

# **Care New England Health System and Affiliates**

**Consolidated Financial Statements and  
Supplemental Consolidating Schedules  
September 30, 2020 and 2019**

**Care New England Health System and Affiliates**  
**Index**  
**September 30, 2020 and 2019**

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## **Report of Independent Auditors**

To the Board of Director of  
Care New England Health System

We have audited the accompanying consolidated financial statements of Care New England Health System and Affiliates (the "System"), which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of operations, of changes in net assets and of 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 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 System'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 System'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, 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, 2020 and 2019, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 2 to the consolidated financial statements, Care New England and Affiliates changed the manner in which it accounts for leases and restricted cash in 2020 and revenue recognition from contracts with customers and contributions received and made, and the manner in which it presents net assets and reports certain aspects of its financial statements as a not-for-profit entity in 2019. Our opinion is not modified with respect to this matter.

***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 21, 2020

# Care New England Health System and Affiliates

## Consolidated Balance Sheets

### September 30, 2020 and 2019

	2020	2019
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 133,131,336	\$ 74,019,320
Patient accounts receivable	99,992,705	96,855,630
Other receivables	27,138,352	30,662,959
Pledges receivable, net	331,527	408,862
Other current assets	17,669,555	17,594,024
Current portion of assets whose use is limited	2,095,686	2,198,637
Total current assets	<u>280,359,161</u>	<u>221,739,432</u>
Assets whose use is limited or restricted as to use		
Endowment funds	71,723,926	68,952,990
Board-designated funds	132,384,151	125,308,928
Trustee-held funds	184,312,110	183,960,329
Deferred compensation funds	1,509,048	1,393,814
Total assets limited as to use	<u>389,929,235</u>	<u>379,616,061</u>
Less: Amounts required to meet current obligations	<u>(2,095,686)</u>	<u>(2,198,637)</u>
Noncurrent assets limited as to use	387,833,549	377,417,424
Goodwill	24,488,975	24,488,975
Intangibles	-	1,080,000
Property, plant and equipment, net	240,319,309	247,243,828
Finance lease right-of-use assets, net	3,403,774	-
Operating lease right-of-use assets, net	93,227,506	-
Long-term pledges receivable, net	119,328	113,062
Insurance receivable	2,842,648	2,915,925
Other assets	6,197,215	5,334,271
Total assets	<u>\$ 1,038,791,465</u>	<u>\$ 880,332,917</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 123,293,247	\$ 121,087,485
Current portion of estimated third-party payor settlements and advances	41,738,331	4,643,637
Current portion of long-term debt and capital leases	6,996,255	6,482,166
Current portion of finance lease liability	1,248,883	-
Current portion of operating lease liability	7,881,816	-
Self-insurance reserves	9,511,970	10,514,944
Pension liability	33,522,339	18,744,725
Other current liabilities	3,618,860	6,429,654
Total current liabilities	<u>227,811,701</u>	<u>167,902,611</u>
Long-term liabilities		
Self-insurance reserves	156,017,913	144,554,828
Long-term portion of estimated third-party payor settlements and advances	31,183,618	28,155,251
Long-term debt and capital leases	154,972,390	159,737,878
Long-term finance lease liability	1,950,647	-
Long-term operating lease liability	90,949,257	-
Pension liability	131,513,347	124,399,733
Postretirement liability	977,835	1,134,402
Other liabilities	21,798,755	6,798,105
Total liabilities	<u>817,175,463</u>	<u>632,682,808</u>
Net assets		
Without donor restrictions	130,942,624	160,524,029
With donor restrictions	90,673,378	87,126,080
Total net assets	<u>221,616,002</u>	<u>247,650,109</u>
Total liabilities and net assets	<u>\$ 1,038,791,465</u>	<u>\$ 880,332,917</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, 2020 and 2019**

	2020	2019
<b>Operating revenues</b>		
Net patient service revenue	\$ 910,540,662	\$ 994,101,579
Research revenue	34,604,298	38,445,024
Grant revenue - relief funding	62,426,906	-
Other revenue	113,396,762	111,420,538
Net assets released from restrictions and used for operations	<u>2,876,302</u>	<u>2,435,999</u>
Total operating revenues and other support	<u>1,123,844,930</u>	<u>1,146,403,140</u>
<b>Operating expenses</b>		
Salaries and benefits	691,085,608	700,281,411
Supplies and other expenses	314,185,631	302,919,071
Research expenses	31,416,471	35,602,514
Depreciation and amortization	29,640,134	29,358,711
Insurance	32,259,120	24,780,781
Licensure fee	45,254,839	40,538,826
Interest	7,679,342	7,781,823
Restructuring costs - Memorial Hospital	<u>376,096</u>	<u>1,371,298</u>
Total operating expenses	<u>1,151,897,241</u>	<u>1,142,634,435</u>
(Loss) income from operations	<u>(28,052,311)</u>	<u>3,768,705</u>
<b>Nonoperating gains (losses)</b>		
Investment income and realized gains on assets limited as to use, net	11,655,285	9,501,146
Contributions	411,338	303,301
Change in net unrealized gains on investments	7,768,798	216,611
Other components of current period pension	(3,618,931)	(4,348,702)
Other, net	<u>(1,406,036)</u>	<u>(1,232,584)</u>
Net nonoperating gains	<u>14,810,454</u>	<u>4,439,772</u>
(Deficiency) excess of revenues and gains over expenses and losses	<u>(13,241,857)</u>	<u>8,208,477</u>
<b>Other changes in net assets without donor restrictions</b>		
Pension and postretirement adjustments	(18,192,967)	(41,614,796)
Net assets released from restrictions used for purchase of property, plant and equipment	1,929,102	1,965,053
Transfer to net assets with donor restrictions	<u>(75,683)</u>	<u>(86,539)</u>
Decrease in net assets without donor restrictions	<u>\$ (29,581,405)</u>	<u>\$ (31,527,805)</u>

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, 2020 and 2019**

	2020	2019
<b>Net assets without donor restrictions</b>		
(Deficiency) excess of revenues and gains over expenses and losses	\$ (13,241,857)	\$ 8,208,477
Other changes in net assets without donor restrictions		
Pension and postretirement adjustments	(18,192,967)	(41,614,796)
Net assets released from restrictions used for purchase of property, plant and equipment	1,929,102	1,965,053
Transfer to net assets with donor restrictions	(75,683)	(86,539)
Decrease in net assets without donor restrictions	<u>(29,581,405)</u>	<u>(31,527,805)</u>
<b>Net assets with donor restrictions</b>		
Contributions	4,662,446	5,460,298
Income from investments	472,830	504,504
Net realized and unrealized gains from investments	2,197,786	198,083
Changes in beneficial interest in assets held at community foundation	30,606	(46,917)
Changes in beneficial interest in perpetual trusts	1,355,912	(233,910)
Net assets released from restrictions	(5,247,965)	(4,823,913)
Transfers from net assets without donor restrictions	75,683	86,539
Increase in net assets with donor restrictions	<u>3,547,298</u>	<u>1,144,684</u>
Decrease in net assets	<u>(26,034,107)</u>	<u>(30,383,121)</u>
<b>Net assets</b>		
Beginning of year, as previously reported	247,650,109	263,608,237
Cumulative effect of accounting change	-	14,424,993
Beginning of year, restated	<u>247,650,109</u>	<u>278,033,230</u>
End of year	<u>\$ 221,616,002</u>	<u>\$ 247,650,109</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, 2020 and 2019

	2020	2019
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (26,034,107)	\$ (30,383,121)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in beneficial interest in perpetual trusts	(1,355,912)	233,910
Change in beneficial interest in assets held at community foundation	(30,606)	46,917
Gain on disposals of property, plant and equipment	(391,227)	(15,588)
Pension and postretirement adjustments	18,192,967	41,614,796
Depreciation and amortization	28,891,455	29,358,711
Amortization of finance lease right-of-use assets	748,679	-
Depreciation and amortization - assets with donor restrictions	118,846	118,846
Amortization of debt issuance costs	154,962	160,938
Bond premium amortization	(650,448)	(650,448)
Bond discount amortization	56,467	56,467
Realized gains on assets limited as to use	(7,843,306)	(6,028,678)
Net unrealized (gains) losses on assets limited as to use	(9,102,770)	898,070
Distributions received from equity method investments	577,000	478,000
Restricted contributions and investment income	(7,025)	(54,665)
Changes in		
Patient accounts receivable	(3,137,075)	15,197,836
Other current and long-term assets	(118,247)	235,945
Intangibles	1,080,000	-
Accounts payable and accrued expenses	6,354,684	5,221,096
Estimated third-party payor settlements	40,123,061	5,186,832
Other liabilities	16,608,939	1,832,282
Net pension liability	3,541,694	(7,215,018)
Self-insurance reserves	10,533,388	(615,693)
Net cash provided by operating activities	<u>78,311,419</u>	<u>55,677,435</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(25,928,609)	(17,986,729)
Additions to asset retirement obligations	(33,335)	(636,683)
Proceeds from the sale of property, plant and equipment	2,181,467	461,197
Distributions received from equity method investments	335,000	495,000
Change in trustee held funds	509	339
Purchase of investments	(160,400,155)	(96,456,923)
Proceeds from the sale of investments	170,315,457	94,930,507
Net cash used in investing activities	<u>(13,529,666)</u>	<u>(19,193,292)</u>
<b>Cash flows from financing activities</b>		
Proceeds from the issuance of long-term debt	3,493,907	-
Payments on long-term debt and capital leases	(6,388,983)	(5,918,257)
Repayments of obligations under a financing lease	(885,295)	-
Restricted contributions to be used for long-term investments and investment income	7,025	54,665
Net cash used in financing activities	<u>(3,773,346)</u>	<u>(5,863,592)</u>
Net increase in cash and cash equivalents	61,008,407	30,620,551
<b>Cash, cash equivalents and restricted cash</b>		
Beginning of year	86,417,159	55,796,608
End of year	<u>\$ 147,425,566</u>	<u>\$ 86,417,159</u>
<b>Supplemental cash flow information</b>		
Cash paid for interest	\$ 7,655,059	\$ 7,789,625
Purchases of property and equipment included in accounts payable and accrued expenses	393,361	3,380,047
Equipment acquired through issuance capital lease obligations and deferred payment arrangements	-	2,017,771
Assets acquired under finance leases	3,144,220	-
Assets acquired under operating leases	5,803,465	-
<b>Reconciliation of cash, cash equivalents and restricted cash reported in the consolidated balance sheets</b>		
Cash and cash equivalents	\$ 133,131,336	\$ 74,019,320
Cash reported in assets whose use is limited or restricted as to use	14,294,230	12,397,839
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	<u>\$ 147,425,566</u>	<u>\$ 86,417,159</u>

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, 2020 and 2019

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#### 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.

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”), Toll Gate Indemnity, Ltd. (“Toll Gate”), and Care New England Pharmacy, LLC (the “CNE Pharmacy”) which was formed in October 2019.
- 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”).
- 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.
- Southeastern Healthcare System, Inc. (“SHS”) and its affiliates, Memorial Hospital, Primary Care Centers of New England, Inc. (“PCCNE”), MHRH Ancillary Services, LLC, and The Memorial Hospital Foundation. Memorial is the sole corporate member of SHS Ventures, Inc. (“Ventures”).
- The Providence Center, Inc. (the “Center” or “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”).
- Care New England Ambulatory Surgery Center, which was formed in July of 2020 for the purposes of submitting a Certificate of Need (“CoN”) Application for a new Providence-based ambulatory surgery center in Rhode Island. The entity is currently inactive as the CoN Application is pending before the Rhode Island Department of Health.

Care New England Health System, Butler, Kent, Kent County Visiting Nurse Association, SHS, The Memorial Hospital (prior to December 22, 2017), TPC, WIC and WIH, are collectively, the Obligated Group. The Obligated Group are parties to a Master Trust Indenture dated as of September 1, 2016.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

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In October 2017, the Board of Directors (the "Boards") of Memorial Hospital, its parent corporation, SHS 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 deactivated the Memorial Hospital licenses.

