



FINANCIAL STATEMENTS

Greenwich Hospital
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Greenwich Hospital

Financial Statements

Years Ended September 30, 2011 and 2010

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Report of Independent Auditors

The Board of Trustees
Greenwich Hospital

We have audited the accompanying balance sheets of Greenwich Hospital (the Hospital) as of September 30, 2011 and 2010, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 Greenwich Hospital at September 30, 2011 and 2010, and the results of its operations and 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.

Ernst & Young LLP

December 21, 2011

Greenwich Hospital

Balance Sheets

| | September 30 | |
|---|-----------------------|-------------|
| | 2011 | 2010 |
| | <i>(In Thousands)</i> | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 32,149 | \$ 32,013 |
| Short-term investments <i>(Note 5)</i> | 21,585 | 23,470 |
| Accounts receivable for services to patients, less allowances for uncollectible accounts, charity and free care of approximately \$12,738,000 in fiscal 2011 and \$12,014,000 in fiscal 2010 <i>(Note 10)</i> | 32,433 | 32,518 |
| Other receivables <i>(Note 1)</i> | 11,852 | 9,158 |
| Prepaid expenses | 3,926 | 2,189 |
| Inventories | 1,224 | 1,275 |
| Total current assets | 103,169 | 100,623 |
| Assets limited as to use <i>(Notes 5, 7 and 11)</i> : | | |
| Escrow funds for long-term debt | 6 | 9 |
| Trustee assets for self-insurance | 799 | 800 |
| Board designated | 21,014 | 17,579 |
| | 21,819 | 18,388 |
| Beneficial interest in investments held by Foundation <i>(Note 5)</i> | 45,826 | 49,641 |
| Long-term investments <i>(Note 5)</i> | 35,756 | 36,595 |
| Due from affiliate <i>(Note 13)</i> | 4,701 | 6,301 |
| Beneficial interest in trusts <i>(Notes 1 and 5)</i> | 11,291 | 11,805 |
| Beneficial interest in remainder trusts | 1,621 | 1,443 |
| Contributed property | 2,100 | 2,100 |
| Other assets <i>(Note 1)</i> | 7,079 | 1,588 |
| | 108,374 | 109,473 |
| Property, plant and equipment <i>(Note 1)</i> : | | |
| Land and land improvements | 7,766 | 7,469 |
| Buildings and fixtures | 220,573 | 218,074 |
| Equipment | 182,950 | 173,116 |
| Leasehold improvements | 19,665 | 18,172 |
| | 430,954 | 416,831 |
| Less accumulated depreciation | (191,442) | (173,524) |
| | 239,512 | 243,307 |
| Construction in progress | 25 | 1 |
| | 239,537 | 243,308 |
| Total assets | \$ 472,899 | \$ 471,792 |

| | September 30 | |
|---|-----------------------|-------------|
| | 2011 | 2010 |
| | <i>(In Thousands)</i> | |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Accounts payable | \$ 8,228 | \$ 6,817 |
| Accrued expenses <i>(Note 13)</i> | 20,668 | 19,604 |
| Other current liabilities <i>(Notes 2 and 13)</i> | 11,722 | 8,733 |
| Current portion of long-term debt <i>(Note 11)</i> | 2,360 | 2,260 |
| Total current liabilities | <u>42,978</u> | 37,414 |
| Long-term debt, net of current portion <i>(Note 11)</i> | 42,645 | 45,005 |
| Self-insurance liabilities <i>(Note 7)</i> | 12,040 | 11,838 |
| Pension liability <i>(Note 8)</i> | 46,068 | 29,899 |
| Other long-term liabilities <i>(Note 2)</i> | 11,872 | 10,621 |
| Interest rate swap <i>(Note 11)</i> | 5,994 | 5,497 |
| Total liabilities | <u>161,597</u> | 140,274 |
| Commitments and contingencies | | |
| Net assets <i>(Note 4)</i> : | | |
| Unrestricted | 266,335 | 282,678 |
| Temporarily restricted | 24,575 | 27,295 |
| Permanently restricted | 20,392 | 21,545 |
| Total net assets | <u>311,302</u> | 331,518 |

Total liabilities and net assets

\$ 472,899 \$ 471,792

See accompanying notes.

Greenwich Hospital

Statements of Operations and Changes in Net Assets

| | Year Ended September 30 | |
|---|--------------------------------|-------------|
| | 2011 | 2010 |
| | <i>(In Thousands)</i> | |
| Operating revenue: | | |
| Net patient service revenue <i>(Note 2)</i> | \$ 297,010 | \$ 279,086 |
| Other revenue <i>(Note 12)</i> | 14,197 | 16,362 |
| Net assets released from restrictions used for operations <i>(Note 4)</i> | 4,366 | 5,445 |
| Total operating revenue | 315,573 | 300,893 |
| Operating expenses: | | |
| Salaries and benefits | 164,309 | 151,725 |
| Supplies and other | 113,015 | 104,578 |
| Depreciation | 18,906 | 20,275 |
| Interest <i>(Note 11)</i> | 425 | 449 |
| Bad debts | 9,270 | 10,504 |
| Total operating expenses | 305,925 | 287,531 |
| Income from operations | 9,648 | 13,362 |
| Nonoperating gains and losses: | | |
| Change in fair value on interest rate swap, including counterparty payments <i>(Note 11)</i> | (1,847) | (3,435) |
| Change in unrealized gains and losses on investments | (2,162) | 4,661 |
| Other nonoperating gains and losses, net <i>(Note 12)</i> | 383 | (1,595) |
| Excess of revenue and gains over expenses | 6,022 | 12,993 |

Greenwich Hospital

Statements of Operations and Changes in Net Assets (continued)

| | Year Ended September 30 | |
|--|--------------------------------|-------------|
| | 2011 | 2010 |
| | <i>(In Thousands)</i> | |
| Unrestricted net assets: | | |
| Excess of revenue and gains over expenses <i>(from page 4)</i> | \$ 6,022 | \$ 12,993 |
| Amortization on interest rate swap <i>(Note 11)</i> | (74) | (74) |
| Transfers to affiliates <i>(Note 13)</i> | (6,445) | (4,677) |
| Net assets released from restrictions used for plant assets | 409 | 31 |
| Pension adjustment <i>(Note 8)</i> | (19,055) | (6,040) |
| Contributed property released from restriction | 2,100 | - |
| Transfer from YNHHS | 700 | - |
| (Decrease) increase in unrestricted net assets | (16,343) | 2,233 |
| Temporarily restricted net assets: | | |
| Contributions | 3,673 | 4,173 |
| Income from investments | (52) | 52 |
| Net realized gains on investments | 873 | 12 |
| Change in net unrealized gains and losses on investments | (333) | 2,634 |
| Net assets released from restrictions used for operations <i>(Note 4)</i> | (4,366) | (5,445) |
| Net assets released from restrictions used for nonoperating activities, net | (6) | (2) |
| Net assets released from restrictions used for plant assets | (409) | (31) |
| Contributed property released from restriction | (2,100) | - |
| (Decrease) increase in temporarily restricted net assets | (2,720) | 1,393 |
| Permanently restricted net assets: | | |
| Contributions | 45 | - |
| Net realized gains on investments | 4 | 5 |
| Change in net unrealized gains and losses on investments | (1,202) | (213) |
| Decrease in permanently restricted net assets | (1,153) | (208) |
| (Decrease) increase in net assets | (20,216) | 3,418 |
| Net assets at beginning of year | 331,518 | 328,100 |
| Net assets at end of year | \$ 311,302 | \$ 331,518 |

See accompanying notes.

