

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Greenwich Health Care Services, Inc. and Subsidiaries
Years Ended September 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP



Greenwich Health Care Services, Inc. and Subsidiaries

Consolidated Financial Statements
and Supplemental Information

Years Ended September 30, 2012 and 2011

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Report of Independent Auditors

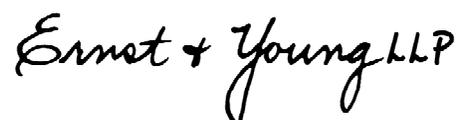
Board of Trustees
Greenwich Health Care Services, Inc.

We have audited the accompanying consolidated balance sheets of Greenwich Health Care Services, Inc. and Subsidiaries (GHCS) as of September 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of GHCS'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 GHCS'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 GHCS'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 consolidated financial position of Greenwich Health Care Services, Inc. and Subsidiaries at September 30, 2012 and 2011, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 1 and 9 to the accompanying financial statements, in 2012 the Hospital changed its method of accounting for estimated insurance claims receivable and estimated insurance claims liabilities with the adoption of Accounting Standards Update 2012-24 *Presentation of Insurance claims and Related Insurance Recoveries*.



December 21, 2012

Greenwich Healthcare Services, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2012	2011
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 37,343	\$ 35,827
Short-term investments <i>(Note 4)</i>	10,243	21,585
Accounts receivable for services to patients, less allowance for uncollectible accounts, charity and free care of approximately \$19,914,000 in fiscal 2012 and \$12,847,000 in fiscal 2011 <i>(Note 2)</i>	39,760	34,512
Other receivables <i>(Note 9)</i>	4,382	1,027
Professional liabilities insurance recoverable receivable – current portion	2,173	4,137
Other current assets	8,985	5,457
Total current assets	102,886	102,545
Assets limited as to use <i>(Note 4)</i>	89,433	74,679
Long-term investments <i>(Note 4)</i>	53,112	48,889
Other assets <i>(Note 1)</i>	16,072	10,813
Professional liabilities insurance recoverable receivable – non-current <i>(Note 9)</i>	8,751	11,300
Property, plant and equipment: <i>(Note 1)</i>		
Land and land improvements	23,477	22,802
Buildings and fixtures	278,219	273,567
Equipment	161,191	186,295
	462,887	482,664
Less accumulated depreciation	(194,746)	(207,619)
	268,141	275,045
Construction in progress	1,354	169
	269,495	275,214
Total assets	\$ 539,749	\$ 523,440

	September 30	
	2012	2011
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 6,304	\$ 8,414
Accrued expenses <i>(Note 12)</i>	23,632	21,127
Current portion of long-term debt <i>(Note 7)</i>	2,430	2,360
Professional liabilities – current portion <i>(Note 9)</i>	2,173	4,137
Other current liabilities	21,044	14,364
Total current liabilities	<u>55,583</u>	<u>50,402</u>
Long-term debt, net of current portion <i>(Note 7)</i>	40,215	42,645
Accrued pension and postretirement benefit obligations <i>(Note 8)</i>	54,164	46,068
Interest rate swap <i>(Note 7)</i>	6,417	5,994
Other long-term liabilities <i>(Note 2)</i>	16,291	16,514
Professional liabilities <i>(Note 9)</i>	14,202	18,698
Total liabilities	<u>186,872</u>	<u>180,321</u>
Commitments and contingencies		
Net assets: <i>(Note 6)</i>		
Unrestricted	299,329	297,016
Temporarily restricted	29,999	24,575
Permanently restricted	21,789	20,392
Total Greenwich Healthcare Services, Inc. net assets	<u>351,117</u>	<u>341,983</u>
Non-controlling interest in Orthopedic & Neurosurgery Center of Greenwich LLC	1,760	1,136
Total net assets including non-controlling interest	<u>352,877</u>	<u>343,119</u>
Total liabilities and net assets	<u><u>\$ 539,749</u></u>	<u><u>\$ 523,440</u></u>

See accompanying notes.

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2012	2011
	<i>(In Thousands)</i>	
Operating revenue:		
Net patient service revenue <i>(Note 2)</i>	\$ 327,382	\$ 310,407
Other revenue <i>(Note 13)</i>	13,249	12,951
Total operating revenue	340,631	323,358
Operating expenses:		
Salaries and benefits	153,235	164,309
Supplies and other	140,600	120,285
Depreciation	19,710	20,454
Bad debts	14,027	9,444
Interest <i>(Note 7)</i>	364	425
Total operating expenses	327,936	314,917
Income from operations	12,695	8,441
Nonoperating losses and gains:		
Change in fair value of swap, including counterparty payments <i>(Note 7)</i>	(1,713)	(1,847)
Change in unrealized gains and losses on investments	7,889	(2,162)
Other nonoperating gains and losses, net <i>(Note 13)</i>	(2,123)	378
Excess of revenue over expenses, before non-controlling interest	16,748	4,810
Less: Income attributable to non-controlling interest	(6,671)	(2,623)
Excess of revenue over expenses	10,077	2,187

(Continued on next page)

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2012	2011
	<i>(In Thousands)</i>	
Unrestricted net assets:		
Excess of revenue over expenses (continued)	\$ 10,077	\$ 2,187
Other changes in net assets <i>(Note 7)</i>	(79)	(74)
Transfer from Yale New Haven Health Services Corporation	700	548
Net assets released from restrictions used for purchases of fixed assets	12	409
Contributed property released from restriction	–	2,100
Pension and other postretirement liability adjustments <i>(Note 8)</i>	(8,397)	(19,055)
Increase (decrease) in unrestricted net assets	2,313	(13,885)
Temporarily restricted net assets:		
Net realized gains and income from investments	1,338	821
Change in net unrealized gains and losses on investments	3,778	(333)
Bequests and contributions	4,218	3,673
Net assets released from restrictions for purchases of fixed assets <i>(Note 6)</i>	(12)	(409)
Net assets released from restrictions for operations	(3,759)	(4,366)
Net assets released from restrictions for non-operating activities, net	(139)	(6)
Contributed property released from restriction	–	(2,100)
Increase (decrease) in temporarily restricted net assets	5,424	(2,720)
Permanently restricted net assets:		
Bequest, contributions, and grants	100	45
Net realized gains on investments	7	4
Change in net unrealized gains and losses on investments	1,290	(1,202)
Increase (decrease) in permanently restricted net assets	1,397	(1,153)
Increase (decrease) in GHCS net assets	9,134	(17,758)
Non-controlling interest:		
Investment by non-controlling members	–	105
Income attributable to non-controlling interest	6,671	2,623
Distributions to non-controlling members	(6,047)	(1,592)
Increase in non-controlling interest	624	1,136
Increase (decrease) in net assets including non-controlling interest	9,758	(16,622)
Net assets at beginning of year	343,119	359,741
Net assets at end of year	\$ 352,877	\$ 343,119

See accompanying notes.

