

**EXHIBIT C**

**NESH FY 2011**  
**AUDITED FINANCIAL STATEMENTS**

**NEW ENGLAND SINAI HOSPITAL AND AFFILIATE**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2011 AND 2010**



NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

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**Feeley & Driscoll, P.C.**  
Certified Public Accountants / Business Consultants

Board of Directors  
New England Sinai Hospital and Affiliate  
Stoughton, Massachusetts

Independent Auditors' Report

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New England Sinai Hospital and Affiliate as of September 30, 2011 and 2010, and the results of their operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 23 to the financial statements, the Organization has suffered recurring losses from operations and has a net working capital deficiency, which raises substantial doubt about the Organization's ability to continue as a going concern. Management's plans regarding those matters also are described in Note 23. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 22 to the financial statements, these financial statements include a correction of an error in previously issued financial statements.

Boston, Massachusetts  
February 29, 2012

## Consolidated Balance Sheets

September 30, 2011 and 2010

See notes to consolidated financial statements.

NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

Consolidated Statements of Operations

For the years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Unrestricted revenues and other support:		
Net patient service revenue	\$ 74,683,294	\$ 74,302,636
Other revenue	529,500	697,139
Net assets released from restrictions used in operations	149,883	262,839
Total unrestricted revenues and other support	<u>75,362,677</u>	<u>75,262,614</u>
Expenses:		
Salaries and wages	44,944,863	45,228,567
Employee benefits	10,076,751	9,176,009
Supplies and expenses	21,740,192	22,180,514
Depreciation	2,236,275	2,143,553
Interest	230,503	327,757
Provision for uncollectible accounts	1,997,203	1,346,342
Total expenses	<u>81,225,787</u>	<u>80,402,742</u>
Operating loss	<u>(5,863,110)</u>	<u>(5,140,128)</u>
Non-operating gains:		
Investment income and gains	510,750	1,140,391
Gifts and bequests	94,702	271,831
Total non-operating gains	<u>605,452</u>	<u>1,412,222</u>
Deficit of revenues, other support and non-operating gains over expenses and (losses)	(5,257,658)	(3,727,906)
Net assets released for the purchase of property and equipment	838,450	754,453
Adjustment to record additional pension liability not recognized in net periodic pension cost	<u>(2,420,348)</u>	<u>(60,541)</u>
Decrease in unrestricted net assets	<u>\$ (6,839,556)</u>	<u>\$ (3,033,994)</u>

See notes to consolidated financial statements.

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Consolidated Statements of Changes in Net Assets

For the years ended September 30, 2011 and 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, September 30, 2009 (as restated)	\$ 20,618,531	\$ 2,171,589	\$ 1,642,889	\$ 24,433,009
Deficit of revenues, other support and non-operating gains over expenses and (losses)	(3,727,906)			(3,727,906)
Net assets released for the purchase of property and equipment	754,453	(754,453)		-
Contributions		410,456	1,900	412,356
Investment income		249,941	3,249	253,190
Net assets released from restrictions used in operations		(262,839)		(262,839)
Adjustment to record additional pension liability not recognized in net periodic pension cost	(60,541)			(60,541)
Change in net assets	(3,033,994)	(356,895)	5,149	(3,385,740)
Net assets, September 30, 2010 (as restated)	17,584,537	1,814,694	1,648,038	21,047,269
Deficit of revenues, other support and non-operating gains over expenses and (losses)	(5,257,658)			(5,257,658)
Net assets released for the purchase of property and equipment	838,450	(838,450)		-
Contributions		135,729	800	136,529
Investment income		116,938	535	117,473
Transfer of income		8,197	(8,197)	-
Net assets released from restrictions used in operations		(149,883)		(149,883)
Adjustment to record additional pension liability not recognized in net periodic pension cost	(2,420,348)			(2,420,348)
Change in net assets	(6,839,556)	(727,469)	(6,862)	(7,573,887)
Net assets, September 30, 2011	\$ 10,744,981	\$ 1,087,225	\$ 1,641,176	\$ 13,473,382

See notes to consolidated financial statements.

NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

Consolidated Statements of Cash Flows

For the years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ (7,573,887)	\$ (3,385,740)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,236,275	2,143,553
Provision for uncollectible accounts	1,997,203	1,346,342
Adjustment to record additional pension liability	2,420,348	60,541
Donor restricted contributions	(136,529)	(412,356)
Investment income on donor restricted assets	(117,473)	(253,190)
Net realized and unrealized (gains) losses on investments	490,869	(841,916)
Changes in operating assets and liabilities:		
Decrease (increase) in assets:		
Accounts receivable	(1,143,598)	(470,565)
Other accounts receivable	67,207	(69,312)
Inventories	39,800	(143,833)
Other assets	(31,664)	275,416
Prepaid expenses	43,176	(173,433)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	429,294	919,842
Accrued salaries and wages	(270,933)	(585,437)
Payroll withholdings and taxes	603,194	(35,419)
Accrued pension	(253,571)	376,485
Annuities payable	(7,223)	(7,222)
Other liabilities	103,066	(8,000)
Due to third party payors	(472,059)	145,289
Net cash used in operating activities	<u>(1,576,505)</u>	<u>(1,118,955)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,271,223)	(1,334,822)
Assets whose use is limited or restricted:		
Funding for designated purpose funds	(5,585,235)	-
Proceeds from board designated funds	128,269	751,825
Proceeds from (funding for) depreciation fund	7,178,613	(485,972)
Proceeds from donor designated funds	115,193	307,073
Net cash provided by (used in) investing activities	<u>565,617</u>	<u>(761,896)</u>
Cash flows from financing activities:		
Proceeds from restricted contributions	136,529	412,356
Proceeds from investment income on donor restricted assets	117,473	253,190
Payments of notes payable	(2,951,388)	(444,208)
Proceeds from notes payable	2,367,667	471,802
Net proceeds received from line of credit	500,000	2,000,000
Net cash provided by financing activities	<u>170,281</u>	<u>2,693,140</u>
Net (decrease) increase in cash and cash equivalents	(840,607)	812,289
Cash and cash equivalents, beginning of year	<u>1,863,617</u>	<u>1,051,328</u>
Cash and cash equivalents, end of year	<u>\$ 1,023,010</u>	<u>\$ 1,863,617</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 230,503</u>	<u>\$ 327,757</u>

