

Lawrence & Memorial Hospital
Consolidated Financial Statements
September 30, 2009 and 2008

Lawrence & Memorial Hospital
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September 30, 2009 and 2008

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Report of Independent Auditors

To the Board of Trustees of
Lawrence & Memorial Hospital

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in net assets, and cash flows present fairly, in all material respects, the financial position of Lawrence & Memorial Hospital (a subsidiary of Lawrence & Memorial Corporation, the "Hospital") at September 30, 2009 and 2008, and the results of its operations, its changes in net assets, and of its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated 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 of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes 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.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information, on pages 22 through 27, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations. Accordingly, we do not express an opinion on the financial position, results of operations, and changes in net assets, of the individual organizations. However, the consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, based on our audits and the report of other auditors, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

As discussed in Note 1 to the accompanying financial statements, the Hospital changed the manner in which it accounts for the classification of its endowment funds in 2009.

PricewaterhouseCoopers LLP

January 8, 2010

Lawrence & Memorial Hospital
Consolidated Balance Sheets
September 30, 2009 and 2008

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 22,869,913	\$ 18,257,347
Investments	99,233,961	98,453,853
Patient accounts receivable, net of allowance for doubtful accounts of \$6,535,167 and \$7,785,400, respectively	28,570,370	34,818,517
Other receivables	5,995,236	3,934,572
Inventories	3,506,113	3,357,049
Due from affiliates	2,903,156	1,188,700
Prepaid expenses and other current assets	2,312,579	1,906,505
Debt service fund	1,295,094	1,294,037
Total current assets	166,686,422	163,210,580
Assets limited as to use		
Cash	177,710	210,229
Construction fund	6,170	6,127
Investments held in trust	12,678,851	12,999,368
Endowment investments	14,150,668	14,857,509
Funds held in trust by others	5,611,568	5,783,882
Contributions receivable	48,469	96,961
Funds held in escrow by agreement with State of Connecticut Health and Educational Facilities Authority and trustees	7,159,610	7,341,007
Total assets limited as to use	39,833,046	41,295,083
Deferred financing costs and other assets, net	2,779,069	2,989,857
Property, plant and equipment, net	106,053,228	100,727,595
	\$ 315,351,765	\$ 308,223,115
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 13,893,859	\$ 17,863,591
Accrued vacation and sick pay	10,641,451	10,165,897
Salaries, wages, payroll taxes and amounts withheld from employees	4,184,333	3,700,920
Due to affiliates	1,682,710	573,153
Due to third party payors	9,089,438	7,993,615
Current portion of long-term debt	2,640,000	2,515,000
Total current liabilities	42,131,791	42,812,176
Accrued pension and other postretirement benefits	43,029,547	20,629,212
Other liabilities	12,202,253	11,764,379
Long-term debt, less current portion	65,610,000	68,250,000
Total liabilities	162,973,591	143,455,767
Net assets		
Unrestricted as reclassified (Note 1)	129,621,224	141,290,161
Temporarily restricted as reclassified (Note 1)	17,211,837	17,868,963
Permanently restricted	5,545,113	5,608,224
Total net assets	152,378,174	164,767,348
	\$ 315,351,765	\$ 308,223,115

The accompanying notes are an integral part of these financial statements.

Lawrence & Memorial Hospital
Consolidated Statements of Operations
Year Ended September 30, 2009 and 2008

	2009	2008
Unrestricted revenues, gains and other support:		
Net revenues from services to patients	\$ 283,933,518	\$ 268,658,867
Other operating revenues	8,924,533	8,913,680
Net assets released from restriction	<u>460,320</u>	<u>422,147</u>
Total unrestricted revenues, gains and other support	293,318,371	277,994,694
Expenses:		
Salaries and wages	135,533,992	127,169,386
Employee benefits	35,728,800	32,787,266
Supplies	31,017,186	29,399,963
Purchased services	21,328,169	21,706,666
Bad debts	15,807,846	17,211,050
Other	29,002,754	27,468,045
Interest	2,570,991	3,359,213
Depreciation and amortization	<u>15,891,356</u>	<u>14,187,153</u>
Total expenses	<u>286,881,094</u>	<u>273,288,742</u>
Income from operations	6,437,277	4,705,952
Non-operating gains/(losses)		
Unrestricted investment income	266,039	322,958
(Loss)/income from investments	(691,170)	4,103,651
Realized losses on investments deemed other than temporarily impaired	<u>-</u>	<u>(2,751,358)</u>
Total non-operating (losses)/gains	<u>(425,131)</u>	<u>1,675,251</u>
Excess of revenues over expenses	<u>6,012,146</u>	<u>6,381,203</u>
Transfers from affiliated entity	-	9,127
Net unrealized gains/(losses) on investments	4,304,504	(16,993,099)
Net assets released from restriction used for purchase of property, plant and equipment	208,519	203,651
Pension - related changes other than periodic pension costs	(22,254,106)	(5,290,651)
Donated equipment	<u>60,000</u>	<u>1,214,894</u>
Decrease in unrestricted net assets	<u>\$ (11,668,937)</u>	<u>\$ (14,474,875)</u>

The accompanying notes are an integral part of these financial statements.

Lawrence & Memorial Hospital
Consolidated Statements of Changes in Net Assets
Year Ended September 30, 2009 and 2008