Greenwich Hospital
Statements of Cash Flows

| | Year Ended September 30 | |
|--|--------------------------------|------------------|
| | 2011 | 2010 |
| | <i>(In Thousands)</i> | |
| Cash flows from operating activities | | |
| (Decrease) increase in net assets | \$ (20,216) | \$ 3,418 |
| Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 18,906 | 20,275 |
| Change in net unrealized losses and (gains) on investments | 3,697 | (7,082) |
| Net realized gains on investments | (877) | (17) |
| Contributions | (3,718) | (4,173) |
| Increase in contributed property and beneficial interest in remainder trusts | (178) | (9) |
| Change in beneficial interest in trusts | 514 | (354) |
| Pension adjustment | 19,055 | 6,040 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable for services to patients, net | 85 | (430) |
| Trustee assets for self-insurance | 1 | 2 |
| Other receivables | (2,694) | (2,028) |
| Prepaid expenses | (1,737) | 71 |
| Other assets | (5,440) | (1,065) |
| Pension liability | (2,886) | (4,043) |
| Accounts payable | 1,411 | (1,948) |
| Accrued expenses | 1,064 | (7,723) |
| Other current liabilities | 2,989 | 2,302 |
| Other long-term liabilities and interest rate swap | 1,748 | 3,460 |
| Self-insurance liabilities | 202 | 151 |
| Net cash provided by operating activities | <u>11,926</u> | <u>6,847</u> |
| Cash flows from investing activities | | |
| Net capital expenditures | (15,135) | (18,614) |
| Net change in investments and assets limited as to use | 287 | 7,503 |
| Net cash used in investing activities | <u>(14,848)</u> | <u>(11,111)</u> |
| Cash flows from financing activities | | |
| Contributions | 3,718 | 4,835 |
| Payments of long-term debt | (2,260) | (2,190) |
| Decrease in due from affiliate | 1,600 | 1,600 |
| Net cash provided by financing activities | <u>3,058</u> | <u>4,245</u> |
| Net increase (decrease) in cash and cash equivalents | 136 | (19) |
| Cash and cash equivalents at beginning of year | 32,013 | 32,032 |
| Cash and cash equivalents at end of year | <u>\$ 32,149</u> | <u>\$ 32,013</u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid for interest | <u>\$ 98</u> | <u>\$ 111</u> |

See accompanying notes.

Greenwich Hospital

Notes to Financial Statements

September 30, 2011

1. Organization and Significant Accounting Policies

Organization

Greenwich Hospital (the Hospital) is a not-for-profit acute care hospital located in Greenwich, Connecticut. The Greenwich Hospital Endowment Fund, Inc. (the Foundation) has been included as part of the reporting entity of the Hospital, based upon the financial interrelationship between the two organizations. The accompanying financial statements have been prepared from the separate records maintained by the Hospital and the Foundation. The Hospital's sole member is Greenwich Health Care Services, Inc. (GHCS or the Parent).

Yale-New Haven Health Services Corporation (YNHHSC) is the sole member of GHCS and two similar organizations. Each of these three tax-exempt organizations serves as the sole member/parent for its respective delivery network of regional health care providers and related entities. Under the terms of an agreement with YNHHSC, GHCS continues to operate autonomously with separate boards, management and medical staff; however, YNHHSC approves the strategic plans, operating and capital budgets, and board appointments.

The Foundation is a 501(c)(3) organization whose tax-exempt status is based upon its support of the Hospital and is a stand-alone corporation with its own board of directors. The Foundation was formed without variance power to receive and administer funds for the benefit of the Hospital, GHCS and any or all of their affiliates, which are exempt from federal income tax.

Effective April 1, 2010, control of certain physician practices within the Hospital was assumed by YNHHSC and began operations as Northeast Medical Group, Inc. (NEMG). YNHHSC is the sole member of NEMG.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients, and liabilities, including estimated settlements with third-party payers and professional insurance liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses reported during the year. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Greenwich Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

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

Contributions, including unconditional promises to give, are reported at fair value in the period received. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends, donor withdraws previously imposed restrictions, or purpose restriction is accomplished, net assets are reclassified. Conditional promises to give are not recorded as revenue or support until the conditions upon which they depend have been substantially met.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recognized as revenue and is classified as either unrestricted or temporarily restricted in accordance with donor-imposed restrictions, if any, on the contributions.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less when purchased, which are not classified as assets limited as to use and which are not maintained in the investment portfolios.

Cash and cash equivalents are maintained with domestic financial institutions with deposits which exceed federally insured limits. It is the Hospital's policy to monitor the financial strength of the financial institutions.

Accounts Receivable

Patient accounts receivable result from the healthcare services provided by the Hospital. Changes to the allowance for doubtful accounts result from changes to the provision for bad debts. Accounts written off as uncollectible are recorded as bad debt expense. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payer programs.

Greenwich Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Investments

The Hospital has determined that all investments reported in the accompanying balance sheets are considered trading securities. Investment income or loss, including realized gains and losses on investments, interest and dividends, and the change in net unrealized gains and losses are included in the excess of revenue and gains over expenses, unless the income or loss is restricted by donor or law.

Investments in equity securities and debt securities are measured at fair value in the accompanying balance sheets based upon the last sale price if quotations are readily available or are estimated using quoted market prices for similar securities if quotations are not readily available. The basis of marketable securities or investments received as donations or bequests is deemed to be their fair value at the date of gift.

To diversify its investment portfolio and to enhance opportunities for increased rate of return, the Hospital has invested in alternative investments. Alternative investments include investments in non-marketable and market-traded debt and equity securities. Alternative investments are accounted for under the equity method, which is estimated using the net asset values of each alternative investment. Net asset values of these investments, provided by the investment manager or general partner, are primarily based upon financial data derived from underlying securities and other financial instruments and estimates that require varying degrees of judgment. The investments may indirectly expose the Hospital to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, the Hospital's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors. Certain alternative investments are subject to various withdrawal restrictions regarding timing, fees and enhanced disclosure required transaction limits at September 30, 2011 and 2010. Future funding commitments for alternative investments aggregated approximately \$5.4 million at September 30, 2011.

Inventories

Inventories are stated at the lower of cost or market. The Hospital values its inventories using the first-in, first-out method.

Greenwich Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Assets Limited as to Use

Assets limited as to use primarily consist of cash and debt securities. These assets are restricted to pay interest and principal on bonds payable, self-insurance claims, and are also earmarked by the Hospital to fund various Board-approved projects.

Interest Rate Swap

The Hospital utilizes an interest rate swap to limit the variability of changes in future interest rates. The interest rate swap is reported at fair value in the accompanying financial statements. The Hospital is exposed to credit loss in the event of nonperformance by the counterparties to its interest rate swap agreement. The Hospital is also exposed to the risk that the swap receipts may not offset its debt service. To the extent these variable rate receipts do not equal variable interest payments on the bonds, there will be a net loss or net benefit to the Hospital.

Beneficial Interest in Investments Held by the Foundation

The Hospital has recognized its beneficial interest in the net assets of the Foundation. The investment is decreased when the Foundation makes distributions to the Hospital.

