333,378	—	—	—	3,333,378	6,964,567	—	—	10,297,945
Held in trust under bond indenture	1,178,014	—	—	—	1,178,014	—	—	—	1,178,014
Assets held in trust	2,174,458	584,051	—	—	2,758,509	8,180,574	—	—	10,939,083
Donor restricted and other funds	255,484	375,769	—	—	631,253	555,975	—	—	1,187,228
Swap collateral	5,750,000	—	—	—	5,750,000	—	—	—	5,750,000
Total assets limited as to use	12,691,334	959,820	—	—	13,651,154	15,701,116	—	—	29,352,270
Less amount required to meet current obligations	(112,065)	—	—	—	(112,065)	—	—	—	(112,065)
	12,579,269	959,820	—	—	13,539,089	15,701,116	—	—	29,240,205
Investment in captive	—	—	—	—	—	1,000,000	—	(1,000,000)	—
Property, plant, and equipment, net	60,311,182	646,106	167,755	—	61,125,043	844,717	—	—	61,969,760
Due from affiliates	382,343	—	—	(160,736)	221,607	—	—	(221,607)	—
Pledges receivable, net of current portion	—	—	—	—	—	1,240,772	—	—	1,240,772
Other assets, net of accumulated amortization	2,629,769	—	—	—	2,629,769	90,981	—	—	2,720,750
Total assets	$ 99,375,757	3,176,643	1,565,698	(225,494)	103,892,604	26,063,274	253,746	(1,221,607)	128,988,017
Liabilities and Net Assets									
Current liabilities:									
Current installments of long-term debt	$ 5,418,942	—	6,064	—	5,425,006	—	—	—	5,425,006
Accounts payable	5,814,658	78,412	20,377	—	5,913,447	1,212	—	—	5,914,659
Accrued expenses	5,838,300	818,231	309,478	—	6,966,009	26,457	—	—	6,992,466
Estimated third-party payor settlements	2,336,224	366,546	—	—	2,702,770	—	—	—	2,702,770
Other current liabilities	30,251	—	—	—	30,251	—	—	—	30,251
Total current liabilities	19,438,375	1,263,189	335,919	—	21,037,483	27,669	—	—	21,065,152
Long-term debt, net of current installments	54,109,582	—	5,558	—	54,115,140	—	—	—	54,115,140
Due to affiliates	—	102,012	123,482	(225,494)	—	221,607	—	(221,607)	—
Accrued pension cost	14,544,987	—	—	—	14,544,987	—	—	—	14,544,987
Postretirement benefit obligation	277,053	—	—	—	277,053	—	—	—	277,053
Fair value of swap agreements	6,280,935	—	—	—	6,280,935	—	—	—	6,280,935
Other liabilities	2,423,942	—	—	—	2,423,942	288,077	—	—	2,712,019
Total liabilities	97,074,874	1,365,201	464,959	(225,494)	98,679,540	537,353	—	(221,607)	98,995,286
Net assets:									
Unrestricted	2,255,883	851,621	1,100,739	—	4,208,243	14,419,806	253,746	(1,000,000)	17,881,795
Temporarily restricted	—	375,770	—	—	375,770	4,421,555	—	—	4,797,325
Permanently restricted	45,000	584,051	—	—	629,051	6,684,560	—	—	7,313,611
Total net assets	2,300,883	1,811,442	1,100,739	—	5,213,064	25,525,921	253,746	(1,000,000)	29,992,731
Total liabilities and net assets	$ 99,375,757	3,176,643	1,565,698	(225,494)	103,892,604	26,063,274	253,746	(1,221,607)	128,988,017

See accompanying independent auditors’ report.

