

Care New England Health System and Affiliates

**Consolidated Financial Statements and
Supplemental Consolidating Information
September 30, 2018 and 2017**

Care New England Health System and Affiliates

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September 30, 2018 and 2017

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Report of Independent Auditors

To the Board of Directors
Care New England Health System

We have audited the accompanying consolidated financial statements of Care New England Health System and affiliates ("Care New England"), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We did not audit the financial statements of The Providence Center, Inc., whose sole corporate member is Care New England, which statements reflect total assets of 3.1 percent consolidated total assets at September 30, 2018 and total revenues of 4.5 percent of consolidated total revenues for the year then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for The Providence Center, Inc., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Care New England's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Care New England's internal control. Accordingly, we express no such



opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Care New England Health System and affiliates as of September 30, 2018 and 2017, and the results of their operations, changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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

PricewaterhouseCoopers LLP

Boston, Massachusetts
December 19, 2018

Care New England Health System and Affiliates
Consolidated Balance Sheets
September 30, 2018 and 2017

	2018	2017
Assets		
Current		
Cash and cash equivalents	\$ 47,375,732	\$ 54,458,086
Patient accounts receivable, net of allowance for doubtful accounts of \$40,022,756 in 2018 and \$45,200,490 in 2017	112,053,466	111,174,174
Other receivables	28,642,515	22,632,458
Pledges receivable, net	348,796	636,962
Other current assets	22,039,771	19,620,326
Current portion of assets whose use is limited	1,644,087	1,487,363
Total current assets	<u>212,104,367</u>	<u>210,009,369</u>
Assets whose use is limited or restricted as to use		
Endowment funds	69,759,177	68,307,241
Board-designated funds	123,418,947	117,559,918
Trustee-held funds	174,642,413	173,124,203
Deferred compensation funds	1,442,703	2,373,787
Total assets limited as to use	<u>369,263,240</u>	<u>361,365,149</u>
Less: Amounts required to meet current obligations	<u>(1,644,087)</u>	<u>(1,487,363)</u>
Noncurrent assets limited as to use	367,619,153	359,877,786
Goodwill	24,488,975	24,488,975
Intangibles	1,080,000	1,080,000
Property, plant and equipment, net	253,145,764	283,683,445
Pledges receivable, net	89,582	15,765
Insurance receivable	5,898,068	2,064,069
Other assets	5,673,328	3,961,505
Total assets	<u>\$ 870,099,237</u>	<u>\$ 885,180,914</u>
Liabilities and Net Assets		
Current liabilities		
Notes payable	\$ -	\$ 442,144
Accounts payable and accrued expenses	109,893,038	124,080,179
Current portion of estimated third-party payor settlements and advances	-	2,279,370
Current portion of long-term debt and capital leases	6,088,692	5,880,484
Self-insurance reserves	10,359,395	11,578,658
Pension liability	18,906,084	15,342,301
Other current liabilities	18,472,696	16,530,338
Total current liabilities	<u>163,719,905</u>	<u>176,133,474</u>
Long-term liabilities		
Self-insurance reserves	148,308,213	139,111,009
Long-term portion of estimated third-party payor settlements and advances	27,612,056	22,553,062
Long-term debt and capital leases	165,744,883	171,820,551
Pension liability	89,880,243	100,083,815
Postretirement liability	1,092,755	1,384,571
Other liabilities	7,064,689	3,331,806
Total liabilities	<u>603,422,744</u>	<u>614,418,288</u>
Net assets		
Unrestricted	180,695,097	187,658,969
Temporarily restricted	43,354,996	41,414,763
Permanently restricted	42,626,400	41,688,894
Total net assets	<u>266,676,493</u>	<u>270,762,626</u>
Total liabilities and net assets	<u>\$ 870,099,237</u>	<u>\$ 885,180,914</u>

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

Care New England Health System and Affiliates
Consolidated Statements of Operations
Years Ended September 30, 2018 and 2017

	2018	2017
Revenues and gains		
Patient service revenue (net of contractual allowances)	\$ 1,040,215,005	\$ 1,049,149,294
Provision for bad debts	(33,001,502)	(39,205,589)
Net patient service revenue less provision for bad debts	1,007,213,503	1,009,943,705
Research revenue	34,229,401	30,042,029
Other revenue	86,961,148	88,838,517
Net assets released from restrictions and used for operations	2,805,758	3,808,702
Total revenues and gains	1,131,209,810	1,132,632,953
Operating expenses		
Salaries and benefits	679,046,502	718,587,245
Supplies and other expenses	297,139,017	300,363,033
Research expenses	33,847,747	28,741,000
Depreciation and amortization	30,021,896	35,163,893
Insurance	31,483,882	26,332,984
Licensure fee	48,725,820	45,805,896
Interest	8,007,167	8,121,558
Loss on asset impairment - Memorial Hospital	22,560,986	-
Restructuring costs - Memorial Hospital	7,180,830	1,998,907
Restructuring costs	73,333	11,475,705
Total operating expenses	1,158,087,180	1,176,590,221
Loss from operations	(26,877,370)	(43,957,268)
Nonoperating (losses) gains		
Investment income and realized gains on assets limited as to use	11,813,219	15,693,554
Unrestricted gifts and bequests	968,775	1,417,319
Change in net unrealized gains on investments	2,038,630	12,022,381
Other components of current period pension	(2,951,871)	(3,175,625)
Pension settlement	(31,096,004)	-
Other	(1,509,867)	(1,926,512)
Net nonoperating (losses) gains	(20,737,118)	24,031,117
Deficiency of revenue and gains over expenses and losses	(47,614,488)	(19,926,151)
Other changes in unrestricted net assets		
Pension and postretirement adjustments	38,212,755	33,348,386
Net assets released from restrictions used for purchase of property, plant and equipment	1,563,041	2,414,223
Transfer from (to) temporarily restricted	874,820	(79,502)
Transfer to permanently restricted	-	(38,105)
(Decrease) increase in unrestricted net assets	\$ (6,963,872)	\$ 15,718,851

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

Care New England Health System and Affiliates
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2018 and 2017

	2018	2017
Unrestricted net assets		
Deficiency of revenues and gains over expenses and losses	\$ (47,614,488)	\$ (19,926,151)
Other changes in unrestricted net assets		
Pension and postretirement adjustments	38,212,755	33,348,386
Net assets released from restrictions used for purchase of property, plant and equipment	1,563,041	2,414,223
Transfer from (to) temporarily restricted	874,820	(79,502)
Transfer to permanently restricted	-	(38,105)
(Decrease) increase in unrestricted net assets	<u>(6,963,872)</u>	<u>15,718,851</u>
Temporarily restricted net assets		
Contributions	4,693,408	4,245,670
Income from investments	401,461	399,096
Net realized and unrealized gains from investments	2,500,435	4,503,268
Net assets released from restrictions	(4,780,251)	(6,637,461)
Transfer (to) from unrestricted net assets	(874,820)	79,502
Transfer to permanently restricted net assets	-	(60,000)
Increase in temporarily restricted net assets	<u>1,940,233</u>	<u>2,530,075</u>
Permanently restricted net assets		
Changes in beneficial interest in perpetual trusts	816,493	1,870,234
Changes in beneficial interest in assets held at community foundation	81,345	93,081
Contributions	39,668	1,576,348
Transfers from unrestricted net assets	-	38,105
Transfers from temporarily restricted net assets	-	60,000
Increase in permanently restricted net assets	<u>937,506</u>	<u>3,637,768</u>
(Decrease) increase in net assets	<u>(4,086,133)</u>	<u>21,886,694</u>
Net assets		
Beginning of year	<u>270,762,626</u>	<u>248,875,932</u>
End of year	<u>\$ 266,676,493</u>	<u>\$ 270,762,626</u>

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

Care New England Health System and Affiliates

Consolidated Statements of Cash Flows

Years Ended September 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ (4,086,133)	\$ 21,886,694
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Change in beneficial interest in perpetual trusts	(816,493)	(1,870,234)
Change in beneficial interest in assets held at community foundation	(81,345)	(93,081)
Loss on asset impairment - Memorial Hospital	22,560,986	-
Loss on disposals of property, plant and equipment	126,769	92,655
Pension and postretirement adjustments	(38,212,755)	(33,348,386)
Pension settlement	31,096,004	-
Depreciation and amortization	30,021,896	35,163,893
Amortization of debt issuance costs	160,938	160,938
Bond premium amortization	(650,449)	(650,448)
Bond discount amortization	56,467	56,467
Provision for bad debt	33,001,502	39,205,589
Income and realized gains on assets limited as to use	(12,952,919)	(16,495,783)
Net unrealized gains on investments	(2,647,092)	(14,816,403)
Restricted contributions and investment income	(39,668)	(1,576,348)
Changes in		
Patient accounts receivable	(33,880,794)	(35,985,046)
Investments - trading securities	-	13,228,467
Other current and long-term assets	(9,926,976)	(4,922,497)
Accounts payable and accrued expenses	(14,886,128)	(12,283,612)
Estimated third-party payor settlements	2,779,624	(4,020,825)
Other liabilities	5,675,241	(796,635)
Net pension liability	185,146	(4,930,034)
Self-insurance reserves	4,143,942	9,486,526
Net cash provided by (used in) operating activities	11,627,763	(12,508,103)
Cash flows from investing activities		
Purchase of property, plant and equipment	(17,860,218)	(15,017,201)
Additions to asset retirement obligations	(4,126,964)	-
Bond proceeds used for payment of bond issuance costs	-	1,170,725
Change in bond funds held by trustees	(245,833)	(672,308)
Proceeds from the sale of property, plant and equipment	514,199	210,395
Distributions from split life programs	-	7,508,428
Change in board designated funds	14,452	2,738,371
Change in endowment funds	1,076,142	-
Change in trustee held funds	16,003,859	(13,701,530)
Purchase of investments	(103,528,516)	(220,773,451)
Proceeds from the sale of investments	95,279,654	250,084,278
Net cash (used in) provided by investing activities	(12,873,225)	11,547,707
Cash flows from financing activities		
Proceeds from the issuance of notes payable	-	442,144
Payment of bond issuance costs	-	22,324
Payments on notes payable	(442,144)	(639,958)
Payments on long-term debt and capital leases	(5,434,416)	(1,939,929)
Restricted contributions to be used for long-term investments and investment income	39,668	1,576,348
Net cash used in financing activities	(5,836,892)	(539,071)
Net decrease in cash and cash equivalents	(7,082,354)	(1,499,467)
Cash and cash equivalents		
Beginning of year	54,458,086	55,957,553
End of year	\$ 47,375,732	\$ 54,458,086
Supplemental cash flow information		
Cash paid for interest	\$ 8,022,530	\$ 7,282,632
Purchases of property and equipment included in accounts payable and accrued expenses	625,514	1,324,501
Equipment acquired through issuance of capital lease obligations	-	986,907

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

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

1. Description of Organization

Corporate Structure

Care New England Health System (“CNE”, “Care New England”, “Health System”, or the “System”), a Rhode Island not-for-profit corporation, was formed on November 7, 1995 as the holding company for the development of an integrated delivery network under the name Enterprise Health System. On January 29, 1996, the name was changed to Care New England Health System. Prior to September 3, 2013, the Health System consisted of Butler Hospital, Kent County Memorial Hospital, and Women & Infants Hospital of Rhode Island (collectively, the “Hospitals”), and the Kent County Visiting Nurse Association, d/b/a VNA of Care New England (the “Agency”).

As of September 3, 2013, Southeastern Healthcare System, Inc. (“SHS”), a not-for-profit corporation located in Rhode Island and southeastern Massachusetts, became a subsidiary of the Health System. CNE became the parent organization and sole member as a result of this acquisition.

On May 29, 2014, Integra Community Care Network, LLC, (“Integra”), an Accountable Care Organization (“ACO”), was legally established. Care New England is the sole corporate member. Integra was certified to participate in the Medicare shared savings program effective January 1, 2015.

As of January 1, 2015, The Providence Center, Inc. (“the “Center” or “TPC”), a not-for-profit corporation located in Rhode Island, became a subsidiary of the Health System. CNE became the parent organization and sole member as a result of this acquisition.

In October of 2017 the Boards of Memorial Hospital, its parent corporation, Southeastern Healthcare System, Inc. and Care New England voted to discontinue the operations of Memorial Hospital as a licensed hospital. On December 1, 2017, Memorial Hospital, with the approval of the Rhode Island Department of Health, closed both inpatient and surgical services. Emergency services were closed on January 1, 2018. On May 1, 2018, the Rhode Island Department of Health formally approved the Memorial Hospital closure.

On July 1, 2018, the sole member of Blackstone Health, Inc. was changed from Southeastern Healthcare System, Inc. to Kent County Visiting Nurse Association d/b/a VNA of Care New England.

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

- Butler Hospital (“Butler”) and its affiliates, Butler Hospital Foundation, Carriage House, LLC (“Carriage”), and Butler Hospital Allied Medical Services, LLC.
- Kent County Memorial Hospital (“Kent”) and its affiliates, Kent Hospital Foundation, Kent Ancillary Services, LLC, Affinity Physicians, LLC d/b/a Care New England Medical Group, LLC (“CNEMG”), and Toll Gate Indemnity, Ltd. (“Toll Gate”).
- Women & Infants Corporation (“WIC”) and its affiliates, Women & Infants Development Foundation, Women & Infants Hospital of Rhode Island (“WIH”), WIH Faculty Physicians, Inc., Women & Infants Ancillary Services, LLC, Women & Infants Health Care Alliance, LLC, and W&I Indemnity, Ltd. (“W&I Indemnity”).

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

- Kent County Visiting Nurse Association, d/b/a VNA of Care New England, and its affiliates, Healthtouch, Inc., Blackstone Health, Inc. ("BHI") and VNA of Care New England Foundation (together, the "Agency").
- Integra Community Care Network, LLC.
- SHS and its affiliates, Memorial Hospital of Rhode Island ("Memorial" or "Memorial Hospital"), Primary Care Centers of New England, Inc. ("PCCNE"), MHRI Ancillary Services, LLC, and The Memorial Hospital Foundation. Memorial is the sole corporate member of SHS Ventures, Inc. ("Ventures").
- TPC and its affiliates, Grandview Realty Corporation ("Grandview Realty"), Grandview Second Corporation ("Grandview Second"), Nashua Street Corporation ("Nashua"), Wilson Street Apartments, Inc. ("Wilson"), Standard Realty, Inc. ("Standard"), TPC Social Ventures, Inc. ("TPC Social"), and Continuum Behavioral Health, Inc. ("Continuum").