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2012	2011
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 9,758	\$ (16,622)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	19,710	20,454
Net realized and change in net unrealized gains and losses on investments	(14,364)	2,820
Change in fair value of interest rate swap agreements	423	446
Bequests and contributions	(6,198)	(7,835)
Bad debts	14,027	9,444
Pension and other postretirement liability adjustments	8,397	19,055
Changes in operating assets and liabilities:		
Accounts receivable for services to patients, net	(19,275)	(10,552)
Other receivables	(3,355)	(392)
Professional liabilities and related insurance recoveries receivable	(1,947)	28
Other assets	(8,787)	(7,514)
Accounts payable	(2,110)	1,532
Accrued expenses	2,505	1,205
Other current liabilities, accrued pension and postretirement benefit obligations, and other long-term liabilities	6,156	1,277
Net cash provided by operating activities	<u>4,940</u>	<u>13,346</u>
Cash flows from investing activities		
Net acquisitions of property, plant, and equipment	(13,991)	(15,811)
Net change in investments and assets limited as to use	6,729	(1,601)
Net cash used in investing activities	<u>(7,262)</u>	<u>(17,412)</u>
Cash flows from financing activities		
Bequests and contributions	6,198	7,835
Repayments of long-term debt	(2,360)	(2,260)
Net cash provided by financing activities	<u>3,838</u>	<u>5,575</u>
Net increase in cash and cash equivalents	1,516	1,509
Cash and cash equivalents at beginning of year	35,827	34,318
Cash and cash equivalents at end of year	<u>\$ 37,343</u>	<u>\$ 35,827</u>

See accompanying notes.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2012

1. Organization and Significant Accounting Policies

Organization

Greenwich Health Care Services, Inc. (GHCS) is the sole member of Greenwich Hospital (the Hospital), The Greenwich Hospital Endowment Fund, Inc. (the Foundation), The Perryridge Corporation, Greenwich Health Services, Inc. (GHSI), and Greenwich Ambulatory Surgery Center, LLC (GASC). GHCS, the Hospital and the Foundation are an Obligated Group under the State of Connecticut Health and Educational Facilities Authority Trust Indenture. GHCS provides management and other supporting services to the Hospital. GHCS is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code (the Code) as an organization described in Section 501(c)(3) of the Code. Its public charity status is based upon its support of the Hospital.

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 a System Affiliation Agreement by and among YNHHSC, GHCS and the Hospital dated July 24, 1997, YNHHSC approves the GHCS strategic plans, operating and capital budgets, and director appointments, however the GHCS delivery network continues to maintain separate Board of Directors, management and the Hospital continues to maintain its own medical staff.

The Foundation, a tax-exempt organization, was formed without variance power to receive and administer funds for the benefit of the Hospital, GHCS and any or all of their affiliates that are exempt from federal income tax.

GHCS is a Connecticut not-for-profit, non stock corporation established to promote and carry out charitable and scientific activities.

GASC, a Connecticut Limited Liability Company, formed on July 28, 2006.

Principles of Consolidation

The consolidated financial statements include the accounts of GHCS and its wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. The consolidation of these entities is not necessarily indicative of the legal extent of assets available to settle liabilities of the individual entities.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

During fiscal 2012 and 2011, GHCS recorded a change in estimate of approximately \$2.5 million and \$0.8 million, respectively. Included in the change are amounts related to favorable third-party payor settlements at September 30, 2012 and 2011, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose and appreciation on permanently restricted net assets. Permanently restricted net assets have been restricted by donors to be maintained by GHCS in perpetuity. GHCS is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value.

The restricted funds investments are pooled with unrestricted investments to facilitate their management. Investment income is allocated to the restricted funds using the market value unit method. The Board of Trustees approves spending for certain pooled funds based on total return. Realized gains and losses from the sale of securities are computed using the average cost method.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions receivable to be received after one year are discounted at a 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.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All 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.

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 GHCS's policy to monitor the financial strength of the financial institutions.

Accounts Receivable

Patient accounts receivable result from the health care services provided by GHCS. 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.

Investments

GHCS has designated its investment portfolio as trading. 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 over expenses unless the income or loss is restricted by donor or law.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value (quoted market prices) in the accompanying balance sheets.

To diversify its investment portfolio and to enhance opportunities for increased rate of return, GHCS 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, GHCS'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, 2012 and 2011. Future funding commitments for alternative investments aggregated approximately \$1.8 million at September 30, 2012.

Short-term investments represent those securities that are available for the Hospital's operations and can be converted to cash within one year.

Investment in Orthopedic & Neurosurgery Center of Greenwich, LLC

On October 21, 2010, GASC entered into an agreement to operate Orthopedic & Neurosurgery Center of Greenwich, LLC (the JV), for the purpose of providing outpatient surgical services in the greater Fairfield County and Westchester County communities. GASC holds governance control of the JV and a 35% equity interest in the JV as of September 30, 2011 and 2012.

Accordingly, the accounts of the JV have been included in the balance sheets of GASC. The non-controlling interest in the JV is reported in the consolidated financial statements.

Inventories

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

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Assets Limited as to Use

Assets so classified represent assets held by trustees under indenture agreements, beneficial interest in perpetual trusts and designated assets set aside by the Board of Trustees for future capital improvements and other Board approved uses. The Board of Trustees retains control and, at its discretion, may use for other purposes assets limited as to use for plant improvements and expansion. Amounts required to meet current liabilities are reported as current assets. These funds primarily consist of U.S. government securities, mutual funds, and money market funds.

Perpetual Trusts

GHCS is the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts, which are measured based on the fair value of the assets held by the trust, are recognized as assets and contribution revenues at the dates the trusts are established. Distributions from the trusts related to earnings and investment income are recorded as contributions and the carrying value of the assets is adjusted for changes in the fair value.