	2009	2008
Unrestricted net assets		
Excess of revenues over expenses	\$ 6,012,146	\$ 6,381,203
Transfers from affiliated entity	-	9,127
Net unrealized gains/(losses) on investments	4,304,504	(16,993,099)
Net assets released from restrictions used for purchase of property and equipment	208,519	203,651
Pension - related changes other than periodic pension costs	(22,254,106)	(5,290,651)
Donated equipment	60,000	1,214,894
Decrease in unrestricted net assets	<u>(11,668,937)</u>	<u>(14,474,875)</u>
Beginning of year unrestricted net assets	141,290,161	169,267,768
Cumulative effect of change in accounting principle (Note 1)	-	(13,502,732)
Beginning of year unrestricted net assets, as reclassified	<u>141,290,161</u>	<u>155,765,036</u>
End of year unrestricted net assets, as reclassified	<u>\$ 129,621,224</u>	<u>\$ 141,290,161</u>
Temporarily restricted net assets		
Income from investments	\$ 445,602	\$ 427,612
Net assets released from restrictions	(668,839)	(625,798)
Contributions received	254,173	273,596
Change in value of irrevocable trust	(108,819)	(860,363)
Net realized and unrealized losses on investments	(579,243)	(3,708,241)
Decrease in temporarily restricted net assets	<u>(657,126)</u>	<u>(4,493,194)</u>
Beginning of year temporarily restricted net assets	17,868,963	8,859,425
Cumulative effect of change in accounting principle (Note 1)	-	13,502,732
Beginning of year temporarily restricted net assets, as reclassified	<u>17,868,963</u>	<u>22,362,157</u>
End of year temporarily restricted net assets, as reclassified	<u>\$ 17,211,837</u>	<u>\$ 17,868,963</u>
Permanently restricted net assets		
Change in value of funds held in trust by others	\$ (63,111)	\$ (611,219)
Decrease in permanently restricted net assets	(63,111)	(611,219)
Beginning of year permanently restricted net assets	<u>5,608,224</u>	<u>6,219,443</u>
End of year permanently restricted net assets	<u>\$ 5,545,113</u>	<u>\$ 5,608,224</u>
Decrease in net assets	<u>\$ (12,389,174)</u>	<u>\$ (19,579,288)</u>

The accompanying notes are an integral part of these financial statements.

Lawrence & Memorial Hospital
Consolidated Statements of Cash Flows
Year Ended September 30, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Change in net assets	\$ (12,389,174)	\$ (19,579,288)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	15,891,356	14,187,153
Receipt of contributed securities	(125,724)	(1,487,646)
Net unrealized and realized (gain)/loss on investments	(5,010,566)	21,094,773
Realized loss on other than temporarily impaired investments	-	2,751,358
Provision for bad debts	15,807,846	17,211,050
Decrease in funds held in trust by others	172,314	1,463,327
Decrease in contributions receivable	48,492	55,764
Changes in other operating accounts		
Patient accounts receivable, net	(9,559,699)	(12,261,136)
Other receivables, net	(2,060,664)	575,580
Inventories	(149,064)	(210,013)
Prepaid expenses and other current assets	(406,074)	(506,405)
Deferred financing costs and other assets	210,788	210,788
Accounts payable	(2,183,593)	5,658,820
Accrued vacation and sick pay	475,554	717,647
Salaries, wages, payroll taxes and amounts withheld from employees	483,413	(18,782)
Due to affiliates	1,109,557	(305,886)
Due from affiliates	(1,714,456)	(1,188,700)
Due to third party payors	1,095,823	3,317,903
Pension, postretirement and other liabilities	22,838,209	4,890,451
Net cash provided by operating activities	<u>24,534,338</u>	<u>36,576,758</u>
Cash flows from investing activities		
Purchase of property, plant and equipment, net	(22,934,730)	(22,546,018)
Purchase of investments	(45,924,191)	(132,456,851)
Sales of investments	51,214,482	123,418,676
(Increase)/decrease in debt service fund	(1,057)	14,523
Decrease in funds held in escrow	181,397	88,239
Net cash used in investing activities	<u>(17,338,375)</u>	<u>(31,481,431)</u>
Cash flows from financing activities		
Contributions restricted for purchase of equipment	(68,397)	(1,332,324)
Principal payments of long term debt	(2,515,000)	(2,400,000)
Net cash used in financing activities	<u>(2,583,397)</u>	<u>(3,732,324)</u>
Net increase in cash and cash equivalents	4,612,566	1,363,003
Cash and cash equivalents		
Beginning of year	18,257,347	16,894,344
End of year	<u>\$ 22,869,913</u>	<u>\$ 18,257,347</u>
Supplemental disclosure of non cash activities		
Construction in process included in accounts payable	<u>\$ 1,317,209</u>	<u>\$ 3,103,348</u>
Asset retirement obligation	<u>\$ 604,532</u>	<u>\$ 576,542</u>
Contributed securities	<u>\$ 125,724</u>	<u>\$ 1,487,646</u>

The accompanying notes are an integral part of these financial statements.

Lawrence & Memorial Hospital

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

1. Significant Accounting Policies and Organization

Organization

Lawrence & Memorial Hospital (the "Hospital"), a nonprofit organization incorporated under the General Statutes of the State of Connecticut, is a wholly-owned subsidiary of Lawrence & Memorial Corporation (the "Corporation"). The Board of the Corporation elects a Board of Directors who manages the property and affairs of the Hospital.

Principles of Consolidation

The consolidated financial statements include the accounts of the Hospital and its wholly owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation.

Consolidation of Associated Specialists

Effective January 1, 2008, Associated Specialists of Southeastern Connecticut, Inc. ("Associated Specialists") was established. On April 1, 2008, Associated Specialists began billing under their own provider number. This is a wholly owned subsidiary of the Hospital. Associated Specialists is consolidated using financial statement balances at September 30, 2008 and activity for the period from January 1, 2008 to September 30, 2008 for fiscal year 2008. Financial statement balances at September 30, 2009 and activity for the period from October 1, 2009 to September 30, 2009 were used for fiscal year 2009.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from those estimates and there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital's significant estimates include the collectibility of patient accounts receivable, estimated settlements due to third party payors, estimated reserves for self-insurance liabilities, and benefit plan assumptions.

Regulatory Matters

The Hospital is required to file annual operating information with the State of Connecticut Office of Health Care Access ("OHCA").

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 frame or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity or in funds held in trust by others whose purpose is for the funds to be maintained in perpetuity.

Donor Restricted Gifts

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

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The Hospital adopted net asset classification guidance which was effective for the Hospital as of October 1, 2007. The guidance was issued to provide clarification on the net asset classifications on donor restricted endowment funds and improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations subject to the guidance. Upon initial adoption, the Hospital recognized a reclassification in the amount of \$13,502,732 from unrestricted net assets to temporarily restricted net assets which reflects the portion of unrestricted net assets that had not been appropriated for spending as of October 1, 2007 and are therefore considered subject to time restrictions.

From October 1, 2007 to September 30, 2008, the investment activity in the accompanying statements of operations, net unrealized gains/(losses) on investments was reclassified in the amount of \$3,176,000 to reflect the time restriction on true endowment activity.