Intercompany accounts have been eliminated in consolidation.

Mission and Nature of Business

Care New England's mission is to be your partner in health and is dedicated to building an exemplary health care system. Care New England oversees the three Hospitals (Butler, Kent, and WIH), the Agency, the Center and other affiliated organizations.

Butler is a 143-bed, not-for-profit psychiatric teaching hospital, affiliated with The Warren Alpert Medical School of Brown University, providing services for the care of patients from Rhode Island and nearby Massachusetts. As a complement to its role in service and education, Butler actively supports research by members of its staff. Butler is accredited by The Joint Commission ("TJC").

Kent is a 359-bed, not-for-profit general hospital providing a full range of services for the acute care of patients principally from Kent County, Rhode Island. Kent is affiliated with, and provides clinical training to, the students of the University of New England College of Osteopathic Medicine and currently operates Accreditation Council of Graduate Medical Education approved residency programs in emergency medicine, family practice and internal medicine, and a fellowship program in gastroenterology. In addition, Kent is a major teaching affiliate of the Warren Alpert Medical School of Brown University in primary care medicine and family medicine. Kent is accredited by TJC and the Commission on Accreditation of Rehabilitation Facilities. Toll Gate, a wholly owned subsidiary of Kent, insures primary and excess hospital professional and general liability risks for Kent and its employees on an occurrence basis, as well as primary professional and general liability risks for the VNA and the Care New England Health System. As of October 1, 2017, Toll Gate insures primary hospital professional and general liability for the System, excluding WIH and CNEMG obstetric related employed physicians. Toll Gate insures Kent's contractual liability (pursuant to certain Indemnification Agreements) arising from employed physicians' professional liability on both a claims-made and occurrence basis. Toll Gate also insures Kent's contractual liability (pursuant to certain Indemnification Agreements) arising from community physicians' professional liability on both a claims-made and occurrence basis.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

WIH is a 247-bed, not-for-profit regional center for women and infants' care in Rhode Island and southern New England. Among other university affiliations, Women & Infants is the primary teaching affiliate of the Warren Alpert Medical School of Brown University in obstetrics, gynecology and newborn pediatrics along with related sub-specialty and internal medicine services. As a complement to its role in service and education, WIH actively supports research by members of its staff. WIH is accredited by The Joint Commission ("TJC"). W&I Indemnity is a wholly owned subsidiary of WIH. W&I Indemnity insures primary and excess hospital professional liability risks for WIH and its employees on an occurrence basis, and excess hospital professional liability risks for Butler. W&I Indemnity insures WIH's contractual liability (pursuant to certain Indemnification Agreements) arising from employed physicians' (as of October 1, 2017, including CNEMG obstetric related employed physicians) and residents' medical malpractice liability on an occurrence basis. W&I Indemnity also insures WIH's contractual liability (pursuant to certain Indemnification Agreements) arising from community physicians' medical malpractice liability on both a claims-made and occurrence basis.

As of October 1, 2017, both Toll Gate and W&I Indemnity, on a pro-rata basis, provide excess coverage through self-insurance and reinsurance for the System.

The Agency is a not-for-profit corporation, providing home care services to the residents of Rhode Island and nearby Massachusetts. Healthtouch, Inc. is a not-for-profit corporation providing private duty nursing and personal care services, primarily to residents of Rhode Island. In 2017, all operations of Healthtouch, Inc. ceased. BHI receives and administers certain grant funds, and provides services to elderly and disabled residents in the local area.

Integra, a partnership of CNE and its employed physicians, participating affiliated independent community physicians, Rhode Island Primary Care Physician Corporation and South County Health System, is a certified Medicare Accountable Care Organization which has been operational since 2014.

The Providence Center, Inc. is the largest mental health center in Rhode Island, providing a continuum of counseling and supportive services to meet community mental health and substance use disorder needs since 1969. These services include, but are not limited to, preschool intervention for children with serious emotional disorders; treatment for the elderly; residential and outpatient treatment for the chronically mentally ill and/or substance addicted; outpatient counseling for children and adults; and, treatment to individuals involved in the justice system. The following corporations - Grandview Realty, Grandview Second, Nashua, and Wilson own and operate rental apartments for individuals with mental illness. TPC Social provides Center clients with on-the-job training opportunities at Promail, a mailing and fulfillment business. Continuum provides therapy and psychiatry services to youth and adults.

Memorial Hospital was a 294-bed, acute care, not-for-profit community teaching and research hospital located in Pawtucket, RI, and was affiliated with Warren Alpert School of Medicine at Brown University. In 2018, all operations of Memorial Hospital ceased.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

2. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All intercompany balances and transactions have been eliminated in consolidation. The assets of members of the consolidated group may not be available to meet the obligations of another member of the group.

Use of Estimates

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

Cash and Cash Equivalents

Care New England considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, excluding amounts whose use is limited by the Boards of Trustees (the "Boards") designation or other arrangements under trust agreements. \$13,476,543 and \$11,296,695 at September 30, 2018 and 2017, respectively, of cash received with donor-imposed restrictions, that is available for current use, is included in cash and cash equivalents.

Investments

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

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

Investments at net asset value ("NAV") (nontraditional, not readily marketable holdings) include limited partnership interests and commingled funds. Investments at NAV generally are structured such that the Health System holds an interest in the respective fund. The Health System's ownership structure does not provide for control over the related investees, and the Health System's financial risk is limited to the carrying amount reported for each investee, in addition to any unfunded capital commitments. There was an outstanding unfunded commitment for investments at NAV of \$3,159,532 and \$4,129,184 at September 30, 2018 and 2017, respectively.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

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

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

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

Investments also include life insurance policies which are valued at the lesser of discounted value or cash surrender value.

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

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

Other Receivables

Other receivables include federal and other grants receivable, indemnity programs' premiums receivable and other miscellaneous receivables.

Assets Whose Use is Limited or Restricted as to Use

Assets whose use is limited primarily include endowment funds, assets held by trustees under indenture agreements and insurance programs, deferred compensation arrangements, a representative payee account maintained by the Center for clients receiving social security income, designated assets maintained by the Center and required by Housing and Urban Development ("HUD") for property maintenance, and designated assets set aside by one or more of the Boards, over which the Boards retain control and may, at their discretion, subsequently use for other purposes. Amounts required to meet current obligations have been reclassified to current assets.

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

Inventories

Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out) or net realizable value. Inventories of \$8,400,077 and \$8,501,816 at September 30, 2018 and 2017, respectively, are included in other current assets in the consolidated balance sheets.

Goodwill and Intangibles

Care New England has goodwill and indefinite lived intangible assets that resulted from the previous acquisitions of SHS and TPC. Goodwill totaled \$24,488,975 as of September 30, 2018 and 2017 and intangible assets were \$1,080,000 at September 30, 2018 and 2017. The System performs an impairment assessment of goodwill annually at the reporting unit level (the consolidated System) by comparing the estimated fair value of the reporting unit to the carrying value of goodwill. There was no impairment charge on goodwill for the years ended September 30, 2018 and 2017. Additionally, indefinite-lived intangible assets are reviewed at least annually for impairment by comparing the estimated fair value of the intangible asset (using the relief from royalty method) to the carrying value.

Property, Plant and Equipment

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

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

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

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

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

Care New England evaluates the potential impairment of property, plant and equipment whenever events or changes in circumstances indicate that the carrying value of a group of assets may not be recoverable. In fiscal year 2018, the System recorded an impairment loss of \$22,560,986 related to Memorial's property, plant and equipment as discussed in Note 3.

Care New England Health System and Affiliates

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Pledges

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

Deferred Financing Costs

Expenses related to issuance of bonds are deferred and amortized on a straight-line basis, which approximates the effective interest rate method, over the period during which the bonds are expected to be outstanding. Deferred financing costs are recorded as reductions to the appropriate current and long-term portions of long-term debt on the consolidated balance sheets.

Self-Insurance Reserves

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

CNE, Butler, Kent, WIC, Memorial, the Agency, and as of July 1, 2018, the Center, are self-insured for losses arising from workers' compensation claims. Loss reserves are estimated based on actuarial studies, and the Health System's and industry experience. Prior to July 1, 2018, the Center purchased a commercial insurance policy annually to insure workers' compensation risks.

For the employees of CNE, Butler, Kent, WIC, the Agency, and as of January 1, 2017, The Center, Care New England is self-insured for losses arising from health insurance claims. This program covers the health insurance claims for all CNE's, Butler's, Kent's, WIC's, the Agency's and the Center's employees, with the exception of the unionized employees at WIH. Self-insured losses for both reported claims and claims incurred but not yet reported are estimated based on actuarial studies and the Health System's actual experience.

For the employees of CNE, Butler, Kent, WIC, SHS, the Agency, and as of January 1, 2017, the Center, Care New England is self-insured for losses arising from dental insurance claims. This program covers the dental insurance claims for all CNE's, Butler's, Kent's, WIC's, SHS', the Agency's and the Center's employees. Self-insured losses for both reported claims and claims incurred but not yet reported are estimated based on actuarial studies and the Health System's actual experience.

Prior to January 1, 2017, The Center maintained a self-insurance program for health insurance risks. This program covered health insurance claims for substantially all of the Center's full-time employees. The Center limited its losses through the use of stop-loss policies from re-insurers. The provisions for health insurance losses were based on actuarial assumptions and actual claims experience.

Temporarily and Permanently Restricted Net Assets

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

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Deficiency of Revenues Over Expenses

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

Net Patient Service Revenue

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

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

Research Revenue

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

Other Revenue

Other revenue includes underwriting income, shared savings from surpluses on at-risk arrangements, rental income, cafeteria sales, laboratory services provided to nonpatients, sales of home medical equipment, vendor rebates and discounts, various services provided to physicians and other organizations, federal grants including housing subsidies, and gains upon the retirement or sale of assets.

Charity Care

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

Contributions and Donor-Restricted Gifts

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

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

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Income Tax Status

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

Recently Adopted Accounting Standards

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* which addresses the presentation of net periodic pension cost and net periodic postretirement benefit cost. The amendments in the update require that an employer report the service cost component of net benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Additionally, the update requires that an employer present the other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 in the income statement separately from the service cost component and outside a subtotal of income from operations. The ASU is effective for the Health System's fiscal 2020; however, as permitted by the ASU, the Health System early adopted this guidance in fiscal year 2018. As a result, \$2,951,871 and \$3,175,625 for fiscal years 2018 and 2017, respectively, were reclassified from non-operating expenses to other components of current period pension within non-operating (losses) gains on the Statement of Operations. Additionally, service costs of \$2,048,720 and \$2,169,892 were classified as operating expenses on the Statement of Operations for the fiscal years 2018 and 2017, respectively.

In January 2017, the FASB issued ASU 2017-02, *Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity*, which amends the consolidation guidance for not-for-profit (NFP) entities in ASC 958-810. The issued final guidance clarifies the model used by NFP entities to evaluate the consolidation of investments in limited partnerships (and limited liability companies that are similar to limited partnerships). Under the new guidance, NFP investors in a limited partnership or similar entity will continue to apply a presumption that the general partner has control and should consolidate the investment unless substantive kick-out or participating rights held by any limited partners overcome that presumption. If the general partner does not have control, the limited partners have to evaluate whether they have control.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. The standard addresses the classification of certain transactions within the statement of cash flows, including cash payments for debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, and distributions received from equity method investments. The ASU is effective for fiscal years beginning after December 15, 2018, or fiscal year 2020 for the Health System. Early adoption is permitted. The Health System is evaluating the impact this will have on the consolidated financial statements and related disclosures.

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In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The ASU is effective for the Health System's fiscal 2020; however, as permitted by the ASU, the Health System chose to early adopt the provision to eliminate the requirement to disclose the fair value of financial instruments measured at cost (such as the fair value of debt) for the year ending September 30, 2016. The Health System is evaluating the remainder of the new guidance on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which makes targeted changes to the not-for-profit financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. Under the new ASU, net asset reporting will be streamlined and clarified. The existing three-category classification of net assets will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called "net assets with donor restrictions." The guidance for classifying deficiencies in endowment funds and on accounting for the lapsing of restrictions on gifts to acquire property, plant, and equipment have also been simplified and clarified. New disclosures will highlight restrictions on the use of resources that make otherwise liquid assets unavailable for meeting near-term financial requirements. Not-for-profits will continue to have flexibility to decide whether to report an operating subtotal and if so, to self-define what is included or excluded. However, if the operating subtotal includes internal transfers made by the governing board, transparent disclosure must be provided. The ASU also imposes several new requirements related to reporting expenses, including providing information about expenses by their natural classification. The ASU is effective for fiscal years beginning after December 15, 2017 or fiscal year 2019 for the System.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The ASU is effective for fiscal year 2020 for Care New England. Early adoption is permitted. Care New England is evaluating the impact of the new guidance on the financial position, results of operations, cash flows and notes to the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 - *Revenue from Contracts with Customers* at the conclusion of a joint effort with the International Accounting Standards Board to create common revenue recognition guidance for U.S. GAAP and international accounting standards. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services, by allocating transaction price to identified performance obligations, and recognizing that revenue as performance obligations are satisfied. Qualitative and quantitative disclosures will be required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective in fiscal year 2019 for Care New England.

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In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new standard applies to all entities that receive or make contributions. The guidance clarifies the definition of transactions accounted for as an exchange transaction subject to ASU 2014-09 or other applicable guidance, and transactions that should be accounted for as contributions (non-exchange) subject to the contribution accounting model. Further, the guidance provides criteria for evaluating whether contributions are unconditional or conditional. Conditional contributions must specify a barrier that the recipient must overcome and a right of return that releases the donor from its obligation if the barrier is not achieved, otherwise the contribution is unconditional. This ASU is effective in fiscal year 2019 for the System.

Reclassifications

Certain 2017 amounts have been reclassified to conform to the current year presentation.