Interest Rate Swap Agreements

GHCS utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. Interest rate swap agreements are reported at fair value. GHCS is exposed to credit loss in the event of non-performance by the counterparties to its interest rate swap agreements. GHCS is also exposed to the risk that the swap receipts may not offset its variable rate debt service. To the extent these variable rate payments do not equal variable interest payments on the bonds, there will be a net loss or net benefit to GHCS.

Beneficial Interest in Investments Held by the Foundation

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

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Deferred Financing Costs

Issuance costs, included in other assets related to the GHCS'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 consolidated statements of operations and changes in net assets, was approximately \$30,000 for the years ended September 30, 2012 and 2011.

Beneficial Interest in Trusts

GHCS has recognized its beneficial interest in trusts held by a third party at fair value. Under these arrangements, GHCS is receiving distributions to fund free care programs. GHCS received distributions of approximately \$500,000 for the years ended September 30, 2012 and 2011.

Beneficial Interest in Remainder Trusts

GHCS is the ultimate beneficiary of certain charitable remainder trusts and similar arrangements. Under most of these arrangements, GHCS 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 GHCS is restricted to specific purposes.

Benefits and Insurance

The Hospital provides medical, dental, hospitalization and prescription drug benefits to employees for which it is self-insured. Liabilities have been accrued for claims, including claims incurred but not reported (IBNRs), which are based on Hospital-specific experience. At September 30, 2012 and 2011, the estimated liability for self-insured employee medical, prescription and other benefit claims and IBNRs aggregated approximately \$1.2 million and \$1.5 million, respectively, and is included in accrued expenses in the accompanying balance sheets.

The Hospital is effectively self-insured for workers' compensation claims. Estimated amounts are accrued for claims, including IBNRs, which are based on Hospital-specific experience. At September 30, 2012 and 2011, the estimated liability for self-insured workers' compensation claims and IBNRs, discounted at 3.0% in 2012 and 3.5% in 2011, aggregated approximately \$2.8 million and \$3.2 million, respectively, and is included in other long-term liabilities in the accompanying balance sheets.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Professional Liability Insurance

GHCS participates in the YNHHS coordinated professional liability program. Based on the terms of the agreement with YNHHS, GHCS records the actuarially determined liabilities for professional and general liabilities.

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 the 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 50 years. The cost of additions and improvements are capitalized and expenditures for repairs and maintenance, including the cost of replacing minor items not considered substantial enhancements, are expensed as incurred.

Excess of Revenue Over Expenses

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.

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

GHCS and its subsidiaries, with the exception of GHSI and GASC, are Connecticut nonstock corporations exempt from federal and state income taxes pursuant to Section 501(a) of the Code as organizations described in Section 501(c)(3) of the Code.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

As of September 30, 2012, GHSI had approximately \$25.7 million of federal net operating losses, and approximately \$23.2 million of state net operating losses. These net operating losses will expire from December 31, 2011 through December 31, 2027. No deferred tax assets are reflected because management does not believe they will be realized.

As a qualifying limited liability company, GASC is treated as a partnership for Federal and Connecticut state tax purposes. Accordingly, GASC is subject to Connecticut business entity tax of \$250 annually, after which its net income or loss passes through to GHCS.

Impairment of Assets

The Hospital reviews property, equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such impairment indicators are present, the Hospital recognizes a loss on the basis of whether these amounts are fully recoverable.

Change in Accounting Principle

In August 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which provides clarification to companies in the health care industry on the accounting for and presentation of professional and similar contingent liabilities. Under the new guidance, these liabilities should not be presented net of insurance recoveries and an insurance recovery receivable should be recognized on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible accounts. The new guidance became effective for GHCS as of October 1, 2011. GHCS elected to retrospectively adopt ASU No. 2010-24 as of September 30, 2011. The change resulted in an increase to current assets and liabilities of approximately \$4.1 million and an increase to long-term assets and liabilities of approximately \$11.3 million as of September 30, 2011.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

New Accounting Pronouncements

In August 2010, the FASB issued Accounting Standards Update (“ASU”) 2010-23, *Measuring Charity Care for Disclosure*. The new guidance requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. Separate disclosure of the amount of any cash reimbursements received for providing charity care must also be disclosed. The new disclosure requirements became effective for the Hospital on October 1, 2011 and are included in the accompanying consolidated financial statements for all periods presented.

In July 2011, the FASB 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 has adopted the presentation changes to the statement of operations for periods beginning after December 15, 2011.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements in order to conform with the 2012 presentation.

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

GHCS has agreements with third-party payers that provide for payments to GHCS 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, includes premium revenue 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.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Third-party payor receivables included in other receivables were \$2.2 million at September 30, 2012. Third-party payor liabilities included in other current liabilities were \$3.2 million at September 30, 2012 and 2011. Third-party payor liabilities included in other long-term liabilities were \$11.3 million and \$12.3 million at September 30, 2012 and 2011, respectively.

GHCS 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 consolidated balance sheets. Additionally, certain payers' payment rates for various years have been appealed by GHCS. If the appeals are successful, additional income applicable to those years might be realized.

Revenue from Medicare and Medicaid programs accounted for approximately 25% and 3%, respectively, of GHCS's net patient service revenue for the years ended September 30, 2012 and 2011. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 39% and 32%, respectively, for the year ended September 30, 2012 and approximately 37% and 32%, respectively, for the year ended September 30, 2011. 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.

GHCS 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 GHCS. Cost reports for GHCS, which serve as the basis for final settlement with government payers have been settled by final settlement through 2007 for Medicare and 1995 for Medicaid. Other years remain open for settlement.

The significant concentrations of accounts receivable for services to patients include 32% from Medicare, 3% from Medicaid, and 65% from non-governmental payors at September 30, 2012 and 35% from Medicare, 4% from Medicaid, and 61% from non-governmental payors at September 30, 2011.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Net patient service revenue is comprised of the following for the years ended September 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Gross revenue from patients	\$ 987,697	\$ 974,153
Deductions:		
Contractual allowances	638,439	641,448
Charity and free care (at charges)	21,876	22,298
Net patient service revenue	<u>\$ 327,382</u>	<u>\$ 310,407</u>

3. Uncompensated Care and Community Benefit Expense

The GHCS'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.