See notes to consolidated financial statements.



## NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

### Notes to Consolidated Financial Statements

September 30, 2011 and 2010

#### Note 1 - Organization

New England Sinai Hospital (the "Hospital"), a non-profit corporation, is a 212 bed health care organization. It operates chronic care beds at three locations; one hundred fifty seven (157) beds at its Stoughton, Massachusetts campus, twenty-one (21) beds at Tufts Medical Center in Boston, Massachusetts, and twenty-five (25) beds at Carney Hospital in Boston, Massachusetts. The Hospital also operates a number of clinics that provide outpatient services.

New England Sinai Hospital Foundation (the "Foundation") is a non-profit corporation established for the purpose of raising philanthropic funds in support of New England Sinai Hospital's programs and patient care activities. The Foundation has one member, the Hospital, acting through its board, who has voting rights on all matters of operations. Pursuant to a vote by the Board of Directors, the Foundation was liquidated and the assets were transferred to the Hospital effective October 1, 2010.

New England Sinai Physician Services Corporation ("NESPSC") is a non-profit corporation organized effective October 1, 2006, and was established for the purpose of providing physician and physician assistant support to the Hospital. The Hospital is the sole member of NESPSC. NESPSC has had no activity since inception.

#### Note 2 - Summary of Significant Accounting Policies

Reporting Entity and Principles of Consolidation - The consolidated financial statements include the accounts of the Hospital and the Foundation (collectively referred to as the "Organization"). NESPSC had no activity during fiscal years 2011 and 2010 and no balance sheet as of September 30, 2011 and 2010, respectively. All intercompany transactions have been eliminated in consolidation.

Basis of Presentation - The accounts of the Organization are maintained on the accrual basis of accounting. Net assets are classified into permanently restricted, temporarily restricted and unrestricted net assets, when appropriate, to properly disclose the nature and amount of significant resources that have been restricted in accordance with specified objectives.

Unrestricted net assets represent amounts not restricted for identified purposes by donors or grantors. These amounts are available to be used by the board of directors for the general purposes of the Organization.

Temporarily restricted net assets are those whose use by the Organization have been limited by donors to a specific period or purpose.

Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies - Continued

Use of Estimates - The preparation of consolidated financial statements in accordance 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three (3) months or less, excluding those assets included in assets whose use is limited or restricted.

Allowance for Doubtful Accounts - The Organization provides an allowance for doubtful accounts equal to estimated bad debt losses. The estimated losses are based upon historical collection experience together with a review of the current status of the existing receivables.

Inventories - Inventories, consisting of supplies, are stated at the lower of cost or market on a first-in, first-out basis.

Assets Whose Use is Limited or Restricted - Assets whose use is limited or restricted include assets set aside by the board of directors for designated purposes and for future capital improvements over which the board retains control and may, at its discretion, subsequently use for other purposes, and assets restricted by donors or grantors for specific purposes and assets to be held in perpetuity.

Investments and Investment Income - Substantially all of the Organization's investments are classified as trading and, accordingly, unrealized gains and losses are included in the deficit of revenues over expenses as a component of investment income.

Investment securities are measured and recorded at fair value in the consolidated balance sheet. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

Unrestricted investment income is reported in the statement of operations. Temporarily or permanently restricted investment income and gains and losses are reported in the statement of changes in net assets as an increase or decrease to the appropriate net asset category.

Property and Equipment - Property and equipment are recorded at cost or, if donated, at fair value at the date of receipt. Depreciation is calculated using the straight-line method over the estimated useful asset lives, as recommended by the American Hospital Association.

NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

Note 2 - Summary of Significant Accounting Policies - Continued

Statement of Operations - For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as non-operating gains.

Deficit of Revenue Over Expenses - The consolidated statements of operations include the deficit of revenue over expenses. Changes in unrestricted net assets which are excluded from deficit of revenue over expenses, consistent with industry practice, include unrealized gains (losses) on investments classified as other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets) and the change in the additional minimum pension liability not recognized in net periodic pension cost.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Laws and regulations governing the Medicare program is complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Retroactive adjustments are accrued on an estimated basis in the period the services are rendered and adjusted in future periods as final settlements are determined.

