

McGladrey & Pullen

Certified Public Accountants

Silver Hill Hospital, Inc.

Financial Report
February 28, 2009

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Certified Public Accountants

Independent Auditor's Report

To the Board of Directors of
Silver Hill Hospital, Inc.
New Canaan, Connecticut

We have audited the accompanying statements of financial position of Silver Hill Hospital, Inc. as of February 28, 2009 and February 29, 2008 and the related statements of unrestricted revenues, expenses and other changes in unrestricted net assets, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Silver Hill Hospital, Inc. as of February 28, 2009 and February 29, 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Stamford, Connecticut
June 29, 2009

Silver Hill Hospital, Inc.

Statements of Financial Position
February 28, 2009 and February 29, 2008

	2009	2008
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,989,224	\$ 3,623,441
Accounts receivable, net of allowance for doubtful accounts of \$ 879,402 and \$912,971 at February 28, 2009 and February 29, 2008, respectively (Note 7)	2,232,560	2,648,279
Prepaid expenses	347,591	495,242
Pledges receivable (Note 5)	39,921	258,109
Other current assets	58,333	62,419
Total current assets	6,667,629	7,087,490
Other Assets		
Investments (Notes 3 and 4)	4,066,680	7,767,585
Investments - limited use (Notes 3, 4 and 8)	1,800,000	1,800,000
Pledges receivable (Note 5)	36,272	61,364
Deferred financing costs, net	77,651	86,969
	5,980,603	9,715,918
Property and equipment, net (Note 6)	16,630,844	12,361,313
	\$ 29,279,076	\$ 29,164,721
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 620,004	\$ 1,372,584
Deposits due to patients	597,357	653,555
Accrued salaries, taxes and other compensation	778,203	716,664
Other current liabilities	678,875	589,632
Total current liabilities	2,674,439	3,332,435
Line of credit (Note 8)	8,327,680	4,004,003
Other liabilities	90,000	100,000
	11,092,119	7,436,438
Commitments and Contingencies (Note 10)		
Net Assets		
Unrestricted	17,969,542	21,512,218
Temporarily restricted (Note 13)	4,415	3,065
Permanently restricted (Note 14)	213,000	213,000
	18,186,957	21,728,283
	\$ 29,279,076	\$ 29,164,721

See Notes to Financial Statements.

Silver Hill Hospital, Inc.

Statements of Unrestricted Revenues, Expenses and Other Changes in Unrestricted Net Assets
For the Years Ended February 28, 2009 and February 29, 2008

	2009	2008
Unrestricted operating revenues		
Net patient service revenue (Notes 2 and 7)	\$ 26,186,473	\$ 26,251,776
Other operating revenue	158,307	191,880
Total unrestricted operating revenues	26,344,780	26,443,656
Expenses (Note 12)		
Salaries and related costs	14,320,840	13,675,403
Employee benefits (Note 11)	3,271,981	3,064,288
Supplies and services	7,592,658	8,220,198
Depreciation and amortization	1,435,370	1,140,168
Provision for bad debts	865,221	(169,210)
Development expense	344,780	247,306
Total expenses	27,830,850	26,178,153
(Loss) income from operations	(1,486,070)	265,503
Nonoperating gains, net		
Investment income	346,761	530,583
Realized (loss) gain on investments	(35,129)	263,419
Contributions	250,902	311,940
(Provision for) benefit from uncollectible pledges	(87,000)	85,000
Net assets released from restriction	21,023	25,049
Loss on the disposal of property and equipment	-	(227,163)
Other losses - net	(2,969)	(15,312)
Interest expense	(346,573)	(15,425)
Total nonoperating gains, net	147,015	958,091
Revenue and nonoperating gains (under) over expenses	(1,339,055)	1,223,594
Unrealized loss on investments	(2,203,621)	(414,438)
(Decrease) increase in unrestricted net assets	\$ (3,542,676)	\$ 809,156

See Notes to Financial Statements.

Silver Hill Hospital, Inc.