3. Memorial Hospital Closure

In October of 2017 the Boards of Memorial Hospital, its parent corporation, Southeastern Healthcare System, Inc. and Care New England voted to discontinue the operations of Memorial as a licensed hospital. On December 1, 2017, Memorial Hospital, with the approval of the Rhode Island Department of Health, closed both inpatient and surgical services. Emergency services were closed on January 1, 2018. On May 1, 2018, the Rhode Island Department of Health formally approved the Memorial Hospital closure. Memorial Hospital had a loss from operations of \$41,998,070 and \$21,949,518 for fiscal years 2018 and 2017, respectively.

A summary of the financial results of Memorial Hospital included in the consolidated statement of operations for the years ended September 30 is as follows:

	2018	2017
Total revenues and gains	\$ 35,148,046	\$ 113,392,814
Total operating expenses	(77,146,116)	(135,342,332)
Loss from operations	(41,998,070)	(21,949,518)
Net nonoperating (losses) gains	(18,794,365)	1,451,645
Deficiency of revenue and gains over expenses and losses	(60,792,435)	(20,497,873)
Pension adjustment	12,190,925	6,637,357
Net assets released from restrictions used for purchase of		
Property, plant and equipment	10,137	156,956
Transfer from (to) temporarily restricted	1,076,142	(79,502)
Transfer	70,122,853	-
Increase (decrease) in unrestricted net assets	\$ 22,607,622	\$ (13,783,062)

In fiscal year 2018, the System recorded an impairment loss of \$22,560,986 related to Memorial's property, plant and equipment. As a result of Memorial's closure, the carrying value was not recoverable.

During fiscal year 2018, the System incurred \$7,180,830 of restructuring costs related to the closure of Memorial Hospital. \$3,699,507 of these costs related to salary and benefits related to the WARN Act (Worker Adjustment and Retraining Notification is a layoff notice law requiring

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employers to give employees notification before mass layoffs or plant closings) and other severance costs. Other exit costs include legal, public relations and purchased services expenses.

During fiscal year 2018, Care New England approved a voluntary lump sum offering to certain terminated participants and active employee participants working past age 65 in The Memorial Hospital Defined Benefit Pension Plan and Trust. Benefits for individuals electing to receive lump sums were paid in fiscal year 2018, requiring accelerated recognition of a portion of prior actuarial losses in fiscal year 2018 expense. In an unrelated pension transaction, Care New England also discontinued a group annuity contract covering a portion of the Memorial Defined Benefit Pension Plan and Trust, effective December 2017. This event required accelerated recognition of prior actuarial losses in fiscal year 2018 expense. Lump sums of \$24,139,221 were paid from the Memorial Hospital Defined Benefit Pension Plan and Trust. As a result, the System recorded non-operating settlement charges of \$19,143,467 for The Memorial Hospital Defined Benefit Pension Plan and Trust lump sum offer and group annuity contract discontinuance.

Effective January 1, 2018, the sponsorship of Memorial's Defined Benefit Pension Plan and Memorial's Defined Contribution Plan transferred to CNE. During fiscal year 2018, a transfer from CNE of \$70,122,853 is included in the statement of operations for SHS.

On December 21, 2017, the Boards of Directors (the "Boards") of Care New England Health System, Butler Hospital, Kent County Memorial Hospital, Kent County Visiting Nurse Association, Southeastern Healthcare System, Inc., The Memorial Hospital, The Providence Center, Inc., Women and Infants Corporation and Women and Infants Hospital of Rhode Island (collectively, the "Obligated Group"), who are parties to a Master Trust Indenture dated as of September 1, 2016, determined that Memorial Hospital withdraw from the Obligated Group. On December 22, 2017, the Master Trustee approved the release of Memorial from the Obligated Group.

4. Uncompensated Care and Community Services

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

	2018	2017
Revenues forgone, based on established rates	\$ 13,825,804	\$ 15,344,305
Expenses and costs incurred	5,611,596	7,068,723

Of the Health System's total expenses reported \$1,158,087,180 and \$1,176,590,221 in 2018 and 2017, respectively), an estimated \$5,320,462 and \$7,068,723 arose during 2018 and 2017, respectively, from providing services to charity patients. The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to patients who qualify for charity care. The ratio of cost to charges is calculated based on total expenses (less bad debt expense) divided by gross patient service revenue. The Health System did not receive significant contributions that were restricted for the care of indigent patients during 2018 and 2017.

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

	2018	2017
Approximated revenues forgone, or cost of the services provided to the community	\$ 49,326,693	\$ 44,221,807

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

In addition to the cost of charity care and other community service programs, the Health System provided \$33,001,502 and \$39,205,589 for uncollectible patient accounts during the years ended September 30, 2018 and 2017, respectively.

5. Allowance for Doubtful Accounts

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

The Health System's allowance for doubtful accounts decreased from 28.9% of accounts receivable (prior to adjustment for doubtful accounts) at September 30, 2017, to 26.3% of accounts receivable at September 30, 2018. The Health System's self-pay charity and bad debt write-offs decreased from \$54,549,894 for fiscal year 2017 to \$46,240,196 for fiscal year 2018. The Health System has not changed its charity care or uninsured discount policies during fiscal years 2017 or 2018.

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Accounts receivable, prior to adjustment for doubtful accounts, is summarized as follows at September 30, 2018 and 2017:

	2018	2017
Receivables		
Patients	\$ 29,405,511	\$ 32,437,300
Third-party payors	<u>122,670,711</u>	<u>123,937,364</u>
	<u>\$ 152,076,222</u>	<u>\$ 156,374,664</u>

The allowance for doubtful accounts is summarized as follows at September 30, 2018 and 2017:

	2018	2017
Allowance for doubtful accounts		
Patients	\$ 23,155,392	\$ 26,427,444
Third-party payors	<u>16,867,364</u>	<u>18,773,046</u>
	<u>\$ 40,022,756</u>	<u>\$ 45,200,490</u>

Bad debt expense for nonpatient accounts receivable is reflected in total operating expenses on the statements of operations. Patient related bad debt is reflected as a reduction in patient service revenues on the statements of operations.

6. Pledges Receivable

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

	2018	2017
Within one year	\$ 553,066	\$ 973,615
One to five years	<u>128,846</u>	<u>21,243</u>
	681,912	994,858
Less: Allowance for uncollectibles	<u>(243,534)</u>	<u>(342,131)</u>
Pledges receivable, net	<u>\$ 438,378</u>	<u>\$ 652,727</u>

A review of pledges is periodically made with regard to collectability. As a result, the allowance for pledges that may not be collected is adjusted, and some pledges have been cancelled and are no longer recorded in the financial statements. The U.S. Treasury Bill rate adjusted for credit risk at the date of the pledge is used to discount pledges receivable upon receipt. The discount was calculated using a rate of 2.75% and 1.75% for the years ending September 30, 2018 and 2017, respectively.

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7. Summary of Investments

Investments at September 30 are summarized as follows:

	2018	2017
Endowment and board designated funds		
Cash and cash equivalents	\$ 4,562,976	\$ 5,342,897
Fixed income securities	17,332,710	12,578,560
Equity securities	17,962,620	16,010,337
Mutual funds	58,990,759	54,737,704
Investments at NAV	41,688,454	45,711,438
Assets held under split - interest agreements	29,571,758	28,673,920
Cash surrender value of life insurance	23,068,847	22,812,303
	<u>193,178,124</u>	<u>185,867,159</u>
Trustee-held funds		
Cash and cash equivalents	25,025,132	38,429,601
Fixed income securities	42,005,012	37,634,538
Equity securities	32,915,040	29,557,845
Mutual funds	53,030,998	45,604,946
Investments at NAV	21,666,231	21,897,273
	<u>174,642,413</u>	<u>173,124,203</u>
Deferred compensation funds		
Mutual funds	1,442,703	2,373,787
	<u>1,442,703</u>	<u>2,373,787</u>
Total investments and assets limited as to use	<u>\$ 369,263,240</u>	<u>\$ 361,365,149</u>

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

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Investment income and gains for the years ended September 30 consisted of the following:

	2018	2017
Unrestricted investment return		
Interest and dividend income	\$ 3,300,179	\$ 2,811,602
Net realized gains on sales of investments	8,522,511	12,881,952
Net change in unrealized gains	2,038,630	12,022,381
	<u>13,861,320</u>	<u>27,715,935</u>
Included in operating revenue	9,471	-
Included in nonoperating revenue	<u>13,851,849</u>	<u>27,715,935</u>
	<u>13,861,320</u>	<u>27,715,935</u>
Changes in temporarily restricted net assets		
Interest and dividend income	401,461	399,096
Net realized gains on sales of investments	1,932,171	1,796,218
Net change in unrealized gains	568,264	2,707,050
	<u>2,901,896</u>	<u>4,902,364</u>
Changes in permanently restricted net assets		
Change in beneficial interest in perpetual trusts	816,493	1,870,234
Changes in beneficial interest in assets held at community foundation	81,345	93,081
	<u>897,838</u>	<u>1,963,315</u>
	<u>\$ 17,661,054</u>	<u>\$ 34,581,614</u>

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The cost and estimated fair value of securities, which excludes beneficial interest in perpetual trusts of \$29,571,758 and \$28,673,920, and excludes cash surrender value of life insurance of \$23,068,847 and \$22,812,303, and includes long-term investments of \$316,622,635 and \$309,878,926 as of September 30, 2018 and 2017, respectively, is as follows:

	2018		
	Cost	Gross Unrealized Gains (Losses)	Estimated Fair Value
Endowment and board designated funds			
Cash and cash equivalents	\$ 4,562,976	\$ -	\$ 4,562,976
Fixed income securities	17,838,328	(505,618)	17,332,710
Equity securities	14,527,884	3,434,736	17,962,620
Mutual funds	48,186,598	10,804,161	58,990,759
Investments at NAV	31,997,927	9,690,527	41,688,454
	<u>\$ 117,113,713</u>	<u>\$ 23,423,806</u>	<u>\$ 140,537,519</u>
Trustee-held funds			
Cash and cash equivalents	\$ 25,025,132	\$ -	\$ 25,025,132
Fixed income securities	43,131,534	(1,126,522)	42,005,012
Equity securities	24,693,304	8,221,736	32,915,040
Mutual funds	50,601,174	2,429,824	53,030,998
Investments at NAV	17,589,414	4,076,817	21,666,231
	<u>\$ 161,040,558</u>	<u>\$ 13,601,855</u>	<u>\$ 174,642,413</u>
Deferred compensation funds			
Mutual funds	\$ 1,390,237	\$ 52,466	\$ 1,442,703
	<u>\$ 1,390,237</u>	<u>\$ 52,466</u>	<u>\$ 1,442,703</u>

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	2017		
	Cost	Gross Unrealized Gains (Losses)	Estimated Fair Value
Endowment and board designated funds			
Cash and cash equivalents	\$ 5,342,897	\$ -	\$ 5,342,897
Fixed income securities	12,616,333	(37,773)	12,578,560
Equity securities	12,940,687	3,069,650	16,010,337
Mutual funds	46,472,392	8,265,312	54,737,704
Investments at NAV	36,224,743	9,486,695	45,711,438
	<u>\$ 113,597,052</u>	<u>\$ 20,783,884</u>	<u>\$ 134,380,936</u>
Trustee-held funds			
Cash and cash equivalents	\$ 38,429,601	\$ -	\$ 38,429,601
Fixed income securities	37,551,238	83,300	37,634,538
Equity securities	23,019,036	6,538,809	29,557,845
Mutual funds	43,230,330	2,374,616	45,604,946
Investments at NAV	17,574,611	4,322,662	21,897,273
	<u>\$ 159,804,816</u>	<u>\$ 13,319,387</u>	<u>\$ 173,124,203</u>
Deferred compensation funds			
Mutual funds	\$ 2,251,523	\$ 122,264	\$ 2,373,787
	<u>\$ 2,251,523</u>	<u>\$ 122,264</u>	<u>\$ 2,373,787</u>

The System reviews its investments to identify those for which fair value is below cost. The System then makes a determination as to whether the investment should be considered other-than-temporarily impaired. During 2018 and 2017, there were no significant losses related to declines in value that were considered other-than-temporary in nature.

CNE, Butler, Kent, SHS, WIC, Integra, and the Agency routinely invest their surplus operating funds in various overnight repurchase agreements, money market funds, and fixed income U.S. agency bonds, which are classified as cash and cash equivalents.

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8. Property, Plant and Equipment

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

	2018	2017
Land	\$ 7,602,575	\$ 7,602,575
Land improvements	10,858,007	10,994,806
Buildings and improvements	447,011,977	457,182,497
Moveable equipment	<u>303,692,935</u>	<u>303,524,656</u>
Total property, plant and equipment	769,165,494	779,304,534
Less: Accumulated depreciation and amortization	<u>(522,829,281)</u>	<u>(500,578,882)</u>
	246,336,213	278,725,652
Construction and projects in progress	<u>6,809,551</u>	<u>4,957,793</u>
Property, plant and equipment, net	<u><u>\$ 253,145,764</u></u>	<u><u>\$ 283,683,445</u></u>

Depreciation and amortization expense of property, plant and equipment amounted to \$30,021,896 and \$35,072,464 for the years ended September 30, 2018 and 2017, respectively, which includes \$29,780,336 and \$34,842,348 depreciation expense and \$241,560 and \$230,116 amortization expense for the years ended September 30, 2018 and 2017, respectively.

Care New England had property, plant and equipment disposals of \$8,373,465 and \$19,235,066 with accumulated depreciation of \$7,771,497 and \$18,932,016 for the years ended September 30, 2018 and 2017, respectively.

As of September 30, 2018, the Health System estimated the total cost of completion of construction and projects in progress to be approximately \$12,319,792. The funding to complete these projects will come from philanthropic donations and operating cash.

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

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

Conditional asset retirement obligations are recorded at \$6,353,898 and \$1,931,873 as of September 30, 2018 and 2017, respectively. These obligations are recorded in other noncurrent liabilities in the consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2018, there were \$4,126,964 retirement obligations incurred at Memorial Hospital and there were no significant retirement obligations settled. During 2017, there were no significant retirement obligations incurred or settled. Accretion expense of \$295,061 and \$68,983 was recorded during the years ended September 30, 2018 and 2017, respectively.