Cash and Cash Equivalents

The Hospital considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents.

Investments

Investments in equity and debt securities are recorded at fair value in the balance sheet. Fair value is generally determined based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in the change in net assets. Under accounting principles generally accepted in the United States of America, an "other than temporary impairment" is recognized if it is not expected that the fair value of a security will recover above cost or amortized cost within a reasonable time frame. Once an "other than temporary impairment" charge has been recorded, a new cost basis is established.

The Hospital continues to review its securities for appropriate valuation on an ongoing basis. The Hospital determined that a portion of their investments was impaired as of September 30, 2008. The Statement of Operations reflects an other than temporary impairment of \$2,751,358 during fiscal year 2008. The Hospital did not identify any significant impairments in fiscal year 2009.

Realized and unrealized gains and losses on donor restricted endowment funds are included in temporarily restricted net assets under State law which allows the Board to appropriate as much of the net appreciation of investments as is prudent considering the Hospital's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions.

Investments in limited liability companies are accounted for using the equity method in instances where the limited partner's interest is more than minor (3-5%).

Fair Value Measurements

Effective October 1, 2008, the Hospital adopted fair value guidance. The guidance defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value guidance provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information used to determine fair value.

Lawrence & Memorial Hospital

Notes to Consolidated Financial Statements

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Assets Held in Trust by Others

The Hospital has been named sole or participating beneficiary in several perpetual and charitable remainder trusts. Under the terms of these trusts, the Hospital has the irrevocable right to receive the income earned on the trust assets in perpetuity from the perpetual trusts and to receive the remainder of the trust assets for the charitable remainder trusts. For perpetual trusts, the estimated present value of the future payments to the Hospital is recorded at the fair value of the assets held in the trust. The charitable remainder trusts are recorded at the present value of the estimated future distributions expected to be received over the expected term of the trust agreement. The Hospital uses appropriate credit adjusted rates.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors to fund the deductible portion of malpractice insurance coverage (maintained in an irrevocable trust) and for the established purpose of providing for future improvement, expansion and replacement of plant and equipment. In addition, funds held in trust by others, unexpended bond proceeds for construction purposes, and assets held by trustees under indenture agreements relating to financing activities with the State of Connecticut Health and Education Facilities Authority ("CHEFA") are also included therein.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, or, if received as a donation, at the fair value on the date received. The Hospital provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to amortize the cost of its assets over their useful lives. American Hospital Association lives are generally used and provide for a 2-25 year life for land improvements, 5-50 year life for buildings and 2-25 year life for equipment. Lease improvements are amortized over the life of the lease.

Non-Operating Gains and Losses

Activities other than in connection with providing health care services are considered to be non-operating.

Excess of Revenues over Expenses

The consolidated statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from the excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and pension-related charges other than periodic pension costs and other postretirement benefits liabilities.

Fair Value of Financial Instruments

Investments and other assets and liabilities are carried at amounts that approximate fair value based on current market conditions. The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues or on current rates offered to the Hospital for debt of the same remaining maturities.

Benefit Plans

The Hospital has a defined benefit plan and a defined contribution plan (See Note 8).

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Medical Malpractice Self-Insurance

The Hospital purchases occurrence-based professional and general liability insurance to cover medical malpractice claims. The Hospital has adopted the policy of self-insuring the deductible portion of its malpractice insurance coverage up to certain per claim and aggregate limits. The Hospital has established an irrevocable trust for the purpose of setting aside assets which can only be used for the payment of malpractice losses, related expenses, and the cost of administering the trust. Management accrues its best estimate of losses as incidents which give rise to potential losses occur.

Income Taxes

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

Inventories

Inventory consists of supplies, both medical and general pharmaceuticals and food products needed to sustain daily operation of patient care. Inventories are carried at the lower of cost or market under the first-in-first-out (FIFO) method.

Impairment of Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to dispose.

Accrued Vacation and Sick Pay

Accrued vacation is recorded as a liability as time is earned. As the time is used, the time is relieved from the liability. Accrued sick time is recorded as a percent for employees who have a balance greater than or equal to 800 hours. This payout is only upon termination of employment.

Subsequent Events

The Hospital has performed an evaluation of subsequent events through December 18, 2009, which is the date the financial statements were available to be issued.

2. Revenues from Services to Patients and Charity Care

The following summarizes net revenues from services to patients:

	2009	2008
Gross charges from services to patients	\$ 592,625,075	\$ 510,158,157
Less: charity care	4,820,444	4,316,427
Charges from services to patients, net of charity care	<u>587,804,631</u>	<u>505,841,730</u>
Deductions		
Allowances	305,921,290	239,370,680
State of Connecticut uncompensated care system	<u>(2,050,177)</u>	<u>(2,187,817)</u>
Total deductions	<u>303,871,113</u>	<u>237,182,863</u>
Net revenues from services to patients	<u>\$ 283,933,518</u>	<u>\$ 268,658,867</u>

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Notes to Consolidated Financial Statements

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Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from most payors are different from established billing rates of the Hospital, and these differences are accounted for as allowances. The Hospital receives cash from the State of Connecticut Uncompensated Care Pool. The Hospital records this as an increase to their net revenues from services to patients.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments related to prior year settlements increased the Hospital's revenues by approximately \$385,000 and \$2,300,000 in 2009 and 2008, respectively.

During 2009 and 2008, approximately 31% and 32%, respectively, of net patient service revenue was received under the Medicare program, and 8% and 5%, respectively, under the state Medicaid program. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and reductions of funding levels could have an adverse impact on the Hospital.

The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized federal poverty income guidelines, but also includes certain cases where incurred charges are significant when compared to income. These charges are not included in net patient service revenues for financial reporting purposes.