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

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

Income Taxes - The Hospital, the Foundation and NESPSC are nonprofit organizations as described in Section 501(c)(3) of the Internal Revenue Code, and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Organization annually evaluates its tax status and tax positions taken with respect to its operations and financial position. Tax years from 2007 through the current year remain open for examination by federal and state taxing authorities.

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 2 - Summary of Significant Accounting Policies - Continued

**Subsequent Events** - The Organization has evaluated subsequent events through February 29, 2012, which is the date the financial statements were available for issuance.

### Note 3 - Concentration of Credit Risk

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

	<u>2011</u>	<u>%</u>	<u>2010</u>	<u>%</u>
Medicare	\$ 5,707,705	30.6%	\$ 8,355,637	43.1%
Medicaid	6,218,792	33.3%	4,429,365	22.9%
Blue Cross/Blue Shield of Massachusetts	3,589,973	19.2%	3,426,395	17.7%
HMO's	1,203,901	6.4%	1,004,702	5.2%
Other payors, including self pay and commercial	1,958,082	10.5%	2,157,188	11.1%
	<u>18,678,453</u>	<u>100.0%</u>	<u>19,373,287</u>	<u>100.0%</u>
Less allowance for doubtful accounts	<u>2,974,124</u>		<u>2,815,353</u>	
Accounts receivable, net	<u>\$ 15,704,329</u>		<u>\$ 16,557,934</u>	

In accordance with the Organization's credit and collection program, certain accounts are assigned to bad debts when all practical collection efforts are exhausted. In anticipation of accounts that have not been formally written off, an allowance is established. The components to arrive at the allowance for doubtful accounts are as follows at September 30:

	<u>2011</u>	<u>2010</u>
Allowance for doubtful accounts, beginning	\$ 2,815,353	\$ 2,680,300
Bad debts written-off	(1,838,432)	(1,211,289)
Provision for uncollectible accounts	<u>1,997,203</u>	<u>1,346,342</u>
Allowance for doubtful accounts, ending	<u>\$ 2,974,124</u>	<u>\$ 2,815,353</u>

Management continually monitors and evaluates the allowance for doubtful accounts to ensure that receivables are stated at their net realizable value. Management believes that the receivable balances from various payors do not represent a concentration of credit risk to the Organization.

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 3 - Concentration of Credit Risk - Continued

The Organization has a potential concentration of credit risk in that it maintains deposits with a financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The maximum deposit insurance amount is \$250,000 for interest-bearing accounts, which is applied per depositor, per insured depository institution for each account ownership category. Non-interest bearing transaction deposit accounts are provided unlimited insurance coverage through December 31, 2012. As of September 30, 2011 and 2010, the Organization had \$223,431 and \$1,771,396, respectively, in excess of FDIC limits.

### Note 4 - Net Patient Service Revenue

Net patient service revenue was comprised of the following for the years ended September 30:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue:		
Routine services	\$ 81,622,542	\$ 69,240,682
Ancillary services - inpatient	94,302,201	83,767,162
Ancillary services - outpatient	<u>10,195,452</u>	<u>10,004,514</u>
	186,120,195	163,012,358
Contractual and rate adjustments	(111,543,901)	(88,618,519)
Change in prior years estimates	<u>107,000</u>	<u>(91,203)</u>
Net patient service revenue	<u>\$ 74,683,294</u>	<u>\$ 74,302,636</u>

Net patient service revenue is reported at estimated realizable amounts from third parties. Retroactive adjustments, related to the Organization's settlement activity, are accrued on an estimated basis in the period that the related services are rendered, and adjusted in future periods as final settlements are determined. Changes in the prior year's estimated settlements or retroactive adjustments increased (decreased) net patient service revenue by approximately \$107,000 and \$(91,203) during 2011 and 2010, respectively.

### Note 5 - Third Party Reimbursement

The Organization has agreements with third-party reimbursing agencies that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

Note 5 - Third Party Reimbursement - Continued

The Organization maintains agreements with the Centers for Medicare and Medicaid Services ("CMS") and the Commonwealth of Massachusetts (the "Commonwealth") to provide patient care for Medicare and Medicaid beneficiaries. In addition, the Organization has also contracted with various health insurers, including those that offer commercial indemnity and managed care products, to accept negotiated rates of payment for applicable patients and services. For some of these contracts, the Organization is required to prepare cost reports that summarize actual and allowable cost information.

Medicare - Inpatient acute and long-term care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic and other factors. The Organization files an annual cost report with the Medicare program after the completion of each fiscal year to report activity applicable to the Medicare program and to determine any final settlements. The Hospital's Medicare cost report audits have not been finalized by the Medicare fiscal intermediary for fiscal years 2007, 2008, 2010 and 2011.

CMS reimburses the Organization under the Long Term Care Prospective Payment System, which predicates payment for inpatient services upon the expected resource utilization of each patient based upon his or her diagnosis. The Organization is also reimbursed under a similar prospective payment system for all outpatient services.

Medicaid - The Medicaid program reimburses the Organization at an established per diem rate for inpatient services and a percent of the Organization's established charges for all outpatient services. Both of these rates are premised on the Organization's historical cost experience and are subject to adjustment by the Commonwealth.

Other - The Organization has entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates. In general, the Organization's Blue Cross contract reimburses the Organization on a prospectively determined rate basis.

