Consolidated Financial Statements and Other Financial Information

YNH Network Corporation and Subsidiaries
Years Ended September 30, 2009 and 2008
with Report of Independent Auditors

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and Other Financial Information

Years Ended September 30, 2009 and 2008

Contents

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Report of Independent Auditors

Board of Trustees
YNH Network Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of YNH Network Corporation and Subsidiaries ("YNHNC") as of September 30, 2009 and 2008, 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 YNHNC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of YNHNC'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 YNHNC'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 YNH Network Corporation and Subsidiaries at September 30, 2009 and 2008, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

December 22, 2009

YNH Network Corporation and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2009	**2008**
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 60,217**	$ 25,781
Short-term investments:		
Interest in Yale University Endowment Pool	**130,398**	–
Other short-term investments	**326,262**	421,368
Total short-term investments	**456,660**	421,368
Accounts receivable for services to patients, less allowance for uncollectible accounts, charity and free care of approximately $29,073,000 in 2009 and $25,827,000 in 2008	**128,416**	124,000
Other receivables	**31,229**	25,888
Other current assets	**21,030**	20,808
Amounts of deposit with trustee in debt service fund	**4,458**	3,517
Total current assets	**702,010**	621,362
Assets limited as to use:		
Funds reserved for the Cancer Hospital and other purposes	**76,806**	197,952
Beneficial interest in perpetual trusts	**11,105**	11,501
	87,911	209,453
Long-term investments	**81,859**	114,587
Deferred financing costs, less accumulated amortization	**3,954**	4,280
Other assets	**60,255**	60,503
Property, plant, and equipment:		
Land and land improvements	**28,067**	14,033
Buildings and fixtures	**508,200**	483,564
Equipment	**333,729**	321,335
	869,996	818,932
Less accumulated depreciation	**566,061**	552,072
	303,935	266,860
Construction in progress (estimated future cost to complete – approximately $213,536,000 in 2009 and $305,134,000 in 2008)	**360,678**	196,429
	664,613	463,289
Total assets	**$ 1,600,602**	$ 1,473,474

	September 30	
	2009	**2008**
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 80,757**	$ 67,316
Accrued expenses	**118,400**	102,138
Current portion of long-term debt	**12,270**	3,406
Other current liabilities	**2,065**	1,912
Total current liabilities	**213,492**	174,772
Long-term debt, net of current portion	**396,529**	402,918
Accrued pension and postretirement benefit obligations	**192,862**	105,483
Other long-term liabilities	**146,888**	124,358
Deferred revenue	**50,864**	33,197
Total liabilities	**1,000,635**	840,728
Commitments and contingencies		
Net assets:		
Unrestricted	**526,740**	525,399
Temporarily restricted	**47,505**	81,229
Permanently restricted	**25,722**	26,118
Total net assets	**599,967**	632,746
Total liabilities and net assets	**$ 1,600,602**	$ 1,473,474

See accompanying notes.

YNH Network Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2009	**2008**
	(In Thousands)	
Operating revenue:		
Net patient service revenue	**$ 1,238,934**	$ 1,088,621
Other revenue	**42,656**	52,409
Total operating revenue	**1,281,590**	1,141,030
Operating expenses:		
Salaries and benefits	**605,512**	550,625
Supplies and other expenses	**514,004**	455,719
Depreciation	**44,525**	42,951
Insurance	**20,742**	20,605
Bad debts	**25,600**	19,348
Interest	**1,605**	4,641
Total operating expenses	**1,211,988**	1,093,889
Income from operations	**69,602**	47,141
Nonoperating gains (losses), net:		
Income from investments, donations and other, net	**(41,276)**	25,357
Change in unrealized gains and losses on investments	**30,283**	(64,714)
Change in fair value of swap, including counterparty payments	**(5,547)**	(5,269)
Loss on financing transactions	**–**	(4,229)
Excess (deficiency) of revenue over expenses	**53,062**	(1,714)

(Continued on next page).