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3. Investments

Investments at September 30 consist of:

	2009	2008
Pooled endowment funds		
Cash and cash equivalents	\$ 33,303	\$ 144,725
Bonds	2,942,940	4,398,551
Hedge funds	2,540,801	-
Marketable equities	8,633,624	10,314,233
Total pooled endowment funds	<u>14,150,668</u>	<u>14,857,509</u>
Investments held in trust by others		
Cash and cash equivalents	195,198	237,391
Bonds	1,811,440	1,917,632
Marketable equities	3,453,623	3,446,019
Other investments	151,305	182,840
Total investments held in trust by others	<u>5,611,566</u>	<u>5,783,882</u>
Other investments		
Cash and cash equivalents	5,971,472	7,415,011
Bonds	32,561,346	39,586,359
Hedge funds	17,226,555	-
Marketable equities	43,462,694	51,408,191
Health Connecticut LLC	-	44,292
Connecticut Hospital Laboratory Network	11,894	-
Total other investments	<u>99,233,961</u>	<u>98,453,853</u>
	<u>\$ 118,996,195</u>	<u>\$ 119,095,244</u>

Fair value guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Hospital for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 – Quoted prices in active markets for identical assets.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets in active markets, quoted prices in markets that are not active, or can be corroborated by observable market data for substantially the same term of the assets.

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- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

The Hospital's financial instrument categorization is based upon the lowest level of input that is significant to the fair value measurement within the valuation hierarchy. The following table presents the financial instruments carried at fair value using the valuation hierarchy defined above:

	2009			Total Fair Value	2008
	Level 1	Level 2	Level 3		Total Fair Value
Pooled endowment funds					
Cash and cash equivalents	\$ 33,303	\$ -	\$ -	\$ 33,303	\$ 144,725
Bonds	2,942,940	-	-	2,942,940	4,398,551
Hedge funds	-	-	2,540,801	2,540,801	-
Marketable equities	8,633,624	-	-	8,633,624	10,314,233
Total pooled endowment funds	<u>11,609,867</u>	<u>-</u>	<u>2,540,801</u>	<u>14,150,668</u>	<u>14,857,509</u>
Held in trust by others					
Cash and cash equivalents	-	-	195,198	195,198	237,391
Bonds	-	-	1,811,440	1,811,440	1,917,632
Hedge funds	-	-	151,305	151,305	182,840
Marketable equities	-	-	3,453,623	3,453,623	3,446,019
Total held in trust by others	<u>-</u>	<u>-</u>	<u>5,611,566</u>	<u>5,611,566</u>	<u>5,783,882</u>
Other investments					
Cash and cash equivalents	5,971,472	-	-	5,971,472	7,415,011
Bonds	32,561,346	-	-	32,561,346	39,586,359
Hedge funds	-	-	17,226,555	17,226,555	-
Marketable equities	43,462,694	-	-	43,462,694	51,408,191
Health Connecticut LLC	-	-	-	-	44,292
Connecticut Hospital Laboratory Network	-	-	11,894	11,894	-
Total other investments	<u>81,995,512</u>	<u>-</u>	<u>17,238,449</u>	<u>99,233,961</u>	<u>98,453,853</u>
	<u>\$ 93,605,379</u>	<u>\$ -</u>	<u>\$ 25,390,816</u>	<u>\$ 118,996,195</u>	<u>\$ 119,095,244</u>

Fair value for Level 1 is based upon quoted prices in active markets that the Hospital has the ability to access at the measurement date. Market price data is generally obtained from exchange or dealer markets. The Hospital does not adjust the quoted price for such assets.

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.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all and reflect assumptions based on the best information available in the circumstances.

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Investments included in Level 3 primarily consist of the Hospital's ownership in alternative investments (principally limited partnership interests in hedge funds). The value of these alternative investments represents the ownership interest in the net asset value ("NAV") of the respective partnership. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Also included in Level 3 investments are charitable remainder trusts held by third parties which are recorded at the present value of the future distributions expected to be received over the term of the agreement.

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

The following table is a roll forward of the amounts by investment type for financial instruments classified by the Hospital within Level 3 of the fair value hierarchy defined above:

	Beginning October 1, 2008	Investment Income	Realized Losses	Unrealized Gains/ (Losses)	Investment Fees	Net Transfers	Ending September 30, 2009
Investment pool							
Hedge funds	\$ -	\$ 98,508	\$ (57,951)	\$ 2,370,124	\$ (25,813)	\$ 17,394,381	\$ 19,779,249
Funds held in trust	5,783,882	-	-	(172,315)	-	-	5,611,567
Total	<u>\$ 5,783,882</u>	<u>\$ 98,508</u>	<u>\$ (57,951)</u>	<u>\$ 2,197,809</u>	<u>\$ (25,813)</u>	<u>\$ 17,394,381</u>	<u>\$ 25,390,816</u>

A summary of the pooled endowment investment return is presented below:

	2009	2008
Investment income	\$ 424,804	\$ 469,149
Realized and unrealized losses	(579,258)	(3,708,251)
Management fees and other costs	(13,096)	(31,378)
Total return on pooled endowment investments	<u>\$ (167,550)</u>	<u>\$ (3,270,480)</u>

Lawrence & Memorial Hospital
Notes to Consolidated Financial Statements
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4. Endowments

The Hospital's endowments consist of donor restricted endowment funds for a variety of purposes. The net assets associated with endowment funds including funds designated by the Board of Directors to function as endowments are classified and reported based on the existence or absence of donor imposed restrictions.

The Hospital understands net asset classification guidance requires that donor restricted endowment gifts be maintained in perpetuity. Consistent with net asset classification guidance, the Hospital classified 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 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 amounts are appropriated for expenditure. The Hospital considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the Hospital and donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Hospital
- The investment policies of the Hospital

The Hospital had the following endowment activities during the years ended September 30, 2009 and 2008 delineated by net asset class and donor-restricted funds:

Endowment net asset composition by type of fund as of September 30:

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 14,398,301	\$ 2,839,683	\$ 17,237,984
	<u>\$ -</u>	<u>\$ 14,398,301</u>	<u>\$ 2,839,683</u>	<u>\$ 17,237,984</u>

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 15,097,077	\$ 2,839,683	\$ 17,936,760
	<u>\$ -</u>	<u>\$ 15,097,077</u>	<u>\$ 2,839,683</u>	<u>\$ 17,936,760</u>

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Changes in endowment net assets for year ended September 30:

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ 15,097,077	\$ 2,839,683	\$ 17,936,760
Investment return				
Investment income	-	80,589	-	80,589
Net realized and unrealized loss	-	(579,243)	-	(579,243)
Total investment return	-	(498,654)	-	(498,654)
Income distribution	-	(200,122)	-	(200,122)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 14,398,301</u>	<u>\$ 2,839,683</u>	<u>\$ 17,237,984</u>