Schedule 2

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidating Statement of Operations

Year ended September 30, 2009

	South County Hospital	VNS HomeCare, Inc.	Silver Spring Healthcare Management	South County Hospital Healthcare System and Affiliates	Endowment	Circle Protection, LLC	Intercompany eliminations	Total
Unrestricted revenues, gains, and other support:								
Net patient service revenue	$ 101,104,857	8,109,710	—	109,214,567	—	—	—	109,214,567
Contributions	—	60,381	—	60,381	907,873	—	—	968,254
Other revenue	7,358,054	330,405	3,280,532	10,968,991	5,837	—	(3,979,050)	6,995,778
Total unrestricted revenues, gains, and other support	108,462,911	8,500,496	3,280,532	120,243,939	913,710	—	(3,979,050)	117,178,599
Expenses:								
Salaries and wages	40,339,126	5,454,309	1,632,051	47,425,486	409,323	—	—	47,834,809
Fringe benefits	10,267,669	1,390,910	446,845	12,105,424	113,160	—	—	12,218,584
Supplies and other expenses	35,070,261	1,256,777	838,830	37,165,868	4,372,047	13,017	(3,979,050)	37,571,882
State license fee	3,931,358	—	—	3,931,358	—	—	—	3,931,358
Depreciation and amortization	7,087,866	113,633	90,294	7,291,793	32,098	—	—	7,323,891
Interest	7,944,976	70	—	7,945,046	—	—	—	7,945,046
Provision for bad debts	7,190,293	41,956	109,905	7,342,154	—	—	—	7,342,154
Total operating expenses	111,831,549	8,257,655	3,117,925	123,207,129	4,926,628	13,017	(3,979,050)	124,167,724
Operating income (loss)	(3,368,638)	242,841	162,607	(2,963,190)	(4,012,918)	(13,017)	—	(6,989,125)
Other income (loss):								
Investment income	(568,619)	(27,969)	(33,476)	(630,064)	(1,254,785)	3,271	—	(1,881,578)
Unrealized change in equity interests in limited partnerships	408,084	20,759	17,178	446,021	613,170	—	—	1,059,191
Unrealized loss on interest rate swap	(3,575,934)	—	—	(3,575,934)	—	—	—	(3,575,934)
Gain on disposals of fixed assets	(2,163)	(4,191)	—	(6,354)	—	—	—	(6,354)
Excess (deficiency) of revenues over expenses	(7,107,270)	231,440	146,309	(6,729,521)	(4,654,533)	(9,746)	—	(11,393,800)
Change in net unrealized gains on marketable investments	(256,020)	(14,252)	(10,830)	(281,102)	(636,164)	—	—	(917,266)
Change in funded status of employee benefit plans	(11,666,148)	—	—	(11,666,148)	—	—	—	(11,666,148)
Other changes	—	—	—	—	(114,170)	—	—	(114,170)
Net assets released for capital expenditures	2,349,427	—	—	2,349,427	782,525	—	—	3,131,952
Increase (decrease) in unrestricted net assets	$ (16,680,011)	217,188	135,479	(16,327,344)	(4,622,342)	(9,746)	—	(20,959,432)

See accompanying independent auditors' report.

Schedule 3

**SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES**

Consolidating Statement of Changes in Net Assets

Year ended September 30, 2009

	South County Hospital	VNS HomeCare, Inc.	Silver Spring Healthcare Management	South County Hospital Healthcare System and Affiliates	Endowment	Circle Protection, LLC	Total
Unrestricted net assets:							
(Deficiency) excess of revenues over expenses	$ (7,107,270)	231,440	146,309	(6,729,521)	(4,654,533)	(9,746)	(11,393,800)
Change in net unrealized gains on marketable investments	(256,020)	(14,252)	(10,830)	(281,102)	(636,164)	—	(917,266)
Change in funded status of employee benefit plans	(11,666,148)	—	—	(11,666,148)	—	—	(11,666,148)
Other changes	—	—	—	—	(114,170)	—	(114,170)
Net assets released for capital expenditures	2,349,427	—	—	2,349,427	782,525	—	3,131,952
Increase (decrease) in unrestricted net assets	(16,680,011)	217,188	135,479	(16,327,344)	(4,622,342)	(9,746)	(20,959,432)
Temporarily restricted net assets:							
Contributions	—	615,650	—	615,650	666,383	—	1,282,033
Change in net realized and unrealized gains in investments	—	(7,792)	—	(7,792)	48,065	—	40,273
Net assets released from restrictions	—	(446,438)	—	(446,438)	(3,178,573)	—	(3,625,011)
Increase (decrease) in temporarily restricted net assets	—	161,420	—	161,420	(2,464,125)	—	(2,302,705)
Permanently restricted net assets:							
Other changes	(7,500)	—	—	(7,500)	—	—	(7,500)
Change in value of perpetual and charitable remainder trusts	—	36,787	—	36,787	(185,206)	—	(148,419)
Change in permanently restricted net assets	(7,500)	36,787	—	29,287	(185,206)	—	(155,919)
Change in net assets	(16,687,511)	415,395	135,479	(16,136,637)	(7,271,673)	(9,746)	(23,418,056)
Net assets, beginning of year	17,988,394	1,396,047	965,260	20,349,701	32,797,594	263,492	53,410,787
Net assets, end of year	$ 1,300,883	1,811,442	1,100,739	4,213,064	25,525,921	253,746	29,992,731