Deferred Financing Costs

Issuance costs, included in other assets, related to the Hospital's bond issuance are being amortized over the term of the applicable indebtedness using the effective interest method. Amortization, included in interest expense in the accompanying statements of operations and changes in net assets, was approximately \$25,000 and \$24,000 for the years ended September 30, 2011 and 2010, respectively.

Beneficial Interest in Trusts

The Hospital has recognized its beneficial interest in trusts held by a third party at fair value. Under these arrangements, the Hospital is receiving distributions to fund free care programs. The Hospital received distributions of approximately \$504,000 and \$449,000 for the years ended September 30, 2011 and 2010, respectively.

Greenwich Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Beneficial Interest in Remainder Trusts

The Hospital is the ultimate beneficiary of certain charitable remainder trusts and similar arrangements. Under most of these arrangements, the Hospital is not receiving any distributions, but will be entitled to the remaining assets in the trust upon the death of the donor and any other named beneficiaries. In certain cases, use of such assets ultimately to be received by the Hospital is restricted to specific purposes.

Property, Plant and Equipment

Property, plant and equipment purchased are carried at cost, and those acquired by gifts and bequests are carried at fair value established at date of contribution. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in income from operations. Depreciation of property, plant and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives, ranging from 3 to 40 years. Fully depreciated assets are removed when no longer in use.

Performance Indicator

In the accompanying statements of operations and changes in net assets, excess of revenue and gains over expenses is the performance indicator. Peripheral or incidental transactions are included in excess of revenue and gains over expenses. Those gains and losses deemed by management to be closely related to ongoing operations are included in other revenue; other gains and losses are classified as nonoperating.

Performance Indicator (continued)

Consistent with industry practice, contributions of, or restricted to, property, plant and equipment, transfers of assets to and from affiliates for other than goods and services, and pension adjustments are excluded from the performance indicator but are included in the changes in net assets.

Income Taxes

The Hospital is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code.

Greenwich Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Professional and General Liability Insurance

The Hospital accesses modified claims-made insurance for professional and comprehensive general risk through a Yale-New Haven Hospital (YNHH) partially owned captive insurance company. The Hospital has no ownership interest in the captive insurance company. The Hospital records the actuarially determined liabilities for incurred but not reported professional and comprehensive general liabilities on a discounted basis.

Recently Issued Accounting Pronouncement

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update 2010-24, *Topic 954 – Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24). The amendments in this update clarify that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The amendments in this update permit retrospective application and are effective for fiscal years beginning after December 15, 2010. The Hospital has not yet determined the effect that the adoption of ASU 2010-24 will have on its financial statements. The Hospital will adopt the presentation changes to the statement of financial position in fiscal year 2012.

In July 2011, the FASB also issued Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07). Under ASU 2011-07, provision for bad debts related to patient service revenue will be presented as a deduction from patient service revenue (net of contractual allowances and discounts) on the statement of operations with enhanced footnote disclosure on the policies for recognizing revenue and assessing bad debts. The Hospital will adopt the presentation changes to the statement of operations in fiscal year 2013.

In 2010 the FASB issued Accounting Standard Update 2010-23, *Measuring Charity care for Disclosures* (ASU 2010-23), and is in effect for fiscal years beginning after December 15, 2010. The update requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs are identified, in addition to disclosure as to how method to which how such costs are identified. The Hospital will adopt the presentation changes to the disclosure in fiscal year 2012.

Greenwich Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the 2010 financial statements in order to conform with the 2011 presentation.

2. Net Patient Service Revenue and Accounts Receivable for Services to Patients

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates; the difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payers and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. 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 audits, reviews and investigations.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare, Medicaid and other third-party payers for adjustments to current and prior year payment rates, based on industry-wide and hospital-specific data. Such amounts are included in the accompanying balance sheets. Additionally, certain payers' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

Revenue from Medicare and Medicaid programs collectively accounted for approximately 30% of the Hospital's net patient service revenue for each of the years ended September 30, 2011 and 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts 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. 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 and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. Cost reports for the Hospital, which serve as the basis for final settlement with government payers, have been settled by final

Greenwich Hospital

Notes to Financial Statements (continued)

2. Net Patient Service Revenue and Accounts Receivable for Services to Patients (continued)

settlement through 2006 for Medicare and 1994 for Medicaid. Subsequent years remain open for settlement. For the year ended September 30, 2011, net patient service revenue decreased by approximately \$.8 million for net changes in estimates and settlements related to prior years. Net patient service revenue for the year ended September 30, 2010 was not impacted by any change in estimate.

The Hospital has agreements with various managed care companies to provide medical services to subscribing participants. The managed care companies make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

Net patient service revenue for the years ended September 30, 2011 and 2010, includes the following (in thousands):

| | <u>2011</u> | <u>2010</u> |
|---------------------------------------|-------------------|-------------------|
| Gross patient service revenue | \$ 944,999 | \$ 900,733 |
| Less contractual and other allowances | (647,989) | (621,647) |
| | <u>\$ 297,010</u> | <u>\$ 279,086</u> |

3. Uncompensated Care and Community Benefit Expense

The Hospital's commitment to community service is evidenced by services provided to the poor and benefits provided to the broader community. Services provided to the poor include services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured. For financial reporting purposes, the Hospital reports care provided for which no payment was received from the patient or insurer as uncompensated care. Uncompensated care is the sum of the Hospital's free care provided, charity care provided and bad debt expense. In determining uncompensated care, the Hospital excludes contractual allowances. The cost of uncompensated care amounted to approximately \$13.0 million and \$13.3 million in fiscal 2011 and 2010, respectively. Additionally, the Hospital incurred losses related to the Medicare and State Medicaid programs of approximately \$40.4 million and \$33.1 million in fiscal 2011 and 2010, respectively. The estimated cost of uncompensated care and Medicaid losses were determined using patient-specific data.

Greenwich Hospital

Notes to Financial Statements (continued)

3. Uncompensated Care and Community Benefit Expense (continued)

The Hospital makes available free care programs for qualifying patients. In accordance with the established policies of the Hospital, during the registration, billing and collection process, a patient's eligibility for free care funds is determined. For patients who were determined by the Hospital to have the ability to pay but did not, the uncollected amounts are bad debt expense. For patients who do not avail themselves of any free care program and whose ability to pay cannot be determined by the Hospital, care given but not paid for is classified as charity care.

Annually, the Hospital accrues for the potential losses related to its uncollectible accounts and the amounts that meet the definition of charity and free care allowances. At September 30, 2011 and 2010, the amount estimated by management to represent the Hospital's uncollectible and charity and free care allowance, which is included in the accompanying balance sheets as a reduction of accounts receivable for services to patients, was approximately \$12.7 million and \$12.0 million, respectively.

Additionally, the Hospital provides benefits for the broader community which include services provided to other needy populations that may not qualify as poor but need special services and support. Benefits include the cost of health promotion and education of the general community, interns and residents, health screenings and medical research. The benefits are provided through community health services, some of which service non-English speaking residents, disabled children and various community support groups.

In addition to the quantifiable services defined above, the Hospital provides additional benefits to the community through its advocacy of community service by employees. The Hospital's employees serve numerous organizations through board representation, membership in associations and other related activities. The Hospital also solicits the assistance of other health care professionals to provide their services at no charge through participation in various community seminars and training programs.