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 13,502,732	\$ 2,138,881	\$ 2,839,683	\$ 18,481,296
Cumulative effect of change in accounting principle (Note 1)	(13,502,732)	13,502,732	-	-
Endowment net assets, beginning of year, as reclassified	-	15,641,613	2,839,683	18,481,296
Investment return				
Investment income	-	73,926	-	73,926
Net realized and unrealized loss	-	(532,241)	-	(532,241)
Total investment return	-	(458,315)	-	(458,315)
Income distribution	-	(86,221)	-	(86,221)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 15,097,077</u>	<u>\$ 2,839,683</u>	<u>\$ 17,936,760</u>

The portion of perpetual endowment funds retained permanently either by explicit donor stipulation or by net asset classification guidance is summarized as follows:

	2009	2008
Permanently restricted net assets		
Corpus of permanently restricted contributions for purchase of equipment and healthcare services	<u>\$ 2,839,683</u>	<u>\$ 2,839,683</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 2,839,683</u>	<u>\$ 2,839,683</u>
Temporarily restricted net assets		
Unspent income and appreciation on permanently restricted endowments for purchase of equipment and healthcare services	<u>\$ 11,222,301</u>	<u>\$ 11,921,077</u>
Total endowment funds classified as Temporarily restricted net assets	<u>\$ 11,222,301</u>	<u>\$ 11,921,077</u>

Lawrence & Memorial Hospital
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Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist they are classified as a reduction of unrestricted net assets. The Hospital analyzed the endowments and notes there are no deficits as of September 30, 2009 and 2008.

Endowment Investment Return Objectives and Risk Parameters

The Hospital has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the permanent nature of endowment funds. Under this policy, the return objective for the endowment assets measured over a full market cycle shall be to maximize the return against a blended index, based on the endowment's target asset allocation applied to the appropriate individual benchmarks.

Strategies Employed for Achieving Endowment Investment Objectives

To achieve 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 gains) and current yield (interest and dividends). The Hospital targets a diversified asset allocation to achieve its long-term objectives within prudent Hospital risk constraints.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

Spending is guided by several factors most important is the value of the portfolio. Generally, the Board will approve a spending policy limiting annual expenditures for grants and operating expenses up to 4.5% of the value of the Funds' assets based on a 12 quarter rolling average for the endowment, Kitchings and operating funds. The Hospital will designate the spending amount on an as-needed basis for the special account.

Investment managers are given ample notice of the required withdrawal schedule. Appropriate liquidity is maintained to fund these withdrawals without impairing the investment process.

5. Temporarily and Permanently Restricted Net Assets

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

	2009	2008 (as reclassified)
Funds held in trust by others	\$ 2,924,192	\$ 2,984,519
Contributions receivable	48,469	96,961
Free beds and plant replacement and expansion	11,222,301	11,921,077
Specific purpose reserves	<u>3,016,875</u>	<u>2,866,406</u>
	<u>\$ 17,211,837</u>	<u>\$ 17,868,963</u>

Lawrence & Memorial Hospital
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Permanently restricted net assets at September 30, are restricted to:

	2009	2008
Funds held in trust by others	\$ 2,705,430	\$ 2,768,541
Donor restricted endowment funds	2,839,683	2,839,683
	<u>\$ 5,545,113</u>	<u>\$ 5,608,224</u>

6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	2009	2008
Land and land improvements	\$ 5,128,782	\$ 5,128,782
Buildings	105,218,566	99,620,031
Equipment	170,465,895	154,156,033
	<u>280,813,243</u>	<u>258,904,846</u>
Less: Accumulated depreciation	(180,112,431)	(165,554,431)
	100,700,812	93,350,415
Construction in progress (estimated cost to complete at September 30, 2009 is \$6,280,990)	5,352,416	7,377,180
	<u>\$ 106,053,228</u>	<u>\$ 100,727,595</u>

7. Long-Term Debt

	2009	2008
CHEFA Series D revenue bonds		
5.0% Term bonds due, 2009 to 2013	\$ 11,390,000	\$ 13,905,000
5.0% Term bonds due, 2014 to 2022	33,870,000	33,870,000
CHEFA Series E revenue bonds		
Variable rate bonds, due 2023 to 2034	22,990,000	22,990,000
	<u>68,250,000</u>	<u>70,765,000</u>
Less: Amounts classified as current	2,640,000	2,515,000
Long term portion of long term debt	<u>\$ 65,610,000</u>	<u>\$ 68,250,000</u>

On June 24, 2004 CHEFA issued \$22,990,000 of Series E Bonds (the "Series E Bonds") on behalf of the Hospital and Lawrence & Memorial Corporation (collectively referred to as the "Obligated Group" under the Series E Bond agreement). The Series E Bonds are structured with a term bond due July 1, 2034, with annual sinking fund payments due each July 1st commencing July 1, 2023. Interest on the Series E Bonds accrues at the weekly rate and is payable on the first business day of each month commencing July 1, 2004.

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September 30, 2009 and 2008

The proceeds of the Series E Bonds are being used to finance the acquisition, construction, capital improvements, renovation, and/or equipping of the expansion of the Hospital's Pequot Health Center, including a new 37,000 square foot building addition to house an ambulatory surgery unit, MRI series, and mobile medical technologies. The proceeds are also being used to fund the debt service reserve fund and costs related to the issuance and interest related to the Series E Bonds. Under the terms of the trust indenture for the Series E Bonds, the Obligated Group is required to meet certain financial covenants including a debt service coverage ratio and days cash on hand ratio. Members of the Obligated Group are jointly and severally obligated to provide amounts sufficient to enable the Authority to pay principal and interest on the Series E Bonds. The Bonds and bond proceeds have been allocated to the Hospital and as such, the Hospital will make future debt service payments as required under the terms of the bonds.

The bonds may be retired at an earlier date pursuant to terms of the master indenture. Payment of the bonds is collateralized by a pledge of the gross receipts, as defined, and certain real property of the Hospital.

Effective January 16, 2008, the Hospital refinanced its CHEFA Series E bonds with JPMorgan Chase Bank, N.A. This reoffering does not update information contained in the original official statement but provides a new letter of credit, which expires in January 2013.