YNH Network Corporation and Subsidiaries

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

	Year Ended September 30	
	2009	**2008**
	(In Thousands)	
Unrestricted net assets:		
Excess (deficiency) of revenue over expenses (continued)	**$ 53,062**	$ (1,714)
Other changes in net assets	**(3,582)**	1,550
Transfer to Yale-New Haven Health Services Corporation – Clinical Development Fund	**(13,682)**	(6,468)
Net assets released from restrictions for purchases of fixed assets	**43,544**	117
Pension and other postretirement liability adjustments	**(78,001)**	(6,887)
Increase (decrease) in unrestricted net assets	**1,341**	(13,402)
Temporarily restricted net assets:		
Income from investments	**1,730**	2,975
Net realized (losses) gains on investments	**(12,860)**	4,853
Change in net unrealized gains and losses on investments	**12,417**	(20,164)
Bequests, contributions, and grants	**32,007**	29,642
Net assets released from restrictions for purchases of fixed assets	**(43,544)**	(3)
Net assets released from restrictions for free care	**(814)**	(3,902)
Net assets released from restrictions for operations	**(4,180)**	(9,643)
Net assets released from restrictions for clinical programs	**(17,821)**	(18,986)
Net assets released from restrictions for non-operating activities	**(659)**	(1,449)
Decrease in temporarily restricted net assets	**(33,724)**	(16,677)
Permanently restricted net assets:		
Change in beneficial interest in perpetual trusts	**(396)**	(2,619)
Net assets released from restrictions	**–**	(114)
Decrease increase in permanently restricted net assets	**(396)**	(2,733)
Decrease in net assets	**(32,779)**	(32,812)
Net assets at beginning of year	**632,746**	665,558
Net assets at end of year	**$ 599,967**	$ 632,746

See accompanying notes.

YNH Network Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30 2009	2008
	(In Thousands)	
Cash flows from operating activities		
Decrease in net assets	**$ (32,779)**	$ (32,812)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	**44,525**	42,951
Net realized and change in net unrealized gains and losses on investments	**17,227**	69,254
Change in fair value of interest rate swap agreements	**9,688**	9,902
Amortization of long-term debt premium	**(750)**	(750)
Bad debts	**25,600**	19,348
Amortization of deferred financing costs	**193**	266
Change in perpetual trusts	**396**	2,619
Transfer to Yale-New Haven Health Services Corporation – Clinical Development Fund	**13,682**	6,468
Bequests, contributions and grants, net of restricted pledges	**(32,787)**	(26,694)
Pension and other postretirement liability adjustments	**78,001**	6,887
Changes in operating assets and liabilities:		
Accounts receivable, net	**(30,017)**	(15,655)
Other receivables	**(7,403)**	876
Other assets	**4,833**	(403)
Accounts payable	**13,441**	10,243
Accrued expenses	**16,262**	13,693
Other current liabilities, accrued pension and postretirement benefit obligations, other long-term liabilities, and deferred revenue	**34,343**	38,610
Net cash provided by operating activities	**154,455**	144,803
Cash flows from investing activities		
Net acquisitions of property, plant, and equipment	**(251,385)**	(153,500)
Capitalized interest	**11,538**	11,983
Net change in investments	**(16,838)**	(88,801)
Amounts deposited with trustee in debt service fund	**(808)**	(717)
Assets whose use is limited	**121,146**	69,571
Transfer to Yale-New Haven Health Services Corporation – Clinical Development Fund	**(13,682)**	(6,468)
Net cash used in investing activities	**(150,029)**	(167,932)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	**1,145**	217,361
Repayments of long-term debt	**(3,922)**	(220,704)
Bequests, contributions and grants, net of pledges	**32,787**	26,694
Deferred financing costs	**–**	2,931
Net cash provided by financing activities	**30,010**	26,282
Net increase in cash and cash equivalents	**34,436**	3,153
Cash and cash equivalents at beginning of year	**25,781**	22,628
Cash and cash equivalents at end of year	**$ 60,217**	$ 25,781