4. Net Assets

Unrestricted net assets include the following at September 30, 2011 and 2010 (in thousands):

| | <u>2011</u> | <u>2010</u> |
|---|-------------------|-------------------|
| Designated by Board of Trustees for: | | |
| Depreciation fund | \$ 21,014 | \$ 17,579 |
| Quasi-endowment; capital gains, net, held by the Foundation | 32,673 | 36,533 |
| Undesignated | 212,648 | 228,566 |
| | <u>\$ 266,335</u> | <u>\$ 282,678</u> |

Greenwich Hospital

Notes to Financial Statements (continued)

4. Net Assets (continued)

Temporarily restricted net assets are available for the following purposes at September 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|-----------|-----------|
| Other specified capital expenditures | \$ 2,336 | \$ 2,131 |
| Indigent care | 1,122 | 1,022 |
| Indigent care funds held by trustee | 9,370 | 8,674 |
| Specified health care services and operations | 8,815 | 12,516 |
| Education | 2,932 | 2,952 |
| | \$ 24,575 | \$ 27,295 |

Permanently restricted net assets are restricted as follows at September 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|--|-----------|-----------|
| Principal to be held in perpetuity (held by the Foundation), with income expendable to support health care services and other activities (reported as nonoperating gains) | \$ 13,108 | \$ 13,108 |
| Principal to be held in perpetuity (held by the trustee), with income expendable to support free care programs (reported as an increase in unrestricted net assets) | 1,634 | 1,634 |
| Principal to be held in perpetuity, with income to be spent for restricted purposes as specified by donor (reported as additions to temporarily restricted net assets until released upon satisfaction of restriction) | 5,650 | 6,803 |
| | \$ 20,392 | \$ 21,545 |

The Hospital has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment related to the Hospital's beneficial interest in perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those

Greenwich Hospital

Notes to Financial Statements (continued)

4. Net Assets (continued)

amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital 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 Hospital; and (7) the investment and spending policies of the Hospital.

Changes in endowment net assets for the year ended September 30, 2011 are as follows (in thousands):

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|------------------|---------------------------|---------------------------|------------------|
| Endowment net assets, beginning of year | \$ 36,533 | \$ 11,028 | \$ 21,545 | \$ 69,106 |
| Investment return: | | | | |
| Investment income and realized gains | 415 | 873 | 4 | 1,292 |
| Unrealized gains (losses) | (1,923) | - | (1,202) | (3,125) |
| Total investment return (loss) | (1,508) | 873 | (1,198) | (1,833) |
| Contributions | - | - | 45 | 45 |
| Appropriation of endowment assets for expenditure | (2,352) | (61) | - | (2,413) |
| Endowment net assets, end of year | <u>\$ 32,673</u> | <u>\$ 11,840</u> | <u>\$ 20,392</u> | <u>\$ 64,905</u> |

Changes in endowment net assets for the year ended September 30, 2010 are as follows (in thousands):

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|------------------|---------------------------|---------------------------|------------------|
| Endowment net assets, beginning of year | \$ 34,005 | \$ 11,098 | \$ 21,753 | \$ 66,856 |
| Investment return: | | | | |
| Investment income and realized gains | 515 | 12 | 5 | 532 |
| Unrealized gains (losses) | 4,497 | - | (213) | 4,284 |
| Total investment return (loss) | 5,012 | 12 | (208) | 4,816 |
| Appropriation of endowment assets for expenditure | (2,484) | (82) | - | (2,566) |
| Endowment net assets, end of year | <u>\$ 36,533</u> | <u>\$ 11,028</u> | <u>\$ 21,545</u> | <u>\$ 69,106</u> |

Greenwich Hospital

Notes to Financial Statements (continued)

4. Net Assets (continued)

The Hospital has adopted investment policies for endowed assets that attempt to provide a predictable stream of funding to programs supported by its endowment. To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Net assets released from donor-imposed restrictions used for operations consisted of the following at September 30, 2011 and 2010 (in thousands):

| | <u>2011</u> | <u>2010</u> |
|--|-----------------|-----------------|
| Restricted funds to support operations | \$ 3,733 | \$ 4,865 |
| Free care fund | 633 | 580 |
| | <u>\$ 4,366</u> | <u>\$ 5,445</u> |

Greenwich Hospital

Notes to Financial Statements (continued)

5. Investments

The reported value of investments are summarized as follows as of September 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|------------------|------------------|
| Short-term investments: | | |
| Cash | \$ 149 | \$ 148 |
| Money market funds | 680 | 55 |
| Fixed income: | | |
| US government | 6,829 | 2,636 |
| Corporate debt (a) | 13,815 | 20,363 |
| Mortgage backed securities (b) | 112 | 268 |
| | \$ 21,585 | \$ 23,470 |
| Assets limited as to use: | | |
| Escrow funds for long-term debt: | | |
| Cash | \$ 6 | \$ 9 |
| | \$ 6 | \$ 9 |
| Trustee assets for self-insurance: | | |
| Money market funds | \$ 799 | \$ 800 |
| | \$ 799 | \$ 800 |
| By board designation: | | |
| Money market funds | \$ 12,184 | \$ 7,307 |
| Fixed income: | | |
| US government | 3,692 | 3,783 |
| US government – common collective funds | 3,712 | 4,146 |
| Corporate debt (a) | 1,294 | 2,202 |
| Mortgage backed securities (b) | 132 | 141 |
| | \$ 21,014 | \$ 17,579 |

Greenwich Hospital

Notes to Financial Statements (continued)

5. Investments (continued)

Long-term investments are composed of the following as of September 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|--|------------------|-------------|
| Investments held for operating purposes: | | |
| Money market fund | \$ 203 | \$ 261 |
| Fixed income: | | |
| US government | – | 2 |
| Corporate debt (a) | 7 | 25 |
| Mortgage backed securities (b) | 1 | 1 |
| US equity securities | 31 | 27 |
| International equity securities (c) | 38 | 46 |
| Hedge funds: | | |
| Absolute return (d) | 31 | 31 |
| Private equity (e) | 11 | 10 |
| Real assets (f) | 4 | 5 |
| | 326 | 408 |
| Investments deemed held for donor-restricted purposes: | | |
| Money market fund | 20,910 | 21,569 |
| Fixed income: | | |
| US government | – | 253 |
| Corporate debt (a) | 806 | 2,533 |
| Mortgage backed securities (b) | 131 | 140 |
| US equity securities | 3,624 | 2,545 |
| International equity securities (c) | 4,515 | 4,592 |
| Hedge funds: | | |
| Absolute return (d) | 3,684 | 3,058 |
| Private equity (e) | 1,242 | 956 |
| Real assets (f) | 518 | 541 |
| | 35,430 | 36,187 |
| Total long-term investments | \$ 35,756 | \$ 36,595 |

Greenwich Hospital

Notes to Financial Statements (continued)

5. Investments (continued)

Investments held by the Foundation consisted of the following at fair value at September 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|-------------------------------------|-----------|-----------|
| Money market funds | \$ 328 | \$ 3,845 |
| US equity securities | 11,383 | 8,656 |
| International equity securities (c) | 14,856 | 16,137 |
| Hedge funds: | | |
| Absolute return (d) | 11,603 | 10,367 |
| Private equity (e) | 4,232 | 3,443 |
| Real assets (f) | 1,517 | 1,840 |
| Corporate debt (a) | 1,907 | 5,353 |
| | \$ 45,826 | \$ 49,641 |