GHCS makes available free care programs for qualifying patients. In accordance with the established policies of the GHCS, 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.

Together, charity care and bad debt expense represent uncompensated care. The estimated cost of total uncompensated care is approximately \$13.2 million and \$13.0 million for the years ended September 30, 2012 and 2011, respectively. The estimated cost of uncompensated care is based on the Hospital's cost accounting system. This analysis calculates the actual percentage of accounts written off or designated as bad debt vs. charity care while taking into account the total costs incurred by the hospital for each account analyzed.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Uncompensated Care and Community Benefit Expense (continued)

The estimated cost of charity care provided was \$8.1 million and \$9.2 million for the years ended September 30, 2012 and 2011, respectively. The estimated cost of charity care is determined by the Hospital's cost accounting system.

For the years ended September 30, 2012 and 2011, bad debt expense, at charges, was \$14.0 million and \$9.4 million, respectively. The bad debt expense is multiplied by the ratio of cost to charges for purposes of inclusion in the total uncompensated care amount identified above.

The Connecticut Disproportionate Share Hospital Program ("CDSHP") was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. During the years ended September 30, 2012 and 2011, the Hospital received \$4.6 million and \$1.9 million, respectively, in CDSHP distributions, of which approximately \$2.8 million and \$1.3 million was related to charity care. The Hospital made payments into the CDSHP of \$12.1 million and \$3.0 million for the years ended September 30, 2012 and 2011, respectively, for the 1% assessment.

Additionally, GHCS provides benefits for the broader community, which includes 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, GHCS provides additional benefits to the community through its advocacy of community service by employees. GHCS's employees serve numerous organizations through Board representation, membership in associations and other related activities. GHCS 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.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Investments and Assets Limited as to Use

The composition of investments, including investments held by Foundation and assets limited as to use at September 30 is set forth in the following table (in thousands):

	2012	2011
Money market funds	\$ 39,481	\$ 35,622
U.S. equity securities	25,232	19,436
U.S. equity securities – common collective trusts	4,956	1,925
International equity securities (c)	26,885	21,827
Fixed income:		
U.S. government	7,346	12,608
U.S. government – common collective trusts	5,358	4,575
International government	1,220	–
Corporate debt (a)	16,894	22,283
Mortgage backed securities (b)	250	376
Hedge funds:		
Absolute return (d)	16,010	17,805
Private equity (e)	6,470	6,004
Real assets (f)	2,686	2,505
Real estate (g)	–	187
	\$ 152,788	\$ 145,153

(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.

GHCS participates in the 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 1.4% as of September 30, 2012. The Hospital's pro rata portion of the Trust's investments are included in the assets limited to use by board designation table.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Endowment

GHCS's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

GHCS 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, GHCS 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 GHCS's beneficial interest in perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time of 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 amounts are appropriated for expenditure by GHCS in a manner consistent with the standard of prudence prescribed by CUPMIFA.

In accordance with CUPMIFA, GHCS 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 GHCS and the donor-restricted endowment fund; (3) general economic condition; (4) the expected total return from income and the appreciation of investments; (5) other resources of GHCS; and (6) the investment and spending policy of GHCS.

Changes in endowment net assets for the year ended September 30, 2012 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 32,673	\$ 11,840	\$ 20,392	\$ 64,905
Investment return:				
Investment income	336	125	-	461
Net appreciation (realized and unrealized)	7,477	1,277	1,297	10,051
Total investment return	7,813	1,402	1,297	10,512
Contributions	-	-	100	100
Appropriation of endowment assets for expenditure	(2,472)	(192)	-	(2,664)
Endowment net assets, end of year	<u>\$ 38,014</u>	<u>\$ 13,050</u>	<u>\$ 21,789</u>	<u>\$ 72,853</u>

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

Changes in endowment net assets for the fiscal 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	299	105	–	404
Net appreciation (realized and unrealized)	(1,807)	768	(1,198)	(2,237)
Total investment return	(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	\$ 32,673	\$ 11,840	\$ 20,392	\$ 64,905

Return Objectives and Risk Parameters

GHCS has adopted an investment and a spending policy for endowed assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that over time provide a rate of return that meets the spending policy objectives adjusted for inflation. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, GHCS 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). GHCS targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

GHCS has a policy of appropriating funds for distribution each year based on the greater of \$800,000 or 5% of the average market value of its investments for the prior 12 quarters. In establishing this policy, GHCS considered the long-term expected return on its endowment.

Net assets released from donor imposed restrictions used for operations and included in other revenue consisted of the following at September 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Restricted funds to support operations	\$ 3,183	\$ 3,733
Free care fund	576	633
	<u>\$ 3,759</u>	<u>\$ 4,366</u>

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Other specified capital expenditures	\$ 3,150	\$ 2,336
Indigent care	1,234	1,122
Indigent care funds held by trustee	10,507	9,370
Specified health care services and operations	12,421	8,815
Education	2,687	2,932
	<u>\$ 29,999</u>	<u>\$ 24,575</u>

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets are restricted as follows at September 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
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)	\$ 13,208	\$ 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)	6,947	5,650
	<u>\$ 21,789</u>	<u>\$ 20,392</u>

7. Long-Term Debt

Long-term debt consists of the following at September 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
State of Connecticut Health and Educational Facilities Authority Tax Exempt Bonds, Series C (variable interest rates with an average rate of approximately 3.20% for fiscal 2012)	\$ 42,645	\$ 45,005
Less current portion	(2,430)	(2,360)
Long-term portion	<u>\$ 40,215</u>	<u>\$ 42,645</u>

On March 1, 1996, the State of Connecticut Health and Educational Facilities Authority (CHEFA) issued \$62.9 million of its Revenue Bonds on behalf of Greenwich Hospital, Series A, consisting of \$12.8 million of serial bonds and \$50.1 million 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 \$56.6 million 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.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

On May 6, 2008, CHEFA issued \$53.6 million 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 3.20% is the result of the variable rate paid to bondholders, disclosed as interest expense of approximately \$0.1 million, and net counterparty payments of approximately \$1.3 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.

For the years ended September 30, 2012 and 2011, the Hospital paid approximately \$0.1 million, respectively, for interest related to long-term debt, exclusive of the swap agreements.