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization

YNH Network Corporation and Subsidiaries ("YNHNC") is a Connecticut not-for-profit, non-stock corporation established to promote and carry out charitable, scientific and educational activities. YNHNC is the sole member of Yale-New Haven Hospital, Inc. (the "Hospital") and the parent organization of Yale-New Haven Ambulatory Services Corporation and Subsidiaries ("ASC") and York Enterprises, Inc. and Subsidiaries ("York"). YNHNC controls, through contractual agreements, Quinnipiac Medical P.C. ("QMPC") and Community Healthcare Physicians ("CHCP"). YNHNC has an affiliation agreement with Yale-New Haven Health Services Corporation ("YNHHSC") in which YNHHSC is the sole member of YNHNC.

YNHHSC is also the sole member of 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. YNHNC and subsidiaries continue to operate with a separate Board of Trustees, management staff and medical staff; however, YNHHSC must approve the strategic plans, operating and capital budgets and Board of Trustees appointments of YNHNC and subsidiaries.

The Hospital is a voluntary association incorporated under the General Statutes of the State of Connecticut.

ASC, a Connecticut non-stock, taxable corporation, operates a recovery care center and is 51% owner of Shoreline Surgery Center, LLC ("SSC") and SSC II, LLC ("SSC II").

York is organized as a Connecticut corporation for the purpose of initiating or acquiring business entities. Currently, York has two subsidiaries: Medical Center Pharmacy and Home Care Center, Inc. ("MCP") and Medical Center Realty, Inc. ("MCR"). MCP is a Connecticut stock, for-profit company which runs a retail pharmacy with multiple locations. MCR is a Connecticut stock, for-profit company which owns or holds leases on YNHHSC's affiliated real estate, such as physician office buildings, commercial space and parking garages. York is the sole shareholder of MCP and MCR.

QMPC and CHCP are Connecticut stock, for-profit, professional corporations formed in 1994 and 1996, respectively, to employ New Haven area primary care physicians. All of the stock of QMPC and CHCP is owned by the Chief of Staff of the Hospital, who has assigned his rights in QMPC and CHCP to YNHNC.

1. Organization and Significant Accounting Policies (continued)

Principles of Consolidation

The accompanying consolidated financial statements present YNHNC and its subsidiaries (the Hospital, ASC, York, QMPC and CHCP). All significant intercompany revenue and expenses and intercompany balance sheet accounts have been eliminated in consolidation. The minority interests in SSC and SSC II are not material to the consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectible for accounts receivable for services to patients, and liabilities, including estimated net settlements with third-party payors and professional liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. 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 2009 and 2008, YNHNC recorded changes in estimate of approximately $(2.7) million and $15.5 million, respectively. Included in the change are amounts related to unfavorable third-party payor settlements at September 30, 2009 and amounts related to favorable third-party payor settlements at September 30, 2008.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by YNHNC 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 YNHNC in perpetuity. YNHNC is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value. The investment income generated from these trusts is unrestricted and the assets are classified as permanently restricted.

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.

1. Organization and Significant Accounting Policies (continued)

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 at September 30, 2009 and 2008 were comprised primarily of amounts contributed for the construction of the Yale-New Haven Smilow Cancer Hospital ("Cancer Hospital").

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.

Contributions receivable, included in other receivables and other assets in the accompanying consolidated balance sheets at September 30, 2009 and 2008, are expected to be received as follows (in thousands):

	September 30	
	2009	**2008**
Less than one year	**$ 2,276**	$ 2,053
One to five years	**4,656**	5,814
Thereafter	**405**	392
	7,337	8,259
Less unamortized discount on contributions receivable (0.4% to 4.9%)	**(547)**	(646)
	6,790	7,613
Allowance for uncollectible contributions	**(204)**	(247)
	$ 6,586	$ 7,366

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.

1. Organization and Significant Accounting Policies (continued)

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 short-term or long-term investment portfolios.