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9. Long-Term Debt and Capital Leases

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

	2018	2017
Fixed rate \$138,265,000 RIHEBC 2016 Series B Bonds, final maturity in 2036	\$ 134,775,000	\$ 138,265,000
Fixed rate \$21,610,000 RIHEBC 2016 Series C Taxable Notes, final maturity in 2046	21,610,000	21,610,000
Term, \$445,400 U.S. Dept of Housing and Urban Development (HUD) mortgage note, final maturity in 2023	170,868	196,043
Term, \$4,000,000 Time Insurance Company mortgage note, final maturity in 2027	2,903,272	3,034,163
Term, \$1,600,000 Seavest Healthcare Properties, LLC note, final maturity in 2030	1,382,353	1,467,328
Capital lease obligations	2,177,292	3,880,666
Unamortized premium	11,708,072	12,358,521
Unamortized discount	(451,735)	(508,202)
Unamortized debt issuance costs	<u>(2,441,547)</u>	<u>(2,602,484)</u>
Total long-term debt and capital lease obligations	171,833,575	177,701,035
Less: Current portion of long-term debt and capital lease obligations	<u>(6,088,692)</u>	<u>(5,880,484)</u>
Long-term debt and capital lease obligations, excluding current portion	<u>\$ 165,744,883</u>	<u>\$ 171,820,551</u>

Rhode Island Health and Educational Building Corporation (RIHEBC) Bonds

In 2016, the Health System issued RIHEBC 2016 Series B fixed rate bonds of \$138,265,000 (excluding a premium of \$13,008,969). The bonds have annual mandatory sinking fund redemptions ranging from \$3,665,000 in 2019 to \$7,180,000 in 2026, a payment of \$41,660,000 in 2031, and a final payment of \$45,825,000 in 2036. The bonds bear interest at a fixed rate of 5.0%. A debt service reserve fund of \$12,142,439 is included in trustee-held funds in the consolidated balance sheet at September 30, 2018. CNE, Butler, Kent, VNA, SHS (prior to December 22, 2017), Memorial (prior to December 22, 2017), TPC, WIC, WIH, collectively, the Obligated Group, are jointly and severally liable for repayment. On December 22, 2017, the Master Trustee approved the release of SHS and Memorial from the Obligated Group. The Obligated Group is required to comply with certain debt covenants under the bond agreements, including a minimum debt service coverage ratio of 1.1 to 1, effective in fiscal 2018 and all subsequent fiscal years, and days cash on hand of 30, effective in fiscal 2017 and all subsequent fiscal years.

The proceeds from the CNE 2016 Series B Bonds were used to (i) refund the outstanding CNE 2010 Bonds, and (ii) refund a portion of the outstanding CNE 2013 A Bonds, and (iii) refund a portion of the outstanding CNE 2014 A Bonds, and (iv) refund the outstanding CNE 2016 A Bonds, and (v) refund the outstanding TPC 2013 Bonds, and (vi) pay certain expenses related to the issuance of the 2016 Series B Bonds.

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In 2016, the Health System issued RIHEBC 2016 Series C fixed rate taxable notes of \$21,610,000 (excluding a discount of \$564,669). The notes have mandatory interest-only payments of \$594,275 every March and September from 2018 through 2026, and a final principal payment of \$21,610,000 in 2026. The notes bear interest at a fixed rate of 5.5%. The Obligated Group is jointly and severally liable for repayment. The Obligated Group is required to comply with certain debt covenants under the bond agreements, including a minimum debt service coverage ratio of 1.1 to 1, effective in fiscal 2018 and all subsequent fiscal years, and days cash on hand of 30, effective in fiscal 2017 and all subsequent fiscal years.

The proceeds from the CNE 2016 Series C Taxable Notes were used to (i) refund a portion of the outstanding CNE 2013 A Bonds, and (ii) refund a portion of the outstanding CNE 2014 A Bonds, and (iii) refund certain outstanding taxable indebtedness incurred by TPC, and (iv) pay certain expenses related to the issuance of the 2016 Series C Bonds.

Bank Mortgage and Other Notes

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

In 2015, Kent entered into a lease amendment with Seavest Healthcare Partners, LLC ("Seavest"). The 2015 amendment to the December 17, 2010 Tenant Space Lease agreement between the landlord, Seavest, and Kent for medical space located on Kent's campus, includes a \$1,600,000 note, due March 2016 through February 2030. Funds from this note were received by Kent in February and April 2016. Interest and principal installments of \$13,582 are due monthly at an imputed interest rate of 5.46%.

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

2019	\$ 3,921,012
2020	5,631,945
2021	5,913,907
2022	6,211,971
2023	6,526,202
Thereafter	<u>132,636,456</u>
	160,841,493
Plus: Unamortized premium on bonds	11,708,072
Less: Unamortized discount on bonds	(451,735)
Less: Unamortized debt issuance costs	<u>(2,441,547)</u>
	<u>\$ 169,656,283</u>

The Center had available \$5,000,000 from March 18, 2016 through June 25, 2017, \$3,000,000 from June 26, 2017 through December 21, 2017 and \$1,500,000 from December 22, 2017 through August 28, 2018 through a line of credit with a financial institution. The line of credit was not renewed after August 28, 2018. The termination of the agreement relieved the Center of all liens encumbering the collateral in favor of the bank and restrictive covenants. \$442,144 was outstanding on the line of credit and is included in notes payable as of September 30, 2017.

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The Hospitals and the Center classify certain noncancelable leases as capital leases, and include the property under lease in their property and equipment. Amortization expense for these assets is included in depreciation and amortization expenses in the consolidated statements of operations and changes in net assets. Ownership of the leased property converts to the Hospitals or the Center, respectively, at the end of the lease term. Assets and related accumulated depreciation under the capital leases are included in property, plant and equipment (Note 8).

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

2019	\$ 1,777,492
2020	228,705
2021	201,899
2022	<u>31,949</u>
Total minimum lease payments	2,240,045
Less: Amount representing interest	<u>(62,753)</u>
Capital lease obligations at September 30, 2018	<u>\$ 2,177,292</u>

10. Temporarily and Permanently Restricted Net Assets

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

	2018	2017
Healthcare services	\$ 6,264,532	\$ 6,060,100
Healthcare research	1,948,381	1,839,296
General purposes	10,132,868	9,666,004
Indigent care	6,006,314	5,745,525
Health education	3,753,013	3,525,106
Plant replacement and expansion	8,727,532	7,716,103
Other	<u>6,522,356</u>	<u>6,862,629</u>
Total temporarily restricted net assets	<u>\$ 43,354,996</u>	<u>\$ 41,414,763</u>

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

	2018	2017
Plant replacement and expansion	\$ 20,308,865	\$ 19,786,896
Indigent care	1,311,835	1,311,835
General purposes	11,794,986	11,500,462
Research	1,647,674	1,617,652
Healthcare services	3,657,576	3,573,080
Health education	1,251,667	1,245,172
Other	2,653,797	2,653,797
Total permanently restricted net assets	<u>\$ 42,626,400</u>	<u>\$ 41,688,894</u>

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

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

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For the year ended September 30, 2018, the Health System had the following changes in the endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	<u>\$ 26,643,025</u>	<u>\$ 12,990,294</u>	<u>\$ 39,633,319</u>
Investment return			
Investment income	401,461	-	401,461
Net appreciation (realized and unrealized)	<u>2,500,435</u>	<u>-</u>	<u>2,500,435</u>
Total investment return	2,901,896	-	2,901,896
Contributions	(107,683)	64,347	(43,336)
Transfer to unrestricted net assets	(1,076,142)	-	(1,076,142)
Appropriation of endowment assets for expenditure	<u>(1,228,318)</u>	<u>-</u>	<u>(1,228,318)</u>
Endowment net assets at end of year	<u>\$ 27,132,778</u>	<u>\$ 13,054,641</u>	<u>\$ 40,187,419</u>

For the year ended September 30, 2017, the Health System had the following changes in the endowment net assets:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	<u>\$ 22,959,006</u>	<u>\$ 12,609,403</u>	<u>\$ 35,568,409</u>
Investment return			
Investment income	388,896	-	388,896
Net appreciation (realized and unrealized)	<u>4,503,268</u>	<u>-</u>	<u>4,503,268</u>
Total investment return	4,892,164	-	4,892,164
Contributions	-	282,786	282,786
Transfer from unrestricted net assets	79,502	38,105	117,607
Transfer from temporarily restricted net assets	-	60,000	60,000
Appropriation of endowment assets for expenditure	<u>(1,287,647)</u>	<u>-</u>	<u>(1,287,647)</u>
Endowment net assets at end of year	<u>\$ 26,643,025</u>	<u>\$ 12,990,294</u>	<u>\$ 39,633,319</u>

In addition to permanently restricted endowments, Kent, Memorial and WIH are income beneficiaries of various trusts. On September 30, 2018 and 2017, the market value of Kent's, WIH's and Memorial's trust assets, which are recorded as permanently restricted net assets, totaled \$27,992,730 and \$27,176,237, respectively. In addition to permanently restricted endowments, the Center is the income beneficiary of various assets held at a community foundation. In 2017, the Center recorded its share of assets held at the community foundation as a contribution to permanently restricted net assets. On September 30, 2018 and 2017, the market value of the Center's assets held at the community foundation totaled \$1,579,028 and \$1,497,683, respectively. Distributions of income are made at the discretion of the trustees.

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

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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Health System to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets are immaterial as of September 30, 2018 and 2017. These deficiencies resulted from unfavorable market fluctuations. The individual donor-restricted endowment funds with deficiencies will retain future income and appreciation to restore the required fair value of the assets.

During fiscal 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	2018	2017
Healthcare services	\$ 1,220,932	\$ 1,642,144
Healthcare research	444,493	317,177
Plant replacement and expansion	1,563,041	2,414,223
Other	1,117,926	1,465,615
Health education	190,579	552,967
Indigent care	243,280	245,335
Total net assets released from restrictions	<u>\$ 4,780,251</u>	<u>\$ 6,637,461</u>

U.S. Department of Housing and Urban Development

Wilson received funding from HUD of \$1,152,335 for the renovation of Wilson Street apartments. The agreement states that repayment is not required provided that the property funded remains available only to qualified clients for a period of not less than 40 years, maturing in 2047. If at any time during the restricted use period Wilson is unable to meet the provisions of the agreement, at the option of the funding source, the entire amount of the above noted funding shall become due and payable upon default.

Grandview Second received funding from HUD of \$1,173,200 for the renovation of Grandview Second apartments. The agreement states that repayment is not required provided that the property funded remains available only to qualified clients for a period of not less than 40 years, maturing in 2035. If at any time during the restricted use period Grandview Second is unable to meet the provisions of the agreement, at the option of the funding source, the entire amount of the above noted funding shall become due and payable upon default.

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Nashua received funding from HUD of \$834,200 for the renovation of Nashua Street apartments. The agreement states that repayment is not required provided that the property funded remains available only to qualified clients for a period of not less than 40 years, maturing in 2040. If at any time during the restricted use period Nashua is unable to meet the provisions of the agreement, at the option of the funding source, the entire amount of the above noted funding shall become due and payable upon default.

State Bond Funds

Wilson has two agreements with the State of Rhode Island whereby Wilson obtained bond funds in the amount of \$818,738 for the renovation of the Wilson Street apartments. Under the terms of the agreements, if Wilson Street apartments should cease to be utilized as a facility to be rented by qualified clients before 2047 (40 years after the first rental unit to a client or two years from the date of the grant), the State of Rhode Island would be entitled to recover either the amount expended under the agreement or a prorated portion of the fair market value of the building, whichever is greater. Management intends to use the facility for the stated purpose and duration of the agreement.

11. Retirement Plans

The Health System has two separate Defined Benefit pension plans. One plan covers the employees of CNE, Butler, Kent, WIC, and the Agency, with the exception of the unionized employees of WIH (who are covered under a multiemployer union plan), and certain WIH-employed physicians. The second plan covers substantially all of the employees of Memorial. The Health System had a third Defined Benefit pension plan, the Kent County Visiting Nurse Association Pension Plan, which covered the employees of the Agency, but merged the assets of the Agency's plan into the Care New England Pension Plan as of December 31, 2016.

Care New England Pension Plan

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

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

Included in cumulative changes in unrestricted net assets at September 30, 2018 that has not yet been recognized in net periodic pension cost is an actuarial loss of \$58,812,360. Included in cumulative changes in unrestricted net assets at September 30, 2017 that has not yet been recognized in net periodic pension cost is an actuarial loss of \$78,563,426.

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The actuarial loss included as cumulative changes in unrestricted net assets and expected to be recognized in net periodic pension cost during the fiscal year ended September 30, 2019 is \$1,296,407.

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

	2018	2017
Service cost	\$ 2,048,720	\$ 3,969,892
Interest cost	7,560,370	8,134,072
Expected return on plan assets	(8,458,427)	(11,445,533)
Amortization of loss	1,585,017	2,250,293
Settlements	11,952,537	-
Net periodic pension expense	<u>\$ 14,688,217</u>	<u>\$ 2,908,724</u>

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

	2018	2017
Discount rate	3.69%/3.61%	3.43 %
Expected return on assets	6.00	6.25
Rate of compensation increase	3.00	3.00

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The following table presents a reconciliation of the beginning and ending balances of the plan projected benefit obligations, fair value of plan assets, funded status, and amounts recognized in unrestricted net assets of the plan as of September 30:

	2018	2017
Changes in benefit obligations		
Projected benefit obligations at beginning of year	\$ 239,147,882	\$ 246,091,453
Service cost	2,048,720	3,969,892
Interest cost	7,560,370	8,134,072
Actuarial gain	(10,000,906)	(12,056,989)
Benefits and expenses paid	(5,671,492)	(18,722,959)
Acquisitions	-	11,732,413
Settlements	(37,338,944)	-
Projected benefit obligations at end of year	<u>195,745,630</u>	<u>239,147,882</u>
Changes in plan assets		
Fair value of plan assets at beginning of year	202,708,306	189,140,988
Actual return on plan assets	4,671,033	24,162,126
Employer contributions	2,700,000	1,250,000
Benefits and expenses paid	(5,671,492)	(18,722,959)
Acquisitions/mergers	-	6,878,151
Settlements	(37,338,944)	-
Fair value of plan assets at end of year	<u>167,068,903</u>	<u>202,708,306</u>
Funded status		
Total pension liability	\$ (28,676,727)	\$ (36,439,576)
Accumulated benefit obligation	193,934,710	236,699,841
Amounts recognized in unrestricted net assets		
Unrestricted net assets at beginning of year	\$ 78,563,426	\$ 99,991,247
Amounts amortized during the year		
Net loss	(1,585,017)	(2,250,293)
Amounts occurring during the year		
Net gain	(6,213,512)	(24,773,582)
VNA plan merger	-	5,596,054
Settlements	(11,952,537)	-
Unrestricted net assets at end of year	<u>\$ 58,812,360</u>	<u>\$ 78,563,426</u>

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

	2018	2017
Discount rate	4.30 %	3.69 %
Rate of compensation increase	3.00 %	3.00 %

Plan Assets

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

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

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

	Target Allocation	Actual 2018	Actual 2017
Asset category			
Cash and cash equivalents	0 %	3 %	17 %
Investments at NAV	41	43	37
Fixed income securities	34	28	24
Equity securities	25	26	22
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Refer to Note 24 for details on assets held by the Plan.