Investments held in trusts consisted of the following at fair value at September 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|--|-----------|-----------|
| Money market funds | \$ 289 | \$ 197 |
| Fixed income: | | |
| US government | 2,088 | 2,227 |
| US government – common collective funds | 862 | 850 |
| Corporate debt (a) | 4,021 | 2,805 |
| US equity securities | 1,919 | 3,665 |
| US equity securities – common collective funds | 1,925 | 2,061 |
| Real estate (g) | 187 | – |
| | \$ 11,291 | \$ 11,805 |

- (a) Investments consist of PIMCO short-term and total return funds as well as bonds issued by US corporations.
- (b) Investments consist of Fannie Mae, Ginnie Mae, and Federal Home Loan Mortgage Corporation Bonds.
- (c) Investments with external international equity and bond managers that are domiciled in the United States. Investment managers may invest in American or Global Depository Receipts (ADR, GDR) or in direct foreign securities.
- (d) Investment with external multi-strategy fund of funds manager investing in publicly traded equity and credit holdings which may be long or short positions
- (e) Investments in funds which are directly investing into private companies.
- (f) Investments made in pooled investment funds.
- (g) Investments with external direct real estate managers and fund of funds managers. Investment vehicles include both closed end REITs and limited partnerships.

Greenwich Hospital

Notes to Financial Statements (continued)

5. Investments (continued)

Effective January 1, 2010, the Hospital transferred \$10 million into the newly formed Yale-New Haven Health System Investment Trust (the Trust), a unitized Delaware Investment Trust created to pool assets for investment by the Health System nonprofit entities. The Hospital's ownership percentage of the Trust was approximately 7.7% as of September 30, 2011. The Hospital's pro rata portion of the Trust's investments are included in the assets limited to use by board designation table.

6. Operating Leases and Other Commitments

The Hospital leases various equipment and properties under operating leases and has long-term commitments under service contracts expiring at various dates through fiscal 2014. Expense under such leases and service contracts was approximately \$5.9 million and \$5.3 million for fiscal 2011 and 2010, respectively.

Future minimum lease payments for each of the following five years subsequent to September 30, 2011, under noncancelable operating leases and service contracts are as follows (in thousands):

| | |
|---------------------|------------------|
| Years Ending: | |
| 2012 | \$ 5,355 |
| 2013 | 5,351 |
| 2014 | 5,174 |
| 2015 | 5,218 |
| 2016 | 4,860 |
| 2017 and thereafter | 2,035 |
| | <u>\$ 27,993</u> |

The Hospital has been involved in leasing leased and owned houses and properties to Hospital employees. Expenses for the years ended September 30, 2011 and 2010, under these leases are included in supplies and other expenses. The amounts received from employees relating to these leases are included in other revenue (see Note 12).

The Hospital has a leasing arrangement, renewable annually, with an affiliate, Perryridge Corporation, to rent four office buildings (the Cohen Pavilion, 55 Holly Hill Lane, 500 West Putnam Avenue and 2015 West Main Street). Included in supplies and other expenses was approximately \$2.9 million and \$2.8 million for fiscal 2011 and 2010, respectively. It is anticipated that this arrangement will be renewed in the future.

Greenwich Hospital

Notes to Financial Statements (continued)

7. Self-Insurance Liabilities

YNHH and a number of other academic medical centers formed The Medical Center Insurance Company, Ltd. (the Captive) to insure for professional and comprehensive general liability risks. On January 1, 1999, the Hospital was added to the YNHH program as an additional insured. The Captive and its wholly owned subsidiary write direct insurance and reinsurance for varying levels of per-claim limit exposure. The Captive has reinsurance coverage from outside reinsurers for amounts above the per-claim limits. Premiums are based on modified claims made coverage and are actuarially determined based on actual experience of the Hospital and the Captive. The Hospital initially pays insurance premiums to YNHHSC.

For the years ended September 30, 2011 and 2010, the Hospital recorded a receivable of approximately \$891,000 and \$375,000, respectively, which represents the Captive's best estimate for a reduction in premium requirements for better than expected loss experiences. The funding of the additional premium requirements is made by the Hospital in the subsequent year.

The estimated undiscounted incurred but not reported liability for professional and general claims at September 30, 2011 and 2010, was approximately \$8.6 million and \$8.8 million, respectively. The actuarially determined present value of approximately \$7.4 million for both of the years ended September 30, 2011 and 2010, is based on a discount rate of 3.5% for 2011 and 4.0% for 2010.

The Hospital is a defendant in a number of claims, including alleged malpractice and various matters. In the opinion of Hospital management, the ultimate resolution of these claims, after consideration of applicable insurance coverage as explained above, will not materially impact the Hospital's financial position or results of operations.

The Hospital is also self-insured, subject to certain umbrella and stop-loss coverage limits, for its employee health plan and workers' compensation. Estimated amounts are accrued for claims, including claims incurred but not reported (IBNR), and are based on Hospital-specific experience. At September 30, 2011 and 2010, the estimated discounted liabilities for self-insured workers' compensation claims and IBNR aggregated approximately \$4.6 million and \$4.5 million, respectively, discounted at 3.5% for 2011 and 4.0% for 2010.

Greenwich Hospital

Notes to Financial Statements (continued)

8. Retirement Plan

Defined Contribution Pension Plan

The Hospital provides a defined contribution pension plan for those employees eligible to participate. The plan contains three separate benefits. The incentive contribution, which is generally available to all nonmanagement employees, is designed to reward employees when the Hospital meets certain predetermined quality and financial measures (if paid, this benefit varies based on service from 1% to 3% of pay). Effective January 1, 2007, a matching contribution, which is generally available to all employees no longer accruing benefits under the defined benefit plan, is designed to provide an incentive to employees to save for retirement by matching employee contributions (employees can receive up to 3% of pay on contributions equal to 5% of pay). The length of service contribution, effective January 1, 2007, which is generally available to all employees no longer accruing benefits under the defined benefit plan, is designed to provide future retirement income that rewards continued service at the Hospital (this benefit varies based on service from 3% to 8% of pay). In total, the Hospital contributed approximately \$5.3 million and \$5.4 million for the years ended September 30, 2011 and 2010, respectively.

Defined Benefit Pension Plan

Prior to December 31, 2006, the Hospital provided a noncontributory defined benefit pension plan (the Plan) covering substantially all employees. The benefits provided are based on age, years of service and compensation. The Hospital's policy is to at least make annual contributions to fund the Plan's minimum required contribution as defined by the Employee Retirement Income Security Act of 1974. Effective as of December 31, 2006, the Plan was amended to freeze benefits for employees who were under age 50 with less than five years of service. This amendment is reflected in the tables below. Future retirement benefits will be provided through the defined contribution plan for those employees affected by the freeze. Employees who were age 50 or older with five years of service continue to accumulate benefits under the defined benefit plan and do not participate in the defined contribution plan.