In December 2017, the Boards of the Obligated Group, determined that Memorial Hospital withdraw from the Obligated Group, and on December 22, 2017, the Master Trustee approved the release of Memorial Hospital from the Obligated Group.

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 an Accreditation Council of Graduate Medical Education approved residency program in emergency medicine, and a fellowship program in hyperbaric medicine and gastroenterology. In addition, Kent is a major teaching affiliate of The Warren Alpert Medical School of Brown University in primary care medicine and the major teaching affiliate of The Warren Alpert Medical School of Brown University in 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 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, 2020 and 2019

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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 major affiliated teaching hospital of The Warren Alpert Medical School of Brown University for activities unique to women and newborns. As a complement to its role in service and education, WIH actively supports research by members of its staff. WIH is accredited by 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 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 a comprehensive, multi-disciplinary, therapeutic, hospice and public health nursing program to the residents of Rhode Island and nearby Massachusetts. 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 community-based behavioral healthcare organization 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, recovery supports and centers, integrated primary care, permanent supportive housing, medication-assisted treatment, educational and vocational counseling, wellness services 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 The Warren Alpert School of Medicine of Brown University. In 2018, all operations of Memorial Hospital ceased.

## 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.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

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#### 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 accounts receivable price concessions, third-party payor settlements, 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. At September 30, 2020 and 2019, \$16,064,856 and \$14,923,902, respectively, of cash received with donor-imposed restrictions, that is available for current use, is included in cash and cash equivalents.

Short-term investments are investment vehicles with maturities of three months or less at the time of purchase and other highly liquid investments such as commercial paper and fixed income securities. Short-term highly liquid investments held within assets whose use is limited or restricted as to use are classified as investments rather than cash equivalents and restricted cash is defined as that which is legally restricted to withdrawal and usage.

The System maintains approximately 90% and 78% at September 30, 2020 and 2019, respectively, of its cash balance with one institution.

#### 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 excess (deficiency) of revenues and gains over expenses and losses 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 assets with and without donor restrictions 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 System holds an interest in the respective fund. The System's ownership structure does not provide for control over the related investees, and the 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 \$4,406,482 and \$3,117,665 at September 30, 2020 and 2019, respectively.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

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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 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 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 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 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 net assets with donor restrictions if the terms of the gift require that they be added to the principal of net assets with donor restrictions;
- Increases (decreases) in net assets with donor restrictions 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 net assets without donor restrictions 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.

#### **Inventories**

Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out) or net realizable value. Inventories of \$9,915,384 and \$8,763,110 at September 30, 2020 and 2019, respectively, are included in other current assets in the consolidated balance sheets.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

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#### 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, 2020 and 2019 and intangible assets were \$0 and \$1,080,000 at September 30, 2020 and 2019, respectively. 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, 2020 and 2019. During the year ended September 30, 2020, the System recorded a \$1,080,000 loss on intangible assets in supplies and other expenses in the consolidated statements of operations.

#### 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 in net assets without donor restrictions, 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 in net assets with donor restrictions. 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.

In fiscal year 2019, 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. The System adopted ASU No. 2016-02, Leases, effective October 1, 2019. See Note 11.

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. There was no impairment charge on property, plant and equipment for the years ended September 30, 2020 and 2019.

#### 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.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

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#### **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 and general liability.

CNE, Butler, Kent, WIC, SHS, the Agency, and the Center, are self-insured for losses arising from workers' compensation claims. Loss reserves are estimated based on actuarial studies, and the System's and industry experience.

For the employees of CNE, Butler, Kent, WIC, SHS, the Agency, and 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, 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 System's actual experience.

For the employees of CNE, Butler, Kent, WIC, SHS, the Agency, and 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 System's actual experience.

#### **Net Assets Without Donor Restrictions**

Net assets without donor restrictions include undesignated amounts as well as designated assets maintained by the Center and required by 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.

#### **Net Assets With Donor Restrictions**

Net assets with donor restrictions include those whose use is limited by donor-imposed stipulations, including some that can be fulfilled by actions of the System pursuant to those stipulations. Additionally, net assets with donor restrictions include funds whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the System. Investment earnings from net assets with donor restrictions may be donor restricted for capital or operating needs depending on the original intent of the donor.

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Net assets released from restrictions and used for operations are recorded in net assets released from restriction. Net assets released from restriction and used for capital purposes are recorded as change in net assets without donor restrictions in the consolidated statements of changes in net assets.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

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#### **(Deficiency) Excess of Revenues and Gains Over Expenses and Losses**

The consolidated statements of operations and changes in net assets include (deficiency) excess of revenues and gains over expenses and losses. Changes in net assets without donor restrictions, which are excluded from (deficiency) excess of revenues and gains over expenses and losses, 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 the transaction price estimated to reflect the total consideration due from patients, third-party payors, and others for services rendered. 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 and other sources for the purposes of funding research activities.

The System receives sponsored research support from governmental and private sources. Certain sponsored arrangements are considered exchange arrangements, and revenue under these agreements is recognized based on the System's fulfillment of the contract, which is typically based on costs incurred or the achievement of milestones. Other sponsored support is considered contribution revenue in accordance with ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions, which is recognized when any donor-imposed conditions (if any) have been met.

#### **Other Revenue**

Other revenue includes shared savings from surpluses on at-risk arrangements, accountable entity participation agreement milestone revenues, rental income, cafeteria sales, laboratory services provided to nonpatients, sales of home medical equipment, various services provided to physicians and other organizations, grant revenues including housing subsidies, and gains upon the retirement or sale of assets. Revenue from these transactions is recognized when obligations under the terms of the respective contract are satisfied. Revenue from these transactions is measured as the amount of consideration the System expects to receive from those goods or services. The System recognizes rental income over the lease term in accordance with Accounting Standards Codifications (ASC) Topic 842, *Leases*, during 2020 and Topic 840, *Leases*, during 2019. See Note 11.

**Care New England Health System and Affiliates**  
**Notes to Consolidated Financial Statements**  
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The composition of other revenue is as follows for the years ended September 30:

	2020	2019
Professional services agreement practice revenues	\$ 18,657,309	\$ 17,862,311
Laboratory services to non-patients	15,307,694	17,251,878
Grant revenue - nonrelief funding	12,735,889	14,320,895
Accountable care organization revenues	17,599,524	12,121,887
Contract pharmacy	14,930,928	10,020,910
Professional services agreements	8,352,650	9,225,708
Home medical equipment sales	3,920,998	3,890,821
Cafeteria sales	2,359,422	3,139,031
Rental income	2,860,366	2,811,484
In-kind revenue	2,485,253	2,521,698
Gain on disposal of property, plant and equipment	391,227	1,639,743
Vendor rebates	1,353,891	1,025,049
Other miscellaneous income	12,441,611	15,589,123
Total other revenue	<u>\$ 113,396,762</u>	<u>\$ 111,420,538</u>

#### **Charity Care**

The 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 System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

#### **Contributions and Pledges Receivable**

Contributions and pledges include revenues from unconditional nonexchange agreements with private sources and foundations. Unconditional contributions and pledges are recognized as revenue in the period received and reported as increases in the appropriate net asset category based on the presence or absence of donor-imposed restrictions. The System has elected the simultaneous release option for unconditional nonexchange transactions that are also subject to purpose restrictions. Under this option, net assets without donor restrictions will include the donor-restricted gifts and pledges whose purpose restrictions are met in the same reporting year as the revenue is recognized.

Nonexchange agreements are considered conditional if the terms of the agreement include both a right of return of assets received/promised and a barrier to entitlement. Conditional agreements are not recognized until the conditions and barriers on which they depend are met.

Pledges receivable after one year are discounted to their present value using an interest rate for the year in which the promise was received and considers market and credit risk as applicable. Allowance is made for uncollectible pledges receivable based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience and other relevant factors.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

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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 February, 2016, the FASB issued ASU No. 2016-02, *Leases*, regarding the accounting for leases. The new guidance requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheets. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The System adopted these standards in fiscal year 2020 using a modified retrospective transition approach and recorded operating lease right-of-use assets and operating lease liabilities of \$97,661,959 and \$102,197,129, respectively, as of October 1, 2019. For periods prior to October 1, 2019, the System accounted for leasing transactions under ASC 840. It is further discussed in Note 11.

In August, 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*, which adds or clarifies guidance of the classification of certain cash receipts and payments in 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, with the intent to alleviate diversity in practice for classifying various types of cash flows. The System adopted this ASU by applying a retrospective transition method, which requires a restatement of the consolidated statements of cash flows for all periods presented. The System has elected to classify distributions of equity investments based on the nature of the distribution. The ASU did not have a material impact to the consolidated financial statements.

In November, 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows, Restricted Cash*, which adds or clarifies guidance of the classification and presentation of changes in restricted cash on the statement of cash flows, with the intent to alleviate diversity in practice. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The System adopted this ASU by applying a retrospective transition method, which requires a restatement of the consolidated statements of cash flows for all periods presented. It has been the System's policy to consider short-term highly liquid investments held within assets whose use is limited or restricted as to use as investments rather than cash equivalents and has defined restricted cash as that which is legally restricted as to withdrawal and usage. The System held \$14,294,230 and \$12,397,839 at September 30, 2020 and 2019, respectively, in cash within its investment portfolio.

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements

#### September 30, 2020 and 2019

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### 3. COVID-19

In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic and the United States federal government declared COVID-19 a national emergency. Consistent with the System postponed all inpatient and outpatient elective and non-essential surgical and procedural cases, non-urgent and routine provider appointments, and some time sensitive surgeries. The System did so to preserve personal protective equipment (“PPE”), ICU beds, ventilators, and other needed supplies to be better positioned for a potential surge in COVID-19 patients. Additionally, the System implemented cost reduction initiatives including, but not limited to, placing a hold on filling all nonessential open faculty and staff positions, reducing salaries for senior leadership, furloughing certain staff, and temporarily pausing nonessential non-salary expenditures including new capital spending.

On March 27, 2020, the President of the United States signed into law the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) to provide economic assistance to a wide array of industries to ease the financial impact of COVID-19. As part of the CARES Act, the Centers for Medicare and Medicaid Services (“CMS”) expanded its Accelerated and Advance Payment Program which allows participants to receive expedited payments during periods of national emergencies.

As of September 30, 2020, the System has received approximately \$62.4 million in governmental assistance including funding under the CARES Act. This includes recognition of approximately \$23.2 million of grant revenue – relief funding in the statements of operations as a result of satisfying the conditions of general grant funding under the Provider Relief Fund established by the CARES Act. The CARES Act also designated aid for state governments to support COVID-19 efforts. A portion of that funding was used to provide financial assistance to support the operations of hospitals in Rhode Island through the establishment of the Rhode Island Hospital Assistance Partnership Program (“HAPP”). The System recognized approximately \$39.2 million of grant revenue – relief funding in the statements of operations as a result of satisfying the conditions of grant funding under HAPP. The System recognized operating revenue related to the CARES Act provider relief funding based on information contained in laws and regulations, as well as interpretations issued by the Department of Health and Human Services (HHS), governing the funding that was publicly available at September 30, 2020. The System recorded \$30.0 million attributable to the Medicare Accelerated and Advance Payment Program representing working capital financing to be repaid through the provision of future services and is recorded in estimated third-party payor settlements and advances as a payment received before performing services. This amount is reported as a component of Medicare accelerated payment advances in the balance sheets as of September 30, 2020.