Contributions

The Health System contributed \$2,700,000 and \$1,250,000 to the Plan in 2018 and 2017, respectively. The Health System expects to contribute \$5,400,000 to the Plan in 2019.

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Estimated Future Benefit Payments

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

Fiscal Year	Pension Benefits
2019	\$ 15,630,040
2020	14,198,594
2021	13,960,921
2022	13,959,283
2023	14,107,933
Years 2024–2028	68,183,966
	<u>\$ 140,040,737</u>

Care New England 403(b) Match and Savings Plan

Effective January 1, 2009, the Pension Plan Protection legislation resulted in regulatory changes which discontinued the matching credits to the participants that were previously recorded in the CNE Pension Plan. As a result, CNE established the Care New England 403(b) Plan to account for future matching credits. The plan covers employees that meet certain eligibility requirements. Additionally, effective January 1, 2011, in connection with the freeze of the Care New England Pension Plan, the Health System also provides a nonelective contribution to participant accounts, as defined in the Plan document. Nonelective contributions are allocated to each eligible participant hired prior to January 1, 2013 based on a percentage of salary and a combination of the recipients age and years of service. Nonelective contributions are allocated to each eligible participant hired on or after January 1, 2013 equal to 3 percent of compensation. Effective January 1, 2017, employees of the Center are eligible for the Plan and are eligible for a nonelective contribution equal to 3 percent of compensation. Nonelective contributions are credited to each such participant as of the first day of the Plan year, as further described in the Plan document.

The Health System recorded an expense of \$14,549,661 and \$15,426,595 for the nonelective contribution to participant accounts for the fiscal years that ended September 30, 2018 and 2017, respectively. In addition, the Health System recorded an expense of \$4,303,521 and \$4,393,801 for matching credits for fiscal years ended September 30, 2018 and 2017, respectively. The Health System will fund the 2018 expense in calendar year 2019 and funded the 2017 expense in calendar year 2018.

Kent County Visiting Nurse Association Pension Plan

The Agency had a noncontributory defined benefit pension plan covering all employees who satisfied certain eligibility requirements that was frozen effective December 31, 2007, and replaced with a contributory retirement savings plan. Benefits under the defined benefit plan were based on years of service and employee's compensation levels. Effective December 31, 2016, the Kent County Visiting Nurse Association Pension Plan assets were combined with the Care New England Pension Plan.

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Effective January 1, 2008, the Agency established a 403(b) Retirement Savings Plan that covers employees who have met certain eligibility requirements. Discretionary contributions to the plan are based on years of service and compensation levels. For the fiscal years that ended September 30, 2018 and 2017, respectively, the Agency recorded an expense of \$510,801 and \$422,944.

Memorial Retirement Plan

As part of the acquisition of SHS, CNE acquired the assets and assumed the liabilities for Memorial's defined benefit pension plan ("the Memorial Plan"), which was frozen for non-union participants as of May 31, 2012 and union employees as of June 1, 2013 and was replaced by the Memorial 403(b) Match and Savings Plan. Benefits under the defined benefit plan were based on years of service and employees' compensation during the last five years of covered employment. The System makes annual contributions to the Memorial Plan, which approximate the amount of net periodic pension cost. On December 31, 2014, the Memorial Plan was amended and participants became eligible participants in the Care New England 403(b) Match and Savings Plan effective January 1, 2015. Effective January 1, 2018, the sponsorship of Memorial's Defined Benefit Pension Plan transferred to CNE.

Included in cumulative changes in unrestricted net assets at September 30, 2018 that has not yet been recognized in net periodic pension cost is an actuarial loss of \$17,107,107. Included in cumulative changes in unrestricted net assets at September 30, 2017 that has not yet been recognized in net periodic pension cost is an actuarial loss of \$35,331,208.

The actuarial loss included as cumulative changes in unrestricted net assets and expected to be recognized in net periodic pension cost during the fiscal year ended September 30, 2018 is \$111,824.

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

	2018	2017
Service cost	\$ -	\$ 1,200,000
Interest cost	5,737,090	6,308,405
Expected return on plan assets	(3,887,480)	(5,967,123)
Amortization of loss	415,339	895,511
Settlements	19,143,467	-
Net periodic pension expense	<u>\$ 21,408,416</u>	<u>\$ 2,436,793</u>

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

	2018	2017
Discount rate	3.85%/3.74%	3.68 %
Expected rate of return on plan assets	6.00 %	6.00 %
Rate of compensation increase	N/A	N/A

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The following tables represent a reconciliation of the beginning and ending balances of the plan projected benefit obligations, fair value of plan assets, funded status, and amounts recognized in unrestricted net assets of the plan as of September 30:

	2018	2017
Changes in benefit obligations		
Projected benefit obligations at beginning of year	\$ 168,848,260	\$ 174,951,143
Service cost	-	1,200,000
Interest cost	5,737,090	6,308,405
Actuarial loss (gain)	910,144	(5,189,386)
Benefits and expenses paid	(7,573,492)	(8,421,902)
Settlements	(24,139,221)	-
Projected benefit obligations at end of year	<u>143,782,781</u>	<u>168,848,260</u>
Changes in plan assets		
Fair value of plan assets at beginning of year	105,204,059	98,876,378
Actual return on plan assets	3,462,919	6,519,583
Employer contributions	5,625,000	8,230,000
Benefits and expenses paid	(7,573,492)	(8,421,902)
Settlements	(24,139,221)	-
Fair value of plan assets at end of year	<u>82,579,265</u>	<u>105,204,059</u>
Funded status		
Total pension liability	\$ (61,203,516)	\$ (63,644,201)
Accumulated benefit obligation	143,782,781	168,848,260
Amounts recognized in unrestricted net assets		
Unrestricted net assets at beginning of year	\$ 35,331,208	\$ 41,968,565
Amounts amortized during the year		
Net loss	(415,339)	(895,511)
Amounts occurring during the year		
Net loss (gain)	1,334,705	(5,741,846)
Settlements	(19,143,467)	-
Unrestricted net assets at end of year	<u>\$ 17,107,107</u>	<u>\$ 35,331,208</u>

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

	2018	2017
Discount rate	4.38 %	3.85 %
Rate of compensation increase	N/A	N/A

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Plan Assets

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

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

	Target Allocation	Actual 2018	Actual 2017
Asset category			
Cash and cash equivalents	7 %	9 %	19 %
Investments at NAV	15	14	14
Fixed income securities	65	65	57
Equity securities	13	12	10
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Refer to Note 24 for details on assets held by the Plan.

Contributions

The Health System contributed \$5,625,000 and \$8,230,000 to the Memorial Plan in 2018 and 2017, respectively. The Health System expects to contribute \$7,895,000 to the Plan in 2018.

Estimated Future Benefit Payments

Benefit payments, are expected to be paid as follows:

Fiscal Year	Pension Benefits
2019	\$ 7,696,131
2020	7,850,855
2021	7,977,432
2022	8,231,890
2023	8,421,362
Years 2024–2028	43,174,823

Pension Settlements

During fiscal 2018, Care New England approved a voluntary lump sum offering to certain terminated participants and active employee participants working past age 65 in the Care New England Pension Plan and The Memorial Hospital Defined Benefit Pension Plan and Trust. Benefits for individuals electing to receive lump sums were paid in fiscal 2018, requiring accelerated recognition of a portion of prior actuarial losses in fiscal 2018 expense. In an unrelated

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pension transaction, Care New England also discontinued a group annuity contract covering a portion of the Memorial Plan, effective December 2017. This event required accelerated recognition of prior actuarial losses in fiscal 2018 expense.

During fiscal 2018, lump sums of \$37,338,944 (consisting of \$28,755,320 from the bulk lump sum offer, and \$9,583,624 from ongoing availability) were paid from the Care New England Pension Plan and lump sums of \$24,139,221 were paid from the Memorial Hospital Defined Benefit Pension Plan and Trust. As a result, the System recorded non-operating settlement charges of \$11,952,537 for the Care New England Pension Plan lump sum offer and \$19,143,467 for The Memorial Hospital Defined Benefit Pension Plan and Trust lump sum offer and group annuity contract discontinuance.

WIH Union Plan

WIH contributes to a multi-employer defined benefit pension plan under the terms of the collective bargaining agreements that cover its union-represented employees. The risks of participating in multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If WIH chooses to stop participating in the plan, WIH may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

WIH's participation in the plan for the annual period ended December 31, 2017, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number (EIN) and the three-digit plan number. The most recent Pension Protection Act (PPA) zone status available in 2017 and 2016 is for the plan's year-end at December 31, 2017, and December 31, 2016, respectively. The zone status is based on information that WIH received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded or projected funding deficiency in current plan year or next following 6 plan years, plans in the orange zone are less than 80 percent funded and projected funding deficiency in current plan year or next following 6 plan years, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective-bargaining agreements to which the plan is subject.

Pension Fund	EIN/Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/Implemented	Contributions of WIH		Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
		2017	2016		2017	2016		
New England Health Care Employees Pension Fund	22-3071963 - 001	Green	Green	No	\$ 9,338,473	\$ 9,208,803	No	11/30/2020

WIH was listed in the plan's Form 5500 as providing more than 5 percent of the total contributions for the plan years ending December 31, 2017 and December 31, 2016.

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At the date the financial statements were issued, Form 5500 was not available for the plan year ending December 31, 2018.

Pension expense, for the plan, for the years ended September 30, 2018 and 2017, was \$9,526,957 and \$9,315,466, respectively.

The Center Retirement Benefit Plan

The Center maintained a profit sharing retirement plan to which the Center may make discretionary contributions. The retirement plan covered all employees of the Center over the age of 21 who have worked for a minimum of 975 hours during the plan year. Participants were vested over a number of years of continuous service. Participants would become 100% vested after six years unless the age of 65 is attained, upon which the participant became 100% vested. This plan terminated as of December 31, 2017. The Center did not contribute to the retirement plan for the year ended September 30, 2018.

Effective January 1, 2017, the Center's employees were eligible to participate in the Care New England 403(b) Match and Savings Plan.

12. Postretirement Plans

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

Included in the charge to net assets that have not yet been recognized in net periodic postretirement benefit cost is the unrecognized actuarial income of \$33,821 as of September 30, 2018 and the unrecognized actuarial loss of \$203,767 as of September 30, 2017.

The postretirement benefit cost for this plan was \$53,212 in 2018 and \$59,464 in 2017.

13. Patient Service Revenue

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

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The following is a breakdown of gross patient service revenue by payor type for the years ended September 30:

	2018	2017
Medicare and Medicare Managed Care	30 %	30 %
Medicaid and Medicaid Managed Care	29	29
Blue Cross	19	20
Managed care	10	10
Self-pay	1	2
Other third-party payors	11	9
	<u>100 %</u>	<u>100 %</u>

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there will always be a possibility that the recorded estimates of net revenue could change by a significant amount in the future. The Hospitals, the Agency, and the Center believe they are in compliance with all applicable laws and regulations. Cost reports filed annually with third-party payors are subject to audit prior to final settlement.

Medicare

Cost reports for the Hospitals and the Agency have been filed through fiscal year 2017, and settled through fiscal year 2017 for the Agency, fiscal year 2015 for Butler, fiscal year 2013 for Kent, and fiscal year 2014 for WIH and Memorial.

The filing of these cost reports and associated settlements require the use of estimates. Net patient service revenue was increased by approximately \$4,600,000 and \$5,100,000 in 2018 and 2017, respectively, to reflect the changes in the estimated settlements for certain prior years.

The Health System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Health System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Health System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Health System records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), for the years ended September 30, 2018 and 2017 is summarized as follows:

	2018	2017
Patient service revenue (net of contractual allowances and discounts)		
Third-party payors	\$ 1,024,468,184	\$ 1,032,584,470
Self-pay	<u>15,746,821</u>	<u>16,564,824</u>
Total all payors	<u>\$ 1,040,215,005</u>	<u>\$ 1,049,149,294</u>

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14. Disproportionate Share

The government has long recognized the financial burdens which are borne by hospitals which serve an unusually large number, or “disproportionate share”, of low-income patients. Kent, WIH, and Memorial received payments under the disproportionate share program of \$55,057,869 and \$50,069,664 from the State of Rhode Island’s Medicaid program for the years ended September 30, 2018 and 2017, respectively. Kent, WIH, and Memorial also recorded disproportionate share payments of \$1,657,593 and \$1,759,945 from Medicare during 2018 and 2017, respectively. Additional payments of \$8,111,514 and \$9,531,397 were received during 2018 and 2017, respectively, from Medicare as part of the provisions under the Accountable Care Act to offset hospital costs for uncompensated care.

15. Licensure Fees

The State of Rhode Island assesses hospitals an annual licensure fee calculated as a percentage of the hospital’s net patient revenue. The Care New England hospitals were assessed \$48,725,820 and \$45,805,896 for the years ended September 30, 2018 and 2017, respectively.

16. Restructuring Costs – Memorial Hospital

During fiscal 2018, the System incurred \$7,180,830 of restructuring costs related to the closure of Memorial Hospital. \$3,699,507 of these costs related to salary and benefits related to the WARN Act (Worker Adjustment and Retraining Notification is a layoff notice law requiring employers to give employees notification before mass layoffs or plant closings) and other severance costs. Other exit costs include legal, public relations and purchased services expenses.