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

Accounts Receivable

Patient accounts receivable result from the health care services provided by YNHNC. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

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 payor programs.

Investments

YNHNC has designated its investment portfolio as trading, with unrealized gains and losses included in excess (deficiency) of revenue over expenses. 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 (deficiency) of revenue over expenses unless the income or loss is restricted by donor or law.

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 consolidated balance sheets. The guaranteed investment contracts are stated at contract value as determined by the contract-holder which approximates fair value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to pay benefits and the administrative expenses of the contract-holder.

1. Organization and Significant Accounting Policies (continued)

Certain alternative investments (non-traditional, not-readily-marketable assets) are structured such that YNHNC holds limited partnership interests or pooled units and are accounted for under the equity method and utilizing Yale University's (the "University") reported net asset value per unit for measurement of the units' fair value for the Yale University investment. Individual investment holdings within the alternative investments may, in turn, include investments in both non-marketable and market-traded securities. Valuations of those investments and, therefore, YNHNC's holdings may be determined by the investment manager or general partner. Fund of funds investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The equity method reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose YNHNC 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, YNHNC'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. YNHNC has made investment commitments of approximately $104.0 million in these alternative investments, of which approximately $78.0 million has been funded as of September 30, 2009.

In July 2009, with approval from the Hospital's Board of Trustees, the Hospital entered into an agreement with the University's investment office (the "Investment Management Agreement") which allows the University to manage a portion of the Hospital's investments as part of the University's Endowment Pool. Under the terms of the agreement for the year ended September 30, 2009, the Hospital transferred $125.0 million to the University in exchange for units in the University Endowment Pool. The Hospital's interest in the University Endowment Pool is reported at fair value based on the net asset value per units held. The University Endowment Pool invests in domestic equity, foreign equity, absolute return, private equity, real assets, fixed income, and cash.

Under the terms of the investment management agreement with the University, withdrawals of the Hospital's investment in the University Endowment Pool can be made annually by the Hospital on July 1. For withdrawals of amounts less than $150.0 million, $100.0 million, and $50.0 million, the advance notice period is set to a maximum of 180 days, 90 days, and 30 days, respectively.

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

1. Organization and Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost or market. YNHNC values its inventories using the first-in, first-out method with the exception of pharmacy inventories, which are valued at average cost.

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 consist primarily of U.S. Government securities, mutual funds and money market funds.

In March 2006, YNHNC entered into an arrangement with the University whereby the University will manage certain Board-designated assets of YNHNC. These Board-designated assets are commingled in the University's endowment pool. At September 30, 2009 and 2008, the carrying value of assets managed by the University under this arrangement was approximately $7.3 million and $10.5 million, respectively. Because of the limitations on their use, the assets are separately classified from assets invested under the Investment Management Agreement.

Perpetual Trusts

YNHNC 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 revenue 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.

1. Organization and Significant Accounting Policies (continued)

Interest Rate Swap Agreements

YNHNC utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. Interest rate swap agreements are reported at fair value. YNHNC is exposed to credit loss in the event of non-performance by the counterparties to its interest rate swap agreements. YNHNC 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 YNHNC.

Benefits and Insurance

YNHNC is effectively self-insured for medical, hospitalization, and prescription drug benefits provided to employees. YNHNC makes annual contributions to the YNHHSC Voluntary Employee Beneficiary Association ("VEBA") plan to fund medical, dental, hospitalization, group term life insurance and prescription drug benefits. Annually, premiums are set to reflect the estimated cost of benefits. During the years ended September 30, 2009 and 2008, YNHNC made actuarially determined contributions, net of adjustments, to the VEBA plan of approximately $72.5 million and $58.6 million, respectively.

YNHNC is self-insured for workers' compensation claims. Estimated amounts are accrued for claims, including claims incurred but not reported ("IBNR") and are based on YNHNC-specific experience. At September 30, 2009 and 2008, the estimated discounted liabilities for self-insured workers' compensation claims and IBNR aggregated approximately $10.8 million, discounted at 5.0%, and are included in accrued expenses in the accompanying consolidated balance sheets.