Aggregate principal and sinking fund payments required by the Hospital for the Series C revenue bonds for fiscal 2013 through fiscal 2017 and thereafter are as follows (in thousands):

2013	\$	2,430
2014		2,505
2015		2,605
2016		2,675
2017		2,790
Thereafter		29,640
	\$	<u>42,645</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.

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).

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Long-Term Debt (continued)

At September 30, 2012 and 2011, the Obligated Group was in compliance with its debt covenants.

In connection with its Series C 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 \$29.1 million.

There was an unfavorable change in fair value of approximately \$0.4 million and \$0.5 million for the years ended September 30, 2012 and 2011, respectively, which was recorded in the excess of revenue over expenses. Although an unfavorable change in market value of the Series C swap has occurred, the terms of the swap agreement have not required the Hospital to collateralize funds to be held by the financial institution as of September 30, 2012 and 2011.

8. Retirement Plan

Defined Contribution Plan

GHCS 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 non-management 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, GHCS contributed approximately \$5.5 million and \$5.3 million to the Plan for the years ended September 30, 2012 and 2011, respectively.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Plan (continued)

Defined Benefit 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.

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, 2012 and 2011, are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	<u>2012</u>	<u>2011</u>
Unrecognized actuarial loss	\$ (67,659)	\$ (59,256)
Unrecognized prior service cost	(13)	(20)
	<u>\$ (67,672)</u>	<u>\$ (59,276)</u>

The actuarial loss and prior service cost included in unrestricted net assets at September 30, 2012 and expected to be recognized in net periodic benefit cost during the year ending September 30, 2013, are as follows (in thousands):

Unrecognized actuarial loss	\$ 8,000
Unrecognized prior service cost	6
	<u>\$ 8,006</u>

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Plan (continued)

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, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Change in benefit obligations:		
Benefit obligation, at prior measurement date	\$ 167,284	\$ 154,009
Service cost	2,942	2,973
Interest cost	8,363	8,006
Actuarial loss (gain)	20,749	7,631
Benefits paid	(6,260)	(5,335)
Benefit obligation, at current measurement date	<u>\$ 193,078</u>	<u>\$ 167,284</u>
Change in plan assets:		
Fair value of plan assets, at prior measurement date	\$ 121,216	\$ 124,110
Actual return on plan assets	19,258	(2,559)
Employer contributions	4,700	5,000
Benefits paid	(6,260)	(5,335)
Fair value of plan assets, at current measurement date	<u>\$ 138,914</u>	<u>\$ 121,216</u>
Pension liability	<u>\$ (54,164)</u>	<u>\$ (46,068)</u>

The actuarial losses in 2012 and 2011 primarily relates to a decrease in the discount rate used to measure the benefit obligation.

The projected benefit obligation, accumulated benefit obligation and fair value of Plan assets were as follows at September 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Projected benefit obligation	\$ 193,078	\$ 167,284
Accumulated benefit obligation	183,789	156,916
Fair value of plan assets	138,914	121,216

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Plan (continued)

The following table provides the components of the net periodic benefit cost for the Plan for the years ended September 30, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Service cost	\$ 2,942	\$ 2,973
Interest cost	8,363	8,007
Expected return on plan assets	(10,821)	(10,637)
Amortization of prior service cost	6	6
Amortization loss	3,908	1,765
Net periodic benefit cost	<u>\$ 4,398</u>	<u>\$ 2,114</u>

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, 2012 and 2011, are shown in the following table:

	Net Periodic Benefit Cost		Benefit Obligation	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Discount rate	5.10%	5.30%	4.00%	5.10%
Rate of compensation increase	3.50	3.25	3.50	3.50
Expected rate of return on plan assets	7.75	7.75	-	-

The asset allocation of the Plan at September 30, 2012 and 2011 was as follows:

	2013 Target Allocation	<u>2012</u>	<u>2011</u>
Equity securities	60% - 90%	51%	48%
Debt securities	10% - 40%	20	23
Alternative investments	0% - 25%	29	29
		<u>100%</u>	<u>100%</u>

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Plan (continued)

The plan assets carried at fair value as of September 30, 2012, 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	\$ 1,898	\$ —	\$ —	\$ 1,898
US equity securities	18,311	22,026	—	40,337
International equity securities	—	30,433	—	30,433
Fixed income:				
Corporate debt	26,595	—	—	26,595
Private equity	—	—	8,319	8,319
Hedge funds:				
Absolute return	—	16,173	10,579	26,752
Real assets	—	—	4,580	4,580
	<u>\$ 46,804</u>	<u>\$ 68,632</u>	<u>\$ 23,478</u>	<u>\$ 138,914</u>

The plan 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
US equity securities	14,965	16,088	—	31,053
International equity securities	4,456	22,518	—	26,974
Fixed income:				
Corporate debt	26,438	—	—	26,438
Private equity	—	—	7,444	7,444
Hedge funds:				
Absolute return	—	14,243	9,848	24,091
Real assets	—	—	4,237	4,237
	<u>\$ 46,838</u>	<u>\$ 52,849</u>	<u>\$ 21,529</u>	<u>\$ 121,216</u>

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Plan (continued)

The composition and presentation of financial assets categorized as Level 3 investments in the tables above for the fiscal year ended September 30, 2012 and 2011 are as follows (in thousands):

	Private Equity	Real Assets	Hedge Funds	Total
Beginning balance as of October 1, 2011	\$ 7,444	\$ 4,237	\$ 9,848	\$ 21,529
Realized gains	490	–	45	535
Unrealized gains (losses)	578	343	915	1,836
Purchases, sales, issuance, settlements, transfers, other	(193)	–	(229)	(422)
Ending balance as of September 30, 2012	<u>\$ 8,319</u>	<u>\$ 4,580</u>	<u>\$ 10,579</u>	<u>\$ 23,478</u>

	Private Equity	Real Assets	Hedge Funds	Total
Beginning balance as of October 1, 2010	\$ 5,676	\$ 5,517	\$ 10,198	\$ 21,391
Realized gains	5	–	84	89
Unrealized gains (losses)	(205)	(1,280)	71	(1,414)
Purchases, sales, issuance, settlements, transfers, other	1,968	–	(505)	1,463
Ending balance as of September 30, 2011	<u>\$ 7,444</u>	<u>\$ 4,237</u>	<u>\$ 9,848</u>	<u>\$ 21,529</u>

Description of Investment Policies and Strategies

The Hospital's investment strategy for its pension assets, balances the liquidity needs of the pension plan with the long-term return goals necessary to satisfy future pension obligations. The target asset allocation seeks to capture the equity premium granted by the capital markets over the long-term while ensuring security of principal to meet near term expenses and obligations through the fixed income allocation. The allocations of the investment pool to various sectors of the markets are designed to reduce volatility in the portfolio.