The Series E Bonds are considered variable rate demand bonds and are remarketed on a weekly basis. If the bonds are unable to be remarketed, the letter of credit could be utilized to purchase the bonds. The Obligated Group would then be subject to the payment terms of the letter of credit, which are equal quarterly installments beginning in the first quarter that is at least 367 days after the initial draw down on the letter of credit. The Series E Bonds have been successfully remarketed and there have been no draws on the letter of credit.

In accordance with the long-term loan agreement with CHEFA, certain trusteed funds are required to be maintained. These funds provide for debt service and other related payments. The income derived from these funds is required to be reinvested in the trusteed funds and is not available for current operating purposes.

The agreements will remain in force until principal and interest on the bonds and any other costs of the Authority with respect to the project have been fully paid or provided for. Annual payments due under the loan agreements include interest on the outstanding bonds.

The fair value of the Series E Bonds, using discounted cash flow analyses approximates carrying value at September 30, 2009 and 2008. The fair value of the Series D Bonds is approximately \$45.4 million and \$43.5 million as of September 30, 2009 and 2008, respectively.

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Notes to Consolidated Financial Statements
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Principal repayments are as follows:

Year	Annual Principal Repayment
2010	\$ 2,640,000
2011	2,775,000
2012	2,915,000
2013	3,060,000
Thereafter	<u>56,860,000</u>
	<u>\$ 68,250,000</u>

The Hospital made cash interest payments of \$2,500,964 and \$3,359,213 in fiscal year 2009 and 2008, respectively. No interest was capitalized during 2009 or 2008.

8. Pension and Other Postretirement Benefits

The Hospital has a defined benefit plan covering all employees who elected to stay in the plan. The plan is frozen to new participants as of June 30, 1999. The benefits are based on years of service and the employee's compensation during the last five years of employment. Assets of the plan include mutual funds, marketable equity securities, corporate and government bonds, notes and hedge funds. The investments have been selected to generate a return on the investments and protect the principal.

The Hospital provides health care and life insurance benefits to its retired employees who meet certain eligibility requirements. The Hospital's policy is to fund the cost of postretirement benefits other than pension as incurred. This plan was frozen to include only those employees who retired prior to May 1, 1994.

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Notes to Consolidated Financial Statements
September 30, 2009 and 2008

The following table sets forth the plan's funded status and amounts recognized in the statement of financial position at September 30, 2009 and 2008 (measurement date of September 30):

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 92,839,307	\$ 102,691,106	\$ 1,305,378	\$ 1,594,902
Service cost	1,456,782	2,088,945	-	-
Interest cost	6,784,733	6,328,208	85,675	87,570
Employee contributions	184,560	196,482	-	-
Benefits paid	(4,825,526)	(4,342,286)	(141,246)	(149,919)
Actuarial loss/(gain)	20,890,290	(14,123,148)	40,771	(227,175)
Benefit obligation at end of year	<u>\$ 117,330,146</u>	<u>\$ 92,839,307</u>	<u>\$ 1,290,578</u>	<u>\$ 1,305,378</u>
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 74,130,658	\$ 88,881,587	\$ -	\$ -
Actual return on plan assets	4,690,576	(12,105,125)	-	-
Employee contributions	184,560	196,482	-	-
Employer contributions	2,164,304	1,500,000	141,246	149,919
Benefits paid	(4,825,526)	(4,342,286)	(141,246)	(149,919)
Fair value of plan assets at end of year	<u>\$ 76,344,572</u>	<u>\$ 74,130,658</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status of the plan	(40,985,574)	(18,708,649)	(1,290,578)	(1,305,378)
Unrecognized net loss (gain) from past experience different from that assumed and effects of changes in assumptions	29,882,430	7,503,368	(639,914)	(763,507)
Unrecognized prior service cost	<u>721,505</u>	<u>846,461</u>	<u>-</u>	<u>-</u>
Accrued benefit costs recognized in the statement of financial position	<u>\$ (10,381,639)</u>	<u>\$ 8,349,829</u>	<u>\$ (1,930,492)</u>	<u>\$ (763,507)</u>
Components of net periodic benefit costs				
Service cost	\$ 1,456,782	\$ 2,088,945	\$ -	\$ -
Interest cost	6,784,733	6,328,208	85,675	87,570
Expected return on plan assets	(6,179,348)	(7,449,086)	-	-
Gain	-	-	(82,822)	(63,014)
Net amortization and deferral	<u>124,956</u>	<u>(336,668)</u>	<u>-</u>	<u>163,000</u>
Benefit cost	<u>\$ 2,187,123</u>	<u>\$ 631,399</u>	<u>\$ 2,853</u>	<u>\$ 187,556</u>

The weighted average assumptions used to determine the net benefit cost at the beginning of the year are as follows:

	2009	2008
Discount rate	7.50%	6.29%
Average rate of compensation increases	4.25%	4.25%
Expected return on assets	8.50%	8.50%

Lawrence & Memorial Hospital
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The weighted average assumptions used to determine the benefit obligation at the end of the year are as follows:

	2009	2008
Discount rate	5.80%	7.50%
Average rate of compensation increases	4.25%	4.25%

The Plan's asset allocations as of September 30, 2009 and 2008 are as follows:

Asset Category	2009	2008
Equity securities	50%	47%
Debt securities	33%	52%
Other	17%	1%
Total	<u>100%</u>	<u>100%</u>

The expected rate of return on assets is calculated based on past experience.

Expected benefits to be paid under the plans are as follows:

Fiscal Years Beginning October 1	Expected Benefits
2009	\$ 5,461,268
2010	5,732,572
2011	6,270,622
2012	6,573,598
2013	6,987,610
Expected Aggregate for 5 fiscal years beginning 2014	40,008,411

Annual contributions are determined by the Hospital based upon calculations prepared by the plan's actuary. Expected contributions to the Pension and Retiree Health Plan for 2010 are approximately:

Pension	\$ 2,000,000
Retiree Health	131,755

The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) for participants is assumed to be 9.0% in 2010 reducing to 5.0% by the year 2016 and remaining at that level thereafter. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the accumulated post-retirement benefit obligation and service cost plus interest cost by approximately \$98,000 and \$87,000, respectively, at September 30, 2009 and 2008. A one percentage point decrease in the assumed health care cost trend rate would decrease the accumulated postretirement benefit obligation and service cost plus interest cost by approximately \$76,000 and \$69,000, respectively, at September 30, 2009 and 2008.