Additionally, the CARES Act provides for payroll tax relief, including the deferral of all employer Social Security tax payments to help employers in the face of economic hardship related to the COVID-19 pandemic. As of September 30, 2020, the System deferred approximately \$14.5 million attributable the employer portion of Social Security wage taxes. Furthermore, under the CARES Act, the due date for a plan sponsor’s required minimum contributions to a single-employer defined benefit plan for the 2020 calendar plan year has been extended to January 1, 2021. A plan sponsor that takes advantage of this extension must include interest at the plan’s interest rate calculated from the date the minimum required contribution was due to January 1, 2021. As of September 30, 2020, the System had deferred \$3.5 million of contributions to the Care New England Pension Plan and \$4.1 million of contributions to the Memorial Hospital Pension Plan for purposes of the 2020 calendar plan year. These contribution deferrals have already been corrected or will be corrected, with required interest, by December 31, 2020.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

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#### 4. Memorial Hospital Closure

Memorial Hospital had a loss from operations of \$2,425,032 and \$1,259,798 for fiscal years 2020 and 2019, respectively.

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

	2020	2019
Total operating revenues	\$ 1,555,156	\$ 4,666,367
Total operating expenses	<u>(3,980,188)</u>	<u>(5,926,165)</u>
Loss from operations	(2,425,032)	(1,259,798)
Net nonoperating gains (losses)	<u>327</u>	<u>(274,372)</u>
Deficiency of revenues and gains over expenses and losses	(2,424,705)	(1,534,170)
Transfer	<u>2,750,000</u>	<u>-</u>
Increase (decrease) in net assets without donor restrictions	<u>\$ 325,295</u>	<u>\$ (1,534,170)</u>

In fiscal year 2020 and 2019, Memorial recorded operating revenues related to the wind-down of research activities, a gain on disposal of property, plant and equipment and rental income from related parties that is eliminated in consolidation.

During fiscal year 2020 and 2019, the System incurred \$376,096 and \$1,371,298 of restructuring costs related to the closure of Memorial Hospital including legal and purchased services expenses, respectively.

#### 5. Net Patient Service Revenue

Patient care service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospital(s) receiving inpatient acute care services or patients receiving services in our outpatient centers or in their homes (home care). The System measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to our patients and customers in a retail setting (for example, pharmaceuticals and medical equipment), the System does not believe it is required to provide additional goods or services related to that sale.

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements

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Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in FASB ACS 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to previously are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The System determines the transaction price based on standard charges for goods and service provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

- Medicare: Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- Medicaid: Reimbursements for Medicaid services are general paid at prospectively determined rates per discharge, or per occasion of service.
- Other: Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties could have upon the System. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payors, correspondence from the payors, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements

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uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. For the years ended September 30, 2020 and 2019, additional revenue of \$0 and \$840,000, respectively, was recognized due to changes in estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience, and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as an adjustment to patient service revenue in the period of the change.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The System has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by payor source. The composition of patient care service revenue by primary payer for the years ended September 30 is as follows:

	2020	2019
Medicare and Medicare Managed Care	30 %	31 %
Medicaid and Medicaid Managed Care	30	29
Blue Cross	21	19
Managed Care	8	10
Self-pay	1	1
Other	10	10
	<u>100 %</u>	<u>100 %</u>

**Care New England Health System and Affiliates**  
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**6. Uncompensated Care and Community Services**

The 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:

	<b>2020</b>	<b>2019</b>
Revenues forgone, based on established rates	\$ 12,229,479	\$ 10,794,049
Expenses and costs incurred	5,588,236	4,568,628

Of the System's total expenses reported \$1,151,897,241 and \$1,144,877,196 in 2020 and 2019, respectively, an estimated \$5,588,236 and \$4,568,628 arose during 2020 and 2019, 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 divided by gross patient service revenue. The System did not receive significant contributions that were restricted for the care of indigent patients during 2020 and 2019.

In addition to the above-mentioned medical care rendered, the 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:

	<b>2020</b>	<b>2019</b>
Approximated revenues forgone, or cost of the services provided to the community	\$ 45,769,892	\$ 47,447,742

The 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.

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**7. 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:

	<b>2020</b>	<b>2019</b>
Within one year	\$ 556,054	\$ 631,054
One to five years	<u>119,328</u>	<u>120,340</u>
	675,382	751,394
Less: Allowance for uncollectibles	<u>(234,527)</u>	<u>(229,470)</u>
Pledges receivable, net	<u>\$ 440,855</u>	<u>\$ 521,924</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 0.25% and 2.5% for the years ending September 30, 2020 and 2019, respectively.

As of September 30, 2020 and 2019, the System had \$33,092,860 and \$32,819,747, respectively, in funding awarded but not yet expended related to conditional contributions from sponsored support where the condition has not yet been met. Included in deferred revenue at September 30, 2020 and 2019 are \$395,867 and \$997,610, respectively, of sponsored receipts, that have not been expended and cannot yet be recognized as revenue due to having a barrier and right of return under ASU 2018-08.

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**8. Summary of Investments**

Investments at September 30 are summarized as follows:

	<b>2020</b>	<b>2019</b>
<b>Endowment and board designated funds</b>		
Cash	\$ 166,778	\$ 302,153
Short-term investments	14,075,280	4,825,175
Fixed income securities	12,354,360	19,009,543
Equity securities	18,522,012	17,619,743
Mutual funds	67,795,046	61,595,088
Investments at NAV	37,920,802	39,022,935
Assets held under split - interest agreements	30,677,449	29,290,931
Cash surrender value of life insurance	22,596,350	22,596,350
	<u>204,108,077</u>	<u>194,261,918</u>
<b>Trustee-held funds</b>		
Cash	14,087,452	11,893,105
Short-term investments	15,041,723	17,010,267
Fixed income securities	47,379,710	46,698,211
Equity securities	32,866,965	33,228,014
Mutual funds	54,556,501	54,606,001
Investments at NAV	20,379,759	20,524,731
	<u>184,312,110</u>	<u>183,960,329</u>
<b>Deferred compensation funds</b>		
Cash	40,000	202,581
Mutual funds	1,469,048	1,191,233
	<u>1,509,048</u>	<u>1,393,814</u>
Total assets limited as to use	<u>\$ 389,929,235</u>	<u>\$ 379,616,061</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:

	2020	2019
<b>Investment return on net assets without donor restrictions</b>		
Interest and dividend income	\$ 3,896,684	\$ 4,102,524
Net realized gains on sales of investments	7,750,755	5,393,260
Net change in unrealized gains	7,768,798	216,611
	<u>19,416,237</u>	<u>9,712,395</u>
Included in operating revenue	(7,846)	(5,362)
Included in nonoperating revenue	19,424,083	9,717,757
	<u>19,416,237</u>	<u>9,712,395</u>
<b>Changes in net assets with donor restrictions</b>		
Interest and dividend income	472,830	504,504
Net realized gains on sales of investments	878,591	1,311,299
Net change in unrealized gains (losses)	1,319,195	(1,113,216)
Changes in beneficial interest in assets held at community foundation	30,606	(46,917)
Changes in beneficial interest in perpetual trusts	1,355,912	(233,910)
	<u>4,057,134</u>	<u>421,760</u>
	<u>\$ 23,473,371</u>	<u>\$ 10,134,155</u>

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

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The cost and estimated fair value of securities, which excludes beneficial interest in perpetual trusts of \$30,677,449 and \$29,290,931, as of September 30, 2020 and 2019, respectively, and excludes cash surrender value of life insurance of \$22,596,350, as of September 30, 2020 and 2019, and includes long-term investments as follows:

	<b>2020</b>		
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Estimated Fair Value</b>
<b>Endowment and board designated funds</b>			
Cash	\$ 166,778	\$ -	\$ 166,778
Short-term investments	14,075,280	-	14,075,280
Fixed income securities	11,978,060	376,300	12,354,360
Equity securities	17,015,633	1,506,379	18,522,012
Mutual funds	51,744,600	16,050,446	67,795,046
Investments at NAV	31,060,742	6,860,060	37,920,802
	<u>\$ 126,041,093</u>	<u>\$ 24,793,185</u>	<u>\$ 150,834,278</u>
<b>Trustee-held funds</b>			
Cash	\$ 14,087,452	\$ -	\$ 14,087,452
Short-term investments	15,041,723	-	15,041,723
Fixed income securities	45,461,776	1,917,934	47,379,710
Equity securities	23,832,975	9,033,990	32,866,965
Mutual funds	47,315,845	7,240,656	54,556,501
Investments at NAV	17,860,977	2,518,782	20,379,759
	<u>\$ 163,600,748</u>	<u>\$ 20,711,362</u>	<u>\$ 184,312,110</u>
<b>Deferred compensation funds</b>			
Cash	\$ 40,000	\$ -	\$ 40,000
Mutual funds	1,458,837	10,211	1,469,048
	<u>\$ 1,498,837</u>	<u>\$ 10,211</u>	<u>\$ 1,509,048</u>

**Care New England Health System and Affiliates**  
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	<b>2019</b>		
	<b>Cost</b>	<b>Gross Unrealized Gains</b>	<b>Estimated Fair Value</b>
<b>Endowment and board designated funds</b>			
Cash	\$ 302,153	\$ -	\$ 302,153
Short-term investments	4,825,175	-	4,825,175
Fixed income securities	18,350,443	659,100	19,009,543
Equity securities	15,665,265	1,954,478	17,619,743
Mutual funds	52,180,809	9,414,279	61,595,088
Investments at NAV	31,292,646	7,730,289	39,022,935
	<u>\$ 122,616,491</u>	<u>\$ 19,758,146</u>	<u>\$ 142,374,637</u>
<b>Trustee-held funds</b>			
Cash	\$ 11,893,105	\$ -	\$ 11,893,105
Short-term investments	17,010,267	-	17,010,267
Fixed income securities	45,050,657	1,647,554	46,698,211
Equity securities	26,049,821	7,178,193	33,228,014
Mutual funds	49,915,619	4,690,382	54,606,001
Investments at NAV	17,589,414	2,935,317	20,524,731
	<u>\$ 167,508,883</u>	<u>\$ 16,451,446</u>	<u>\$ 183,960,329</u>
<b>Deferred compensation funds</b>			
Cash	\$ 202,581	\$ -	\$ 202,581
Mutual funds	1,157,340	33,893	1,191,233
	<u>\$ 1,359,921</u>	<u>\$ 33,893</u>	<u>\$ 1,393,814</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 2020 and 2019, there were no significant losses related to declines in value that were considered other-than-temporary in nature.

**9. Liquidity and Funds Available for General Expenditure**

As part of the System's liquidity management strategy, the System structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. The System regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the System considers all expenditures related to its ongoing mission-related activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

The following reflects the System's financial assets as of September 30, 2020, reduced by amounts not available for general use because of contractual or donor-imposed restrictions or internal designations within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in board-designated funds that could be drawn upon if the Board of Directors approves the action. However, amounts already appropriated from donor restricted endowment for general expenditure within one year of the balance sheet date have not been subtracted as unavailable.

	2020	2019
<b>Financial assets at September 30</b>		
Cash and cash equivalents	\$ 133,131,336	\$ 74,019,320
Patient accounts receivable	99,992,705	96,855,630
Other receivables	27,138,352	30,662,959
Pledges receivable, net	450,855	521,924
Endowment funds	71,723,926	68,952,990
Board-designated funds	132,384,151	125,308,928
Trustee-held funds	184,312,110	183,960,329
Deferred compensation funds	1,509,048	1,393,814
Total financial assets	<u>650,642,483</u>	<u>581,675,894</u>
Less amounts not available		
Donor restricted funds	16,064,856	14,923,902
Other receivables	11,692,504	14,806,672
Pledges receivable, net	119,328	113,062
Endowment funds	71,213,630	68,452,333
Board-designated funds	132,384,151	125,308,928
Trustee-held funds	184,312,110	183,960,329
Deferred compensation funds	1,509,048	1,393,814
Financial assets not available to be used within one year	<u>417,295,627</u>	<u>408,959,040</u>
Financial assets available to meet general expenditures within one year	<u>\$ 233,346,856</u>	<u>\$ 172,716,854</u>

CNE, Butler, Kent, SHS, WIC, Integra, the Agency, and as of January 1, 2019, the Center 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. Investment decisions are made based on anticipated liquidity needs, such that financial assets are available for general expenditures, liabilities, and other obligations come due.