See accompanying independent auditors’ report.

Schedule 4

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidating Balance Sheet

September 30, 2008

Assets	South County Hospital	VNS HomeCare, Inc.	Silver Spring Healthcare Management	Intercompany eliminations	South County Hospital Healthcare System and Affiliates	Endowment	Circle Protection, LLC	Intercompany eliminations	Total
Current assets:									
Cash and cash equivalents	$ 10,572,561	384,388	193,687	—	11,150,636	44,923	263,492	—	11,459,051
Short-term investments	4,476,273	324,338	351,939	—	5,152,550	10,918,471	—	—	16,071,021
Assets limited as to use for current obligations	197,536	113,382	—	—	310,918	—	—	—	310,918
Patient accounts receivable, net	10,530,592	1,079,882	418,618	—	12,029,092	—	—	—	12,029,092
Current portion of pledges receivable	—	—	—	—	—	1,342,249	—	—	1,342,249
Inventories	1,548,204	—	226,418	—	1,774,622	—	—	—	1,774,622
Prepaid expenses and other current assets	1,394,805	117,069	191,919	—	1,703,793	77,512	7,500	—	1,788,805
Due from affiliates, current portion	188,537	—	—	(125,582)	62,955	—	—	(62,955)	—
Total current assets	28,908,508	2,019,059	1,382,581	(125,582)	32,184,566	12,383,155	270,992	(62,955)	44,775,758
Assets limited as to use:									
Internally designated for capital acquisition	3,614,096	—	—	—	3,614,096	6,303,604	—	—	9,917,700
Held in trust under bond indenture	11,831,756	—	—	—	11,831,756	—	—	—	11,831,756
Assets held in trust	1,216,896	547,264	—	—	1,764,160	9,870,491	—	—	11,634,651
Donor restricted and other funds	264,130	214,350	—	—	478,480	556,861	—	—	1,035,341
Total assets limited as to use	16,926,878	761,614	—	—	17,688,492	16,730,956	—	—	34,419,448
Less amount required to meet current obligations	(197,536)	(113,382)	—	—	(310,918)	—	—	—	(310,918)
	16,729,342	648,232	—	—	17,377,574	16,730,956	—	—	34,108,530
Investment in captive	—	—	—	—	—	1,000,000	—	(1,000,000)	—
Property, plant, and equipment, net	62,095,760	99,093	64,356	—	62,259,209	876,815	—	—	63,136,024
Due from affiliates	496,228	—	—	(190,617)	305,611	—	—	(305,611)	—
Pledges receivable, net of current portion	—	—	—	—	—	2,239,459	—	—	2,239,459
Other assets, net of accumulated amortization	3,225,374	—	7,874	—	3,233,248	266,377	—	—	3,499,625
Total assets	$ 111,455,212	2,766,384	1,454,811	(316,199)	115,360,208	33,496,762	270,992	(1,368,566)	147,759,396
Liabilities and Net Assets									
Current liabilities:									
Current installments of long-term debt	$ 4,790,765	—	6,064	—	4,796,829	—	—	—	4,796,829
Accounts payable	6,529,554	97,640	6,527	—	6,633,721	36,013	—	—	6,669,734
Accrued expenses	5,608,683	790,850	281,725	—	6,681,258	42,580	7,500	—	6,731,338
Estimated third-party payor settlements	1,650,279	349,260	—	—	1,999,539	—	—	—	1,999,539
Other current liabilities	32,340	—	—	—	32,340	—	—	—	32,340
Total current liabilities	18,611,621	1,237,750	294,316	—	20,143,687	78,593	7,500	—	20,229,780
Long-term debt, net of current installments	64,504,423	—	11,623	—	64,516,046	—	—	—	64,516,046
Due to affiliates	—	132,587	183,612	(316,199)	—	368,566	—	(368,566)	—
Accrued pension cost	4,788,716	—	—	—	4,788,716	—	—	—	4,788,716
Postretirement benefit obligation	266,469	—	—	—	266,469	—	—	—	266,469
Fair value of swap agreements	2,705,001	—	—	—	2,705,001	—	—	—	2,705,001
Other liabilities	1,590,588	—	—	—	1,590,588	252,009	—	—	1,842,597
Total liabilities	92,466,818	1,370,337	489,551	(316,199)	94,010,507	699,168	7,500	(368,566)	94,348,609
Net assets:									
Unrestricted	18,935,894	634,433	965,260	—	20,535,587	19,042,148	263,492	(1,000,000)	38,841,227
Temporarily restricted	—	214,350	—	—	214,350	6,885,680	—	—	7,100,030
Permanently restricted	52,500	547,264	—	—	599,764	6,869,766	—	—	7,469,530
Total net assets	18,988,394	1,396,047	965,260	—	21,349,701	32,797,594	263,492	(1,000,000)	53,410,787
Total liabilities and net assets	$ 111,455,212	2,766,384	1,454,811	(316,199)	115,360,208	33,496,762	270,992	(1,368,566)	147,759,396