The Hospital's pension portfolio return assumption of 7.75% is based on the targeted weighted-average return of comparative market indices for the asset classes represented in the portfolio and discounted for pension expenses.

Cash Flows

Contributions: The Hospital expects to make cash contributions of approximately \$5.3 million to the Plan in fiscal 2013.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Plan (continued)

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

Years Ending:	
2013	\$ 7,176
2014	7,786
2015	8,347
2016	9,081
2017	9,844
2018 to 2022	59,246

9. Professional Liability Insurance

Yale-New Haven Hospital (“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.

The estimate for modified claims-made professional liabilities and the estimate for incidents that have been incurred and not reported aggregated approximately \$16.4 and \$22.8 million at September 30, 2012 and 2011, respectively. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately \$6.2 million and \$8.6 million at September 30, 2012 and 2011, respectively, and is included in professional liabilities in the accompanying consolidated balance sheets at the actuarially determined present value of approximately \$5.5 million and \$7.4 million, respectively, based on a discount rate of 3.0% and 3.5% for the years ended September 31, 2012 and 2011, respectively.

The Hospital has recorded related insurance recoveries receivable of approximately \$10.9 million and \$15.4 million at September 30, 2012 and 2011, respectively, in consideration of the expected insurance recoveries for the total discounted modified claims-made insurance. The current portion of professional liabilities and the related insurance receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Professional Liability Insurance (continued)

The Hospital's estimates for professional insurance liabilities are based upon complex actuarial calculations which utilize factors such as historical claims experience for the Hospital and related industry factors, trending models, estimates for the payment patterns of future claims and present value discount factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

10. Commitments and Contingencies

Leases

GHCS leases various equipment and properties under operating leases, and has long-term commitments under service contracts expiring at various dates through fiscal 2018. Expense under such leases and service contracts was approximately \$3.0 million and \$3.3 million for fiscal 2012 and 2011, respectively.

Future minimum lease payments for each of the following five years subsequent to September 30, 2012, under noncancelable operating leases and service contracts, are as follows (in thousands):

2013	\$ 4,627
2014	4,204
2015	4,400
2016	4,382
2017	2,719
2018 and thereafter	442
	<u>\$ 20,774</u>

The Hospital has been involved in leasing leased and owned houses and properties to Hospital employees. Expenses for the years ended September 30, 2012 and 2011 under these leases are included in supplies and other expenses. The amounts received from employees relating to these leases are included in other revenue.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Commitments and Contingencies (continued)

Litigation

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 or are deemed to be immaterial. While the outcomes of the lawsuits and claims cannot be determined at this time, management believes that any loss which may arise from these will not have a material adverse effect on the financial position or changes in net assets of the Hospital.

The Hospital has received requests for information from certain governmental agencies relating to, among other things, patient billings. These requests cover several prior years relating to compliance with certain laws and regulations. Management is cooperating with those governmental agencies in their information requests and ongoing investigations. The ultimate results of those investigations, including the impact on the Hospital, cannot be determined at this time.

11. Functional Expense

Functional expenses related to GHCS's operating activities for the years ended September 30, 2012 and 2011 are as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Health care services	\$ 174,512	\$ 173,067
General and administrative	153,424	141,850
	<u>\$ 327,936</u>	<u>\$ 314,917</u>

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Related-Party Transactions

The Hospital purchased certain services from YNHHSO for the years ended September 30, 2012 and 2011, as follows (in thousands):

	2012	2011
Operating expenses:		
Professional and general liability insurance	\$ 5,575	\$ 6,588
Information systems	6,979	814
Management services	3,793	4,652
Other support services	15,445	9,704
Physician related strategic support	12,579	7,427
EPIC shared project	7,076	1,094
Expense recoveries	(2,176)	(198)
	\$ 49,271	\$ 30,081

The Hospital has amounts due to YNHHSO of approximately \$12.5 million and \$4.4 million, included in accrued expenses and other current liabilities in the accompanying consolidated balance sheet, for the years ended September 30, 2012 and 2011, respectively.

13. Supplemental Operating Data

Other revenue consisted of the following at September 30, 2012 and 2011 (in thousands):

	2012	2011
Rental income	\$ 1,885	\$ 2,143
Dining room receipts	1,377	1,368
Purchase discounts and rebates	109	442
Pharmacy sales	—	83
Telecom services	197	195
Occupational medicine	278	425
Foundation distributed income	2,472	2,352
Electronic health record incentive payment	2,043	—
Net assets released from restrictions for operations	3,759	4,366
Miscellaneous	1,129	1,577
	\$ 13,249	\$ 12,951

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Supplemental Operating Data (continued)

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (“HITECH”). The provisions were designed to increase the use of electronic health record (“EHR”) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. Medicare EHR incentive payment revenue totaling \$2.0 million for the year ended September 30, 2012, is included in other revenue in the accompanying consolidated statement of operations. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital’s attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Supplemental Operating Data (continued)

Other non-operating gains and losses for the years ended September 30, 2012 and 2011 consisted of the following (in thousands):

	<u>2012</u>	<u>2011</u>
Income from Foundation operations, primarily investment income and net realized gains	\$ 665	\$ 415
Less Foundation income distributed to the Hospital included in other revenue	<u>(2,472)</u>	<u>(2,352)</u>
	<u>(1,807)</u>	<u>(1,937)</u>
Unrestricted contributions	1,880	4,117
Interest and investment income	235	752
Fundraising expenses	(1,925)	(1,879)
Community Health at Greenwich Hospital	(647)	(632)
Net assets released from restrictions used for non-operating activities, net	139	7
Other	2	(50)
	<u>\$ (2,123)</u>	<u>\$ 378</u>

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.

14. Fair Value Measurements

In determining fair value, the Hospital utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Hospital also considers nonperformance risk in the overall assessment of fair value.