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements

#### September 30, 2020 and 2019

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#### 10. Property, Plant and Equipment

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

	2020	2019
Land	\$ 7,162,575	\$ 7,602,575
Land improvements	10,812,937	10,966,372
Buildings and improvements	469,759,693	456,673,669
Moveable equipment	280,781,078	272,721,894
Total property, plant and equipment	<u>768,516,283</u>	<u>747,964,510</u>
Less: Accumulated depreciation and amortization	<u>(535,215,821)</u>	<u>(508,647,985)</u>
	233,300,462	239,316,525
Construction and projects in progress	<u>7,018,847</u>	<u>7,927,303</u>
Property, plant and equipment, net	<u>\$ 240,319,309</u>	<u>\$ 247,243,828</u>

Depreciation and amortization expense amounted to \$29,640,134 and \$29,358,711 for the years ended September 30, 2020 and 2019, respectively, which includes \$28,891,455 and \$29,127,463 depreciation expense of property, plant and equipment, \$748,679 and \$0 amortization expense of finance lease right-of-use assets, and \$0 and \$231,248 amortization expense of assets recorded under capital leases for the years ended September 30, 2020 and 2019, respectively. Depreciation and amortization expense of property, plant and equipment, with donor restrictions, amounted to \$118,846 for the years ended September 30, 2020 and 2019.

Care New England had property, plant and equipment disposals of \$2,592,839 and \$44,104,462 with accumulated depreciation of \$2,442,465 and \$43,658,853 for the years ended September 30, 2020 and 2019, respectively.

As of September 30, 2020, the System estimated the total cost of completion of construction and projects in progress to be approximately \$11,473,033. 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 \$6,011,745 and \$5,824,133 as of September 30, 2020 and 2019, 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 2020 and 2019, there were no significant retirement obligations incurred or settled. Accretion expense of \$248,161 and \$238,712 was recorded during the years ended September 30, 2020 and 2019, respectively.

During 2019, the System reduced its estimate of Memorial Hospital's asset retirement obligations based on a change in the estimated settlement dates. As a result, the System decreased Memorial Hospital's asset retirement obligations and increased other revenue by \$896,327.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

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#### 11. Lease Commitments

In February 2016, the FASB issued ASU 2016-02 (Topic 842) *Leases*. Topic 842 supersedes the lease requirements in Accounting Standards Codification Topic 840, *Leases*. Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheets for most leases and provide enhanced disclosures. Leases will be classified as either finance or operating.

The System adopted Topic 842 effective October 1, 2019. The System applied Topic 842 to all leases as of October 1, 2019 with comparative periods continuing to be reported under Topic 840. We have elected the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. We have also elected the policy exemption that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes.

The System determines if an arrangement is or contains a lease at inception of the contract. Our right-of-use assets represent our right to use the underlying assets for the lease term and our lease liabilities represent our obligation to make lease payments arising from the leases. Right-of-use assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. We use the implicit rate noted within the contract. If not readily available, we use our estimated incremental borrowing rate, which is derived using a collateralized borrowing rate for the same currency and term as the associated lease. The leases standard requires us to record a right-of-use asset and a lease liability for all leases with a lease term longer than 12 months. We have elected not to record leases with a term of 12 months or less on the balance sheets.

Our operating leases are primarily for real estate, including certain acute care facilities, off-campus outpatient facilities, medical office buildings, and corporate and other administrative offices, and medical equipment. Our real estate lease agreements typically have initial terms of three to twenty-five years. These real estate leases may include one or more options to renew, with renewals that can extend the lease term from one to ten years. The exercise of lease renewal options is at our sole discretion. When determining the lease term, we included options to extend or terminate the lease when it is reasonably certain at commencement that we will exercise that option.

The components of lease expense for the year ended September 30 are as follows:

	<b>2020</b>
Operating lease cost	\$ 14,380,049
Variable and short-term lease cost	1,368,971
Total lease cost	<u>\$ 15,749,020</u>
Finance lease cost	
Amortization of finance lease right-of-use assets	\$ 748,679
Interest on finance lease liabilities	102,398
Total finance lease cost	<u>\$ 851,077</u>

**Care New England Health System and Affiliates**  
**Notes to Consolidated Financial Statements**  
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Supplemental cash flow information related to leases for the year ended September 30 is as follows:

	<b>2020</b>
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 12,905,715
Operating cash flows from finance leases	73,062
Financing cash flows from finance leases	885,295
Right-of-use assets obtained in exchange for lease obligations	
Operating leases	\$ 103,465,424
Finance leases	4,764,798

Included in the \$103,465,424 of right-of-use assets obtained in exchange for operating lease obligations is \$5,803,465 of new and modified operating leases entered into during the year ended September 30, 2020. Included in the \$4,764,798 of right-of-use assets obtained in exchange for finance lease obligations is \$3,144,220 of new and modified finance leases entered into during the year ended September 30, 2020.

Supplemental balance sheet information related to leases as of September 30 is as follows:

	<b>2020</b>
<b>Operating Leases</b>	
Operating lease right-of-use assets	\$ 103,465,424
Asset lease expense	10,237,918
Operating lease right-of-use assets, net	<u>\$ 93,227,506</u>
Current portion of operating lease liabilities	\$ 7,881,816
Long-term operating lease liabilities	90,949,257
Total operating lease liabilities	<u>\$ 98,831,073</u>
<b>Finance Leases</b>	
Finance lease right-of-use assets	\$ 4,764,798
Accumulated amortization	1,361,024
Finance lease right-of-use assets, net	<u>\$ 3,403,774</u>
Current portion of finance lease liabilities	\$ 1,248,883
Long-term finance lease liabilities	1,950,647
Total finance lease liabilities	<u>\$ 3,199,530</u>
Weighted Average remaining lease term	
Operating leases	14.60 years
Finance leases	2.99 years
Weighted Average discount rate	
Operating leases	4.24 %
Finance leases	3.42 %

**Care New England Health System and Affiliates**  
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Future maturities of lease liabilities as of September 30, 2020 are as follows:

	<b>Operating Leases</b>	<b>Finance Leases</b>
2021	\$ 11,806,844	\$ 1,325,639
2022	11,170,273	992,826
2023	9,901,073	635,856
2024	8,535,286	266,971
2025	7,901,040	143,284
Later years	<u>86,829,337</u>	<u>-</u>
Total lease payments	136,143,853	3,364,576
Less imputed interest	<u>37,312,780</u>	<u>165,046</u>
Total	<u>\$ 98,831,073</u>	<u>\$ 3,199,530</u>

Future minimum rental payments under lease commitments with a term of more than one year as of September 30, 2019, prior to the adoption of ASU 2016-02 are as follows:

	<b>Capital Leases</b>	<b>Operating Leases</b>
2020	\$ 452,990	\$ 10,363,245
2021	431,581	9,067,559
2022	98,878	8,553,536
2023	-	7,762,218
2024	-	6,920,137
Later years	<u>-</u>	<u>25,588,143</u>
Total minimum lease payments	983,449	<u>\$ 68,254,838</u>
Less: Amount representing interest	<u>(65,633)</u>	
Capital lease obligations at September 30, 2019	<u>\$ 917,816</u>	

Topic 842 also addresses accounting for leases of lessors. The System has entered into ground leases for land on the campus of Butler and Kent. The ground lease agreements have initial terms of fifty-two to sixty years. One of these leases includes two options to renew, with renewals that extend the lease term by ten years. There are no options for the lessee to purchase the underlying asset at the end of the lease term. There are no variable lease payments. The book value of land at Butler and Kent is not material. Refer to Note 10 for details on book value of land. These leases are classified as operating leases and the related income is recorded in other operating revenue.

The System also leases a small amount of excess office and medical space to outside organizations. These leases are classified as operating leases and the related income is recorded in other operating revenue.

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Future maturities of lease payments, showing the undiscounted cash flows to be received on an annual basis as of September 30, 2020 are as follows:

	<b>2020</b>
2021	\$ 1,976,349
2022	1,685,332
2023	1,549,020
2024	1,487,198
2025	1,523,721
Later years	44,943,511
Total lease payments	<u>\$ 53,165,131</u>

Total rental income for operating leases for the years ended September 30, 2020 and 2019 amounted to \$2,860,366 and \$1,965,513, respectively.

**12. Long-Term Debt and Capital Leases**

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

	<b>2020</b>	<b>2019</b>
Fixed rate \$138,265,000 RIHEBC 2016 Series B Bonds, final maturity in 2036	\$ 125,750,000	\$ 131,110,000
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	112,994	143,262
Term, \$4,000,000 Time Insurance Company mortgage note, final maturity in 2027	2,617,678	2,764,598
Term, \$1,600,000 Seavest Healthcare Properties, LLC note, final maturity in 2030	1,197,866	1,292,621
Term, \$3,493,907 US Bank loan, final maturity in 2024	2,737,379	-
Capital lease obligations	-	917,816
Unamortized premium	10,407,176	11,057,624
Unamortized discount	(338,801)	(395,268)
Unamortized debt issuance costs	(2,125,647)	(2,280,609)
Total long-term debt and capital lease obligations	<u>161,968,645</u>	<u>166,220,044</u>
Less: Current portion of long-term debt and capital lease obligations	<u>(6,996,255)</u>	<u>(6,482,166)</u>
Long-term debt and capital lease obligations, excluding current portion	<u>\$ 154,972,390</u>	<u>\$ 159,737,878</u>

**Rhode Island Health and Educational Building Corporation (RIHEBC) Bonds**

In 2016, the 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 \$5,625,000 in 2021 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 \$11,916,512 is included in trustee-held funds in the consolidated balance sheet at September 30, 2020. CNE, Butler, Kent, VNA, SHS, The Memorial Hospital (prior to December 22, 2017), TPC, WIC, WIH, collectively, the Obligated Group, are jointly and severally liable for

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

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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. As of September 30, 2019, the System is in compliance with the bond covenants. As of September 30, 2020, the System obtained a suspension of the debt service coverage ratio requirement for fiscal 2020. The System is in compliance with bond covenants as of September 30, 2020.

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.

In 2016, the 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 2019 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. As of September 30, 2019, the System is in compliance with the bond covenants. As of September 30, 2020, the System obtained a suspension of the debt service coverage ratio requirement for fiscal 2020. The System is in compliance with bond covenants as of September 30, 2020.

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 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%.

In 2020, CNE entered into a \$3,493,907 loan agreement with US Bank due April 2020 through April 2024. Interest and principal installments of \$756,529 are due annually, at a fixed interest rate of 4.14%. The loan is collateralized by the medical equipment purchased.

**Care New England Health System and Affiliates**  
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Scheduled principal repayments on long-term debt are as follows for the years ended September 30:

2021	\$ 6,557,234
2022	6,881,899
2023	7,223,837
2024	7,547,916
2025	7,160,532
Thereafter	<u>118,654,499</u>
	154,025,917
Plus: Unamortized premium on bonds	10,407,176
Less: Unamortized discount on bonds	(338,801)
Less: Unamortized debt issuance costs	<u>(2,125,647)</u>
	<u>\$ 161,968,645</u>

**13. Net Assets**

Net assets without donor restriction of \$130,942,624 and \$160,524,029 as of September 30, 2020 and 2019, respectively, include board-designated funds and are held at the direction of the Board of Directors once an action for spending is approved. The remaining funds are not restricted in nature and can be used for operations.