Statements of Changes in Net Assets
Years Ended February 28, 2009 and February 29, 2008

	2009	2008
Unrestricted Net Assets		
Revenue and non-operating gains (under) over expenses	\$ (1,339,055)	\$ 1,223,594
Unrealized loss on investments	(2,203,621)	(414,438)
(Decrease) increase in unrestricted net assets	<u>(3,542,676)</u>	<u>809,156</u>
Temporarily Restricted Net Assets		
Investment income	13,954	9,019
Contributions	8,419	16,488
Net assets released from restriction	(21,023)	(25,049)
Increase in temporarily restricted net assets	<u>1,350</u>	<u>458</u>
(Decrease) increase in net assets	(3,541,326)	809,614
Net assets, beginning of year	21,728,283	20,918,669
End of year	<u>\$ 18,186,957</u>	<u>\$ 21,728,283</u>

See Notes to Financial Statements.

Silver Hill Hospital, Inc.

Statements of Cash Flows

Years Ended February 28, 2009 and February 29, 2008

	2009	2008
Cash Flows From Operating Activities		
(Decrease) increase in net assets	\$ (3,541,326)	\$ 809,614
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,435,370	1,140,168
Provision for (recoveries of) bad debts	865,221	(169,210)
Provision for (recoveries of) uncollectible pledges	87,000	(85,000)
Net unrealized losses on investments	2,203,621	414,438
Realized losses (gains) on investments	35,129	(263,419)
Loss on disposal of property and equipment	-	227,163
Increase (decrease) in cash resulting from a change in:		
Accounts receivable	(449,502)	727,001
Prepaid expenses	147,651	(55,099)
Pledges receivable	156,280	141,641
Other current assets	4,086	(10,026)
Accounts payable and accrued expenses	(752,580)	367,054
Deposits due to patients	(56,198)	3,555
Accrued salaries, taxes and other compensation	61,539	(85,160)
Due to third parties	-	(157,245)
Other current liabilities	89,243	186,559
Other liabilities	(10,000)	(45,888)
Net cash provided by operating activities	275,534	3,146,146
Cash Flows from Investing Activities		
Purchases of property and equipment	(5,695,540)	(6,523,539)
Purchases of investments	(5,278,828)	(12,073,336)
Proceeds from sale of investments	6,740,940	12,104,373
Net cash used in investing activities	(4,233,428)	(6,492,502)
Cash Flows from Financing Activities		
Deferred financing costs	-	(93,181)
Proceeds from line of credit	4,323,677	4,004,003
Net cash provided by financing activities	4,323,677	3,910,822
Increase in cash and cash equivalents	365,783	564,466
Cash and cash equivalents, beginning of year	3,623,441	3,058,975
Cash and cash equivalents, end of year	\$ 3,989,224	\$ 3,623,441
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 523,937	\$ 91,552

See Notes to Financial Statements.

Silver Hill Hospital, Inc.

Notes To Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Silver Hill Hospital, Inc. ("Silver Hill" or the "Hospital") is a Not-for-Profit private hospital which provides medical attention to patients with psychiatric or substance abuse diagnosis through in-patient and out-patient programs. Silver Hill was incorporated in the State of Connecticut in 1934.

A summary of Silver Hill's significant accounting policies follows:

Use of estimates: The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The use of estimates and assumptions in the preparation of the accompanying financial statements is primarily related to the Hospital's determination of the net patient accounts receivable and settlements with third-party payors. Due to uncertainties inherent in the estimation and assumption process, actual results could differ from those estimates and such differences could be material.

Financial statement presentation: Silver Hill's financial statements are prepared in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 117, "*Financial Statements of Not-for-Profit Organizations*". Accordingly, Silver Hill reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Net patient service revenue: The Hospital has agreements with third-party payors which provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Donor-restricted gifts: Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indication of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of unrestricted revenues, expenses and other changes in net assets and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the year received are reported as unrestricted contributions in the accompanying statements of unrestricted revenues, expenses and other changes in unrestricted net assets. In the absence of donor specifications that income and gains on donated funds are restricted, such donated funds are reported as income and gains within the accompanying statements of unrestricted revenues, expenses and other changes in unrestricted net assets.

Notes To Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Charity care: Silver Hill provides care to patients who meet certain criteria established under its charity care policy without charge or at amounts less than its established rates. Because Silver Hill does not pursue collection of accounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided to patients under Silver Hill's policy during the years ended February 28, 2009 and February 29, 2008 was approximately \$784,672 and \$434,000, respectively.