Greenwich Hospital

Notes to Financial Statements (continued)

8. Retirement Plan (continued)

The Hospital is required to measure plan assets and benefit obligations at a date consistent with its fiscal year-end balance sheet. Included in unrestricted net assets at September 30, 2011 and 2010, are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

| | 2011 | 2010 |
|---------------------------------|--------------------|--------------------|
| Unrecognized actuarial loss | \$ (59,256) | \$ (40,194) |
| Unrecognized prior service cost | (20) | (26) |
| | \$ (59,276) | \$ (40,220) |

The actuarial loss and prior service cost included in unrestricted net assets at September 30, 2011 and expected to be recognized in net periodic benefit cost during the year ending September 30, 2012, are as follows (in thousands):

| | |
|---------------------------------|-----------------|
| Unrecognized actuarial loss | \$ 3,905 |
| Unrecognized prior service cost | 6 |
| | \$ 3,911 |

The following table sets forth the change in benefit obligations, change in Plan assets and the funded status of the Hospital's Plan at September 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|-------------------|-------------------|
| Change in benefit obligations: | | |
| Benefit obligation, at prior measurement date | \$ 154,009 | \$ 141,232 |
| Service cost | 2,973 | 3,043 |
| Interest cost | 8,006 | 7,900 |
| Change in assumptions | 5,630 | 7,596 |
| Actuarial loss (gain) | 2,001 | (861) |
| Benefits paid | (5,335) | (4,901) |
| Benefit obligation, at current measurement date | \$ 167,284 | \$ 154,009 |

Greenwich Hospital

Notes to Financial Statements (continued)

8. Retirement Plan (continued)

| | 2011 | 2010 |
|--|-------------|-------------|
| Change in Plan assets: | | |
| Fair value of Plan assets, at prior measurement date | \$ 124,110 | \$ 113,330 |
| Actual return on Plan assets | (2,559) | 10,681 |
| Employer contributions | 5,000 | 5,000 |
| Benefits paid | (5,335) | (4,901) |
| Fair value of Plan assets, at current measurement date | \$ 121,216 | \$ 124,110 |
| Pension liability | \$ (46,068) | \$ (29,899) |

The change in assumptions primarily relates to a decrease in the discount rate used to measure the benefit obligation for the years ended September 30, 2011 and 2010.

The projected benefit obligation, accumulated benefit obligation and fair value of Plan assets were as follows at September 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|--------------------------------|------------|------------|
| Projected benefit obligation | \$ 167,284 | \$ 154,009 |
| Accumulated benefit obligation | 156,916 | 144,270 |
| Fair value of Plan assets | 121,216 | 124,110 |

The following table provides the components of the net periodic benefit cost for the Plan for the years ended September 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|------------------------------------|----------|----------|
| Service cost | \$ 2,973 | \$ 3,043 |
| Interest cost | 8,007 | 7,900 |
| Expected return on Plan assets | (10,637) | (10,210) |
| Amortization of prior service cost | 6 | 6 |
| Amortization loss | 1,765 | 218 |
| Net periodic benefit cost | \$ 2,114 | \$ 957 |

Greenwich Hospital

Notes to Financial Statements (continued)

8. Retirement Plan (continued)

The weighted-average assumptions used in the measurement of the Hospital's net periodic benefit cost and benefit obligations for the years ended September 30, 2011 and 2010, are shown in the following table:

| | Net Periodic Benefit Cost | | Benefit Obligation | |
|--|--------------------------------------|-------------|---------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| Discount rate | 5.3% | 5.70% | 5.1% | 5.30% |
| Rate of compensation increase | 3.25 | 3.25 | 3.5 | 3.25 |
| Expected rate of return on Plan assets | 7.75 | 7.75 | — | — |

The asset allocation of the Plan at September 30, 2011 and 2010 (the Hospital's measurement date) was as follows:

| | 2011 Target Allocation | 2011 | 2010 |
|-------------------------|-----------------------------------|---------------|-------------|
| Equity securities | 60% - 90% | 47.9% | 41.1% |
| Debt securities | 10% - 40% | 22.6 | 30.5 |
| Alternative investments | 0% - 25% | 29.5 | 28.4 |
| | | 100.0% | 100.0% |

The pension assets carried at fair value as of September 30, 2011, are classified in the table below in one of the three categories described in Note 15 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|------------------|------------------|------------------|-------------------|
| Money market funds | \$ 979 | \$ — | \$ — | \$ 979 |
| Fixed income: | | | | |
| Corporate debt | 26,438 | — | — | 26,438 |
| US equity securities | 31,053 | — | — | 31,053 |
| International equity securities | 26,974 | — | — | 26,974 |
| Private equity | — | — | 7,444 | 7,444 |
| Hedge funds: | | | | |
| Absolute return | — | 24,091 | — | 24,091 |
| Real assets | — | — | 4,237 | 4,237 |
| | \$ 85,444 | \$ 24,091 | \$ 11,681 | \$ 121,216 |

Greenwich Hospital

Notes to Financial Statements (continued)

8. Retirement Plan (continued)

The pension assets carried at fair value as of September 30, 2010, are classified in the table below in one of the three categories described in Note 15 (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|------------------|------------------|------------------|-------------------|
| Money market funds | \$ 7,807 | \$ — | \$ — | \$ 7,807 |
| Fixed income: | | | | |
| Corporate debt | 30,077 | — | — | 30,077 |
| US equity securities | 25,879 | — | — | 25,879 |
| International equity securities | 25,062 | — | — | 25,062 |
| Private equity | — | — | 5,678 | 5,678 |
| Hedge funds: | | | | |
| Absolute return | — | 24,091 | — | 24,091 |
| Real assets | — | — | 5,516 | 5,516 |
| | <u>\$ 88,825</u> | <u>\$ 24,091</u> | <u>\$ 11,194</u> | <u>\$ 124,110</u> |

The following is a rollforward of the pension assets classified in Level 3 of the valuation hierarchy described in Note 15 (in thousands) for the years ended September 30 2010 and 2011, respectively:

| | |
|--|------------------|
| Fair value at September 30, 2010 | \$ 11,194 |
| 2011 realized and unrealized gains and losses | (1,517) |
| 2011 purchases, sales, transfers, issuances and settlements, net | 2,004 |
| Fair value at September 30, 2011 | <u>\$ 11,681</u> |
| Fair value at September 30, 2009 | \$ 6,777 |
| 2010 realized and unrealized gains and losses | 1,325 |
| 2010 purchases, sales, transfers, issuances and settlements, net | 3,092 |
| Fair value at September 30, 2010 | <u>\$ 11,194</u> |

Description of Investment Policies and Strategies

The primary objective of the investment policy is to provide a satisfactory return on the Plan's assets. The specific investment objective is to attain an average annual total return (net of investment management fees) of at least 5.0%.

Greenwich Hospital

Notes to Financial Statements (continued)

8. Retirement Plan (continued)

The Plan's assets are managed by external investment managers. In the interest of diversification, the equity portion of the portfolio is placed with managers who have distinct and different investment philosophies. The investment manager has complete discretion to manage the assets in each particular portfolio to best achieve the investment objectives.

The Plan's assets are diversified both by asset class (e.g., equities, bonds, cash equivalents and other alternative investments) and within each asset class (e.g., within equities by economic sector, industry, quality and size). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the Plan's assets.

To achieve its investment objective, the Plan's assets are divided into three parts: "Fixed Income Fund," "Equity Fund" and "Alternative Investments." The purpose of dividing the funds in this manner is to ensure that the overall asset allocation among these three major asset classes remains under the regular scrutiny of the Investment Committee.