Board-designated funds at September 30 are summarized as follows:

	<b>2020</b>	<b>2019</b>
<b>Board designated funds</b>		
General purposes	\$ 103,908,743	\$ 97,180,942
Cash surrender value of life insurance	22,596,350	22,596,350
Plant replacement and expansion	4,475,916	4,188,888
Healthcare research	941,790	881,396
Other	<u>461,352</u>	<u>461,352</u>
Total board designated funds	<u>\$ 132,384,151</u>	<u>\$ 125,308,928</u>

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Net assets with donor restrictions are restricted for the following purposes at September 30:

	2020	2019
<b>Subject to expenditure for specified purpose</b>		
Healthcare services	\$ 3,913,941	\$ 3,428,232
Healthcare research	3,405,379	3,262,102
General purposes	7,732,924	7,541,236
Health education	3,404,939	3,198,659
Plant replacement and expansion	28,934,707	27,102,569
Other	8,109,491	8,406,580
	<u>55,501,381</u>	<u>52,939,378</u>
<b>Subject to the Health System's policy and appropriation</b>		
Investment in perpetuity, the income of which is expendable to support		
Healthcare services	5,533,288	5,366,297
Healthcare research	787,725	762,039
General purposes	16,714,631	16,125,742
Indigent care	7,583,653	7,349,993
Health education	1,882,529	1,793,614
	<u>32,501,826</u>	<u>31,397,685</u>
<b>Not subject to appropriation or expenditure</b>		
Residential buildings to provide housing for low-income individuals with chronic mental illness	2,670,171	2,789,017
	<u>2,670,171</u>	<u>2,789,017</u>
Total net assets with donor restrictions	<u>\$ 90,673,378</u>	<u>\$ 87,126,080</u>

The 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 donor restricted endowment funds. The 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 System classifies restricted donor funds in accordance with the laws of the State of Rhode Island and generally accepted accounting principles. The System classifies as donor restricted endowment funds of perpetual durations (1) the original value of the contributions made to the endowment, (2) the original value of subsequent contributions made to the endowment, and (3) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Specific purpose restricted funds, include any donor restricted endowments that are not perpetual in nature, are appropriated in accordance with donor intent. The System considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the System and the donor restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the System, and (7) the investment policies of the System.

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The System's endowment net asset composition by fund type is as follows:

	2020	2019
<b>Donor restricted endowment funds</b>		
Original donor restricted gift amount and amounts to be maintained in perpetuity by donor	\$ 13,191,691	\$ 13,109,308
Accumulated investment gains	<u>27,854,786</u>	<u>26,552,750</u>
	41,046,477	39,662,058
Assets held under split-interest agreements	<u>30,677,449</u>	<u>29,290,932</u>
Total donor restricted endowment funds	<u>71,723,926</u>	<u>68,952,990</u>
Specific purpose restricted funds	16,279,281	15,384,073
Specific purpose restricted funds - property, plant and equipment	<u>2,670,171</u>	<u>2,789,017</u>
Total specific purpose restricted funds	<u>18,949,452</u>	<u>18,173,090</u>
Total funds	<u>\$ 90,673,378</u>	<u>\$ 87,126,080</u>

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

	2020	2019
<b>Endowment net assets at beginning of year</b>	\$ 39,662,058	\$ 40,187,419
Investment return, net	2,670,616	702,587
Contributions	6,700	54,664
Transfer to net assets without donor restrictions	75,683	-
Appropriation of endowment assets for expenditure	<u>(1,368,580)</u>	<u>(1,282,612)</u>
<b>Endowment net assets at end of year</b>	<u>\$ 41,046,477</u>	<u>\$ 39,662,058</u>

The System's net assets with donor restrictions consist of endowments managed by the System. Unless otherwise directed by the donor, gifts received for endowments are invested in accordance with the System's investment policy. In order to preserve the real value of a donor's gift and to sustain funding consistent with donor intent, the annual appropriation rate is set to strike a reasonable balance between long-term objectives of preserving and growing each endowment fund for the future of providing stable, annual appropriations.

The System has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return with a balanced growth emphasis based on the endowment's target allocation applied to the appropriate individual benchmarks.

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

## Care New England Health System and Affiliates

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The Board of Directors 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 Directors.

In addition to donor restricted endowments, Kent, Memorial Hospital and WIH are income beneficiaries of various trusts. On September 30, 2020 and 2019, the market value of Kent's, WIH's and Memorial Hospital's trust assets totaled \$29,114,732 and \$27,758,820, respectively. In addition to donor restricted endowments, the Center is the income beneficiary of various assets held at a community foundation. On September 30, 2020 and 2019, the market value of the Center's assets held at the community foundation totaled \$1,562,717 and \$1,532,111, respectively. Distributions of income are made at the discretion of the Board.

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 System to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in net assets with donor restrictions are immaterial as of September 30, 2020 and 2019. 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 2020 and 2019, net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	2020	2019
<b>Purpose restrictions accomplished:</b>		
Healthcare services	\$ 694,404	\$ 543,646
Healthcare research	375,143	300,039
Other	1,126,699	862,630
Health education	70,484	149,279
	<u>2,266,730</u>	<u>1,855,594</u>
Property, plant and equipment acquired and placed in service	1,929,102	1,965,053
Release of appropriated endowment amounts with purpose restrictions	1,052,133	1,003,266
	<u>1,052,133</u>	<u>1,003,266</u>
Total restrictions released	<u>\$ 5,247,965</u>	<u>\$ 4,823,913</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

# Care New England Health System and Affiliates

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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.

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.

#### 14. Retirement Plans

The 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 employed physicians. The second plan covers substantially all of the employees of Memorial. The 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 at WIH and certain employed physicians. 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 Directors 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 System enhanced contributions to the Care New England 403(b) Match and Savings Plan.

Included in cumulative changes in net assets without donor restrictions at September 30, 2020 and 2019 that has not yet been recognized in net periodic pension cost is an actuarial loss of \$94,114,207 and \$82,642,011, respectively.

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The actuarial loss included as cumulative changes in net assets without donor restrictions and expected to be recognized in net periodic pension cost during the fiscal year ended September 30, 2021 is \$2,430,363.

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

	<b>2020</b>	<b>2019</b>
Service cost	\$ 3,358,731	\$ 1,952,671
Interest cost	6,554,935	8,081,016
Expected return on plan assets	(7,155,720)	(7,645,807)
Amortization of loss	<u>2,038,853</u>	<u>1,296,407</u>
Net periodic pension expense	<u>\$ 4,796,799</u>	<u>\$ 3,684,287</u>

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

	<b>2020</b>	<b>2019</b>
Discount rate	3.13 %	4.30 %
Expected return on assets	6.00	6.00
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 net assets without donor restrictions of the plan as of September 30:

	2020	2019
<b>Changes in benefit obligations</b>		
Projected benefit obligations at beginning of year	\$ 218,020,122	\$ 195,745,630
Service cost	3,358,731	1,952,671
Interest cost	6,554,935	8,081,016
Actuarial loss	16,604,076	24,686,841
Benefits and expenses paid	<u>(12,244,823)</u>	<u>(12,446,036)</u>
Projected benefit obligations at end of year	<u>232,293,041</u>	<u>218,020,122</u>
<b>Changes in plan assets</b>		
Fair value of plan assets at beginning of year	167,228,457	167,068,903
Actual return on plan assets	10,249,747	7,205,590
Employer contributions	11,700,000	5,400,000
Benefits and expenses paid	<u>(12,244,823)</u>	<u>(12,446,036)</u>
Fair value of plan assets at end of year	<u>176,933,381</u>	<u>167,228,457</u>
<b>Funded status</b>		
Total pension liability	<u>\$ 55,359,660</u>	<u>\$ 50,791,665</u>
Accumulated benefit obligation	\$ 229,108,439	\$ 215,253,470
<b>Amounts recognized in net assets without donor restrictions</b>		
Net assets without donor restrictions at beginning of year	\$ 82,643,011	\$ 58,812,360
Amounts amortized during the year		
Net loss	(2,038,853)	(1,296,407)
Amounts occurring during the year		
Net loss	<u>13,510,049</u>	<u>25,127,058</u>
Net assets without donor restrictions at end of year	<u>\$ 94,114,207</u>	<u>\$ 82,643,011</u>

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

	2020	2019
Discount rate	2.76 %	3.13 %
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 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.

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

<b>Asset category</b>	<b>Target Allocation</b>	<b>Actual 2020</b>	<b>Actual 2019</b>
Cash and cash equivalents	0 %	3 %	3 %
Investments at NAV	49	44	42
Fixed income securities	32	28	31
Equity securities	19	25	24
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

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

#### **Contributions**

The System contributed \$11,700,000 and \$5,400,000 to the Plan in 2020 and 2019, respectively. The System expects to contribute \$8,100,000 to the Plan in 2021.

#### **Estimated Future Benefit Payments**

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

<b>Fiscal Year</b>	<b>Pension Benefits</b>
2021	\$ 15,931,874
2022	16,459,876
2023	16,500,509
2024	16,385,535
2025	15,325,789
Years 2026–2030	<u>67,076,218</u>
	<u>\$ 147,679,801</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 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 or service only. Nonelective contributions are allocated to each eligible participant hired on or after January 1, 2013 equal to 3 percent of compensation. Effective January 1, 2015, employees of Memorial Hospital are eligible for the Plan and are eligible for a nonelective contribution 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

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements

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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 System recorded an expense of \$14,789,584 and \$14,603,425 for the nonelective contribution to participant accounts for the fiscal years that ended September 30, 2020 and 2019, respectively. In addition, the System recorded an expense of \$4,550,162 and \$4,353,158 for matching credits for fiscal years ended September 30, 2020 and 2019, respectively. The System will fund the 2020 expense in calendar year 2021 and will fund the 2019 expense in calendar year 2020 through the first quarter of calendar 2021. The System recorded a pension liability at September 30, 2020 and 2019 of \$33,382,214 and \$18,611,571, respectively.

#### ***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.

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, 2020 and 2019, respectively, the Agency recorded an expense of \$549,532 and \$508,673. The System recorded a pension liability at September 30, 2020 and 2019 of \$140,125 and \$133,154, respectively.

#### ***Memorial Retirement Plan***

As part of the acquisition of SHS, CNE acquired the assets and assumed the liabilities for Memorial Hospital'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 Hospital's Defined Benefit Pension Plan transferred to CNE.

Included in cumulative changes in net assets without donor restrictions at September 30, 2020 and 2019 that has not yet been recognized in net periodic pension cost is an actuarial loss of \$41,607,329 and \$34,792,573, respectively.

The actuarial loss included as cumulative changes in net assets without donor restrictions and expected to be recognized in net periodic pension cost during the fiscal year ended September 30, 2021 is \$1,135,770.

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

	2020	2019
Interest cost	\$ 4,897,801	\$ 6,129,141
Expected return on plan assets	(3,531,118)	(3,623,879)
Amortization of loss	814,180	111,824
Net periodic pension expense	<u>\$ 2,180,863</u>	<u>\$ 2,617,086</u>

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

	2020	2019
Discount rate	3.24 %	4.38 %
Expected rate of return on plan assets	6.00	6.00
Rate of compensation increase	N/A	N/A

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 net assets without donor restrictions of the plan as of September 30:

	2020	2019
<b>Changes in benefit obligations</b>		
Projected benefit obligations at beginning of year	\$ 155,226,463	\$ 143,782,781
Interest cost	4,897,801	6,129,141
Actuarial loss	6,934,953	13,171,260
Benefits and expenses paid	(8,063,581)	(7,856,719)
Projected benefit obligations at end of year	<u>158,995,636</u>	<u>155,226,463</u>
<b>Changes in plan assets</b>		
Fair value of plan assets at beginning of year	81,618,395	82,579,265
Actual return on plan assets	2,837,135	(1,002,151)
Employer contributions	6,450,000	7,898,000
Benefits and expenses paid	(8,063,581)	(7,856,719)
Fair value of plan assets at end of year	<u>82,841,949</u>	<u>81,618,395</u>
<b>Funded status</b>		
Total pension liability	<u>\$ 76,153,687</u>	<u>\$ 73,608,068</u>
Accumulated benefit obligation	<u>\$ 158,995,636</u>	<u>\$ 155,226,463</u>
<b>Amounts recognized in net assets without donor restrictions</b>		
Net assets without donor restrictions at beginning of year	\$ 34,792,573	\$ 17,107,107
Amounts amortized during the year		
Net loss	(814,180)	(111,824)
Amounts occurring during the year		
Net loss	<u>7,628,936</u>	<u>17,797,290</u>
Net assets without donor restrictions at end of year	<u>\$ 41,607,329</u>	<u>\$ 34,792,573</u>

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

	2020	2019
Discount rate	2.78 %	3.24 %
Rate of compensation increase	N/A	N/A

#### 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 2020	Actual 2019
<b>Asset category</b>			
Cash and cash equivalents	0 %	3 %	5 %
Investments at NAV	25	22	15
Fixed income securities	65	65	67
Equity securities	10	10	13
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

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

#### Contributions

The System contributed \$6,450,000 and \$7,898,000 to the Memorial Plan in 2020 and 2019, respectively. The System expects to contribute \$14,250,000 to the Plan in 2021.