17. Restructuring Costs

During 2015, the System engaged Huron Healthcare, a nationally recognized healthcare performance improvement consulting firm. Huron began its assessment of the System’s issues in June 2015. Following an assessment of CNE strategy and clinical and financial operations, Huron identified restructuring opportunities in multiple areas. Specific recommendations and action plans supported the achievement of these targeted benefits. In August 2015, Huron Healthcare was further engaged to assist with the implementation of those recommendations. The work was organized through teams led by a CNE executives working in tandem with a lead consultant from Huron. Team participants included CNE leaders from across the System as appropriate by area of focus.

During 2017, working in partnership with Huron, CNE completed the implementation of the improvements in most areas.

During fiscal years 2018 and 2017, respectively, the System incurred \$73,333 and \$13,474,612 in expenses relating to the System’s restructuring activities, primarily related to the costs associated with the retention of Huron Healthcare and severance costs.

18. Concentration of Credit Risk

As of September 30, 2018 and 2017, Care New England, the Hospitals, the Agency, and the Center had cash and cash equivalents in excess of Federal Depository Insurance limits at major financial institutions. These financial institutions have a strong credit rating, and management believes that credit risks related to these deposits are minimal.

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

In addition, the organizations routinely grant credit to patients without requiring collateral or other security. The mix of receivables, net of contractual allowances, from patients and third-party payors at September 30, 2018 and 2017, was as follows:

	2018	2017
Medicare and Medicare Managed Care	14 %	16 %
Medicaid and Medicaid Managed Care	23	22
Blue Cross	17	16
Managed care	10	8
Self-pay	18	21
Other third-party payors	18	17
	<u>100 %</u>	<u>100 %</u>

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

19. Commitments and Contingencies

Operating Leases

Care New England, the Hospitals, the Agency, and the Center have entered into operating lease agreements with several vendors for the lease of certain equipment and office space. Future minimum lease payments under noncancelable operating leases as of September 30, 2018 are:

2019	\$ 11,388,418
2020	8,798,585
2021	8,154,530
2022	7,958,886
2023	7,478,594
Later years	<u>32,166,790</u>
Total minimum lease payments	<u>\$ 75,945,803</u>

Total rent expense for operating leases for the years ended September 30, 2018 and 2017 amounted to \$12,813,120 and \$12,625,031, respectively.

Litigation

CNE, the Affiliates, the Agency and the Center have been individually named as codefendants in several complaints. It is the opinion of management that the liability, if any, to CNE, the Affiliates, the Agency, and the Center, in excess of insurance coverage will have no material adverse effect on the consolidated financial position of Care New England as of September 30, 2018 and 2017.

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Collective Bargaining Agreements

At September 30, 2018, approximately 50.2% of the Health System's employees were covered by collective bargaining agreements. The collective bargaining agreement covering 49.3% of Kent's employees expired on June 30, 2018 and was extended through June 30, 2020. The Memorial collective bargaining agreement expired on June 30, 2018. The collective bargaining agreement covering 59.9% of the VNA's employees will expire on May 31, 2019. All remaining bargaining agreements will be in effect through fiscal 2019.

20. Professional and General Liability Claims

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

As of October 1, 2017, Care New England restructured the professional and general liability insurance programs. Kent, Butler, CNE, the Agency and the Center obtain their primary professional liability and general liability coverage via the Kent Hospital Self-Insurance Program on an occurrence basis. WIH obtains their primary professional and general liability coverage via the Women & Infants Hospital Self-Insurance Program on an occurrence basis. Both self-insurance programs provide excess professional liability coverage on an occurrence basis for all of the System. Reinsurance is purchased commercially on a claims-made basis for professional liability coverage layers above the self-insurance primary and excess layers.

Butler annually contributes to its self-insurance trust fund to provide for risks relating to its existing actuarially calculated primary level of professional and general liabilities for events prior to October 1, 2017, as well as the tail liability related to prior claims-made coverage. Butler's professional liability coverage for claims in excess of its primary coverage limits is provided by W&I Indemnity for events prior to October 1, 2017.

Kent Hospital established Toll Gate Indemnity in 2004, as an off-shore captive insurance entity to insure primary and excess hospital professional and general liability risks, as well as to supply indemnification coverage for certain eligible medical staff. From July 1, 2014 to September 30, 2017, Kent Hospital purchased commercial insurance coverage on a claims made basis for professional liability claims in excess of the professional liability coverage provided through Toll Gate Indemnity. As of October 1, 2017, this commercially purchased excess became part of the restructured program.

WIH established W&I Indemnity in 1994, as an off-shore captive insurance entity to provide coverage for claims in excess of its underlying policy, as well as to supply indemnification coverage for certain eligible medical staff. In addition, WIH has a self-insurance trust fund for risks relating to prior tail liabilities. As of October 1, 2011, the primary coverage for professional and general liabilities was moved under the off-shore captive.

Effective July 1, 2004, professional liability insurance coverage for Memorial was provided on an occurrence basis. Such coverage was provided on a claims-made basis through June 30, 2004. The claims-made policies cover only claims made during the terms of the policies, and not those occurrences for which claims may be made after expiration of the policies. Memorial is self-insured

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with respect to incurred but not reported (IBNR) claims incurred prior to July 1, 2004. Memorial purchases annually commercial insurance policies to insure professional and general liability risks.

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

Prior to October 1, 2017, the Agency purchased general and professional liability insurance from Toll Gate Indemnity.

Prior to October 1, 2017, the Center purchased commercial insurance policies to insure professional and general liability risks.

CNE, on behalf of itself, Butler, Kent, WIC, SHS, the Agency, and as of January 1, 2017, the Center, has entered into a self-insurance program for dental insurance risks. This program covers the dental insurance claims for all of CNE's, Butler's, Kent's, WIC's, SHS', the Agency's, and the Center's employees. The provisions for dental insurance losses are based on actuarial assumptions and actual claims experience.

21. Affiliation With Rhode Island Hospital

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

22. Affiliation With Accredited Medical Schools

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

23. Functional Expenses

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

	2018	2017
Healthcare services	\$ 923,688,549	\$ 966,487,404
General and administrative	204,583,482	196,628,205
Other	29,815,149	13,474,612
	<u>\$ 1,158,087,180</u>	<u>\$ 1,176,590,221</u>

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24. Fair Value of Financial Instruments

The Health System values its financial assets and liabilities at fair value in accordance with GAAP. GAAP defines fair value, establishes a framework for measuring fair value, and delineates the disclosures required about fair value measurements. Financial assets consist primarily of the endowment, Board designated funds, trustee-held funds, and other investments. Additionally, GAAP allows the Health System the use of estimates to fair value certain investments at the measurement date using NAV reported by the investment managers without further adjustment, provided that the Health System does not expect to sell the investments at a value other than the NAV.

GAAP clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, this standard established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 Valuations using quoted prices in active markets for identical assets or liabilities. Valuations of these products do not require a significant degree of judgment.
- Level 2 Valuations using observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; broker or dealer quotations; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities.
- Level 3 Valuations using unobservable inputs that are supported by little or no market activity that are significant to the fair value of the assets or liabilities.

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

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Financial instruments carried at fair value for the System's nonpension plan assets as of September 30, 2018 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	2018
Assets				
Endowment and board designated funds				
Cash and cash equivalents	\$ 4,562,976	\$ -	\$ -	\$ 4,562,976
Fixed income securities	3,487,102	13,845,608	-	17,332,710
Equity securities	17,962,620	-	-	17,962,620
Mutual funds	58,937,954	52,805	-	58,990,759
Assets held under split-interest agreements	-	-	29,571,758	29,571,758
	<u>\$ 84,950,652</u>	<u>\$ 13,898,413</u>	<u>\$ 29,571,758</u>	<u>128,420,823</u>
Investments at NAV (a)				<u>41,688,454</u>
Total assets				<u>\$ 170,109,277</u>
Trustee-held funds				
Cash and cash equivalents	\$ 25,025,132	\$ -	\$ -	\$ 25,025,132
Fixed income securities	4,183,299	37,821,713	-	42,005,012
Equity securities	32,915,040	-	-	32,915,040
Mutual funds	3,466,560	49,564,438	-	53,030,998
	<u>\$ 65,590,031</u>	<u>\$ 87,386,151</u>	<u>\$ -</u>	<u>152,976,182</u>
Investments at NAV (a)				<u>21,666,231</u>
Total assets				<u>\$ 174,642,413</u>
Deferred compensation funds				
Mutual funds	\$ 1,442,703	\$ -	\$ -	\$ 1,442,703
	<u>\$ 1,442,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,442,703</u>

Financial instruments carried at fair value for the System's nonpension plan assets as of September 30, 2017 are classified in the table below in one of the three categories described above:

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	Level 1	Level 2	Level 3	2017
Assets				
Endowment and board designated funds				
Cash and cash equivalents	\$ 5,342,897	\$ -	\$ -	\$ 5,342,897
Fixed income securities	2,533,688	10,044,872	-	12,578,560
Equity securities	16,010,337	-	-	16,010,337
Mutual funds	54,688,574	49,130	-	54,737,704
Assets held under split-interest agreements	-	-	28,673,920	28,673,920
	<u>\$ 78,575,496</u>	<u>\$ 10,094,002</u>	<u>\$ 28,673,920</u>	<u>117,343,418</u>
Investments at NAV (a)				<u>45,711,438</u>
Total assets				<u>\$ 163,054,856</u>
Trustee-held funds				
Cash and cash equivalents	\$ 38,429,601	\$ -	\$ -	\$ 38,429,601
Fixed income securities	5,096,063	32,538,475	-	37,634,538
Equity securities	29,557,845	-	-	29,557,845
Mutual funds	4,241,115	41,363,831	-	45,604,946
	<u>\$ 77,324,624</u>	<u>\$ 73,902,306</u>	<u>\$ -</u>	<u>151,226,930</u>
Investments at NAV (a)				<u>21,897,273</u>
Total assets				<u>\$ 173,124,203</u>
Deferred compensation funds				
Mutual funds	<u>\$ 2,373,787</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,373,787</u>
	<u>\$ 2,373,787</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,373,787</u>

- a. In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

The amounts reported in the financial instruments table exclude the values of life insurance policies valued at \$23,068,847 as of September 30, 2018 and \$22,812,303 as of September 30, 2017, which are valued at the lesser of discounted value or cash surrender value.

All financial instruments are valued using a market approach involving identical or comparable assets.

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Financial instruments carried at fair value for assets invested in the CNE Defined Benefit Pension Plan as of September 30, 2018 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	2018
Assets				
Cash and cash equivalents	\$ 4,580,335	\$ -	\$ -	\$ 4,580,335
Fixed income securities	31,979,995	14,204,508	-	46,184,503
Equity securities	17,389,170	-	-	17,389,170
Mutual funds	26,885,945	-	-	26,885,945
	<u>\$ 80,835,445</u>	<u>\$ 14,204,508</u>	<u>\$ -</u>	<u>95,039,953</u>
Investments at NAV (b)				<u>72,028,950</u>
Total assets				<u>\$ 167,068,903</u>

Financial instruments carried at fair value for assets invested in the CNE Defined Benefit Pension Plan as of September 30, 2017 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	2017
Assets				
Cash and cash equivalents	\$ 34,041,353	\$ -	\$ -	\$ 34,041,353
Fixed income securities	34,612,559	14,220,593	-	48,833,152
Equity securities	17,176,425	-	-	17,176,425
Mutual funds	26,964,613	-	-	26,964,613
	<u>\$ 112,794,950</u>	<u>\$ 14,220,593</u>	<u>\$ -</u>	<u>127,015,543</u>
Investments at NAV (b)				<u>75,692,763</u>
Total assets				<u>\$ 202,708,306</u>

- b. In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in Note 11 Retirement Plans.

All financial instruments are valued using a market approach involving identical or comparable assets.

Care New England Health System and Affiliates
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

Financial instruments carried at fair value for assets invested in Memorial's Defined Benefit Pension Plan as of September 30, 2018 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	2018
Assets				
Cash and cash equivalents	\$ 7,365,132	\$ -	\$ -	\$ 7,365,132
Equity securities	4,993,535	-	-	4,993,535
Mutual funds	4,960,547	-	-	4,960,547
Guaranteed annuity contracts	-	-	53,655,830	53,655,830
	<u>\$ 17,319,214</u>	<u>\$ -</u>	<u>\$ 53,655,830</u>	<u>70,975,044</u>
Investments at NAV (c)				<u>11,604,221</u>
Total assets				<u>\$ 82,579,265</u>

Financial instruments carried at fair value for assets invested in Memorial's Defined Benefit Pension Plan as of September 30, 2017 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	2017
Assets				
Cash and cash equivalents	\$ 20,232,929	\$ -	\$ -	\$ 20,232,929
Equity securities	4,424,060	-	-	4,424,060
Mutual funds	5,324,457	-	-	5,324,457
Guaranteed annuity contracts	-	-	60,123,517	60,123,517
	<u>\$ 29,981,446</u>	<u>\$ -</u>	<u>\$ 60,123,517</u>	<u>90,104,963</u>
Investments at NAV (c)				<u>15,099,096</u>
Total assets				<u>\$ 105,204,059</u>

- c. In accordance with Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in Note 11 Retirement Plans.

All financial instruments are valued using a market approach involving identical or comparable assets.

Care New England Health System and Affiliates
Notes to Consolidated Financial Statements
September 30, 2018 and 2017

During the years ended September 30, 2018 and 2017, respectively, the changes in the fair value for the System's financial instruments in the nonpension plan assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	2018	2017
Fair value at October 1	\$ 28,673,920	\$ 25,306,003
Total gains (losses)		
Contributions	1,550	1,404,762
Dividends and interest income	215,885	254,512
Net realized gains on investments	2,002,246	689,139
Change in net unrealized (depreciation) appreciation on investments	(135,978)	2,092,185
Transfers in and/or out of Level 3	<u>(1,185,865)</u>	<u>(1,072,681)</u>
Fair value at September 30	<u>\$ 29,571,758</u>	<u>\$ 28,673,920</u>

During the years ended September 30, 2018 and 2017, respectively, the changes in the fair value for the System's financial instruments in Memorial's Defined Benefit Pension Plan assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	2018	2017
Fair value at October 1	\$ 60,123,517	\$ 65,127,661
Total gains (losses)		
Dividends and interest income	1,861,756	1,919,578
Net realized gains on investments	186,344	-
Change in net unrealized (depreciation) appreciation on investments	1,158,225	(2,290,936)
Benefit payments	(4,483,822)	(4,632,786)
Transfers in and/or out of Level 3	<u>(5,190,190)</u>	<u>-</u>
Fair value at September 30	<u>\$ 53,655,830</u>	<u>\$ 60,123,517</u>

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

The Health System uses NAV to determine the fair value of its investments which do not have a readily determinable fair market value. The following tables summarize the key provisions for the Health System's nonpension plan investments as of September 30, 2018 and 2017, respectively, which are valued at NAV.