In determining fair value, the Hospital utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Hospital also considers nonperformance risk in the overall assessment of fair value.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurements (continued)

ASC 820-10, *Fair Value Measurements*, establishes a three tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

- **Level 1:** Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.
- **Level 2:** Observable inputs that are based on data not quoted in active markets, but corroborated by market data.
- **Level 3:** Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

Financial assets and liabilities carried at fair value as of September 30, 2012, are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 37,343	\$ —	\$ —	\$ 37,343
Money market funds	39,481	—	—	39,481
U.S. equity securities	25,232	—	—	25,232
International equity securities	26,885	—	—	26,885
Fixed income				
U.S. government	7,346	—	—	7,346
Corporate debt	16,894	—	—	16,894
Mortgage Backed Securities	250	—	—	250
International government	659	561	—	1,220
Beneficial interest in remainder trusts	1,641	—	—	1,641
Investments at fair value	\$ 155,731	\$ 561	\$ —	\$ 156,292
Common collective trusts				10,314
Alternative investments				25,166
Investments not at fair value				35,480
Total investments as of September 30, 2012				\$ 191,772
Liabilities:				
Interest rate swaps	\$ —	\$ (6,417)	\$ -	\$ (6,417)

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

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurements (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
Cash and cash equivalents	\$ 35,827	\$ —	\$ —	\$ 35,827
Money market funds	35,623	—	—	35,623
U.S. equity securities	19,436	—	—	19,436
International equity securities	21,827	—	—	21,827
Fixed income				
U.S. government	12,608	—	—	12,608
Corporate debt	22,283	—	—	22,283
Mortgage Backed Securities	376	—	—	376
Beneficial in remainder trusts	1,621	—	—	1,621
Investments at fair value	\$ 149,601	\$ —	\$ —	149,601
Common collective trusts				6,499
Alternative investments				26,501
Investments not at fair value				33,000
Total investments as of September 30, 2011				\$ 182,601
Liabilities:				
Interest rate swaps	\$ —	\$ (5,943)	\$ —	\$ (5,943)

The fair value of long-term debt was approximately \$42.7 million and \$45.0 million at September 30, 2012 and 2011, respectively.

The amounts reported in the table as detailed above do not include assets invested in the Hospital's defined benefit pension plan. In addition, included in the table above are investments at September 30, 2012 and 2011 in common collective trusts totaling approximately \$10.3 million and \$6.5 million, respectively, other alternative investments totaling approximately \$25.2 million and \$26.5 million, respectively, that are accounted for under the equity method of accounting. The interest rate swaps listed above are classified in the accompanying balance sheets as other long-term liabilities at September 30, 2012 and 2011.

Greenwich Health Care Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Fair Value Measurements (continued)

The following is a summary of total investments as of September 30, 2012 with restrictions to redeem the investments at the measurement date, any unfunded capital commitments and investment strategies of the investees (in thousands):

<u>Description of Investment</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private equity	\$ 5,637	1,770	N/A	N/A
Hedge funds:				
Absolute return	3,203	N/A	N/A	N/A
Global equity	5,771	N/A	30 days	190 – 460 days
Total	<u>\$ 14,611</u>			

15. Subsequent Events

Management has evaluated subsequent events through December 21, 2012, which is the date the consolidated financial statements were available to be issued. No events have occurred that require disclosure or adjustment of the consolidated financial statements.

Supplementary Information

Report of Independent Auditors on Supplementary Information

Board of Trustees
Greenwich Health Care Services, Inc. and Subsidiaries

We have audited the consolidated financial statements of Greenwich Health Care Services, Inc. and Subsidiaries as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated December 21, 2012 which contained an unqualified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations and changes in unrestricted net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statement as a whole.

Ernst & Young LLP

December 21, 2012

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2012

(In Thousands)

	GHCS	Greenwich Hospital	The Greenwich Hospital Endowment Fund	Eliminations	Total Obligated Group	The Perryridge Corporation	Greenwich Health Services, Inc.	Greenwich Ambulatory Surgery Center, LLC	Eliminations	Consolidated
Assets										
Current assets:										
Cash and cash equivalents	\$ 214	\$ 35,083	\$ —	\$ —	\$ 35,297	\$ 1,025	\$ 526	\$ 495	\$ —	\$ 37,343
Short-term investments	—	10,243	—	—	10,243	—	—	—	—	10,243
Accounts receivable for services to patients, net	—	36,589	—	—	36,589	—	837	2,334	—	39,760
Other receivables	—	17,852	—	(11,408)	6,444	280	—	—	(2,342)	4,382
Professional liabilities insurance recoveries – current portion	—	2,173	—	—	2,173	—	—	—	—	2,173
Other current assets	—	8,662	—	—	8,662	162	—	161	—	8,985
Total current assets	214	110,602	—	(11,408)	99,408	1,467	1,363	2,990	(2,342)	102,886
Assets limited as to use	—	39,991	49,442	—	89,433	—	—	—	—	89,433
Beneficial interest in net assets of the Foundation	—	51,267	—	(51,267)	—	—	—	—	—	—
Long-term investments	1,072	39,879	13,233	—	54,184	—	—	—	(1,072)	53,112
Due from affiliate	—	2,101	—	—	2,101	—	—	—	(2,101)	—
Professional liabilities insurance recoveries receivable – non-current	—	8,751	—	—	8,751	—	—	—	—	8,751
Other assets	—	16,060	—	—	16,060	—	—	12	—	16,072
Property, plant and equipment:										
Land and land improvements	—	8,441	—	—	8,441	15,036	—	—	—	23,477
Buildings and fixtures	—	244,783	—	—	244,783	32,742	694	—	—	278,219
Equipment	—	157,608	—	—	157,608	1,304	2,119	160	—	161,191
	—	410,832	—	—	410,832	49,082	2,813	160	—	462,887
Less accumulated depreciation	—	(177,284)	—	—	(177,284)	(15,980)	(1,449)	(33)	—	(194,746)
	—	233,548	—	—	233,548	33,102	1,364	127	—	268,141
Construction in progress	—	1,339	—	—	1,339	15	—	—	—	1,354
	—	234,887	—	—	234,887	33,117	1,364	127	—	269,495
Total assets	\$ 1,286	\$ 503,538	\$ 62,675	\$ (62,675)	\$ 504,824	\$ 34,584	\$ 2,727	\$ 3,129	\$ (5,515)	\$ 539,749

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2012

(In Thousands)