#### Estimated Future Benefit Payments

Benefit payments, are expected to be paid as follows:

Fiscal Year	Pension Benefits
2021	\$ 8,415,554
2022	8,665,065
2023	8,827,612
2024	8,930,740
2025	8,970,391
Years 2026–2030	<u>43,680,526</u>
	<u>\$ 87,489,888</u>

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**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:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. 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, 2019, 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 2019 and 2018 is for the plan's year-end at December 31, 2019, and December 31, 2018, 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	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
		2019	2018		2019	2018		
New England Health Care Employees Pension Fund	22-3071963 - 001	Green	Green	No	\$ 10,121,166	\$ 9,656,661	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, 2019 and December 31, 2018.

At the date the financial statements were issued, Form 5500 was not available for the plan year ending December 31, 2020.

Pension expense, for the plan, for the years ended September 30, 2020 and 2019, was \$10,215,512 and \$9,976,295, 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, 2020 and 2019.

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

#### 15. 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 gain of \$28,127 as of September 30, 2020 and the unrecognized actuarial loss of \$64,858 as of September 30, 2019.

The postretirement benefit cost for this plan was \$32,488 in 2020 and \$44,286 in 2019.

#### 16. 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 and WIH received payments under the disproportionate share program of \$26,498,606 from the State of Rhode Island's Medicaid program for the year ended September 30, 2020. Kent and WIH also recorded disproportionate share payments of \$1,449,966 from Medicare during 2020. Additional payments of \$2,186,895 were received during 2020 from Medicare as part of the provisions under the Accountable Care Act to offset hospital costs for uncompensated care. Kent and WIH received payments under the disproportionate share program of \$34,263,108 from the State of Rhode Island's Medicaid program for the year ended September 30, 2019. Kent and WIH also recorded disproportionate share payments of \$1,683,310 from Medicare during 2019. Additional payments of \$6,198,739 were received during 2019 from Medicare as part of the provisions under the Accountable Care Act to offset hospital costs for uncompensated care.

#### 17. Licensure Fees

The State of Rhode Island assesses hospitals an annual licensure fee calculated as a percentage of the hospital's net patient service revenue. The Care New England hospitals were assessed \$45,254,839 and \$40,538,826 for the years ended September 30, 2020 and 2019, respectively.

#### 18. Concentration of Credit Risk

As of September 30, 2020 and 2019, 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.

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.

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In addition, the organizations routinely grant credit to patients without requiring collateral or other security. The mix of receivables, net of price concessions, from patients and third-party payors at September 30, 2020 and 2019, was as follows:

	2020	2019
Medicare and Medicare Managed Care	17 %	17 %
Medicaid and Medicaid Managed Care	20	22
Blue Cross	25	15
Managed care	7	10
Self-pay	16	19
Other third-party payors	15	17
	<u>100 %</u>	<u>100 %</u>

#### 19. Commitments and Contingencies

##### 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, 2020 and 2019.

##### Collective Bargaining Agreements

At September 30, 2020, approximately 53.1% of the System's employees were covered by collective bargaining agreements. The Memorial collective bargaining agreement expired on June 30, 2018. The collective bargaining agreement covering 59% of the VNA's employees expired on May 31, 2019 and was extended to May 31, 2022. The collective bargaining agreement covering 51.9% of Kent's employees expired on June 30, 2020 and was extended through June 30, 2021. The collective bargaining agreement covering 79.4% of WIH's employees will expire on November 30, 2020. The collective bargaining agreement covering 66.7% of Butler's employees will expire on March 31, 2021.

#### 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 and

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general liability coverage layers above the self-insurance primary and excess (professional liability only) 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 with respect to incurred but not reported (IBNR) claims incurred prior to July 1, 2004. Prior to July 1, 2017, Memorial purchased, annually, commercial insurance policies to insure professional liability risks. Memorial purchases, annually, commercial insurance policies to insure 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.

#### **21. Affiliation With Rhode Island Hospital**

In 1981, Rhode Island Hospital ("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.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

#### 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 Major Affiliated Teaching Hospitals of The Warren Alpert Medical School of Brown University 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. The System's financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function include depreciation, amortization and interest. Depreciation on land improvements, building and building improvements are primarily allocated to a function based on square footage. Depreciation of moveable equipment is primarily allocated to the function utilizing the equipment. Interest is allocated to a function based on direct expenses. Expenses related to providing these services for the years ended September 30 are as follows:

	2020								
	Healthcare Services	General and Administrative	Research	Other	Total Operating Expenses	Healthcare Services	General and Administrative	Fundraising	Total Expenses
Salaries and benefits	\$ 616,392,829	\$ 74,692,779	\$ -	\$ -	\$ 691,085,608	\$ -	\$ -	\$ 1,305,272	\$ 692,390,880
Supplies and other expenses	257,605,142	56,500,489	-	-	314,105,631	-	-	490,498	314,676,129
Salaries and benefits - research	-	-	15,062,685	-	15,062,685	-	-	-	15,062,685
Supplies and other expenses - research	-	-	16,353,806	-	16,353,806	-	-	-	16,353,806
Depreciation and amortization	23,415,586	6,224,548	-	-	29,640,134	-	-	-	29,640,134
Insurance	29,467,829	2,791,191	-	-	32,259,020	-	-	-	32,259,020
Licensure fee	45,254,839	-	-	-	45,254,839	-	-	-	45,254,839
Interest	5,066,336	2,613,006	-	-	7,679,342	-	-	-	7,679,342
Restructuring costs - Memorial Hospital	-	-	-	376,096	376,096	-	-	-	376,096
Other components of current period pension	-	-	-	-	-	1,938,803	1,680,128	-	3,618,931
	\$ 977,202,661	\$ 142,902,013	\$ 31,416,471	\$ 376,096	\$ 1,151,897,241	\$ 1,938,803	\$ 1,680,128	\$ 1,795,770	\$ 1,157,311,942

  

	2019								
	Healthcare Services	General and Administrative	Research	Other	Total Operating Expenses	Healthcare Services	General and Administrative	Fundraising	Total Expenses
Salaries and benefits	\$ 630,113,167	\$ 70,168,244	\$ -	\$ -	\$ 700,281,411	\$ -	\$ -	\$ 1,362,269	\$ 701,643,680
Supplies and other expenses	260,407,842	42,511,429	-	-	302,919,071	-	-	605,725	303,524,796
Salaries and benefits - research	-	-	15,844,815	-	15,844,815	-	-	-	15,844,815
Supplies and other expenses - research	-	-	19,757,699	-	19,757,699	-	-	-	19,757,699
Depreciation and amortization	23,127,022	6,231,889	-	-	29,358,911	-	-	-	29,358,911
Insurance	21,019,263	2,861,518	-	-	24,780,781	-	-	-	24,780,781
Licensure fee	40,538,826	-	-	-	40,538,826	-	-	-	40,538,826
Interest	5,146,450	2,635,373	-	-	7,781,823	-	-	-	7,781,823
Restructuring costs - Memorial Hospital	-	-	-	1,371,298	1,371,298	-	-	-	1,371,298
Other components of current period pension	-	-	-	-	-	2,345,443	2,003,269	-	4,348,702
	\$ 981,282,370	\$ 124,408,253	\$ 35,602,514	\$ 1,371,298	\$ 1,142,634,435	\$ 2,345,443	\$ 2,003,269	\$ 1,967,994	\$ 1,148,951,131

#### 24. Fair Value of Financial Instruments

The 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 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 System does not expect to sell the investments at a value other than the NAV.

## Care New England Health System and Affiliates

### Notes to Consolidated Financial Statements

#### September 30, 2020 and 2019

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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 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 System has performed due diligence around these investments to ensure NAV is an appropriate measure of fair value as of September 30.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

Financial instruments carried at fair value for the System's nonpension plan assets as of September 30, 2020 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	2020
<b>Assets</b>				
<b>Endowment and board designated funds</b>				
Cash	\$ 166,778	\$ -	\$ -	\$ 166,778
Short-term investments	14,075,280	-	-	14,075,280
Fixed income securities	1,660,350	10,694,010	-	12,354,360
Equity securities	18,522,012	-	-	18,522,012
Mutual funds	67,795,046	-	-	67,795,046
Assets held under split-interest agreements	-	-	30,677,449	30,677,449
	<u>\$ 102,219,466</u>	<u>\$ 10,694,010</u>	<u>\$ 30,677,449</u>	<u>143,590,925</u>
Investments at NAV (a)				<u>37,920,802</u>
Total assets				<u>\$ 181,511,727</u>
<b>Trustee-held funds</b>				
Cash	\$ 14,087,452	\$ -	\$ -	\$ 14,087,452
Short-term investments	15,041,723	-	-	15,041,723
Fixed income securities	5,866,692	41,513,018	-	47,379,710
Equity securities	32,866,965	-	-	32,866,965
Mutual funds	2,468,144	52,088,357	-	54,556,501
	<u>\$ 70,330,976</u>	<u>\$ 93,601,375</u>	<u>\$ -</u>	<u>163,932,351</u>
Investments at NAV (a)				<u>20,379,759</u>
Total assets				<u>\$ 184,312,110</u>
<b>Deferred compensation funds</b>				
Cash	\$ 40,000	\$ -	\$ -	\$ 40,000
Mutual funds	1,469,048	-	-	1,469,048
	<u>\$ 1,509,048</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,509,048</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.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

Financial instruments carried at fair value for the System's nonpension plan assets as of September 30, 2019 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	2019
<b>Assets</b>				
<b>Endowment and board designated funds</b>				
Cash	\$ 302,153	\$ -	\$ -	\$ 302,153
Short-term investments	4,825,175	-	-	4,825,175
Fixed income securities	3,604,209	15,405,334	-	19,009,543
Equity securities	17,619,743	-	-	17,619,743
Mutual funds	61,540,487	54,601	-	61,595,088
Assets held under split-interest agreements	-	-	29,290,931	29,290,931
	<u>\$ 87,891,767</u>	<u>\$ 15,459,935</u>	<u>\$ 29,290,931</u>	<u>132,642,633</u>
Investments at NAV (a)				<u>39,022,935</u>
Total assets				<u>\$ 171,665,568</u>
<b>Trustee-held funds</b>				
Cash	\$ 11,893,105	\$ -	\$ -	\$ 11,893,105
Short-term investments	17,010,267	-	-	17,010,267
Fixed income securities	5,140,087	41,558,124	-	46,698,211
Equity securities	33,228,014	-	-	33,228,014
Mutual funds	2,623,349	51,982,652	-	54,606,001
	<u>\$ 69,894,822</u>	<u>\$ 93,540,776</u>	<u>\$ -</u>	<u>163,435,598</u>
Investments at NAV (a)				<u>20,524,731</u>
Total assets				<u>\$ 183,960,329</u>
<b>Deferred compensation funds</b>				
Cash	\$ 202,581	\$ -	\$ -	\$ 202,581
Mutual funds	1,191,233	-	-	1,191,233
	<u>\$ 1,393,814</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,393,814</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 \$22,596,350 as of September 30, 2020 and 2019, 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.