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 6 - Assets Whose Use is Limited or Restricted

The composition of assets whose use is limited or restricted is set forth in the following table at September 30:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 9,063,300	\$ 75,738
Corporate bonds	1,131,206	4,655,458
Government and agency bonds	894,503	740,513
Treasury notes	684,179	684,157
Foreign funds	199,326	1,317,447
Fixed income	173,006	-
Money market funds	38,366	46,582
Pledges receivable	157,170	272,363
Corporate stocks	-	5,210,854
Lifestyle funds	-	1,591,114
Municipal bonds	-	74,539
Total Assets whose use is limited or restricted	<u>\$ 12,341,056</u>	<u>\$ 14,668,765</u>

Assets whose use is limited or restricted are reported in the balance sheet as follows at September 30:

	<u>2011</u>	<u>2010</u>
Board - designated funds:		
For designated purpose	\$ 6,414,239	\$ 829,004
Depreciation fund	3,198,416	10,377,029
Donor - designated funds	2,571,231	3,190,369
Capital campaign, net	<u>157,170</u>	<u>272,363</u>
Total assets whose use is limited or restricted	<u>\$ 12,341,056</u>	<u>\$ 14,668,765</u>

**NEW ENGLAND SINAI HOSPITAL AND AFFILIATE**

**Notes to Consolidated Financial Statements - Continued**

**September 30, 2011 and 2010**

**Note 6 - Assets Whose Use is Limited or Restricted - Continued**

Investment income consisted of the following for the years ended September 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Board designated investment income in operating income	\$ -	\$ 5,318
Non-operating investment income	19,881	416,110
Realized gain on sale of investments	1,204,401	48,261
Unrealized (loss) gain on investments	<u>(713,532)</u>	<u>676,020</u>
	<u>510,750</u>	<u>1,145,709</u>
Temporarily Restricted Net Assets:		
Investment income	-	132,306
Realized gain on sale of investments	6,871	12,069
Unrealized gain on investments	<u>110,067</u>	<u>105,566</u>
	<u>116,938</u>	<u>249,941</u>
Permanently Restricted Net Assets:		
Investment income	<u>535</u>	<u>3,249</u>
Grand Total	<u>\$ 628,223</u>	<u>\$ 1,398,899</u>

2011: Pledges receivable included in donor restricted net assets are due as follows at September 30,

Due in one year	\$ 102,976
Due in two to five years	<u>82,936</u>
Total	185,912
Less unamortized discount rate of 5%	4,864
Less allowance for uncollectible pledges	<u>23,878</u>
	<u>\$ 157,170</u>



# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 7 - Fair Value Measurements

The fair value framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the hierarchy are as follows:

**Level 1** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

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**Level 2** Inputs to the valuation methodology include

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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**Level 3** Valuations using unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes assets and liabilities whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the reporting entity's assumptions about the assumptions market participants would use as well as those requiring significant management judgment.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

*Cash and cash equivalents and fixed income:* Valued at the closing price reported in the active market in which the investment is traded.

*Money market investments and marketable equity securities:* Valued at the closing price reported in the active market in which the investment is traded. When quoted prices are not available for identical or similar equity securities, the investment is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 7 - Fair Value Measurements - Continued

*Corporate bonds and U.S. government obligations:* Valued at the closing price reported in the active market in which the investment is traded. When closing prices are not available, the investment is valued based on yields currently available on comparable investments of issuers with similar credit ratings.

*Mutual funds:* Valued at the net asset value (NAV) of shares held by the Organization at year end.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of September 30, 2011:

	Assets at Fair Value as of September 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments included in:				
Cash and cash equivalents	\$ 9,063,300	\$ -	\$ -	\$ 9,063,300
Corporate bonds	1,131,206			1,131,206
Government and agency bonds	894,503			894,503
Treasury notes	684,179			684,179
Foreign funds	199,326			199,326
Fixed income	173,006			173,006
Money market funds	38,366			38,366
Total assets	<u>\$12,183,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$12,183,886</u>

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 7 - Fair Value Measurements - Continued

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of September 30, 2010:

	Assets at Fair Value as of September 30, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments included in:				
Corporate stocks	\$ 5,210,854	\$ -	\$ -	\$ 5,210,854
Corporate bonds	4,655,458			4,655,458
Lifestyle funds	1,591,114			1,591,114
Foreign funds	1,317,447			1,317,447
Government and agency bonds	740,513			740,513
Treasury notes	684,157			684,157
Cash and cash equivalents	75,738			75,738
Municipal bonds	74,539			74,539
Money market funds	46,582			46,582
Total assets	<u>\$14,396,402</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$14,396,402</u>

### Note 8 - Endowments

The Organization's endowment includes both donor restricted endowment funds and funds designated by the board of directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Organization has interpreted state law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the Organization's board of directors and expended. State law allows the board to appropriate as much of the net appreciation of permanently restricted net assets as is prudent considering the Organization's long and short-term needs, present and anticipated financial requirements, expected total return on investments, price-level trends, and general economic conditions. The Board appropriated \$14,492 and \$16,370 in gains in 2011 and 2010, respectively.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 8 - Endowments - Continued

Changes in endowment assets for the year ended September 30, 2011 were as follows:

	Board Designated	Temporarily Restricted Investments	Permanently Restricted Investments	Total Endowment Assets
Endowment assets - beginning of year	\$ 829,004	\$ 177,117	\$ 1,648,038	\$ 2,654,159
Contributions	-	-	800	800
Investment return:				
Investment income, realized and unrealized gains on investments	48,650	49,299	534	98,483
Total investment return	48,650	49,299	534	98,483
Withdrawals	(877,654)	-	-	(877,654)
Transfers to operations	-	(6,295)	(8,196)	(14,491)
Endowment assets - end of year	\$ -	\$ 220,121	\$ 1,641,176	\$ 1,861,297

Changes in endowment assets for the year ended September 30, 2010 were as follows:

	Board Designated	Temporarily Restricted Investments	Permanently Restricted Investments	Total Endowment Assets
Endowment assets - beginning of year	\$ 694,240	\$ 60,453	\$ 1,642,889	\$ 2,397,582
Contributions	-	280	1,900	2,180
Investment return:				
Investment income, realized and unrealized gains on investments	134,764	132,754	3,249	270,767
Total investment return	134,764	132,754	3,249	270,767
Transfers to operations	-	(16,370)	-	(16,370)
Endowment assets - end of year	\$ 829,004	\$ 177,117	\$ 1,648,038	\$ 2,654,159

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 8 - Endowments - Continued

Under the policy of the Organization, the endowment assets are invested conservatively with the intent of providing a predictable stream of funding to the Organization. The Organization invests in equity funds, bond funds and money market investments to achieve its long-term return objectives within limited risk constraints. Actual returns in any year may vary from budgeted amounts due to market fluctuations. The board of directors chooses to spend only a portion of the investment income (including changes in the value of investments) each year on an as needed basis. At September 30, 2011 and 2010, net appreciation of \$220,121 and \$177,117, respectively, was available to be spent and is reported as restricted expendable net assets.

### Note 9 - Property and Equipment

Major classes of property and equipment, at cost, were as follows at September 30:

	<u>2011</u>	<u>2010</u>
Land and improvements	\$ 1,022,528	\$ 1,017,889
Buildings and improvements	19,764,002	19,388,936
Fixed equipment	3,638,686	3,607,960
Major movable equipment	22,330,990	21,766,341
Construction in progress	421,134	134,031
	<u>47,177,340</u>	<u>45,915,157</u>
Less accumulated depreciation	<u>33,773,953</u>	<u>31,546,718</u>
	<u>\$ 13,403,387</u>	<u>\$ 14,368,439</u>

### Note 10 - Line of Credit

The Organization had a \$4,000,000 secured line of credit with Citizens Bank bearing interest at the prime interest rate, which was five percent (5.0%) at September 30, 2010, secured by the accounts receivable of the Organization and subject to certain financial covenants. This line of credit was closed during fiscal year 2011 and replaced by a \$4,000,000 secured line of credit with Rockland Trust Company bearing interest at the Rockland Trust Company Business Savings Account Rate (as in effect from time to time) plus two and a half percent (2.5%), which was two and fifty five hundredths percent (2.55%) at September 30, 2011, secured by cash (reported in assets whose use is limited) in the Organization and subject to certain financial covenants. The Organization had borrowings against these lines of \$3,500,000 and \$3,000,000 at September 30, 2011 and 2010, respectively, which are payable on demand.

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 11 - Letter of Credit

The Organization, as required by the National Union Fire Insurance Company of Pittsburgh, Pennsylvania workers' compensation contract, established an irrevocable letter of credit with Citizens Bank in the amount of \$521,000 dated October 1996. The letter of credit is secured by a \$600,000 United States Treasury Note, maturing November 15, 2012. This note is included in assets whose use is limited, within the depreciation fund.

Subsequent to year end the Organization established a new irrevocable letter of credit with Rockland Trust Company in the amount of \$231,750 dated October 2011. The letter of credit is secured by cash (reported in assets whose use is limited).

### Note 12 - Notes Payable

Notes payable consisted of the following at September 30:

	<u>2011</u>	<u>2010</u>
Note payable, in monthly installments of \$4,997, including interest at 6.13%, due June 2014, secured by equipment.	\$ -	\$ 200,425
Note payable, in monthly installments of \$31,563, including interest at 6.84%, due October 2012, secured by equipment.	-	760,710
Note payable, in monthly installments of \$12,211, including interest at 6.75%, due October 2013, secured by equipment.	-	396,943
Note payable, in monthly installments of \$25,398, including interest at 5.74%, due April 2016, secured by equipment.	-	1,452,955
Note payable, in monthly installments of \$44,481, including interest at 4.75%, due May 2016, secured by cash (reported in assets whose use is limited).	2,227,312	-
	<u>2,227,312</u>	<u>2,811,033</u>
Less current portion	<u>435,808</u>	<u>737,001</u>
Notes payable, less current portion	<u>\$ 1,791,504</u>	<u>\$ 2,074,032</u>

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 12 - Notes Payable - Continued

In February 2006, the Organization entered into an agreement with Citizens Asset Finance for a term note in an amount not to exceed \$4,000,000 to purchase equipment and other personal property and all related software. The agreement provided for monthly payments of principal and interest through April 2016. This term note was paid in full in May 2011 when the Organization entered into an agreement with Rockland Trust Company for a promissory note in the amount of \$2,367,667.