See accompanying independent auditors' report.

Schedule 5

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidating Statement of Operations

Year ended September 30, 2008

	South County Hospital	VNS HomeCare, Inc.	Silver Spring Healthcare Management	South County Hospital Healthcare System and Affiliates	Endowment	Circle Protection, LLC	Intercompany eliminations	Total
Unrestricted revenues, gains, and other support:								
Net patient service revenue	$ 91,861,354	7,709,651	—	99,571,005	—	—	—	99,571,005
Contributions	—	65,438	—	65,438	1,250,814	—	—	1,316,252
Other revenue	6,241,833	510,893	3,031,891	9,784,617	14,227	1,413,000	(4,379,349)	6,832,495
Total unrestricted revenues, gains, and other support	98,103,187	8,285,982	3,031,891	109,421,060	1,265,041	1,413,000	(4,379,349)	107,719,752
Expenses:								
Salaries and wages	38,942,392	4,919,973	1,474,766	45,337,131	383,382	—	—	45,720,513
Fringe benefits	10,264,281	1,291,203	374,326	11,929,810	106,683	—	—	12,036,493
Supplies and other expenses	32,388,335	1,236,237	1,017,741	34,642,313	3,276,036	1,057,269	(4,379,349)	34,596,269
State license fee	2,436,973	—	—	2,436,973	—	—	—	2,436,973
Depreciation and amortization	6,565,048	39,889	90,176	6,695,113	35,611	—	—	6,730,724
Interest	4,986,899	15,738	—	5,002,637	20	—	—	5,002,657
Provision for bad debts	6,938,805	60,000	99,558	7,098,363	—	—	—	7,098,363
Total operating expenses	102,522,733	7,563,040	3,056,567	113,142,340	3,801,732	1,057,269	(4,379,349)	113,621,992
Operating income (loss)	(4,419,546)	722,942	(24,676)	(3,721,280)	(2,536,691)	355,731	—	(5,902,240)
Other income (loss):								
Investment income (loss)	352,595	(4,108)	1,907	350,394	710,087	108,616	—	1,169,097
Unrealized change in equity interests in limited partnerships	(648,465)	(42,601)	(35,273)	(726,339)	(1,876,580)	(141,996)	—	(2,744,915)
Unrealized loss on interest rate swap	(2,861,782)	—	—	(2,861,782)	—	—	—	(2,861,782)
Gain on disposals of fixed assets	6,387	—	—	6,387	—	—	—	6,387
Excess (deficiency) of revenues over expenses	(7,570,811)	676,233	(58,042)	(6,952,620)	(3,703,184)	322,351	—	(10,333,453)
Change in net unrealized gains on marketable investments	179,396	8,788	(15,921)	172,263	(1,655,926)	36,114	—	(1,447,549)
Change in funded status of employee benefit plans	(1,477,329)	—	—	(1,477,329)	—	—	—	(1,477,329)
Equity transfer from affiliates	5,331,355	(277,640)	325,740	5,379,455	(4,986,941)	(392,514)	—	—
Net assets released for capital expenditures	3,742,132	(7,357)	—	3,734,775	(110,883)	—	—	3,623,892
Increase (decrease) in unrestricted net assets	$ 204,743	400,024	251,777	856,544	(10,456,934)	(34,049)	—	(9,634,439)