	GHCS	Greenwich Hospital	The Greenwich Hospital Endowment Fund	Eliminations	Total Obligated Group	The Perryridge Corporation	Greenwich Health Services, Inc.	Greenwich Ambulatory Surgery Center, LLC	Eliminations	Consolidated
Liabilities and net assets										
Current liabilities:										
Accounts payable	\$ —	\$ 6,161	\$ —	\$ —	\$ 6,161	\$ 15	\$ 75	\$ 53	\$ —	\$ 6,304
Accrued expenses	7	22,858	—	—	22,865	284	460	151	(128)	23,632
Current portion of long term debt	—	2,430	—	—	2,430	—	—	—	—	2,430
Professional liabilities – current portion	—	2,173	—	—	2,173	—	—	—	—	2,173
Other current liabilities	472	19,016	11,408	(11,408)	19,488	1,600	2,068	102	(2,214)	21,044
Total current liabilities	479	52,638	11,408	(11,408)	53,117	1,899	2,603	306	(2,342)	55,583
Long-term debt, net of current portion	—	40,215	—	—	40,215	—	—	—	—	40,215
Accrued pension	—	54,164	—	—	54,164	—	—	—	—	54,164
Interest rate swap	—	6,417	—	—	6,417	—	—	—	—	6,417
Other long term liabilities	—	16,175	—	—	16,175	2,101	—	116	(2,101)	16,291
Professional liabilities	—	14,202	—	—	14,202	—	—	—	—	14,202
Total liabilities	479	183,811	11,408	(11,408)	184,290	4,000	2,603	422	(4,443)	186,872
Net assets:										
Unrestricted	807	267,939	38,014	(38,014)	268,746	30,584	124	947	(1,072)	299,329
Temporarily restricted	—	29,999	—	—	29,999	—	—	—	—	29,999
Permanently restricted	—	21,789	13,253	(13,253)	21,789	—	—	—	—	21,789
Total Greenwich Health Care Service net assets	807	319,727	51,267	(51,267)	320,534	30,584	124	947	(1,072)	351,117
Non-controlling interest in Orthopedic & Neurosurgery Center of Greenwich, LLC	—	—	—	—	—	—	—	1,760	—	1,760
Total net assets	807	319,727	51,267	(51,267)	320,534	30,584	124	2,707	(1,072)	352,877
Total liabilities and net assets	\$ 1,286	\$ 503,538	\$ 62,675	\$ (62,675)	\$ 504,824	\$ 34,584	\$ 2,727	\$ 3,129	\$ (5,515)	\$ 539,749

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

Year Ended September 30, 2012

(In Thousands)

	GHCS	Greenwich Hospital	The Greenwich Hospital Endowment Fund	Eliminations	Total Obligated Group	The Perryridge Corporation	Greenwich Health Services, Inc.	Greenwich Ambulatory Surgery Center, LLC	Eliminations	Consolidated
Operating revenue:										
Net patient service revenue	\$ -	\$ 304,346	\$ -	\$ -	\$ 304,346	\$ -	\$ 8,058	\$ 14,978	\$ -	\$ 327,382
Other revenue	-	20,142	2,472	(2,472)	20,142	4,013	374	-	(11,280)	13,249
Total operating revenue	-	324,488	2,472	(2,472)	324,488	4,013	8,432	14,978	(11,280)	340,631
Operating expenses:										
Salaries and benefits	-	153,225	-	-	153,225	-	1,547	10	(1,547)	153,235
Supplies and other	10,083	126,528	-	-	136,611	2,046	7,132	4,544	(9,733)	140,600
Depreciation	-	18,406	-	-	18,406	1,099	177	28	-	19,710
Interest	-	358	-	-	358	-	-	6	-	364
Bad debts	-	14,042	-	-	14,042	-	(142)	127	-	14,027
Total operating expenses	10,083	312,559	-	-	322,642	3,145	8,714	4,715	(11,280)	327,936
Income (loss) from operations	(10,083)	11,929	2,472	(2,472)	1,846	868	(282)	10,263	-	12,695
Non-operating gains (losses):										
Equity loss in affiliates	3,308	-	-	-	3,308	-	-	-	(3,308)	-
Income from Foundation operations	-	-	(1,806)	1,806	-	-	-	-	-	-
Change in unrealized loss on interest rate swap, including counterparty payments	-	(1,713)	-	-	(1,713)	-	-	-	-	(1,713)
Net realized and change in net unrealized gains and losses on investments	-	7,889	7,148	(7,148)	7,889	-	-	-	-	7,889
Other nonoperating gains and losses, net	-	(2,122)	-	-	(2,122)	1	(2)	-	-	(2,123)
	3,308	4,054	5,342	(5,342)	7,362	1	(2)	-	(3,308)	4,053

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Unrestricted Net Assets (continued)

Year Ended September 30, 2012

(In Thousands)

	GHCS	Greenwich Hospital	The Greenwich Hospital Endowment Fund	Eliminations	Total Obligated Group	The Perryridge Corporation	Greenwich Health Services, Inc.	Greenwich Ambulatory Surgery Center, LLC	Eliminations	Consolidated
Excess (deficiency) of revenue over expenses, before non-controlling interest	\$(6,775)	\$ 15,983	\$ 7,814	\$ (7,814)	\$ 9,208	\$ 869	\$ (284)	\$ 10,263	\$ (3,308)	\$ 16,748
Less: Income attributable to non-controlling interest	-	-	-	-	-	-	-	(6,671)	-	(6,671)
Excess (deficiency) of revenue over expenses	(6,775)	15,983	7,814	(7,814)	9,208	869	(284)	3,592	(3,308)	10,077
Transfers (to) from affiliates, net	6,615	(6,615)	(2,472)	2,472	-	-	-	-	-	-
Amortization on interest rate swap	-	(79)	-	-	(79)	-	-	-	-	(79)
Net assets released from restrictions used for plant assets	-	12	-	-	12	-	-	-	-	12
Transfer from YNHHS	-	700	-	-	700	-	-	-	-	700
Pension adjustment	-	(8,397)	-	-	(8,397)	-	-	-	-	(8,397)
Increase (decrease) in unrestricted net assets	\$ (160)	\$ 1,604	\$ 5,342	\$ (5,342)	\$ 1,444	\$ 869	\$ (284)	\$ 3,592	\$ (3,308)	\$ 2,313

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