Scheduled Principal Payments - Principal payments on the note payable are summarized as follows:

2012	\$ 435,808
2013	457,543
2014	480,071
2015	503,708
2016	350,182
	<hr/>
	\$ 2,227,312

### Note 13 - Pension and Other Retirement Related Liabilities

The Organization has a noncontributory, qualified, defined benefit pension plan (the "Plan") that covers substantially all of its full-time employees who have completed one (1) or more years of service. Effective January 1, 2009, all participants' accrued benefits were frozen as of that date. New or rehired employees are not eligible to participate in the Plan. The Organization's policy is to fund contributions to the Plan which are at least equal to the minimum contributions required by the Employee Retirement Income Security Act of 1974 ("ERISA"), and to provide the Plan with assets sufficient to meet the benefits to be paid. The Organization contributed \$950,453 and \$100,000 to the Plan during the years ended September 30, 2011 and 2010, respectively. Additionally, based on the plan actuary's calculations, the Organization expects to contribute \$785,454 to the Plan in fiscal year 2012.

The following tables set forth the changes in benefit obligations, changes in plan assets and the funded status of the plan at September 30:

	<u>2011</u>	<u>2010</u>
<b>Change in benefit obligations:</b>		
Benefit obligation at beginning of year	\$ 28,798,216	\$ 27,545,552
Interest cost	1,492,718	1,574,892
Actuarial (gain) loss	1,174,870	1,431,095
Benefits paid	(2,967,742)	(1,753,323)
Benefit obligation at end of year	<hr/> 28,498,062 <hr/>	<hr/> 28,798,216 <hr/>

NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

Note 13 - Pension and Other Retirement Related Liabilities - Continued

	<u>2011</u>	<u>2010</u>
<b>Change in plan assets:</b>		
Fair value of plan assets at beginning of year	\$ 23,118,381	\$ 22,302,743
Actual return on plan assets	(449,642)	2,468,961
Employer contributions	950,453	100,000
Benefits paid	(2,967,742)	(1,753,323)
Fair value of plan assets at end of year	<u>20,651,450</u>	<u>23,118,381</u>
<b>Funded status at year end (underfunded)</b>	<u>\$ (7,846,612)</u>	<u>\$ (5,679,835)</u>
<b>Amounts recognized in statement of financial position:</b>		
Non-current liabilities	<u>\$ (7,846,612)</u>	<u>\$ (5,679,835)</u>

Net Periodic Benefit Cost:

	<u>2011</u>	<u>2010</u>
<b>Components of net periodic benefit cost:</b>		
Interest cost	\$ 1,492,717	\$ 1,574,892
Expected return on plan assets	(1,307,978)	(1,260,324)
Plan freeze curtailment	<u>512,142</u>	<u>161,916</u>
Net periodic benefit cost	<u>\$ 696,881</u>	<u>\$ 476,484</u>

The Organization has recorded an adjustment to record additional pension liability not recognized in net periodic pension cost of \$2,420,348 and \$60,541 for the years ended September 30, 2011 and 2010, respectively.

Assumptions:

The significant underlying assumptions used to determine benefit obligations were as follows at September 30:

	<u>2011</u>	<u>2010</u>
Discount rate	5.00%	5.50%
Long-term rate of return	6.00%	6.00%
Benefit cost	5.50%	6.00%

The accumulated benefit obligation for the defined benefit pension plan was \$28,498,061 and \$28,798,216 at September 30, 2011 and 2010, respectively.



# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 13 - Pension and Other Retirement Related Liabilities - Continued

The significant underlying assumptions used to determine net periodic benefit cost were as follows at September 30:

	<u>2011</u>	<u>2010</u>
Discount rate	5.50%	6.00%
Long-term rate of return	6.00%	6.00%

In accordance with generally accepted accounting principles and the requirements for an employer's accounting for pensions, the discount rate reflect the rates at which the pension benefits could be effectively settled. In estimating those rates, the Organization looks to available information about rates implicit in current prices of available annuity contracts that could be used to effect settlement of the obligation (including information about available annuity rates currently published by the Pension Benefit Guaranty Corporation). In making those estimates, the Organization also looks to rates of return on high-quality fixed-income investments currently available during the period to maturity of the pension benefits.

#### Plan Assets:

The Organization's pension plan asset allocations by asset category, using the fair value hierarchy, as defined in Note 7, are as follows at September 30, 2011:

	<u>September 30, 2011</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments included in:				
Cash and cash equivalents	\$ 1,019,604	\$ 1,019,604	\$ -	\$ -
Government and agency bonds	2,377,466	2,377,466	-	-
Corporate bonds	13,872,191	13,872,191	-	-
Other fixed income	1,484,960	1,484,960	-	-
Foreign assets	1,897,229	1,897,229	-	-
	<u>\$ 20,651,450</u>	<u>\$ 20,651,450</u>	<u>\$ -</u>	<u>\$ -</u>

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 13 - Pension and Other Retirement Related Liabilities - Continued

The Organization's pension plan asset allocations by asset category, using the fair value hierarchy, as defined in Note 7, are as follows at September 30, 2010:

	September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 1,387,103	\$ 1,387,103	\$ -	\$ -
Mutual funds	21,731,278	21,731,278	-	-
	<u>\$ 23,118,381</u>	<u>\$ 23,118,381</u>	<u>\$ -</u>	<u>\$ -</u>

The Plan's investment strategy is to build an efficient, well diversified portfolio based on a long-term, strategic outlook on the investment markets. The investment markets outlook utilizes both historical-based and forward-looking return forecasts to establish future return expectations for various asset classes. These return expectations are used to develop a core asset allocation based on the specific needs of the Plan. The core asset allocation utilizes multiple investment managers in order to maximize the Plan's return while minimizing risk.