See accompanying independent auditors' report.

Schedule 6

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidating Statement of Changes in Net Assets

Year ended September 30, 2008

	South County Hospital	VNS HomeCare, Inc.	Silver Spring Healthcare Management	South County Hospital Healthcare System and Affiliates	Endowment	Circle Protection, LLC	Total
Unrestricted net assets:							
(Deficiency) excess of revenues over expenses	$ (7,570,811)	676,233	(58,042)	(6,952,620)	(3,703,184)	322,351	(10,333,453)
Change in net unrealized gains on marketable investments	179,396	8,788	(15,921)	172,263	(1,655,926)	36,114	(1,447,549)
Change in funded status of employee benefit plans	(1,477,329)	—	—	(1,477,329)	—	—	(1,477,329)
Equity transfer from affiliates	5,331,355	(277,640)	325,740	5,379,455	(4,986,941)	(392,514)	—
Net assets released for capital expenditures	3,742,132	(7,357)	—	3,734,775	(110,883)	—	3,623,892
Increase (decrease) in unrestricted net assets	204,743	400,024	251,777	856,544	(10,456,934)	(34,049)	(9,634,439)
Temporarily restricted net assets:							
Contributions	700	219,546	—	220,246	1,414,669	—	1,634,915
Change in net realized and unrealized gains in investments	—	(18,343)	—	(18,343)	(281,438)	—	(299,781)
Net assets released from restrictions	(143,922)	(187,358)	—	(331,280)	(3,598,849)	—	(3,930,129)
Increase (decrease) in temporarily restricted net assets	(143,222)	13,845	—	(129,377)	(2,465,618)	—	(2,594,995)
Permanently restricted net assets:							
Contributions	—	604,778	—	604,778	—	—	604,778
Change in value of perpetual and charitable remainder trusts	—	(57,514)	—	(57,514)	(671,346)	—	(728,860)
Change in permanently restricted net assets	—	547,264	—	547,264	(671,346)	—	(124,082)
Change in net assets	61,521	961,133	251,777	1,274,431	(13,593,898)	(34,049)	(12,353,516)
Net assets, beginning of year	17,926,873	434,914	713,483	19,075,270	46,391,492	297,541	65,764,303
Net assets, end of year	$ 17,988,394	1,396,047	965,260	20,349,701	32,797,594	263,492	53,410,787

See accompanying independent auditors' report.