Professional Liability Insurance

YNHNC participates in the YNHHSC coordinated professional liability program. Based on the terms of the agreement with YNHHSC, YNHNC records the actuarially determined liabilities for IBNR professional and general liabilities and has recorded a deposit (asset) for liabilities transferred in the year ended September 30, 1998 (see Note 9).

1. Organization and Significant Accounting Policies (continued)

Property, Plant, and Equipment

Property, plant, and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at date of contribution. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in income from operations. Depreciation of property, plant, and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives ranging from 3 to 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.

The Hospital and the Housing Authority of New Haven ("HANH") have entered into an agreement to swap parcels of land on the Legion/Howard/Sylvan/Ward block located in New Haven, Connecticut. As part of the key terms of the agreement, a letter of credit ("LOC") in favor of the Hospital will be secured by HANH in the amount of $5.2 million. The LOC facility must be in place prior to the Hospital conveying the land to HANH in December 2009. In the event that HANH fails to meet certain requirements of the agreement, including conveying its land parcel to the Hospital, the Hospital has the right to draw down on the LOC fully unless the LOC is extended with an annual increase of approximately $180,000. This transaction did not impact the fiscal 2009 consolidated financial statements.

Deferred Revenue

Deferred revenue includes amounts which have been received that relate to future years. Amounts will be reduced as revenue is earned.

Excess of Revenue over Expenses

In the accompanying consolidated statements of operations and changes in net assets, excess (deficiency) of revenue over expenses is the performance indicator. Peripheral or incidental transactions are included in excess (deficiency) of revenue 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 non-operating.

1. Organization and Significant Accounting Policies (continued)

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

Income Taxes

YNHNC and the Hospital are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code"), and are exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code. YNHNC and the Hospital are also exempt from state income tax.

ASC, York, QMPC and CHCP are subject to federal and state corporate income taxes. Deferred income taxes are provided on temporary differences between financial statement and tax reporting. The provision for income taxes and deferred taxes are not material to the consolidated financial statements

Operating Expenses

YNHNC records amounts received from the University, area hospitals and other local healthcare providers for costs incurred on behalf of those organizations as reductions to expenses. For the years ended September 30, 2009 and 2008, YNHNC recorded approximately $46.0 million and $41.7 million, respectively, as reductions to expenses.

Deferred Financing Costs

YNHNC capitalizes costs incurred in connection with the issuance of long-term debt and amortizes these costs over the life of the respective obligations using the effective interest method (see Note 7).

Impairment of Assets

YNHNC 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, YNHNC recognizes a loss on the basis of whether these amounts are fully recoverable.

1. Organization and Significant Accounting Policies (continued)

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* ("Statement 168"). Statement 168 establishes the FASB Accounting Standards Codification (collectively known as the "Codification") as the single source of authoritative GAAP to be applied by nongovernmental entities. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. Statement 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. YNHNC has adopted Statement 168 for its year ended September 30, 2009. Accounting references have been updated, and therefore SFAS references, where applicable, have been replaced with ASC references.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, (hereafter referred to as ASC No. 820) which defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosure about fair value measurements. YNHNC adopted ASC No. 820 effective October 1, 2008. The impact of the adoption of ASC No. 820 on YNHNC's consolidated financial statements is a reduction of the interest rate swap liabilities of approximately $2.4 million.

In September 2009, the FASB issued Accounting Standards Update 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU 2009-12"). ASU 2009-12 provides amendments to ASC 820. The amendments permit, as a practical expedient, a reporting entity to estimate the fair value of an investment that is within the scope of ASU 2009-12 using the net asset per share value (or its equivalent) of the investment and provides for additional disclosures. The amended guidance is effective for interim and annual periods ending after December 15, 2009; however, early application is permitted if financial statements for prior periods have not been issued. Entities that elect to early adopt may defer the additional disclosure requirements of the ASU until the effective date. YNHNC has elected to early adopt the amended guidance. The effect of adopting ASC 2009-12 was not material to YNHNC's consolidated financial statements.