The purpose of the Fixed Income Fund (bonds and cash equivalents) is to provide a deflation hedge, reduce the overall volatility of the Fund and produce current income (to be added to dividend income from the Equity Fund) in support of spending needs.

The Hospital expects to make cash contributions of approximately \$5.0 million to the Plan in fiscal 2012.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows (in thousands):

| | |
|---------------------|----------|
| Years Ending: | |
| 2012 | \$ 6,617 |
| 2013 | 7,270 |
| 2014 | 7,880 |
| 2015 | 8,406 |
| 2016 | 9,100 |
| 2017 and thereafter | 56,521 |

Greenwich Hospital

Notes to Financial Statements (continued)

9. Postretirement Medical and Life Insurance Benefits

Certain employees who retired prior to August 1, 1992, are provided certain postretirement health care and life insurance benefits. In addition, a 1994 early retirement benefits program provided limited postretirement medical benefits to employees who accepted the one-time early retirement offer. The accrued postretirement benefit liabilities were approximately \$0.5 million at September 30, 2011 and 2010, and are included in other long-term liabilities.

10. Reimbursement Arrangements

The significant concentrations of accounts receivable for services to patients, before allowances for uncollectible accounts, charity and free care, consisted of the following at September 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|------------------|-------------|
| Managed care/commercial | \$ 25,050 | \$ 26,453 |
| Medicare and Medicaid | 11,855 | 10,362 |
| Self-pay patients | 9,247 | 8,488 |
| Other third-party payers (none over 10%) | 223 | 303 |
| Accounts receivable for services to patients, gross | 46,375 | 45,606 |
| Less: | | |
| Allowance for uncollectible accounts, charity and free care | (12,738) | (12,014) |
| Medical record denials and credit balances | (1,204) | (1,074) |
| Accounts receivable for services to patients, net | \$ 32,433 | \$ 32,518 |

11. Long-Term Debt

Long-term debt consists of the following at September 30, 2011 and 2010 (in thousands):

| | 2011 | 2010 |
|---|------------------|-------------|
| State of Connecticut Health and Educational Facilities Authority Tax Exempt Bonds, Series C (variable interest rates with an average rate of approximately 3.22% for fiscal 2011) | \$ 45,005 | \$ 47,265 |
| Less current portion | (2,360) | (2,260) |
| Long-term portion | \$ 42,645 | \$ 45,005 |

Greenwich Hospital

Notes to Financial Statements (continued)

11. Long-Term Debt (continued)

On March 1, 1996, the State of Connecticut Health and Educational Facilities Authority (CHEFA) issued \$62,905,000 of its Revenue Bonds on behalf of Greenwich Hospital, Series A, consisting of \$12,760,000 of serial bonds and \$50,145,000 of term bonds, the proceeds of which have been loaned by CHEFA to the Hospital for the master facility renovation project.

On April 3, 2006, CHEFA issued \$56,600,000 of its Revenue Bonds on behalf of Greenwich Hospital, Series B, consisting of auction rate certificates. The proceeds were utilized for the defeasance and retirement of the outstanding Series A revenue bonds at a redemption price of 102%, which occurred on July 1, 2006.

On May 6, 2008, CHEFA issued \$53,630,000 of its Revenue Bonds on behalf of Greenwich Hospital, Series C, consisting of variable rate demand bonds. The proceeds were utilized for the refunding of the outstanding Series B revenue bonds. Principal amounts related to the Series C revenue bonds mature annually each July 1 through fiscal 2026. The effective interest rate of 3.22% is the result of the variable rate paid to bondholders, disclosed as interest expense of approximately \$96,000 and net counterparty payments of approximately \$1.4 million in connection with the interest rate swap included in nonoperating gains and losses.

The Series C bonds are required to be supported by a letter of credit which has been executed with Bank of America. The letter of credit is scheduled to expire in May 2016.

Aggregate principal and sinking fund payments required by the Hospital for the Series C revenue bonds for fiscal 2012 through fiscal 2016 and thereafter are as follows (in thousands):

| | |
|---------------|------------------|
| Years Ending: | |
| 2012 | \$ 2,360 |
| 2013 | 2,430 |
| 2014 | 2,505 |
| 2015 | 2,605 |
| 2016 | 2,675 |
| Thereafter | 32,430 |
| | <u>\$ 45,005</u> |

Required payments on the Series C revenue bonds by the Hospital are made to a trustee in amounts sufficient to provide for the payment of principal, interest and sinking fund installments as the same become due, and certain other payments. Additionally, the Hospital has granted a collateral interest to CHEFA on its gross receipts.

Greenwich Hospital

Notes to Financial Statements (continued)

11. Long-Term Debt (continued)

Pursuant to the State of Connecticut Health and Educational Authority Trust Indenture (Trust Indenture), dated May 1, 2008, the Hospital is required to maintain a debt service fund with a trustee to cover payment of principal and interest. The Hospital is required to comply with a variety of covenants, including a debt service coverage ratio. In connection with the Bonds, the Parent is part of the Obligated Group with the Hospital (including the Hospital's Foundation, see Note 1). At September 30, 2011 and 2010, the Obligated Group was in compliance with its financial debt covenants.

In connection with refinancing its Series A revenue bonds and issuing its Series B revenue bonds, the Hospital entered into an interest rate swap agreement (the swap) with a financial institution. Under the terms of the swap, the Hospital will receive variable interest payments and pay fixed interest payments on a notional value of \$32.2 million. On October 1, 2006, the Hospital concluded not to apply hedge accounting for the swap. Accordingly, the change in fair value of the swap was recorded as a nonoperating loss in the accompanying statements of operations and changes in net assets, while in 2006 the change in market value was recorded as a change in unrestricted net assets. As a result, the accumulated unrealized derivative gain of approximately \$1.4 million at September 30, 2006, is being amortized into excess of revenue and gains over expenses in future years. The Hospital expects that the amount of gain existing in unrestricted net assets to be reclassified to excess of revenue and gains over expenses within the next 12 months will not be significant.

The swap remained in place for the Series C revenue bonds. At September 30, 2011 and 2010, the aggregate fair value of the swap was approximately \$5,994,000 and \$5,497,000, respectively, and is reflected as a liability in the accompanying balance sheets. The net interest paid or received under the swap is recorded as an adjustment of the variable interest rate on the Series C revenue bonds included in nonoperating gains and losses.