Cash and cash equivalents: For purpose of the statement of cash flows, Silver Hill considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of credit risk: Financial instruments which potentially subject the Hospital to concentrations of credit risk consist principally of temporary cash investments. A portion of temporary cash investments may exceed federally insured levels from time to time.

Patient accounts receivable, provision for doubtful accounts and due from/to third party-payers: The collections of receivables from third-party payors and patients is the Hospital's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and co-payments) remain outstanding. Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments to third-party payors. Patient receivables due directly from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for uncollectible receivables. Management estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each payor type. Recoveries of receivables previously written off are recorded as a reduction of the provision for uncollectible accounts when received. The past due status of receivables is determined on a case-by-case basis depending on the responsible payor. Interest is generally not charged on past due accounts. Receivables or payables related to estimated settlements on Medicare are reported as amounts due from or to third-party payors.

Pledges receivable: Pledges, less an allowance for uncollectible amounts (if warranted), are recorded as pledges receivable in the year made.

Investments: Silver Hill accounts for its investments in accordance with Statement of Financial Accounting Standards No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations." Under this statement, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in revenues and non-operating gains unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from unrestricted operating revenue. Investments considered as part of Silver Hill's long-term strategy are classified as long-term in the accompanying statements of financial position.

Silver Hill Hospital, Inc.

Notes To Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Property and equipment: Property and equipment are recorded at cost and depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	20 years
Buildings	25 years
Vehicles	5 years
Equipment	3 - 7 years

Deferred financing costs: Deferred financing costs are amortized to interest expense over the term of the related debt.

Deposits due to patients: Amounts received from patients as a deposit for services to be performed are recorded as an amount owed to the patient. The deposit amount that is received is either returned or recognized as income based on the patient's account status after completion of services.

Income taxes: Silver Hill is qualified as a tax exempt organization under Section 501 (c) (3) of the Internal Revenue Code (the "Code"), and as such, no provision for income taxes has been recorded. The Internal Revenue Service informed Silver Hill by a letter dated June 23, 1997, that Silver Hill's operations are designed in accordance with such section of the Code.

Reclassification: Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

Recent accounting pronouncements: In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*". SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and set out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. In February 2008, the FASB issued FASB Staff Position No. 157-2, "*Effective Date of FASB Statement No. 157*", which permits a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Hospital adopted SFAS No. 157 for the fiscal year beginning March 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until our fiscal year beginning March 1, 2009. The Hospital's adoption of SFAS No. 157 did not significantly affect its financial statements (see Note 5). The Hospital is currently assessing the potential effect of the adoption of the remaining provisions of SFAS No. 157 on its financial position, results of operations and cash flows.

The FASB has issued FASB Interpretation No. 48 ("FIN 48"), "*Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109*". FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Notes To Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The Hospital presently recognizes income tax positions based on management's estimate of whether it is probable that a liability than can be reasonably estimated has been incurred for unrecognized income tax benefits by applying SFAS No. 5, "Accounting for Contingencies".

The Hospital has elected to defer the application of FIN 48 in accordance with FASB Staff Position ("FSP") FIN 48-3. This FSP defers the effective date of FIN 48 for non-public enterprises included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. The Hospital will be required to adopt FIN 48 in its fiscal 2010 annual financial statements. The provisions of FIN 48 are to be applied to all tax positions upon initial application of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption.

The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of net assets for the fiscal year of adoption. The Hospital has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

Note 2. Net Patient Service Revenue

The Hospital has agreements with third-party payors which provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at list price and the amounts reimbursed by Medicare, Blue Cross, and certain other third-party payors, and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. Contractual adjustments under third-party reimbursement programs are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined. A summary of the basis of reimbursement with major third-party payors follows:

Medicare: The Hospital is paid for inpatient services rendered to Medicare program beneficiaries under the Inpatient Psychiatric Facility Prospective Payment System, which was implemented in 2005. During the initial three year phase-in period, Medicare reimbursement to the Hospital was based on a combination of prospective payments and the cost based TEFRA system, with a final settlement determined after submission of annual reimbursement reports by the Hospital and audits by the Medicare fiscal intermediary. As of March 1, 2008, Medicare reimbursement to the Hospital is a 100% prospective payment. For the years ended February 28, 2009 and February 29, 2008, the Hospital recognized \$1,737,898 and \$2,187,420, respectively, of gross patient service revenue from services provided to Medicare beneficiaries.