Schedule 7

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidating Balance Sheet – Obligated Group and Guarantor

September 30, 2009

Assets	South County Hospital (Obligated Group)	Endowment (Guarantor)	Total
Current assets:			
Cash and cash equivalents	$ 7,907,574	211,205	8,118,779
Short-term investments	4,126,899	5,461,039	9,587,938
Assets limited as to use for current obligations	112,065	—	112,065
Patient accounts receivable, net	8,046,578	—	8,046,578
Current portion of pledges receivable	—	1,416,872	1,416,872
Inventories	1,648,973	—	1,648,973
Prepaid expenses and other current assets	1,566,347	96,572	1,662,919
Due from affiliates, current portion	64,758	—	64,758
Total current assets	23,473,194	7,185,688	30,658,882
Assets limited as to use:			
Internally designated for capital acquisition	3,333,378	6,964,567	10,297,945
Held in trust under bond indenture	1,178,014	—	1,178,014
Assets held in trust	2,174,458	8,180,574	10,355,032
Donor restricted and other funds	255,484	555,975	811,459
Swap collateral	5,750,000	—	5,750,000
Total	12,691,334	15,701,116	28,392,450
Less amount required to meet current obligations	(112,065)	—	(112,065)
	12,579,269	15,701,116	28,280,385
Investment in captive	—	1,000,000	1,000,000
Property, plant, and equipment, net	60,311,182	844,717	61,155,899
Due from affiliates	382,343	—	382,343
Pledges receivable, net of current portion	—	1,240,772	1,240,772
Other assets, net of accumulated amortization	2,629,769	90,981	2,720,750
Total assets	$ 99,375,757	26,063,274	125,439,031
Liabilities and Net Assets			
Current liabilities:			
Current installments of long-term debt	$ 5,418,942	—	5,418,942
Accounts payable	5,814,658	1,212	5,815,870
Accrued expenses	5,838,300	26,457	5,864,757
Estimated third-party payor settlements	2,336,224	—	2,336,224
Other current liabilities	30,251	—	30,251
Total current liabilities	19,438,375	27,669	19,466,044
Long-term debt, net of current installments	54,109,582	—	54,109,582
Due to affiliates	—	221,607	221,607
Accrued pension cost	14,544,987	—	14,544,987
Postretirement benefit obligation	277,053	—	277,053
Fair value of swap agreements	6,280,935	—	6,280,935
Other liabilities	2,423,942	288,077	2,712,019
Total liabilities	97,074,874	537,353	97,612,227
Net assets:			
Unrestricted	2,255,883	14,419,806	16,675,689
Temporarily restricted	—	4,421,555	4,421,555
Permanently restricted	45,000	6,684,560	6,729,560
Total net assets	2,300,883	25,525,921	27,826,804
Total liabilities and net assets	$ 99,375,757	26,063,274	125,439,031

See accompanying independent auditors' report.

Schedule 8

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidating Statement of Operations – Obligated Group and Guarantor

Year ended September 30, 2009

	South County Hospital (Obligated Group)	Endowment (Guarantor)	Total
Unrestricted revenues, gains, and other support:			
Net patient service revenue	$ 101,104,857	—	101,104,857
Contributions	—	907,873	907,873
Other revenue	7,358,054	5,837	7,363,891
Total unrestricted revenues, gains, and other support	108,462,911	913,710	109,376,621
Expenses:			
Salaries and wages	40,339,126	409,323	40,748,449
Fringe benefit	10,267,669	113,160	10,380,829
Supplies and other expenses	35,070,261	4,372,047	39,442,308
State license fee	3,931,358	—	3,931,358
Depreciation	7,087,866	32,098	7,119,964
Interest	7,944,976	—	7,944,976
Provision for bad debts	7,190,293	—	7,190,293
Total operating expenses	111,831,549	4,926,628	116,758,177
Operating loss	(3,368,638)	(4,012,918)	(7,381,556)
Other income (loss):			
Investment income (loss)	(568,619)	(1,254,785)	(1,823,404)
Unrealized change in equity interests in limited partnerships	408,084	613,170	1,021,254
Unrealized loss on interest rate swap	(3,575,934)	—	(3,575,934)
Loss on disposals of fixed assets	(2,163)	—	(2,163)
Deficiency of revenues over expenses	(7,107,270)	(4,654,533)	(11,761,803)
Change in net unrealized gains on marketable investments	(256,020)	(636,164)	(892,184)
Change in funded status of employee benefit plans	(11,666,148)	—	(11,666,148)
Other changes	—	(114,170)	(114,170)
Net assets released for capital expenditures	2,349,427	782,525	3,131,952
Increase in unrestricted net assets	$ (16,680,011)	(4,622,342)	(21,302,353)

See accompanying independent auditors' report.