Greenwich Hospital

Notes to Financial Statements (continued)

12. Supplemental Operating Data

Other revenue consisted of the following (in thousands):

| | Year Ended September 30 | |
|---|--------------------------------|------------------|
| | 2011 | 2010 |
| Pathology services | \$ 4,878 | \$ 5,429 |
| Foundation distributed income | 2,352 | 2,484 |
| Dining room receipts | 1,368 | 1,311 |
| Purchase discounts and rebates | 442 | 1,244 |
| Breast care services program | – | 508 |
| Rental income | 962 | 969 |
| Hospitalist program | – | 718 |
| In vitro fertilization | 1,228 | 844 |
| Integrative medicine | 528 | 701 |
| Perinatology | – | 32 |
| Cardiovascular program | – | 235 |
| Occupational medicine | 425 | 366 |
| Power consumption program | 185 | 335 |
| Telecom services | 195 | 212 |
| Fitness center membership fees | 89 | 131 |
| Pharmacy sales | 83 | 74 |
| Pediatric sub-specialty income | 146 | 162 |
| Premier service income | 217 | 176 |
| Greenwich Ambulatory Surgery Center Joint Venture | 358 | – |
| Lab Client Services | 153 | – |
| Miscellaneous | 588 | 431 |
| | \$ 14,197 | \$ 16,362 |

Functional expenses related to the Hospital's operating activities for the years ended September 30, 2011 and 2010, are as follows (in thousands):

| | 2011 | 2010 |
|----------------------------|-------------------|-------------------|
| Health care services | \$ 164,454 | \$ 151,189 |
| General and administrative | 141,471 | 136,342 |
| | \$ 305,925 | \$ 287,531 |

Greenwich Hospital

Notes to Financial Statements (continued)

12. Supplemental Operating Data (continued)

Other nonoperating gains and losses for the years ended September 30, 2011 and 2010, consisted of the following (in thousands):

| | 2011 | 2010 |
|---|---------|------------|
| Income from Foundation operations, primarily investment income and net realized gains | \$ 415 | \$ 515 |
| Less Foundation income distributed to the Hospital included in other revenue | (2,352) | (2,484) |
| | (1,937) | (1,969) |
| Unrestricted contributions | 4,117 | 1,605 |
| Interest and investment income | 751 | 1,051 |
| Fundraising expenses | (1,879) | (1,581) |
| Community Health at Greenwich Hospital | (632) | (602) |
| Net assets released from restrictions used for nonoperating activities, net | 6 | 2 |
| Other | (43) | (101) |
| | \$ 383 | \$ (1,595) |

Annually, the Foundation has committed to make a distribution to the Hospital, calculated as the greater of \$800,000 or 5% of the average market value of its investments for the prior 12 quarters (see Note 1).

13. Related-Party Transactions

The Hospital purchased certain services from YNHHSO for the years ended September 30, 2011 and 2010, as follows (in thousands):

| | 2011 | 2010 |
|--|-----------|-----------|
| Operating expenses: | | |
| Professional and general liability insurance | \$ 6,588 | \$ 7,332 |
| Information systems | 814 | 624 |
| Management services | 4,652 | 4,435 |
| Other support services | 9,704 | 6,556 |
| Physician related strategic support | 1,624 | 951 |
| EPIC shared project | 1,094 | - |
| Expense recoveries | (198) | - |
| | \$ 24,278 | \$ 19,898 |

Greenwich Hospital

Notes to Financial Statements (continued)

13. Related-Party Transactions (continued)

The Hospital has amounts due to YNHHS of approximately \$4.4 million and \$3.5 million, included in accrued expenses and other current liabilities, for the years ended September 30, 2011 and 2010, respectively.

In July 2001, the Hospital granted an \$11.0 million line of credit to GH Realty Holding LLC, a wholly owned subsidiary of the Perryridge Corporation (an affiliate of the Hospital), of which approximately \$0.2 million and \$1.2 million was outstanding at September 30, 2011 and 2010, respectively. In April 2004, the Hospital granted a \$10.0 million line of credit to 2015 West Main Street Associates, LLC, a wholly owned subsidiary of the Perryridge Corporation, of which approximately \$6.1 million and \$6.7 million was outstanding at September 30, 2011 and 2010, respectively. Future payments under these loans are as follows (in thousands):

| | <u>2011</u> | <u>2010</u> |
|---|-------------|-------------|
| Amounts due in one year (included in other receivables) | \$ 1,600 | \$ 1,600 |
| Amounts due in two to five years | 4,701 | 6,301 |

During the years ended September 30, 2011 and 2010, the Hospital transferred approximately \$6.4 million and \$4.7 million, respectively, related to operations to GHCS.

14. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance as explained in Note 7 or are deemed to be immaterial. While the outcome of the lawsuits cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or results of operations of the Hospital.

Greenwich Hospital

Notes to Financial Statements (continued)

15. Fair Values of Financial Instruments

The Hospital uses the methods of calculating fair value defined in ASC 820-10 to value its financial assets and liabilities, when applicable. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820-10 applies to other accounting pronouncements that require or permit fair value measurements and does not require new fair value measurements. Fair value measurements are applied based on the unit of account from the reporting entity's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Greenwich Hospital

Notes to Financial Statements (continued)

15. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of September 30, 2011, are classified in the table below in one of the three categories described above (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|-------------------|-------------|-------------|-------------------|
| Assets | | | | |
| Investments, at fair value: | | | | |
| Cash | \$ 32,304 | \$ - | \$ - | \$ 32,304 |
| Money market funds | 35,065 | - | - | 35,065 |
| Fixed income: | | | | |
| US government | 12,609 | - | - | 12,609 |
| Corporate debt | 19,943 | - | - | 19,943 |
| Mortgage backed securities | 376 | - | - | 376 |
| US equity securities | 5,574 | - | - | 5,574 |
| International equity securities | 4,553 | - | - | 4,553 |
| Beneficial interest in remainder trusts | 1,621 | - | - | 1,621 |
| | <u>\$ 112,045</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 112,045</u> |
| Liabilities | | | | |
| Interest rate swap | \$ - | \$ 5,943 | \$ - | \$ 5,943 |

The amounts reported in the table above exclude assets invested in the Hospital's defined benefit pension plan (see Note 8).

Financial assets and liabilities carried at fair value as of September 30, 2010, are classified in the table below in one of the three categories described above (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------------|-------------------|-------------|-------------|-------------------|
| Assets | | | | |
| Investments, at fair value: | | | | |
| Cash | \$ 32,170 | \$ - | \$ - | \$ 32,170 |
| Money market funds | 30,189 | - | - | 30,189 |
| Fixed income: | | | | |
| US government | 8,901 | - | - | 8,901 |
| Corporate debt | 27,928 | - | - | 27,928 |
| Mortgage backed securities | 550 | - | - | 550 |
| US equity securities | 6,237 | - | - | 6,237 |
| International equity securities | 4,638 | - | - | 4,638 |
| Charitable remainder trusts | 1,443 | - | - | 1,443 |
| | <u>\$ 112,056</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 112,056</u> |
| Liabilities | | | | |
| Interest rate swap | \$ - | \$ 5,497 | \$ - | \$ 5,497 |

Greenwich Hospital

Notes to Financial Statements (continued)

15. Fair Values of Financial Instruments (continued)

The Hospital's alternative investments are reported using the equity method of accounting, and therefore, are not included in the tables above (see Note 1).

The following is a description of the Hospital's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

The following is a summary of investments (by major class) that have restrictions on the Hospital's ability to redeem its investments at the measurement date, any unfunded capital commitments and investments strategies of the investees as of December 31, 2010 (including investments accounted for using the equity method) (in thousands):

| Description of Investment | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---------------------------|------------------|-------------------------|-------------------------|-----------------------------|
| Private equity | \$ 5,458 | 5,375 | N/A | N/A |
| Hedge funds: | | | | |
| Absolute return | 2,859 | N/A | N/A | N/A |
| Global equity | 10,217 | N/A | 30 days | 190 – 460 days |
| Total | <u>\$ 18,534</u> | | | |

16. Subsequent Events

Management has evaluated subsequent events through December 21, 2011, which is the date the financial statements were available to be issued. No events have occurred that require disclosure to or adjustment of the financial statements.

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