**Care New England Health System and Affiliates**  
**Notes to Consolidated Financial Statements**  
**September 30, 2020 and 2019**

Financial instruments carried at fair value for assets invested in the CNE Defined Benefit Pension Plan as of September 30, 2020 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	2020
<b>Assets</b>				
Cash and cash equivalents	\$ 5,758,501	\$ -	\$ -	\$ 5,758,501
Fixed income securities	33,849,494	14,980,728	-	48,830,222
Equity securities	5,764,944	-	-	5,764,944
Mutual funds	39,243,477	-	-	39,243,477
	<u>\$ 84,616,416</u>	<u>\$ 14,980,728</u>	<u>\$ -</u>	<u>99,597,144</u>
Investments at NAV (b)				<u>77,336,237</u>
Total assets				<u>\$ 176,933,381</u>

Financial instruments carried at fair value for assets invested in the CNE Defined Benefit Pension Plan as of September 30, 2019 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	2019
<b>Assets</b>				
Cash and cash equivalents	\$ 4,596,521	\$ -	\$ -	\$ 4,596,521
Fixed income securities	36,432,540	15,287,189	-	51,719,729
Equity securities	16,209,613	-	-	16,209,613
Mutual funds	24,451,237	-	-	24,451,237
	<u>\$ 81,689,911</u>	<u>\$ 15,287,189</u>	<u>\$ -</u>	<u>96,977,100</u>
Investments at NAV (b)				<u>70,251,357</u>
Total assets				<u>\$ 167,228,457</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 14 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, 2020 and 2019

Financial instruments carried at fair value for assets invested in Memorial's Defined Benefit Pension Plan as of September 30, 2020 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	2020
<b>Assets</b>				
Cash and cash equivalents	\$ 1,903,473	\$ -	\$ -	\$ 1,903,473
Equity securities	1,757,023	-	-	1,757,023
Mutual funds	13,873,836	-	-	13,873,836
Guaranteed annuity contracts	-	-	46,850,478	46,850,478
	<u>\$ 17,534,332</u>	<u>\$ -</u>	<u>\$ 46,850,478</u>	64,384,810
Investments at NAV (c)				<u>18,457,139</u>
Total assets				<u>\$ 82,841,949</u>

Financial instruments carried at fair value for assets invested in Memorial's Defined Benefit Pension Plan as of September 30, 2019 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	2019
<b>Assets</b>				
Cash and cash equivalents	\$ 3,680,195	\$ -	\$ -	\$ 3,680,195
Equity securities	5,149,930	-	-	5,149,930
Mutual funds	10,961,817	-	-	10,961,817
Guaranteed annuity contracts	-	-	49,241,890	49,241,890
	<u>\$ 19,791,942</u>	<u>\$ -</u>	<u>\$ 49,241,890</u>	69,033,832
Investments at NAV (c)				<u>12,584,563</u>
Total assets				<u>\$ 81,618,395</u>

<sup>(c)</sup> 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 14 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, 2020 and 2019**

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During the years ended September 30, 2020 and 2019, 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:

	<b>2020</b>	<b>2019</b>
<b>Fair value at October 1</b>	\$ 29,290,931	\$ 29,571,758
Total gains (losses)		
Contributions	325	100
Dividends and interest income	217,284	228,372
Net realized gains on investments	843,158	1,909,244
Change in net unrealized appreciation (depreciation) on investments	1,371,221	(1,644,379)
Transfers in and/or out of Level 3	<u>(1,045,470)</u>	<u>(774,164)</u>
<b>Fair value at September 30</b>	<u>\$ 30,677,449</u>	<u>\$ 29,290,931</u>

During the years ended September 30, 2020 and 2019, 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:

	<b>2020</b>	<b>2019</b>
<b>Fair value at October 1</b>	\$ 49,241,890	\$ 53,655,830
Total gains (losses)		
Dividends and interest income	1,311,663	1,338,994
Change in net unrealized appreciation (depreciation) on investments	542,641	(1,399,590)
Benefit payments	<u>(4,245,716)</u>	<u>(4,353,344)</u>
<b>Fair value at September 30</b>	<u>\$ 46,850,478</u>	<u>\$ 49,241,890</u>

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

The 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 System's nonpension plan investments as of September 30, 2020 and 2019, respectively, which are valued at NAV.

Redemption Terms as of September 30, 2020	Commingled Funds Equity	Commingled Funds Real Assets	Limited Partnership	Total
<b>Endowment and board designated funds</b>				
Daily, 0-1 day prior written notice	\$ 10,103,184	\$ -	\$ -	\$ 10,103,184
Bi-Monthly, Monthly, 7-30 days prior written notice	6,850,524	5,824,617	6,974,069	19,649,210
6-12 years	-	-	8,168,408	8,168,408
	<u>\$ 16,953,708</u>	<u>\$ 5,824,617</u>	<u>\$ 15,142,477</u>	<u>\$ 37,920,802</u>
<b>Trustee-held funds</b>				
Daily, 30 days prior written notice	\$ 11,197,841	\$ -	\$ -	\$ 11,197,841
Monthly, 5-30 days prior written notice	9,181,918	-	-	9,181,918
	<u>\$ 20,379,759</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,379,759</u>
Redemption Terms as of September 30, 2019	Commingled Funds Equity	Commingled Funds Real Assets	Limited Partnership	Total
<b>Endowment and board designated funds</b>				
Daily, 0-1 day prior written notice	\$ 9,503,115	\$ -	\$ -	\$ 9,503,115
Bi-Monthly, Monthly, 7-30 days prior written notice	7,541,915	6,136,321	6,489,278	20,167,514
6-12 years	-	-	9,352,306	9,352,306
	<u>\$ 17,045,030</u>	<u>\$ 6,136,321</u>	<u>\$ 15,841,584</u>	<u>\$ 39,022,935</u>
<b>Trustee-held funds</b>				
Daily, 30 days prior written notice	\$ 10,532,754	\$ -	\$ -	\$ 10,532,754
Monthly, 5-30 days prior written notice	9,991,977	-	-	9,991,977
	<u>\$ 20,524,731</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,524,731</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 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.

# Care New England Health System and Affiliates

## Notes to Consolidated Financial Statements

### September 30, 2020 and 2019

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#### **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**

On October 1, 2020, new laws were issued that extended the payment terms related to the Medicare Accelerated and Advance Payment Program amounts owed by the System to fiscal year 2022.

On July 3, 2019, Memorial Hospital entered into a Purchase and Sale Agreement (as amended, the "Purchase Agreement") with a third-party developer for the purchase of approximately one half of Memorial Hospital's main campus located at 111 Brewster Street. The portion of the campus being purchased includes the now-closed main hospital building and surrounding buildings and grounds. The Purchase Agreement provides that the closing is conditioned on CNE having the restrictions in the deeds for the property revised to permit the developer's proposed use for the property. On September 4, 2020, CNE, together with Memorial Hospital and SHS, filed a Verified Petition for *Cy Pres* in the Rhode Island Superior Court seeking, among other things, a revision to the deed restrictions. On November 12, 2020, the Superior Court filed an order and final judgment approving of the sale and revising the deed restrictions.

Care New England Health System has assessed the impact of subsequent events through December 21, 2020, 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 Schedules**

# Care New England Health System and Affiliates

## Note to Supplemental Consolidating Schedule

### September 30, 2020 and 2019

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#### **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, 2020. 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 \$27,044,830, for the year ended September 30, 2020, 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.

# Care New England Health System and Affiliates

## Consolidating Balance Sheet

### September 30, 2020

	Butler and Affiliates	Kent and Affiliates	Care New England Medical Group	WIC and Affiliates	Care New England	The Agency	Southeastern Healthcare System, Inc. and Affiliates	Integra	The Center	Eliminations	Total
<b>Assets</b>											
<b>Current assets</b>											
Cash and cash equivalents	\$ 10,030,154	\$ 85,629,929	\$ (19,023,020)	\$ 145,270,258	\$ (74,373,108)	\$ (7,588,060)	\$ 337,823	\$ (8,321,657)	\$ 1,169,217	\$ -	\$ 133,131,336
Patient accounts receivable	6,946,531	28,849,699	6,726,165	49,784,366	203,918	5,022,990	-	-	2,459,036	-	99,992,705
Other receivables	4,344,039	3,601,974	1,479,219	6,996,208	1,881,123	1,269,744	97,409	5,489,587	1,979,149	-	27,138,352
Pledges receivable, net	14,625	72,327	-	150,511	-	-	-	-	94,064	-	331,527
Other current assets	492,129	6,450,217	256,531	4,404,333	5,744,243	59,474	-	23,985	238,643	-	17,689,555
Current portion of assets whose use is limited	-	-	-	-	2,095,686	-	-	-	-	-	2,095,686
Due from affiliates	-	-	-	-	29,614	-	-	-	-	(29,614)	-
Total current assets	21,827,478	124,604,046	(10,561,105)	206,605,676	(64,418,524)	(1,235,852)	435,232	(2,808,285)	5,940,109	(29,614)	280,359,161
<b>Assets whose use is limited or restricted as to use</b>											
Endowment funds	20,154,559	18,791,192	-	17,906,652	-	-	13,127,204	-	1,744,319	-	71,723,926
Board-designated funds	8,050,771	26,001,333	-	97,478,626	-	853,421	-	-	-	-	132,384,151
Trustee-held funds	3,772,650	57,210,652	-	104,839,821	17,836,487	-	-	-	852,500	-	184,312,110
Deferred compensation funds	232,860	59,172	-	189,552	1,027,464	-	-	-	-	-	1,509,048
Total assets limited as to use	32,210,840	102,062,349	-	220,414,651	18,863,951	853,421	13,127,204	-	2,596,819	-	389,929,235
<b>Less: Amounts required to meet current obligations</b>											
Noncurrent assets limited as to use	32,210,840	102,062,349	-	220,414,651	16,568,265	853,421	13,127,204	-	2,596,819	-	387,833,549
Goodwill	-	-	-	-	-	-	24,345,364	-	143,611	-	24,488,975
Property, plant and equipment, net	17,484,280	71,298,418	-	112,646,468	16,064,535	201,799	6,929,783	-	15,714,026	-	240,319,309
Finance lease right-of-use assets, net	-	1,112,514	-	600,449	1,679,753	9,665	-	-	1,393	-	3,403,774
Operating lease right-of-use assets, net	45,058	26,949,691	3,312,428	38,807,259	22,983,669	-	-	-	1,129,401	-	93,227,506
Long-term pledges receivable, net	-	-	-	56,117	-	-	-	-	63,211	-	119,328
Insurance receivable	250,000	-	-	-	192,639	-	2,145,008	-	255,001	-	2,842,648
Other assets	633,128	569,780	3,803	1,089,675	3,895,829	-	5,000	-	-	-	6,197,215
Due from affiliates	-	-	-	-	113,057,844	-	-	-	-	(113,057,844)	-
Total assets	\$ 72,430,784	\$ 326,596,798	\$ (7,244,874)	\$ 580,220,295	\$ 110,024,010	\$ (170,967)	\$ 46,987,591	\$ (2,808,285)	\$ 25,843,571	\$ (113,087,458)	\$ 1,038,791,465

The accompanying note is an integral part of these supplemental consolidating financial statements.