Redemption Terms as of September 30, 2018	Commingled Funds Equity	Commingled Funds Real Assets	Limited Partnership	Total
Endowment and board designated funds				
Daily, 0-1 day prior written notice	\$ 8,593,014	\$ -	\$ -	\$ 8,593,014
Bi-Monthly, Monthly, 7-30 days prior written notice	6,795,640	6,522,139	6,882,054	20,199,833
3 years, 90 days prior written notice	-	-	3,468,225	3,468,225
6-12 years	-	-	9,427,382	9,427,382
	<u>\$ 15,388,654</u>	<u>\$ 6,522,139</u>	<u>\$ 19,777,661</u>	<u>\$ 41,688,454</u>
Trustee-held funds				
Daily, 30 days prior written notice	\$ 11,208,872	\$ -	\$ -	\$ 11,208,872
Monthly, 5-30 days prior written notice	10,457,359	-	-	10,457,359
	<u>\$ 21,666,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,666,231</u>

Redemption Terms as of September 30, 2017	Commingled Funds Equity	Commingled Funds Real Assets	Limited Partnership	Total
Endowment and board designated funds				
Daily, 0-1 day prior written notice	\$ 8,241,695	\$ -	\$ -	\$ 8,241,695
Bi-Monthly, Monthly, 7-30 days prior written notice	6,687,601	6,127,107	12,854,811	25,669,519
3 years, 90 days prior written notice	-	-	3,243,650	3,243,650
6-12 years	-	-	8,556,574	8,556,574
	<u>\$ 14,929,296</u>	<u>\$ 6,127,107</u>	<u>\$ 24,655,035</u>	<u>\$ 45,711,438</u>
Trustee-held funds				
Daily, 30 days prior written notice	\$ 9,949,023	\$ -	\$ -	\$ 9,949,023
Monthly, 5-30 days prior written notice	11,948,250	-	-	11,948,250
	<u>\$ 21,897,273</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,897,273</u>

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

Fixed Income Securities and Fixed Income Mutual Funds

The estimated fair values of investments in fixed income securities and mutual funds are based on quoted prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. The marketable fixed income securities and mutual funds classified as Level 1 were classified based on quoted prices of the actual instruments in active markets. The fixed income securities classified as Level 2 were classified as such due to the usage of observable market prices for similar securities that are traded in less active markets or when observable

Care New England Health System and Affiliates

Notes to Consolidated Financial Statements

September 30, 2018 and 2017

market prices for identical securities are not available. Marketable debt instruments are priced using: quoted market prices for similar instruments or pricing models, such as a discounted cash flow model, with all significant inputs corroborated with observable market data. These Level 2 securities primarily include corporate bonds, notes and other fixed income securities.

Equity Securities and Equity Mutual Funds

The fair values of investments in equity securities and mutual funds classified primarily as Level 1 are based on quoted market prices.

Assets Held Under Split-Interest Agreements

The estimated fair values of assets held under split-interest agreements are determined based upon information provided by the trustees and assessed for reasonableness by management. Such information is generally based on the pro rata interest in the net assets of the underlying investments. These assets consist primarily of cash equivalents and marketable securities.

Guaranteed Annuity Contracts

The estimated fair values of guaranteed annuity contracts are based on the book value of the contract (equal to the market value of the contract after its discontinuance) provided by the insurance company to the contract holder.

25. Subsequent Events

In April 2017, Care New England Board of Directors voted to pursue an acquisition by Partners HealthCare System, Inc. ("Partners"), signing a letter of intent ("LOI") and agreeing to negotiate exclusively with Partners. Following an extensive due diligence process, in May 2018 Partners and CNE signed the definitive agreement formalizing Partner's planned acquisition of CNE. CNE and Partners are in the process of preparing the regulatory filings necessary to obtain the required state (both Massachusetts and Rhode Island) and federal regulatory approvals. Care New England plans to file the Rhode Island Hospital Conversion Act Application with the Rhode Island Department of Health and the Rhode Island Attorney General during the week of December 17, 2018.

Care New England Health System has assessed the impact of subsequent events through December 19, 2018, the date the audited consolidated financial statements were issued and has concluded that there were no such events other than noted above requiring adjustments to the audited consolidated financial statements or disclosure in the notes to the audited consolidated financial statements.

Supplemental Consolidating Information

Care New England Health System and Affiliates

Note to Supplemental Consolidating Information

September 30, 2018 and 2017

Basis of Presentation

The following supplemental consolidating information includes the consolidating balance sheets and the consolidating statement of operations and changes in net assets of the individual subsidiaries of Care New England Health System as of and for the fiscal year ended September 30, 2018. All intercompany accounts and transactions between subsidiaries have been eliminated. Care New England Medical Group, LLC ("CNEMG") has been presented in its own column in the following supplemental schedules, separate from the other Kent County Memorial Hospital ("Kent") affiliates due to increased activity at CNEMG. Intercompany transactions between the two entities primarily consist of a payment between Kent and CNEMG totaling \$19,536, for the year ended September 30, 2018, which has not been eliminated between the two columns. The consolidating information presented is prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America consistent with the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements and is not required as part of the basic financial statements.

On December 21, 2017, the Boards of Directors (the "Boards") of Care New England Health System, Butler Hospital, Kent County Memorial Hospital, Kent County Visiting Nurse Association, Southeastern Healthcare System, Inc., The Memorial Hospital, The Providence Center, Inc., Women and Infants Corporation and Women and Infants Hospital of Rhode Island (collectively, the "Obligated Group"), who are parties to a Master Trust Indenture dated as of September 1, 2016, determined that Memorial withdraw from the Obligated Group. On December 22, 2017, the Master Trustee approved the release of Memorial from the Obligated Group. The consolidating information for 2018 is presented for both the Consolidated and Obligated Group versions of the Balance Sheet, Statement of Operations, and statement of Changes in Net Assets.

Care New England Health System and Affiliates

Consolidating Balance Sheet

September 30, 2018

	Butler and Affiliates	Kent and Affiliates	Care New England Medical Group	WIC and Affiliates	Care New England	The Agency ¹	SHS and PCCNE ¹	Integra	The Center	Eliminations	Total Obligated Group	Memorial Hospital ²	Eliminations	Total
Assets														
Current assets														
Cash and cash equivalents	\$ (1,616,546)	\$ 36,493,736	\$ (24,006,002)	\$ 106,100,085	\$ (54,387,085)	\$ (6,349,376)	\$ -	\$ (10,138,658)	\$ 1,281,130	\$ -	\$ 47,377,284	\$ (1,552)	\$ -	\$ 47,375,732
Patient accounts receivable	10,285,140	48,306,834	10,817,133	69,602,046	8,238	3,489,819	-	-	8,881,665	-	151,390,875	685,347	-	152,076,222
Less: Allowance for doubtful accounts	(3,508,103)	(14,728,400)	(4,553,595)	(12,741,676)	-	(762,124)	-	-	(3,043,511)	-	(39,337,409)	(685,347)	-	(40,022,756)
Net patient accounts receivable	6,777,037	33,578,434	6,263,538	56,860,370	8,238	2,727,695	-	-	5,838,154	-	112,053,466	-	-	112,053,466
Other receivables	3,461,496	1,786,814	1,392,356	10,864,527	138,167	747,400	-	7,405,867	326,361	-	26,122,988	2,519,527	-	28,642,515
Pledges receivable, net	25,549	159,528	-	154,994	-	-	-	-	8,725	-	348,796	-	-	348,796
Other current assets	432,802	5,481,617	562,641	6,429,245	8,300,413	28,268	-	74,372	158,998	-	21,468,356	571,415	-	22,039,771
Current portion of assets whose use is limited	-	-	-	-	1,644,087	-	-	-	-	-	1,644,087	-	-	1,644,087
Due from affiliates	46,216	-	-	852	4,740,041	-	-	-	-	(4,787,109)	-	-	-	-
Total current assets	9,126,554	77,500,129	(15,787,467)	180,410,073	(39,556,139)	(2,846,013)	-	(2,658,419)	7,613,368	(4,787,109)	209,014,977	3,089,390	-	212,104,367
Assets whose use is limited or restricted as to use														
Endowment funds	19,910,934	18,452,374	-	17,730,059	-	-	-	-	1,750,431	-	57,843,798	11,915,379	-	69,759,177
Board-designated funds	7,274,907	24,573,409	-	90,788,039	-	782,592	-	-	-	-	123,418,947	-	-	123,418,947
Trustee-held funds	3,595,858	51,551,798	-	101,849,623	16,872,575	-	-	-	772,559	-	174,642,413	-	-	174,642,413
Deferred compensation funds	206,491	72,252	-	356,319	807,641	-	-	-	-	-	1,442,703	-	-	1,442,703
Total assets limited as to use	30,988,190	94,649,833	-	210,724,040	17,680,216	782,592	-	-	2,522,990	-	357,347,861	11,915,379	-	369,263,240
Less: Amounts required to meet current obligations	-	-	-	-	(1,644,087)	-	-	-	-	-	(1,644,087)	-	-	(1,644,087)
Noncurrent assets limited as to use	30,988,190	94,649,833	-	210,724,040	16,036,129	782,592	-	-	2,522,990	-	355,703,774	11,915,379	-	367,619,153
Goodwill	-	-	-	-	-	-	-	-	143,611	-	143,611	24,345,364	-	24,488,975
Intangibles	-	-	-	-	-	-	-	-	1,080,000	-	1,080,000	-	-	1,080,000
Property, plant and equipment, net	21,479,647	66,567,831	-	118,979,528	24,266,204	348,132	-	-	15,977,397	-	247,618,739	5,527,025	-	253,145,764
Pledges receivable, net	39,056	50,526	-	-	-	-	-	-	-	-	89,582	-	-	89,582
Insurance receivable	347,559	-	-	-	-	-	-	-	-	-	347,559	5,550,509	-	5,898,068
Other assets	-	510,171	161,221	1,054,868	3,919,208	-	-	-	22,860	-	5,668,328	5,000	-	5,673,328
Due from affiliates	-	-	-	-	109,241,027	-	-	-	-	-	109,241,027	-	(109,241,027)	-
Total assets	\$ 61,981,006	\$ 239,278,490	\$ (15,626,246)	\$ 511,168,509	\$ 113,906,429	\$ (1,715,289)	\$ -	\$ (2,658,419)	\$ 27,360,226	\$ (4,787,109)	\$ 928,907,597	\$ 50,432,667	\$ (109,241,027)	\$ 870,099,237

¹ Includes Southeastern Healthcare System Inc. and Primary Care Centers of New England, Inc.

² Includes The Memorial Hospital and affiliates

³ effective July 1, 2018, the balance sheet of Blackstone Health, Inc. transferred from Southeastern Healthcare System, Inc. to the Agency

Care New England Health System and Affiliates

Consolidating Balance Sheet

September 30, 2018

	Butler and Affiliates	Kent and Affiliates	Care New England Medical Group	WIC and Affiliates	Care New England	The Agency ¹	SHS and PCCNE ¹	Integra	The Center	Eliminations	Total Obligated Group	Memorial Hospital ²	Eliminations	Total
Liabilities and Net Assets														
Current liabilities														
Notes payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued expenses	6,819,225	36,308,891	4,766,342	28,854,933	20,675,477	2,363,148	-	7,114,612	1,569,106	-	108,471,734	1,421,304	-	109,893,038
Current portion of long-term debt and capital leases	138,674	236,007	-	40,781	5,590,579	-	-	-	53,472	-	6,059,513	29,179	-	6,088,692
Current portion of long-term debt, due to parent	149,660	605,053	-	594,701	-	-	-	-	-	(1,349,414)	-	-	-	-
Self-insurance reserves	-	-	-	-	10,359,395	-	-	-	-	-	10,359,395	-	-	10,359,395
Pension liability	801,254	11,343,561	-	1,965,470	3,577,861	129,377	-	-	1,088,561	-	18,906,084	-	-	18,906,084
Other current liabilities	7,387,784	732,397	-	5,058,287	878,738	442,719	-	113,831	205,593	-	14,819,349	3,653,347	-	18,472,696
Due to affiliates	-	62,237	-	-	-	-	-	-	3,375,458	(3,437,695)	-	-	-	-
Total current liabilities	15,296,597	49,288,146	4,766,342	36,514,172	41,082,050	2,935,244	-	7,228,443	6,292,190	(4,787,109)	158,616,075	5,103,830	-	163,719,905
Long term liabilities														
Self-insurance reserves	3,577,575	45,087,651	-	84,128,250	8,945,228	-	-	-	-	-	141,738,704	6,569,509	-	148,308,213
Long-term portion of estimated third-party payor settlements and advances	2,118,724	779,999	-	13,819,931	-	287,349	-	-	-	-	17,006,003	10,606,053	-	27,612,056
Long-term debt and capital leases	2,764,598	1,603,893	-	86,782	161,101,747	-	-	-	149,281	-	165,706,301	38,582	-	165,744,883
Pension liability	7,058,346	11,964,705	-	5,493,744	64,352,651	1,010,797	-	-	-	-	89,880,243	-	-	89,880,243
Postretirement liability	-	1,092,755	-	-	-	-	-	-	-	-	1,092,755	-	-	1,092,755
Other liabilities	1,151,394	1,202,010	-	356,319	-	-	-	-	-	-	2,709,723	4,354,966	-	7,064,689
Due to affiliates	-	-	-	-	-	-	-	-	-	-	-	109,241,027	(109,241,027)	-
Total liabilities	31,967,234	111,019,159	4,766,342	140,399,198	275,481,676	4,233,390	-	7,228,443	6,441,471	(4,787,109)	576,749,804	135,913,967	(109,241,027)	603,422,744
Net assets														
Unrestricted	7,867,057	109,522,864	(20,392,588)	343,238,081	(161,575,247)	(5,925,287)	-	(9,887,570)	15,709,783	-	278,557,093	(97,861,996)	-	180,695,097
Temporarily restricted	18,518,664	4,417,381	-	15,504,043	-	(23,392)	-	708	3,529,944	-	41,947,348	1,407,648	-	43,354,996
Permanently restricted	3,628,051	14,319,086	-	12,027,187	-	-	-	-	1,679,028	-	31,653,352	10,973,048	-	42,626,400
Total net assets	30,013,772	128,259,331	(20,392,588)	370,769,311	(161,575,247)	(5,948,679)	-	(9,886,862)	20,918,755	-	352,157,793	(85,481,300)	-	266,676,493
Total liabilities and net assets	\$ 61,981,006	\$ 239,278,490	\$ (15,626,246)	\$ 511,168,509	\$ 113,906,429	\$ (1,715,289)	\$ -	\$ (2,658,419)	\$ 27,360,226	\$ (4,787,109)	\$ 928,907,597	\$ 50,432,667	\$ (109,241,027)	\$ 870,099,237

¹ includes Southeastern Healthcare System Inc. and Primary Care Centers of New England, Inc.