Laws and regulations governing the Medicare programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near-term. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare programs. Third-party payor settlements for 2009 and 2008 were not significant to the financial statements.

Managed Care Organizations: The Hospital has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes contractual allowances from established charges and prospectively determined per diem rates.

Silver Hill Hospital, Inc.

Notes To Financial Statements

Note 3. Investments and Investments – Limited Use

The composition of investments, which are recorded at fair value based on quoted market values, is as follows as of February 28, 2009 and February 29, 2008:

		2009			
		Cost	Unrealized Gains	Unrealized losses	Fair Value
Investments					
	Mutual Funds	\$ 7,152,627	\$ -	\$ (1,560,570)	\$ 5,592,057
	Certificates of deposit	272,000	2,623	-	274,623
		<u>\$ 7,424,627</u>	<u>\$ 2,623</u>	<u>\$ (1,560,570)</u>	<u>\$ 5,866,680</u>
		2008			
		Cost	Unrealized Gains	Unrealized losses	Fair Value
Investments					
	Mutual Funds	\$ 6,867,421	\$ 645,222	\$ -	\$ 7,512,643
	Commercial Paper	1,782,487	-	(695)	1,781,792
	Certificates of deposit	272,000	1,150	-	273,150
		<u>\$ 8,921,908</u>	<u>\$ 646,372</u>	<u>\$ (695)</u>	<u>\$ 9,567,585</u>

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the value of investment securities will occur in the near term.

Note 4. Fair Value Measurements

Effective March 1, 2008, the Hospital adopted the methods of calculating fair value defined in SFAS No. 157 to value its financial assets and liabilities, when applicable. SFAS No. 157 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value. The standard describes three levels of inputs that may be used to measure fair value which are as follows:

- Level 1 Quoted prices in active markets for identical assets or liabilities. All of the Hospital's investments were Level 1 assets.

- Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar instruments; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities include those whose value is determined using pricing models, discounted cash flows methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Silver Hill Hospital, Inc.

Notes To Financial Statements

Note 4. Fair Value Measurements (Continued)

At February 28, 2009, the Company has estimated the fair value of its investments to be \$5,866,680.

Note 5. Pledges Receivable

Included in pledges receivable are the following unconditional promises to give:

	2009	2008
Unconditional promises expected to be collected in:		
Less than one year (less reserve for uncollectible pledges of \$107,000 and \$25,000, in 2009 and 2008, respectively)	\$ 39,921	\$ 258,109
One to three years	40,000	68,800
Less unamortized discount	(3,728)	(7,436)
	<u>36,272</u>	<u>61,364</u>
Pledges receivable, net	<u>\$ 76,193</u>	<u>\$ 319,473</u>

The pledges above are due to be received in equal annual installments ranging from one to three years and have been discounted at prevailing market rates in accordance with the Hospital's investment strategies.

Note 6. Property and Equipment

At February 28, 2009 and February 29, 2008, respectively, property and equipment consists of:

	2009	2008
Land and land improvements	\$ 1,483,349	\$ 1,029,433
Buildings	22,964,263	13,384,856
Vehicles	280,661	280,661
Equipment	4,620,758	3,464,977
Construction in progress	280,005	5,773,569
	<u>29,629,036</u>	<u>23,933,496</u>
Less: accumulated depreciation	(12,998,192)	(11,572,183)
	<u>\$ 16,630,844</u>	<u>\$ 12,361,313</u>

Silver Hill Hospital, Inc.

Notes To Financial Statements

Note 7. Classification of Payor Mix

The Hospital requires advanced payments for services not covered by third party agreements. The significant concentrations of net patient service revenue and gross accounts receivable for services to patients include the following:

For the years ended February 28, 2009 and February 29, 2008:

	Net Patient Service Revenue	
	2009	2008
Anthem Behavioral/Blue Cross	17%	18%
Oxford	7%	7%
UBH	6%	6%
Medicare	5%	5%
Other Third Party	24%	22%
Self-pay	41%	42%
	<u>100%</u>	<u>100%</u>

As of February 28, 2009 and February 29, 2008:

	Accounts Receivable	
	2009	2008
Medicare	6%	9%
Blue Cross	7%	11%
Other Third Party Payors	68%	56%
Self-Pay	19%	24%
	<u>100%</u>	<u>100%</u>