1. Organization and Significant Accounting Policies (continued)

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (hereafter referred to as ASC No. 825) which permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. YNHNC adopted ASC No. 825 effective October 1, 2008. The effect of adopting ASC No. 825 was not material to YNHNC's consolidated financial statements.

In June 2009, the FASB issued a Statement on Subsequent Events. This statement provides authoritative accounting guidance and disclosure requirements for material events occurring subsequent to the balance sheet date and prior to the issuance of the financial statements. This statement is effective for YNHNC for the year ended September 30, 2009. The implementation of this statement had no effect on YNHNC's consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2008 balances previously reported in the consolidated balance sheets in order to conform with the year ended September 30, 2009 presentation. In the accompanying consolidated balance sheets, such reclassifications consist of increases in other receivables of $2.1 million, other liabilities of $1.4 million, decreases in other assets of $4.8 million and other long-term liabilities of $4.1 million.

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

YNHNC has agreements with third-party payors that provide for payments to YNHNC 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 payors 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.

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

Third-party payor receivables included in other receivables were $8.7 million and $3.4 million. Third-party payor receivables included in other long-term assets included were $4.0 million and $7.0 million at September 30, 2009 and 2008, respectively. Third-party payor liabilities included in other current liabilities were $1.1 million and $1.8 million at September 30, 2009 and 2008, respectively. Third-party payor liabilities included in other long-term liabilities were $26.8 million and $23.3 million at September 30, 2009 and 2008, respectively.

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

Revenue from Medicare and Medicaid programs accounted for approximately 30% and 13%, respectively, of YNHNC's net patient service revenue for the year ended September 30, 2009 and approximately 32% and 13%, respectively, of YNHNC's net patient service revenue for the year ended September 30, 2008. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 30% and 25%, respectively, for the years ended September 30, 2009 and 2008. 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.

YNHNC 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 except as disclosed in Note 10. 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 YNHNC. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement through 2004 for Medicare and through 1994 for Medicaid. Other years remain open for settlement.

The significant concentrations of accounts receivable for services to patients include 25% from Medicare, 7% from Medicaid, and 68% from non-governmental payors at September 30, 2009 and 2008.

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, 2009 and 2008 (in thousands):

	2009	2008
Gross revenue from patients	**$ 3,615,981**	$ 3,035,583
Deductions:		
Contractual allowances	**2,303,547**	1,876,662
Charity and free care (at charges)	**73,500**	70,300
Net patient service revenue	**$ 1,238,934**	$ 1,088,621

3. Uncompensated Care and Community Benefit Expense

YNHNC's commitment to community service is evidenced by services provided to the poor and benefits provided to the broader community. Services provided to the poor include services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured.

For financial reporting purposes, YNHNC reports care provided for which no payment was received from the patient or insurer as uncompensated care. Uncompensated care is the sum of YNHNC's free care provided, charity care provided and bad debt expense. In determining uncompensated care, YNHNC excludes contractual allowances. The cost of uncompensated care amounted to approximately $54.6 million and $46.5 million in 2009 and 2008, respectively. Additionally, YNHNC incurred losses related to the State Medicaid program of approximately $98.7 million and $84.3 million in 2009 and 2008, respectively. The estimated cost of uncompensated care and Medicaid losses were determined using YNHNC-specific data.

YNHNC makes available free care programs for qualifying patients. In accordance with the established policies of YNHNC, during the registration, billing and collection process a patient's eligibility for free care funds is determined. For patients who were determined by YNHNC 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 YNHNC, care given but not paid for, is classified as charity care.