The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligation. In estimating that rate, the Organization gave appropriate consideration to the returns being earned by the plan assets in the fund and the rates of return expected to be available for reinvestment.

### Benefit Payments:

During the years ended September 30, 2011 and 2010, the Plan made benefit payments of \$2,967,742 and \$1,753,323, respectively. The following approximate benefit payments are expected to be paid during the years ending September 30:

2012	\$ 3,232,000
2013	1,181,000
2014	2,454,000
2015	1,464,000
2016	1,753,000
2017 - 2021	10,014,000

NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

Note 13 - Pension and Other Retirement Related Liabilities - Continued

403(b) Savings Plan:

The Hospital implemented a 403(b) savings plan, effective January 1, 2007, under which eligible employees may contribute a percentage of their annual salaries to the plan. The Hospital may make a discretionary contribution for all eligible employees, regardless of whether the employees make contributions to the savings plan. The Hospital's contribution percentage is based on years of service, ranging from two percent (2%) for the first fifteen (15) years of service to six percent (6%) after twenty-five (25) years. The Hospital also makes a matching contribution based on years of service ranging from up to one percent (1%) of compensation for the first five (5) years of services to four percent (4%) of compensation after twenty-five (25) years of service. Effective January 1, 2011, the Hospital amended the plan. The amendment eliminated the Hospital's discretionary base contribution and changed the Hospital's matching contribution. The Hospital now matches 100% of an employee's first three percent (3%) contribution and fifty percent (50%) of the next two percent (2%) contribution. The Hospital's contributions for the years ended September 30, 2011 and 2010 were \$794,095 and \$283,783, respectively.

457(b) Deferred Compensation Plan:

The Hospital also provides a few key employees with supplemental executive retirement benefits through a traditional non-qualified deferred compensation plan that is in accordance with Internal Revenue Code Section 457(b). The Hospital's contributions into this plan were \$77,337 and \$20,000 for the years ended September 30, 2011 and 2010, respectively. The Hospital terminated this plan effective December 15, 2011 and, accordingly, 100% of the plan assets were distributed to the plan participants.

Note 14 - Temporarily and Permanently Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
Life annuities	\$ 77,398	\$ 55,139
Alzheimer care	27,720	22,877
Healthcare services	931,260	1,366,947
Plant replacement	50,847	369,731
	<u>\$ 1,087,225</u>	<u>\$ 1,814,694</u>

Permanently restricted net assets at September 30 were restricted to:

	<u>2011</u>	<u>2010</u>
Investments held in perpetuity, the income of which is expendable to support health care services	<u>\$ 1,641,176</u>	<u>\$ 1,648,038</u>

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 14 - Temporarily and Permanently Restricted Net Assets - Continued

During 2011 and 2010, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of the above programs in the amounts of \$988,333 and \$1,017,292, respectively.

### Note 15 - Other Revenue

Other revenue was comprised of the following for the years ended September 30:

	<u>2011</u>	<u>2010</u>
Other miscellaneous	\$ 312,660	\$ 339,603
Cafeteria income	198,598	212,017
Bad debt recoveries	18,242	145,519
	<u>\$ 529,500</u>	<u>\$ 697,139</u>

### Note 16 - Operating Leases

The Organization is obligated under two (2) rental lease agreements payable in monthly installments of \$13,770 and \$21,000 expiring in 2011 and 2012, each with renewal options of an additional five (5) years. The Hospital has renewed, or intends to renew, each lease; thus, the future minimum payments required for the year ending September 30 are as follows:

2012	\$ 417,240
2013	417,240
2014	417,240
2015	417,240
2016	417,240
Thereafter	192,780
	<u>\$ 2,278,980</u>

Rental expense on these leases was \$417,241 and \$418,018 during the years ended September 30, 2011 and 2010, respectively.

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 17 - Functional Expenses

The following is the functional classification of operating expenses for the Organization for the years ended September 30:

	<u>2011</u>	<u>%</u>	<u>2010</u>	<u>%</u>
Health care services	\$ 57,089,098	70.3%	\$ 56,038,311	69.7%
General and administrative	23,917,929	29.4%	24,058,901	29.9%
Fundraising	218,760	0.3%	305,530	0.4%
	<u>\$ 81,225,787</u>	<u>100.0%</u>	<u>\$ 80,402,742</u>	<u>100.0%</u>

### Note 18 - Medical Malpractice Insurance

The Organization insures its medical malpractice risks on a claims-made basis. In future years, should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but asserted subsequently will be uninsured. The Organization has renewed its coverage on a claims-made basis. At September 30, 2011 and 2010, no malpractice claims in excess of insurance coverage, either individually or in the aggregate, had been asserted against the Organization. Additionally, no loss accrued for unasserted claims or for unreported incidents has been accounted for in the consolidated financial statements.