Schedule 9

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidating Statement of Changes in Net Assets – Obligated Group and Guarantor

Year ended September 30, 2009

	South County Hospital (Obligated Group)	Endowment (Guarantor)	Total
Unrestricted net assets:			
Deficiency of revenues over expenses	$ (7,107,270)	(4,654,533)	(11,761,803)
Change in net unrealized gains on marketable investments	(256,020)	(636,164)	(892,184)
Change in funded status of employee benefit plans	(11,666,148)	—	(11,666,148)
Other changes	—	(114,170)	(114,170)
Net assets released for capital expenditures	2,349,427	782,525	3,131,952
Increase (decrease) in unrestricted net assets	(16,680,011)	(4,622,342)	(21,302,353)
Temporarily restricted net assets:			
Contributions	—	666,383	666,383
Change in net realized and unrealized gains in investments	—	48,065	48,065
Net assets released from restrictions	—	(3,178,573)	(3,178,573)
Decrease in temporarily net assets	—	(2,464,125)	(2,464,125)
Permanently restricted net assets:			
Other changes	(7,500)	—	(7,500)
Change in value of perpetual and charitable remainder trusts	—	(185,206)	(185,206)
Change in permanently restricted net assets	(7,500)	(185,206)	(192,706)
Change in net assets	(16,687,511)	(7,271,673)	(23,959,184)
Net assets, beginning of year	17,988,394	32,797,594	50,785,988
Net assets, end of year	$ 1,300,883	25,525,921	26,826,804

See accompanying independent auditors' report.

Schedule 10

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidating Balance Sheet – Obligated Group and Guarantor

September 30, 2008

Assets	South County Hospital (Obligated Group)	Endowment (Guarantor)	Total
Current assets:			
Cash and cash equivalents	$ 10,572,561	44,923	10,617,484
Short-term investments	4,476,273	10,918,471	15,394,744
Assets limited as to use for current obligations	197,536	—	197,536
Patient accounts receivable, net	10,530,592	—	10,530,592
Current portion of pledges receivable	—	1,342,249	1,342,249
Inventories	1,548,204	—	1,548,204
Prepaid expenses and other current assets	1,394,805	77,512	1,472,317
Due from affiliates, current portion	188,537	—	188,537
Total current assets	28,908,508	12,383,155	41,291,663
Assets limited as to use:			
Internally designated for capital acquisition	3,614,096	6,303,604	9,917,700
Held in trust under bond indenture	11,831,756	—	11,831,756
Assets held in trust	1,216,896	9,870,491	11,087,387
Donor restricted and other funds	264,130	556,861	820,991
Total	16,926,878	16,730,956	33,657,834
Less amount required to meet current obligations	(197,536)	—	(197,536)
	16,729,342	16,730,956	33,460,298
Investment in captive	—	1,000,000	1,000,000
Property, plant, and equipment, net	62,095,760	876,815	62,972,575
Due from affiliates	496,228	—	496,228
Pledges receivable, net of current portion	—	2,239,459	2,239,459
Other assets, net of accumulated amortization	3,225,374	266,377	3,491,751
Total assets	$ 111,455,212	33,496,762	144,951,974
Liabilities and Net Assets			
Current liabilities:			
Current installments of long-term debt	$ 4,790,765	—	4,790,765
Accounts payable	6,529,554	36,013	6,565,567
Accrued expenses	5,608,683	42,580	5,651,263
Estimated third-party payor settlements	1,650,279	—	1,650,279
Other current liabilities	32,340	—	32,340
Total current liabilities	18,611,621	78,593	18,690,214
Long-term debt, net of current installments	64,504,423	—	64,504,423
Due to affiliates	—	368,566	368,566
Accrued pension cost	4,788,716	—	4,788,716
Postretirement benefit obligation	266,469	—	266,469
Fair value of swap agreements	2,705,001	—	2,705,001
Other liabilities	1,590,588	252,009	1,842,597
Total liabilities	92,466,818	699,168	93,165,986
Net assets:			
Unrestricted	18,935,894	19,042,148	37,978,042
Temporarily restricted	—	6,885,680	6,885,680
Permanently restricted	52,500	6,869,766	6,922,266
Total net assets	18,988,394	32,797,594	51,785,988
Total liabilities and net assets	$ 111,455,212	33,496,762	144,951,974

See accompanying independent auditors' report.