3. Uncompensated Care and Community Benefit Expense (continued)

Annually, YNHNC accrues for the potential losses related to its uncollectible accounts and the amounts that meet the definition of charity and free care allowances. At September 30, 2009 and 2008, the amount estimated by management to represent YNHNC's uncollectible and charity and free care allowance, which is included in the accompanying consolidated balance sheets as a reduction of accounts receivable for services to patients, was approximately $29.1 million and $25.8 million, respectively.

Additionally, YNHNC 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 the community health centers, some of which service non-English speaking residents, disabled children, and various community support groups. YNHNC voluntarily assists with the direct funding of several City of New Haven programs, including an economic development program and a youth initiative program.

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

4. Investments and Assets Limited as to Use

The composition of investments, amounts on deposit with trustee in debt service fund and assets limited as to use is set forth in the following table (in thousands):

	September 30	
	2009	**2008**
Money market funds	**$ 135,920**	$ 72,396
Mutual funds and common collective trusts	**217,328**	357,636
U.S. government obligations	**70,239**	55,175
Interest in Yale University Endowment Pool	**130,398**	–
Debt securities	**750**	750
Alternative investments	**63,020**	65,077
Perpetual trusts	**11,105**	11,501
Common stock	**2,128**	24,490
Guaranteed investment contracts	**–**	161,900
Total	**$ 630,888**	$ 748,925

Included in assets limited as to use are funds to be used for construction of the Cancer Hospital (see Note 10). At September 30, 2009, these funds consisted of money market funds which total approximately $38.0 million. At September 30, 2008, these funds consisted of guaranteed investment contracts and money market funds which total approximately $162.0 million and $0.3 million, respectively.

The composition and presentation of unrestricted investment income, gains from investments, and the net change in unrealized gains and losses, are as follows for the years ended September 30, 2009 and 2008 (in thousands):

	2009	**2008**
Interest and dividend income, net	**$ 7,531**	$ 15,909
Realized gains on investments, net	**(47,067)**	10,771
Swap counterparty payments, net	**(7,529)**	(930)
Change in unrealized gains and losses on investments	**30,283**	(64,714)
Change in unrealized gains and losses on swap agreement	**1,982**	(4,339)
	$ (14,800)	$(43,303)

5. Endowment

YNHNC's endowment includes donor-restricted endowment funds. As required by GAAP, assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

YNHNC 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, YNHNC 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 YNHNC'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 YNHNC in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, YNHNC 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 YNHNC and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of YNHNC; and (7) the investment and spending policies of YNHNC.

5. Endowment (continued)

Changes in endowment net assets for the year ended September 30, 2009 are as follows:

	Temporarily Restricted	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	**$ 53,172**	**$ 26,118**	**$ 79,290**
Investment return:			
Investment income	**1,139**	**–**	**1,139**
Net depreciation (realized and unrealized)	**(1,318)**	**–**	**(1,318)**
Total investment return	**(179)**	**–**	**(179)**
Appropriation of endowment assets for expenditure	**(8,180)**	**–**	**(8,180)**
Other changes:			
Change in value of beneficial interest trusts	**–**	**(396)**	**(396)**
Endowment net assets, end of year	**$ 44,813**	**$ 25,722**	**$ 70,535**

Changes in endowment net assets for the year ended September 30, 2008 are as follows:

	Temporarily Restricted	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	$ 76,117	$ 28,851	$ 104,968
Investment return:			
Investment income	2,080	–	2,080
Net depreciation (realized and unrealized)	(12,771)	–	(12,771)
Total investment return	(10,691)	–	(10,691)
Appropriation of endowment assets for expenditure	(12,254)	(114)	(12,368)
Other changes:			
Change in value of beneficial interest trusts	–	(2,619)	(2,619)
Endowment net assets, end of year	$ 53,172	$ 26,118	$ 79,290

5. Endowment (continued)

	2009	2008
The portion of perpetual endowment funds subject to a time restriction under CUPMIFA:		
Without purpose restrictions	**$ 10,327**	$ 12,644
With purpose restrictions	**34,486**	40,528
Total endowment funds classified as temporarily restricted net assets	**$ 44,813**	$ 53,172

Return Objectives and Risk Parameters

YNHNC has adopted investment and spending policies 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, YNHNC 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). YNHNC 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

YNHNC has a policy of appropriating for distribution each year based on a combination of the weighted average of the prior year spending adjusted for inflation and the amount that would have been spent using a predetermined percentage of the current market value of the endowment fund. In establishing this policy, YNHNC considered the long-term expected return on its endowment.