Note 8. Line of Credit

On June 28, 2007, the Hospital entered into a revolving line of credit, with a maximum available borrowing of \$10,000,000, which is secured by certain assets of the Hospital. Interest is charged monthly at a rate of 7.15 percent. The line will revolve for a period of four years and on June 28, 2011, will convert to a permanent commercial mortgage for the remaining six years of the term. Upon conversion, principal and interest payments will be due monthly through June 28, 2017, at which time a balloon payment for any unpaid principal and interest will be due. As of February 28, 2009, and February 29, 2008, \$8,327,680 and \$4,004,003, respectively, was outstanding on the line. In 2009, interest incurred on the line was \$523,927 of which \$177,353 was capitalized and included in property and equipment on the statement of financial position. The line of credit agreement requires a liquid reserve of \$1,800,000 to be maintained over the term of the loan. As of February 28, 2009 and February 29, 2008, respectively, investments – limited use of \$1,800,000 represents this reserve requirement.

Silver Hill Hospital, Inc.

Notes To Financial Statements

Note 9. Lease Obligations

The Hospital leases various equipment and vehicles under noncancelable operating leases which expire through May 2013. Future minimum lease payments under these noncancelable operating leases are as follows:

<u>Year Ending February 28:</u>	
2010	\$ 42,851
2011	38,790
2012	38,790
2013	38,790
	<u>\$ 159,221</u>

Rental expense for all operating leases totaled approximately \$40,000 and \$34,000 in 2009 and 2008, respectively.

Note 10. Commitments and Contingencies

Malpractice insurance coverage is provided on a claims-made basis. The claims-made policy, which is subject to renewal on an annual basis, covers only claims made during the term of the policy but not those occurrences for which claims may be made after expiration of the policy. Silver Hill intends to renew its coverage on a claims-made basis and has no reason to believe that it may be prevented from renewing such coverage. Additionally, Silver Hill believes that there is no significant exposure for claims incurred but not reported. Furthermore, the Hospital is party to routine litigation arising in the ordinary course of business. Although some of the matters are still in a preliminary stage and definite conclusions cannot be made as to those matters, the Hospital is of the opinion that based on information presently available, the lawsuits will not have a materially adverse effect on the financial statements of the Hospital.

On March 5, 2007, Silver Hill entered into a contract with Unidine to provide food service to its patients which was amended and restated on October 6, 2008. The contract is for a period of three years and is cancelable by either party if the other party fails to perform all of its material obligations as outlined in the agreement. The cost is approximately \$20,000 per week.

Note 11. Pension Plan

Silver Hill has a 401k defined contribution plan ("401k Plan") that covers all full time employees who have both attained age 21 and completed at least 1,000 hours of service during the first year of employment. The 401k plan provides for an employer base contribution requiring Silver Hill to make contributions ranging from 2.5% to 7.5% of each participant's annual compensation, depending on years of vested service. Employees may also make contributions equal to at least 1% but no more than 100% of their annual compensation. Expenses related to the 401k plan and the Plan were approximately \$467,000 and \$457,000, respectively for the years ended February 28, 2009 and February 29, 2008, respectively, and are included with employee benefits within the accompanying statements of unrestricted revenues, expenses and other changes in unrestricted net assets.

Silver Hill Hospital, Inc.

Notes To Financial Statements

Note 12. Functional Expenses

Silver Hill provides psychiatric and substance abuse health care services to residents within its geographic location. Expenses related to providing these services included in the statement of unrestricted revenues expenses and other changes in unrestricted net assets are as follows:

	2009	2008
Health care services	\$ 21,467,010	\$ 20,663,640
Fund-raising	344,780	247,306
General and administrative	6,019,060	5,267,207
	<u>\$ 27,830,850</u>	<u>\$ 26,178,153</u>

Note 13. Temporarily Restricted Net Assets

Temporarily restricted net assets available for employee assistance amounted to \$4,414 and \$3,065 at February 28, 2009 and February 29, 2008, respectively.

Note 14. Permanently Restricted Net Assets

Permanently restricted net assets, of which the income earned thereon, is available for adolescent and chemical dependency programs, amounted to \$213,000 at February 28, 2009 and February 29, 2008.