# Care New England Health System and Affiliates

## Consolidating Balance Sheet

### September 30, 2020

	Butler and Affiliates	Kent and Affiliates	Care New England Medical Group	WIC and Affiliates	Care New England	The Agency	Southeastern Healthcare System, Inc. and Affiliates	Integra	The Center	Eliminations	Total
<b>Liabilities and Net Assets</b>											
<b>Current liabilities</b>											
Accounts payable and accrued expenses	\$ 6,008,934	\$ 42,049,122	\$ 7,730,825	\$ 34,176,422	\$ 19,242,920	\$ 2,948,342	\$ 1,567,496	\$ 6,837,829	\$ 2,731,357	\$ -	\$ 123,293,247
Current portion of estimated third-party payor settlements and advances	3,241,173	31,453,576	2,000,000	4,487,055	-	-	317,903	-	238,624	-	41,738,331
Current portion of long-term debt	155,657	488,887	-	254,500	6,064,020	-	-	-	33,191	-	6,996,255
Current portion of finance lease liability	-	360,901	-	254,528	629,042	2,279	-	-	2,133	-	1,248,883
Current portion of operating lease liability	40,481	1,774,997	898,960	2,932,304	1,875,429	-	-	-	269,646	-	7,981,816
Self-insurance reserves	-	-	-	-	9,511,970	-	-	-	-	-	9,511,970
Pension liability	1,552,850	20,453,372	-	3,455,639	5,843,724	159,555	-	-	2,057,199	-	33,522,339
Other current liabilities	543,814	60,254	164	1,063,059	1,080,152	268,282	214,128	75,888	313,119	-	3,618,860
Due to affiliates	-	29,614	-	-	-	-	-	-	-	(29,614)	-
Total current liabilities	11,542,909	96,670,723	10,629,949	46,623,507	44,347,257	3,378,458	2,099,527	6,913,717	5,635,268	(29,614)	227,811,701
<b>Long term liabilities</b>											
Self-insurance reserves	1,836,116	55,022,109	-	88,950,573	7,659,106	-	2,295,008	-	255,001	-	156,017,913
Long-term portion of estimated third-party payor settlements and advances	1,952,513	6,156,202	-	15,025,101	-	287,349	7,762,453	-	-	-	31,183,618
Long-term debt	2,462,021	2,363,451	-	828,407	149,238,708	-	-	-	79,803	-	154,972,390
Long-term finance lease liability	-	716,681	-	352,107	874,204	7,655	-	-	-	-	1,950,647
Long-term operating lease liability	4,304	25,477,087	2,428,650	40,399,462	21,721,543	-	-	-	918,211	-	90,949,257
Pension liability	17,235,345	20,313,286	-	10,053,702	81,833,920	2,077,094	-	-	-	-	131,513,347
Postretirement liability	-	977,835	-	-	-	-	-	-	-	-	977,835
Other liabilities	2,818,912	6,345,966	-	5,599,150	1,810,591	383,644	3,851,532	-	988,960	-	21,798,755
Due to affiliates	-	-	-	-	-	-	113,057,844	-	-	(113,057,844)	-
Total liabilities	37,852,120	214,043,340	13,058,599	207,832,009	307,485,329	6,134,200	129,066,364	6,913,717	7,877,243	(113,087,458)	817,175,463
<b>Net assets</b>											
Without donor restrictions	12,223,261	92,945,399	(20,392,588)	343,586,711	(197,581,319)	(6,388,213)	(95,760,161)	(9,726,160)	12,035,694	-	130,942,624
With donor restrictions	22,355,403	19,608,059	89,115	28,801,575	120,000	83,046	13,681,388	4,153	5,930,634	-	90,673,378
Total net assets	34,578,664	112,553,458	(20,303,473)	372,388,286	(197,461,319)	(6,305,167)	(82,078,773)	(9,722,002)	17,966,328	-	221,616,002
Total liabilities and net assets	\$ 72,430,784	\$ 326,596,798	\$ (7,244,874)	\$ 580,220,295	\$ 110,024,010	\$ (170,967)	\$ 46,987,591	\$ (2,808,285)	\$ 25,843,571	\$ (113,087,458)	\$ 1,038,791,465

The accompanying note is an integral part of these supplemental consolidating financial statements.

# Care New England Health System and Affiliates

## Consolidating Statement of Operations

### Year Ended September 30, 2020

	Butler and Affiliates	Kent and Affiliates	Care New England Medical Group	WIC and Affiliates	Care New England	The Agency	Southeastern Healthcare System, Inc. and Affiliates	Integra	The Center	Eliminations	Total
<b>Operating revenues</b>											
Net patient service revenue	\$ 77,447,038	\$ 300,104,400	\$ 79,805,589	\$ 394,168,233	\$ 154,759	\$ 22,384,130	\$ (573,723)	\$ -	\$ 37,050,236	\$ -	\$ 910,540,662
Research revenue	14,189,468	1,052,329	-	19,103,711	-	-	258,897	(107)	-	-	34,604,298
Grant revenue - relief funding	3,117,974	31,547,361	4,678,699	21,442,042	369	898,164	-	-	742,297	-	62,426,906
Other revenue	19,166,732	24,228,770	66,288,612	48,448,742	146,453,740	2,551,854	1,867,392	18,127,460	14,315,678	(228,052,218)	113,396,762
Net assets released from restrictions and used for operations	811,643	328,922	5,885	1,023,650	-	3,000	2,590	559	702,053	-	2,876,302
Total operating revenues and other support	114,732,855	357,259,782	150,778,765	484,186,378	146,608,868	25,837,148	1,555,156	18,127,912	52,810,264	(228,052,218)	1,123,844,930
<b>Operating expenses</b>											
Salaries and benefits	62,991,630	144,980,298	121,121,616	223,435,747	70,688,954	19,334,969	774,898	7,087,583	40,380,968	288,945	691,085,608
Supplies and other expenses	31,796,979	182,126,500	26,897,319	199,311,858	66,922,433	5,985,429	2,364,449	11,247,773	11,685,530	(224,152,639)	314,185,631
Research expenses	13,386,091	1,175,288	-	16,622,732	-	-	232,467	(107)	-	-	31,416,471
Depreciation and amortization	2,819,441	7,855,546	-	10,223,019	7,311,521	82,594	405,130	-	942,883	-	29,640,134
Insurance	1,490,092	16,915,718	2,759,850	13,913,657	317,214	427,357	(172,852)	123,663	672,945	(4,188,524)	32,259,120
Licensure fee	-	19,987,868	-	25,266,971	-	-	-	-	-	-	45,254,839
Interest	874,860	1,544,136	-	2,897,826	2,026,368	947	-	-	335,205	-	7,679,342
Restructuring costs - Memorial Hospital	-	-	-	-	-	-	376,096	-	-	-	376,096
Total operating expenses	113,359,083	374,585,354	150,778,785	491,671,810	147,266,490	25,831,296	3,980,188	18,458,912	54,017,531	(228,052,218)	1,151,897,241
Income (loss) from operations	1,373,762	(17,325,572)	-	(7,485,432)	(657,622)	5,852	(2,425,032)	(331,000)	(1,207,267)	-	(28,052,311)
<b>Nonoperating gains (losses)</b>											
Investment income on assets limited as to use	769,256	2,490,758	-	7,292,161	1,076,207	26,887	-	-	16	-	11,655,285
Contributions	36,635	97,217	-	152,263	-	40,833	4	-	84,386	-	411,338
Change in net unrealized gains (losses) on investments	389,537	2,244,467	-	5,183,179	(77,618)	29,233	-	-	-	-	7,768,798
Other components of current period pension	(392,890)	(574,852)	-	(270,944)	(2,330,616)	(49,629)	-	-	-	-	(3,618,931)
Other	14,180	86,567	-	243,259	(1,748,337)	55	323	-	(2,083)	-	(1,406,036)
Net nonoperating gains (losses)	816,718	4,344,157	-	12,599,918	(3,080,364)	47,379	327	-	82,319	-	14,810,454
Excess (deficiency) of revenues and gains over expenses and losses	2,190,480	(12,981,415)	-	5,114,486	(3,737,986)	53,231	(2,424,705)	(331,000)	(1,124,948)	-	(13,241,857)
<b>Other changes in net assets without donor restrictions</b>											
Pension and postretirement adjustments	(5,244,709)	(2,676,370)	-	(1,784,764)	(7,924,664)	(562,460)	-	-	-	-	(18,192,967)
Net assets released from restrictions used for purchase of property, plant and equipment	25,897	1,005,199	-	896,195	-	-	-	-	1,811	-	1,929,102
Transfer to net assets with donor restrictions	-	-	-	(75,683)	-	-	-	-	-	-	(75,683)
Transfers	-	(2,750,000)	-	-	-	-	2,750,000	-	-	-	-
	(5,218,812)	(4,421,171)	-	(864,252)	(7,924,664)	(562,460)	2,750,000	-	1,811	-	(16,339,548)
(Decrease) increase in net assets without donor restrictions	\$ (3,028,332)	\$ (17,402,586)	\$ -	\$ 4,150,234	\$ (11,662,650)	\$ (509,229)	\$ 325,295	\$ (331,000)	\$ (1,123,137)	\$ -	\$ (29,581,405)

The accompanying note is an integral part of these supplemental consolidating financial statements.

**Care New England Health System and Affiliates**  
**Consolidating Statement of Changes in Net Assets**  
**Year Ended September 30, 2020**

	Butler and Affiliates	Kent and Affiliates	Care New England Medical Group	WIC and Affiliates	Care New England	The Agency	Southeastern Healthcare System, Inc. and Affiliates	Integra	The Center	Eliminations	Total
<b>Net assets without donor restrictions</b>											
Excess (deficiency) of revenues and gains over expenses and losses	\$ 2,190,480	\$ (12,981,415)	\$ -	\$ 5,114,486	\$ (3,737,986)	\$ 53,231	\$ (2,424,705)	\$ (331,000)	\$ (1,124,948)	\$ -	\$ (13,241,857)
Pension and postretirement adjustments	(5,244,709)	(2,676,370)	-	(1,784,764)	(7,924,664)	(562,460)	-	-	-	-	(18,192,967)
Net assets released from restrictions used for purchase of property, plant and equipment	25,897	1,005,199	-	896,195	-	-	-	-	1,811	-	1,929,102
Transfer to net assets with donor restrictions	-	-	-	(75,683)	-	-	-	-	-	-	(75,683)
Transfers	-	(2,750,000)	-	-	-	-	2,750,000	-	-	-	-
(Decrease) increase in net assets without donor restrictions	(3,028,332)	(17,402,586)	-	4,150,234	(11,662,650)	(509,229)	325,295	(331,000)	(1,123,137)	-	(29,581,405)
<b>Net assets with donor restrictions</b>											
Contributions	846,541	1,176,488	95,000	1,894,122	120,000	32,444	-	2,805	895,046	-	4,862,446
Income from investments	233,106	68,173	-	117,807	-	-	50,700	-	3,044	-	472,830
Net realized and unrealized gains from investments	1,076,648	320,823	-	543,394	-	-	239,873	-	17,048	-	2,197,786
Changes in beneficial interest in assets held at community foundation	-	-	-	-	-	-	-	-	30,606	-	30,606
Changes in beneficial interest in perpetual trusts	-	509,989	-	201,392	-	-	644,531	-	-	-	1,355,912
Net assets released from restrictions	(1,280,101)	(1,332,121)	(5,885)	(1,919,845)	-	(3,000)	(2,590)	(559)	(703,864)	-	(5,247,965)
Transfer from net assets without donor restrictions	-	-	-	75,683	-	-	-	-	-	-	75,683
Increase in net assets with donor restrictions	676,194	743,352	89,115	712,553	120,000	29,444	932,514	2,246	241,880	-	3,547,298
(Decrease) increase in net assets	(2,352,138)	(16,659,234)	89,115	4,862,787	(11,542,650)	(479,785)	1,257,809	(328,754)	(861,257)	-	(26,034,107)
<b>Net assets at</b>											
Beginning of year	36,930,802	129,212,692	(20,392,588)	367,525,499	(185,918,669)	(5,825,382)	(83,336,582)	(9,393,248)	18,847,585	-	247,650,109
End of year	\$ 34,578,664	\$ 112,553,458	\$ (20,303,473)	\$ 372,388,286	\$ (197,461,319)	\$ (6,305,167)	\$ (62,078,773)	\$ (9,722,002)	\$ 17,966,328	\$ -	\$ 221,616,002

The accompanying note is an integral part of these supplemental consolidating financial statements.