Lawrence & Memorial Hospital

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

The Hospital's 401(k) plan covers eligible employees who elect to participate in the plan. Eligible employees may contribute a percentage of their salary to the plan. The Hospital matches 100% of the first 4% of gross pay deferred by employees for those employees who do not participate in the defined benefit plan. Plan contributions charged to operations were approximately \$2,131,755 and \$2,253,036 for 2009 and 2008, respectively.

9. Medical Malpractice Self-Insurance

There have been malpractice claims that fall within the Hospital's self-insured program which have been asserted against the Hospital. In addition, there are known incidents that have occurred through September 30, 2009 that may result in the assertion of claims. The Hospital has engaged independent actuaries to estimate the ultimate cost of the settlement of such claims. Accrued malpractice losses have been discounted at 5.0% for 2009 and 2008. The Hospital maintains a trust to fund these liabilities on a long-term basis.

10. Functional Expenses

The Hospital provides general health care services to residents within its geographic location including pediatric care, cardiac catheterization, and outpatient surgery. Expenses by function are as follows:

	2009	2008
Health care services	\$ 223,767,253	\$ 215,898,106
General and administrative	<u>63,113,841</u>	<u>57,390,636</u>
	<u>\$ 286,881,094</u>	<u>\$ 273,288,742</u>

11. Contingency

The Hospital is a party to various lawsuits incidental to its business. Management believes that the lawsuits will not have a material adverse effect on the Hospital's financial position, results of operations, changes in net assets or cash flows.

Lawrence & Memorial Hospital
Consolidating Balance Sheet
September 30, 2009

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Assets				
Current assets				
Cash	\$ 17,038,903	\$ 5,831,010	\$ -	\$ 22,869,913
Investments	99,233,961	-	-	99,233,961
Accounts receivable	27,664,974	905,396	-	28,570,370
Other receivables	5,800,680	194,556	-	5,995,236
Inventories	3,506,113	-	-	3,506,113
Due from affiliates	20,140,708	-	(17,237,552)	2,903,156
Prepaid expenses	2,312,579	-	-	2,312,579
Debt service fund	1,295,094	-	-	1,295,094
Total current assets	176,993,012	6,930,962	(17,237,552)	166,686,422
Assets limited as to use				
Cash	177,710	-	-	177,710
Construction funds	6,170	-	-	6,170
Investments held in trust	12,678,851	-	-	12,678,851
Endowment investments	14,150,668	-	-	14,150,668
Contributions receivable	5,611,568	-	-	5,611,568
Funds held in escrow	48,469	-	-	48,469
Debt Service fund	7,159,610	-	-	7,159,610
Total assets limited as to use	39,833,046	-	-	39,833,046
Other assets				
Deferred financing costs	2,779,069	-	-	2,779,069
Property, plant and equipment	106,053,228	-	-	106,053,228
Total assets	\$ 325,658,355	\$ 6,930,962	\$ (17,237,552)	\$ 315,351,765

Lawrence & Memorial Hospital
Consolidating Balance Sheet
September 30, 2009

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Liabilities				
Current liabilities				
Accounts payable	\$ 13,893,859	\$ -	\$ -	\$ 13,893,859
Accrued vacation and sick pay	9,798,961	842,490	-	10,641,451
Salaries, wages and payroll taxes	3,934,850	249,483	-	4,184,333
Due to affiliates	1,682,710	17,237,552	(17,237,552)	1,682,710
Due to third parties	9,089,438	-	-	9,089,438
Current portion of long-term debt	2,640,000	-	-	2,640,000
Total current liabilities	<u>41,039,818</u>	<u>18,329,525</u>	<u>(17,237,552)</u>	<u>42,131,791</u>
Accrued pension and other postretirement benefits	43,029,547	-	-	43,029,547
Other liabilities	12,202,253	-	-	12,202,253
Long-term debt, less current portion	65,610,000	-	-	65,610,000
Total liabilities	<u>77,812,253</u>	<u>-</u>	<u>-</u>	<u>162,973,591</u>
Net assets				
Unrestricted	141,020,827	(11,399,603)	-	129,621,224
Temporarily restricted	17,210,797	1,040	-	17,211,837
Permanently restricted	5,545,113	-	-	5,545,113
Total net assets	<u>163,776,737</u>	<u>(11,398,563)</u>	<u>-</u>	<u>152,378,174</u>
	<u>\$ 282,628,808</u>	<u>\$ 6,930,962</u>	<u>\$ (17,237,552)</u>	<u>\$ 315,351,765</u>

Lawrence & Memorial Hospital
Consolidating Balance Sheet
September 30, 2008, as reclassified

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Assets				
Current assets				
Cash	\$ 16,232,768	\$ 2,024,579	\$ -	\$ 18,257,347
Investments	98,453,853	-	-	98,453,853
Accounts receivable	33,459,260	1,359,257	-	34,818,517
Other receivables	3,934,289	283	-	3,934,572
Inventories	3,357,049	-	-	3,357,049
Due from affiliates	6,118,853	-	(4,930,153)	1,188,700
Prepaid expenses	1,906,505	-	-	1,906,505
Debt service fund	1,294,037	-	-	1,294,037
Total current assets	164,756,614	3,384,119	(4,930,153)	163,210,580
Assets limited as to use				
Cash	210,229	-	-	210,229
Construction funds	6,127	-	-	6,127
Investments held in trust	12,999,368	-	-	12,999,368
Endowment investments	14,857,509	-	-	14,857,509
Funds held by Trustee	5,783,882	-	-	5,783,882
Contributions receivable	96,961	-	-	96,961
Funds held in escrow				
Debt Service fund	7,341,007	-	-	7,341,007
Total assets limited as to use	41,295,083	-	-	41,295,083
Other assets				
Deferred financing costs	2,989,857	-	-	2,989,857
Property, plant and equipment	100,727,595	-	-	100,727,595
Total assets	\$ 309,769,149	\$ 3,384,119	\$ (4,930,153)	\$ 308,223,115