² includes The Memorial Hospital and affiliates

³ effective July 1, 2018, the balance sheet of Blackstone Health, Inc. transferred from Southeastern Healthcare System, Inc. to the Agency

Care New England Health System and Affiliates

Consolidating Statement of Operations

Year Ended September 30, 2018

	Butler and Affiliates	Kent and Affiliates	Care New England Medical Group	WIC and Affiliates	Care New England	The Agency ¹	Southeastern Healthcare System, Inc. and Affiliates ¹	Integra	The Center	Eliminations	Total Obligated Group	Memorial Hospital ²	Eliminations	Total
Revenues and gains														
Patient service revenue (net of contractual allowances)	\$ 73,233,312	\$ 348,920,718	\$ 88,771,036	\$ 431,515,622	\$ 226,149	\$ 21,803,111	\$ 17,927,359	\$ -	\$ 46,115,025	\$ -	\$ 1,028,512,332	\$ 11,702,673	\$ -	\$ 1,040,215,005
Provision for bad debts	(1,671,992)	(15,789,592)	(5,679,227)	(8,377,589)	34,000	(146,018)	(1,532,138)	-	-	-	(33,162,556)	161,054	-	(33,001,502)
Net patient service revenue less provision for bad debts	71,561,320	333,131,126	83,091,809	423,138,033	260,149	21,657,093	16,395,221	-	46,115,025	-	995,349,776	11,863,727	-	1,007,213,503
Research revenue	13,189,278	709,281	-	16,021,748	-	-	1,139,283	26,170	-	-	31,085,760	3,143,641	-	34,229,401
Other revenue	19,277,733	15,603,457	62,435,419	44,283,179	137,025,273	1,022,812	1,703,358	10,320,255	4,967,631	(204,936,773)	91,702,344	1,986,907	(6,728,103)	86,961,148
Net assets released from restrictions and used for operations	544,777	646,992	-	993,797	-	8,464	28,486	173,525	341,559	-	2,737,600	68,158	-	2,805,758
Total revenues and gains	104,573,108	350,090,856	145,527,228	484,436,757	137,285,422	22,688,369	19,266,348	10,519,950	51,424,215	(204,936,773)	1,120,875,480	17,062,433	(6,728,103)	1,131,209,810
Operating expenses														
Salaries and benefits	56,843,800	141,507,491	115,351,695	214,787,036	71,661,746	16,788,723	10,810,313	5,055,533	42,665,122	513,304	675,984,763	3,061,739	-	679,046,502
Supplies and other expenses	27,412,592	156,016,822	27,273,700	191,232,355	60,869,121	4,795,336	11,401,843	7,514,882	10,160,194	(201,344,808)	295,332,037	8,535,083	(6,728,103)	297,139,017
Research expenses	13,195,777	695,704	-	15,852,973	-	-	1,140,559	26,170	-	-	30,911,183	2,936,564	-	33,847,747
Depreciation and amortization	3,417,611	7,477,871	-	9,775,320	6,785,847	137,348	1,037,601	-	1,016,445	-	29,648,043	373,853	-	30,021,896
Insurance	2,802,413	16,044,664	2,916,549	10,515,212	301,655	237,161	349,752	96,048	658,842	(4,105,269)	29,817,027	1,666,855	-	31,483,882
Licensure fee	-	17,439,439	-	24,333,223	-	-	1,551,376	-	-	-	43,324,038	5,401,782	-	48,725,820
Interest	934,953	1,605,800	-	3,040,460	1,808,228	690	225,886	-	359,564	-	7,975,581	31,586	-	8,007,167
Loss on asset impairment - Memorial Hospital	-	-	-	-	-	-	-	-	-	-	-	22,560,986	-	22,560,986
Restructuring costs - Memorial Hospital	-	-	-	-	-	-	1,170,220	-	-	-	1,170,220	6,010,610	-	7,180,830
Restructuring costs	(84,006)	152,764	(14,716)	(323,807)	369,825	(26,727)	-	-	-	-	73,333	-	-	73,333
Total operating expenses	104,523,140	340,940,555	145,527,228	469,212,772	141,796,422	21,932,531	27,687,550	12,692,633	54,860,167	(204,936,773)	1,114,236,225	50,579,058	(6,728,103)	1,158,087,180
Income (loss) from operations	49,968	9,150,301	-	15,223,985	(4,511,000)	755,838	(8,421,202)	(2,172,683)	(3,435,952)	-	6,639,255	(33,516,625)	-	(26,877,370)
Nonoperating gains (losses)														
Investment income on assets limited as to use	988,846	2,058,807	-	7,909,549	813,469	41,355	1,183	-	-	-	11,813,209	10	-	11,813,219
Unrestricted gifts and bequests	26,227	135,699	-	147,248	-	64,277	61,961	-	242,667	-	678,079	290,696	-	968,775
Change in net unrealized gains on investments	340,504	735,061	-	971,776	(24,182)	14,962	(45)	-	-	-	2,038,076	554	-	2,038,630
Other components of current period pension	(157,872)	(287,158)	-	(135,797)	(1,817,299)	(24,721)	(472,140)	-	-	-	(2,894,987)	(56,884)	-	(2,951,871)
Pension settlement	(1,220,396)	(5,175,940)	-	(2,559,286)	(1,562,386)	(1,434,529)	(19,143,467)	-	-	-	(31,096,004)	-	-	(31,096,004)
Other	760	84,356	-	302,749	(1,836,050)	-	-	-	(61,682)	-	(1,509,867)	-	-	(1,509,867)
Net nonoperating (losses) gains	(21,931)	(2,449,175)	-	6,636,239	(4,426,448)	(1,338,656)	(19,552,508)	-	180,985	-	(20,971,494)	234,376	-	(20,737,118)
Excess (deficiency) of revenues and gains over expenses and losses	\$ 28,037	\$ 6,701,126	\$ -	\$ 21,860,224	\$ (8,937,448)	\$ (582,818)	\$ (27,973,710)	\$ (2,172,683)	\$ (3,254,967)	\$ -	\$ (14,332,239)	\$ (33,282,249)	\$ -	\$ (47,614,488)
Other changes in unrestricted net assets														
Pension and postretirement adjustments	2,115,176	8,700,454	-	4,316,637	8,806,404	2,083,159	12,190,925	-	-	-	38,212,755	-	-	38,212,755
Net assets released from restrictions used for purchase of property, plant and equipment	8,812	916,235	-	479,051	-	-	-	-	148,806	-	1,552,904	10,137	-	1,563,041
Transfer to temporarily restricted net assets	-	-	-	(201,322)	-	-	-	-	-	-	(201,322)	1,076,142	-	874,820
Transfers	-	-	-	-	(70,122,853)	772,409	(772,409)	-	-	-	(70,122,853)	70,122,853	-	-
Transfer of net assets on 12/22/17 to remove Memorial Hospital from the Obligated Group	-	-	-	-	-	-	135,788,879	-	-	-	135,788,879	(135,788,879)	-	-
Increase (decrease) in unrestricted net assets	2,152,025	16,317,815	-	26,454,590	(70,253,897)	2,272,750	119,233,685	(2,172,683)	(3,106,161)	-	90,898,124	(97,861,996)	-	(6,963,872)

¹ Includes Southeastern Healthcare System, Inc. and affiliates from October 1, 2017 through December 31, 2017; Southeastern Healthcare System Inc., Blackstone Health, Inc., and Primary Care Centers of New England, Inc. beginning December 22, 2017 through June 30, 2018; and Southeastern Healthcare System, Inc. and Primary Care Centers of New England, Inc. beginning July 1, 2018

² Includes The Memorial Hospital and affiliates beginning December 22, 2017

³ effective July 1, 2018, the operations of Blackstone Health, Inc. are included in The Agency

Care New England Health System and Affiliates

Consolidating Statement of Changes in Net Assets

Year Ended September 30, 2018

	Butler and Affiliates	Kent and Affiliates	Care New England Medical Group	WIC and Affiliates	Care New England	The Agency ¹	Southeastern Healthcare System, Inc. and Affiliates ¹	Integra	The Center	Eliminations	Total Obligated Group	Memorial Hospital ²	Eliminations	Total
Unrestricted net assets														
Excess (deficiency) of revenues and gains over expenses and losses	\$ 28,037	\$ 6,701,126	\$ -	\$ 21,860,224	\$ (8,937,448)	\$ (582,818)	\$ (27,973,710)	\$ (2,172,683)	\$ (3,254,967)	\$ -	\$ (14,332,239)	\$ (33,282,249)	\$ -	\$ (47,614,488)
Pension and postretirement adjustments	2,115,176	8,700,454	-	4,316,637	8,806,404	2,083,159	12,190,925	-	-	-	38,212,755	-	-	38,212,755
Net assets released from restrictions used for purchase of property, plant and equipment	8,812	916,235	-	479,051	-	-	-	-	148,806	-	1,552,904	10,137	-	1,563,041
Transfer to temporarily restricted net assets	-	-	-	(201,322)	-	-	-	-	-	-	(201,322)	1,076,142	-	874,820
Transfers	-	-	-	-	(70,122,853)	772,409	(772,409)	-	-	-	(70,122,853)	70,122,853	-	-
Transfer of net assets on 12/22/17 to remove Memorial Hospital from the Obligated Group	-	-	-	-	-	-	135,788,879	-	-	-	135,788,879	(135,788,879)	-	-
Increase (decrease) in unrestricted net assets	2,152,025	16,317,815	-	26,454,590	(70,253,897)	2,272,750	119,233,685	(2,172,683)	(3,106,161)	-	90,898,124	(97,861,996)	-	(6,963,872)
Temporarily restricted net assets														
Contributions	570,196	881,156	-	2,292,034	-	-	147,874	174,233	604,017	-	4,669,510	23,898	-	4,693,408
Income from investments	199,310	57,347	-	100,874	-	-	17,412	-	3,545	-	378,488	22,973	-	401,461
Net realized and unrealized gains from investments	1,245,564	366,950	-	629,449	-	-	117,304	-	5,340	-	2,364,607	135,828	-	2,500,435
Net assets released from restrictions	(965,041)	(1,563,227)	-	(1,472,848)	-	(8,464)	(28,486)	(173,525)	(490,365)	-	(4,701,956)	(78,295)	-	(4,780,251)
Transfer from unrestricted net assets	-	-	-	201,322	-	-	-	-	-	-	201,322	(1,076,142)	-	(874,820)
Transfer to permanently restricted net assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer of net assets on 12/22/17 to remove Memorial Hospital from the Obligated Group	-	-	-	-	-	-	(2,379,386)	-	-	-	(2,379,386)	2,379,386	-	-
Increase (decrease) in temporarily restricted net assets	1,050,029	(257,774)	-	1,750,831	-	(8,464)	(2,125,282)	708	122,537	-	532,585	1,407,648	-	1,940,233
Permanently restricted net assets														
Changes in beneficial interest in perpetual trusts	-	460,475	-	294,525	-	-	210,447	-	-	-	965,447	(148,954)	-	816,493
Changes in beneficial interest in assets held at community foundation	-	-	-	-	-	-	-	-	81,345	-	81,345	-	-	81,345
Contributions	31,523	8,145	-	-	-	-	-	-	-	-	39,668	-	-	39,668
Transfer from unrestricted net assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer from temporarily restricted net assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer of net assets on 12/22/17 to remove Memorial Hospital from the Obligated Group	-	-	-	-	-	-	(11,122,002)	-	-	-	(11,122,002)	11,122,002	-	-
Increase (decrease) in permanently restricted net assets	31,523	468,620	-	294,525	-	-	(10,911,555)	-	81,345	-	(10,035,542)	10,973,048	-	937,506
Increase (decrease) in net assets	3,233,577	16,528,661	-	28,499,946	(70,253,897)	2,264,286	106,196,848	(2,171,975)	(2,902,279)	-	81,395,167	(85,481,300)	-	(4,086,133)
Net assets at														
Beginning of year	26,780,195	111,730,670	(20,392,588)	342,269,365	(91,321,350)	(8,212,965)	(106,196,848)	(7,714,887)	23,821,034	-	270,762,626	-	-	270,762,626
End of year	\$ 30,013,772	\$ 128,259,331	\$ (20,392,588)	\$ 370,769,311	\$ (161,575,247)	\$ (5,948,679)	\$ -	\$ (9,886,862)	\$ 20,918,755	\$ -	\$ 352,157,793	\$ (85,481,300)	\$ -	\$ 266,676,493

¹ Includes Southeastern Healthcare System, Inc. and affiliates from October 1, 2017 through December 21, 2017; Southeastern Healthcare System Inc., Blackstone Health, Inc., and Primary Care Centers of New England, Inc. beginning December 22, 2017 through June 30, 2018; and Southeastern Healthcare System, Inc. and Primary Care Centers of New England, Inc. beginning July 1, 2018

² Includes The Memorial Hospital and affiliates beginning December 22, 2017

³ effective July 1, 2018, the operations of Blackstone Health, Inc. are included in The Agency