Schedule 11

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidating Statement of Operations – Obligated Group and Guarantor

Year ended September 30, 2008

	South County Hospital (Obligated Group)	Endowment (Guarantor)	Total
Unrestricted revenues, gains, and other support:			
Net patient service revenue	$ 91,861,354	—	91,861,354
Contributions	—	1,250,814	1,250,814
Other revenue	6,241,833	14,227	6,256,060
Total unrestricted revenues, gains, and other support	98,103,187	1,265,041	99,368,228
Expenses:			
Salaries and wages	38,942,392	383,382	39,325,774
Fringe benefit	10,264,281	106,683	10,370,964
Supplies and other expenses	32,388,335	3,276,036	35,664,371
State license fee	2,436,973	—	2,436,973
Depreciation	6,565,048	35,611	6,600,659
Interest	4,986,899	20	4,986,919
Provision for bad debts	6,938,805	—	6,938,805
Total operating expenses	102,522,733	3,801,732	106,324,465
Operating loss	(4,419,546)	(2,536,691)	(6,956,237)
Other income (loss):			
Investment income (loss)	352,595	710,087	1,062,682
Unrealized change in equity interests in limited partnerships	(648,465)	(1,876,580)	(2,525,045)
Unrealized loss on interest rate swap	(2,861,782)	—	(2,861,782)
Loss on disposals of fixed assets	6,387	—	6,387
Deficiency of revenues over expenses	(7,570,811)	(3,703,184)	(11,273,995)
Change in net unrealized gains on marketable investments	179,396	(1,655,926)	(1,476,530)
Change in funded status of employee benefit plans	(1,477,329)	—	(1,477,329)
Equity transfer from affiliates	5,331,355	(4,986,941)	344,414
Net assets released for capital expenditures	3,742,132	(110,883)	3,631,249
Increase in unrestricted net assets	$ 204,743	(10,456,934)	(10,252,191)

See accompanying independent auditors' report.

Schedule 12

SOUTH COUNTY HOSPITAL HEALTHCARE SYSTEM
ENDOWMENT AND AFFILIATES

Consolidating Statement of Changes in Net Assets – Obligated Group and Guarantor

Year ended September 30, 2008

	South County Hospital (Obligated Group)	Endowment (Guarantor)	Total
Unrestricted net assets:			
Deficiency of revenues over expenses	$ (7,570,811)	(3,703,184)	(11,273,995)
Change in net unrealized gains on marketable investments	179,396	(1,655,926)	(1,476,530)
Change in funded status of employee benefit plans	(1,477,329)	—	(1,477,329)
Equity transfer from affiliates	5,331,355	(4,986,941)	344,414
Net assets released for capital expenditures	3,742,132	(110,883)	3,631,249
Increase (decrease) in unrestricted net assets	204,743	(10,456,934)	(10,252,191)
Temporarily restricted net assets:			
Contributions	700	1,414,669	1,415,369
Change in net realized and unrealized gains in investments	—	(281,438)	(281,438)
Net assets released from restrictions	(143,922)	(3,598,849)	(3,742,771)
Decrease in temporarily net assets	(143,222)	(2,465,618)	(2,608,840)
Permanently restricted net assets:			
Change in value of perpetual and charitable remainder trusts	—	(671,346)	(671,346)
Change in permanently restricted net assets	—	(671,346)	(671,346)
Change in net assets	61,521	(13,593,898)	(13,532,377)
Net assets, beginning of year	17,926,873	46,391,492	64,318,365
Net assets, end of year	$ 17,988,394	32,797,594	50,785,988

See accompanying independent auditors' report.