### Note 19 - Commitments and Contingencies

The Hospital self-reported certain potential violations of applicable federal fraud and abuse laws relating to arrangements with certain physicians. The Hospital will be working with federal agencies to resolve these potential violations, which may result in a payment to the federal government. At this time, management cannot predict with confidence the amount of its payment obligation, or other terms of negotiated resolution. Thus no accrual has been included in the financial statements as of September 30, 2011.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Government activity is ongoing with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretations, as well as regulatory actions unknown or unasserted at this time. Management believes that the Organization is in substantial compliance with current laws and regulations.

Various claims and legal actions are pending against the Organization which have arisen in the normal course of business. In the opinion of management except for matters discussed above, no claims have been asserted against the Organization which, either individually or in the aggregate, will be in excess of its insurance coverage.

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 20 - Risk and Uncertainties

The Hospital invests in a combination of investment vehicles. Investments are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the balance sheet.

### Note 21 - Related-Party Transactions

During the years ended September 30, 2011 and 2010, one (1) member of the Board of Directors of the Hospital was employed by a law firm the Organization uses to provide legal services. There were \$77,588 and \$155,741 in fees paid to the law firm by the Hospital for the years ended September 30, 2011 and 2010, respectively.

During the years ended September 30, 2011 and 2010, the Hospital purchased medical supplies from a company which is owned by one (1) member of the Board of Directors of the Hospital. There were \$435,068 and \$349,648 in fees paid to the vendor by the Hospital for the years ended September 30, 2011 and 2010, respectively.

### Note 22 - Restatement

During the year ended September 30, 2011, an error was discovered regarding the Hospital's prior years third-party payor reimbursements related to Medicare outlier payments. This resulted in an overstatement of unrestricted net assets and an understatement of third-party liabilities of \$7,000,000 as of and for the years ended September 30, 2010 and 2009. Accordingly, the accompanying financial statements have been restated as follows to reflect the correction of the above error for the year ended September 30:

Net Assets - 2009				
	<u>Unrestricted</u> <u>Net Assets</u>	<u>Temp</u> <u>Restricted</u> <u>Net Assets</u>	<u>Perm</u> <u>Restricted</u> <u>Net Assets</u>	<u>Total</u>
As previously reported	\$ 27,618,531	\$ 2,171,589	\$ 1,642,889	\$ 31,433,009
Adjustment to correct third-party liabilities	(7,000,000)	-	-	(7,000,000)
As restated	<u>\$ 20,618,531</u>	<u>\$ 2,171,589</u>	<u>\$ 1,642,889</u>	<u>\$ 24,433,009</u>

# NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

## Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

### Note 22 - Restatement - Continued

	Net Assets - 2010			
	<u>Unrestricted</u> <u>Net Assets</u>	<u>Temp</u> <u>Restricted</u> <u>Net Assets</u>	<u>Perm</u> <u>Restricted</u> <u>Net Assets</u>	<u>Total</u>
As previously reported	\$ 24,584,537	\$ 1,814,694	\$ 1,648,038	\$ 28,047,269
Adjustment to correct third-party liabilities	<u>(7,000,000)</u>	<u>-</u>	<u>-</u>	<u>(7,000,000)</u>
As restated	<u>\$ 17,584,537</u>	<u>\$ 1,814,694</u>	<u>\$ 1,648,038</u>	<u>\$ 21,047,269</u>

	<u>2010</u>
Due to third party payors, as previously reported	\$ 1,761,720
Adjustment to correct third-party payor liabilities	<u>7,000,000</u>
Due to third party payors, as restated	<u>\$ 8,761,720</u>

The error had no impact on results of operations for the years ended September 30, 2011 and 2010, respectively.

### Note 23 - Operations

The accompanying financial statements have been prepared assuming that Hospital will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Hospital has incurred significant operating losses and negative operating cash flow for the three years ended September 30, 2009, 2010 and 2011. The Hospital also has a significant unfunded Defined Benefit Pension Plan liability and an anticipated significant third-party reimbursement liability related to prior years. These factors raise substantial doubt about the Hospital's ability to continue as a going concern. Management's plans regarding these conditions include the following:

1. During fiscal year 2011, the Hospital hired a financial advisor to perform an operational assessment and to help management in developing strategic options. An operating plan (Plan) and the fiscal year 2012 budget were developed that would improve the Hospital's operating performance and result in positive cash flow. The Plan consisted of improved revenues with the focus on case mix and length of stay management and outpatient revenue growth and reduced expenses. While simultaneously implementing the Plan, the Hospital has sought out a strategic partner that would bring further stability to bottom line performance and access to capital. On February 22, 2012, the Hospital received several proposals from potential partners that the Board of Directors is in the process of evaluating.

NEW ENGLAND SINAI HOSPITAL AND AFFILIATE

Notes to Consolidated Financial Statements - Continued

September 30, 2011 and 2010

Note 23 - Operations - Continued

2. In fiscal year 2012, the Hospital has incurred significant restructuring and transaction costs that are nonrecurring. The restructuring costs relate to severance and other costs involved in reducing the Hospital's workforce in accordance with its Plan. The transaction costs relate to financial advisory and legal fees involved in seeking a strategic partner. During the first quarter of fiscal year 2012, the Hospital has significantly improved its operating performance and cash flow (excluding restructuring and transaction costs). Management believes that by the continued successful implementation of its Plan and with the stability and access to the capital which a strategic partner will provide, the Hospital will be able to continue as a going concern.

The financial statements do not include any adjustments that might be necessary should the Hospital be unable to continue as a going concern.