Lawrence & Memorial Hospital
Consolidating Balance Sheet
September 30, 2008, as reclassified

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Liabilities				
Current liabilities				
Accounts payable	\$ 17,863,591	\$ -	\$ -	\$ 17,863,591
Accrued vacation and sick pay	9,551,696	614,201	-	10,165,897
Salaries, wages and payroll taxes	3,554,835	146,085	-	3,700,920
Due to affiliates	573,153	4,930,153	(4,930,153)	573,153
Due to third parties	7,993,615	-	-	7,993,615
Current portion of long-term debt	2,515,000	-	-	2,515,000
Total current liabilities	<u>42,051,890</u>	<u>5,690,439</u>	<u>(4,930,153)</u>	<u>42,812,176</u>
Accrued pension and other postretirement benefits	20,629,212	-	-	20,629,212
Other liabilities	11,764,379	-	-	11,764,379
Long-term debt, less current portion	68,250,000	-	-	68,250,000
Total liabilities	<u>142,695,481</u>	<u>5,690,439</u>	<u>-</u>	<u>143,455,767</u>
Net assets				
Unrestricted	143,597,261	(2,307,100)	-	141,290,161
Temporarily restricted	17,868,183	780	-	17,868,963
Permanently restricted	5,608,224	-	-	5,608,224
Total net assets	<u>167,073,668</u>	<u>(2,306,320)</u>	<u>-</u>	<u>164,767,348</u>
	<u>\$ 309,769,149</u>	<u>\$ 3,384,119</u>	<u>\$ (4,930,153)</u>	<u>\$ 308,223,115</u>

Lawrence & Memorial Hospital
Consolidating Statement of Operations
September 30, 2009

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Net revenues	\$ 280,126,452	\$ 3,807,066	\$ -	\$ 283,933,518
Other operating revenues	12,473,743	104,661	(3,653,871)	8,924,533
Net assets released from restriction	460,320	-	-	460,320
	<u>293,060,515</u>	<u>3,911,727</u>	<u>(3,653,871)</u>	<u>293,318,371</u>
Operating expenses				
Salaries and wages	128,119,767	7,414,225	-	135,533,992
Employee benefits	35,453,540	1,897,584	(1,622,324)	35,728,800
Supplies	30,981,518	35,668	-	31,017,186
Purchased services	20,689,716	1,993,733	(1,355,280)	21,328,169
Bad debts	15,090,955	716,891	-	15,807,846
Other	28,732,892	946,129	(676,267)	29,002,754
Interest	2,570,991	-	-	2,570,991
Depreciation and amortization	15,891,356	-	-	15,891,356
	<u>277,530,735</u>	<u>13,004,230</u>	<u>(3,653,871)</u>	<u>286,881,094</u>
Income from operations	15,529,780	(9,092,503)	-	6,437,277
Nonoperating gains and losses				
Unrestricted income	266,039	-	-	266,039
Income from investments	(691,170)	-	-	(691,170)
	<u>(425,131)</u>	<u>-</u>	<u>-</u>	<u>(425,131)</u>
Excess of revenues over expenses	<u>\$ 15,104,649</u>	<u>\$ (9,092,503)</u>	<u>\$ -</u>	<u>\$ 6,012,146</u>
Net unrealized gains on investments	4,304,504	-	-	4,304,504
Net assets released from restriction used for the purchase of property, plant and equipment	208,519	-	-	208,519
Minimum pension liability adjustment	(22,254,106)	-	-	(22,254,106)
Donated equipment	60,000	-	-	60,000
	<u>\$ (17,681,083)</u>	<u>\$ (9,092,503)</u>	<u>\$ -</u>	<u>\$ (17,681,083)</u>
Decrease in unrestricted net assets	<u>\$ (2,576,434)</u>	<u>\$ (9,092,503)</u>	<u>\$ -</u>	<u>\$ (11,668,937)</u>

Lawrence & Memorial Hospital
Consolidating Statement of Operations
September 30, 2008

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Net revenues	\$ 265,186,141	\$ 3,472,726	\$ -	\$ 268,658,867
Other operating revenues	11,202,386	1,856,199	(4,144,905)	8,913,680
Net assets released from restriction	422,147	-	-	422,147
	<u>276,810,674</u>	<u>5,328,925</u>	<u>(4,144,905)</u>	<u>277,994,694</u>
Operating expenses				
Salaries and wages	122,607,453	4,561,933	-	127,169,386
Employee benefits	32,600,475	1,458,962	(1,272,171)	32,787,266
Supplies	29,399,959	4	-	29,399,963
Purchased services	23,316,935	934,875	(2,545,144)	21,706,666
Bad debts	16,989,650	221,400	-	17,211,050
Other	27,336,784	458,851	(327,590)	27,468,045
Interest	3,359,213	-	-	3,359,213
Depreciation and amortization	14,187,153	-	-	14,187,153
	<u>269,797,622</u>	<u>7,636,025</u>	<u>(4,144,905)</u>	<u>273,288,742</u>
Income from operations	7,013,052	(2,307,100)	-	4,705,952
Nonoperating gains and losses				
Unrestricted income	322,958	-	-	322,958
Income from investments	4,103,651	-	-	4,103,651
Realized losses on investments deemed other than temporarily impaired	(2,751,358)	-	-	(2,751,358)
	<u>1,675,251</u>	<u>-</u>	<u>-</u>	<u>1,675,251</u>
Excess of revenues over expenses	<u>\$ 8,688,303</u>	<u>\$ (2,307,100)</u>	<u>\$ -</u>	<u>\$ 6,381,203</u>
Transfers from affiliated entity	9,127	-	-	9,127
Net unrealized (losses) on investments	(16,993,099)	-	-	(16,993,099)
Net assets released from restriction used for the purchase of property, plant and equipment	203,651	-	-	203,651
Minimum pension liability adjustment	(5,290,651)	-	-	(5,290,651)
Donated equipment	1,214,894	-	-	1,214,894
	<u>(20,856,078)</u>	<u>-</u>	<u>-</u>	<u>(20,856,078)</u>
Decrease in unrestricted net assets	<u>\$ (12,167,775)</u>	<u>\$ (2,307,100)</u>	<u>\$ -</u>	<u>\$ (14,474,875)</u>