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes (in thousands):

	September 30	
	2009	**2008**
Plant improvement and expansion	**$ 274**	$ 22,616
Specific hospital operations, teaching, research, free care, and training	**47,231**	58,613
	$ 47,505	$ 81,229

Permanently restricted net assets of approximately $25.7 million and $26.1 million at September 30, 2009 and 2008, respectively, consist of donor restricted endowment principal and beneficial interests in perpetual trusts. The income generated from permanently restricted funds is expendable for purposes designated by donors, including research, free care, health care, and other services.

7. Long-Term Debt

A summary of long-term debt and capital lease obligations is as follows (in thousands):

	September 30	
	2009	**2008**
Revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority ("CHEFA"):		
Series J – effective fixed interest rate of 4.76% (Hospital)	**$ 174,430**	$ 174,430
Series K – effective interest rate of 3.11% (Hospital)	**104,255**	106,855
Series L – effective interest rate of 3.68% (Hospital)	**107,460**	107,460
Other – effective interest rate of 6.50% (Hospital)	**6,002**	–
Loan payable due in monthly installments with a variable interest rate through August 31, 2013 (ASC)	**73**	633
Line of credit payable (ASC)	**906**	100
Note payable – effective interest rate of 5.00% (ASC)	**245**	–
Capital lease obligations, at varying rates of imputed interest from 6.25% to 7.70%, collateralized by leased equipment (York)	**7,534**	8,201
	400,905	397,679
Add premium	**7,894**	8,645
Less current portion	**(12,270)**	(3,406)
	$ 396,529	$ 402,918

7. Long-Term Debt (continued)

In September 2006, the Hospital issued Series J revenue bonds totaling approximately $280.9 million. The proceeds, including a premium of approximately $10.1 million, are being used to finance a portion of the construction costs of the Cancer Hospital, and to pay for certain bond issuance costs. The bond premium is being amortized and is included in capitalized interest. The Series J revenue bonds were issued in three sub-series as follows: (1) Series J-1, approximately $174.4 million, consisting of approximately $83.7 million of serial bonds and approximately $90.7 million in term bonds bearing interest at 5% per annum; (2) Series J-2, approximately $40.0 million of revenue bonds bearing interest at 3.65% at September 30, 2007; (3) Series J-3, approximately $66.5 million of revenue bonds bearing interest at 3.70% at September 30, 2007, respectively. Series J-2 and J-3 revenue bonds were refunded during the year ended September 30, 2008 by the issuance of Series L revenue bonds.

In May 2008, the Hospital issued Series K and Series L revenue bonds totaling approximately $216.6 million. The Series K revenue bonds were issued as Variable Rate Demand Bonds ("VRDBs") in two sub-series, Series K-1 and K-2, approximately $54.6 million each, with an effective auction rate of 1.4% in 2009, and 2.9% in 2008. The proceeds from the Series K issuance were used to refund the Series I SAVR bonds. The Series L revenue bonds were issued as VRDBs in two sub-series, Series L-1 and L-2, approximately $53.7 million each, with an effective auction rate of 1.2 in 2009, and 2.8% in 2008. The proceeds from the Series L issuance were used to refund the Series J-2 and J-3 revenue bonds. The unamortized deferred financing costs related to Series I, J-2, and J-3 of approximately $4.2 million were recorded as a loss on financing transactions for the year ended September 30, 2008.

Both the Series K and Series L VRDBs are required to be supported by LOCs which have been executed with two separate financial institutions. These LOCs are scheduled to expire on May 14, 2013.

On October 4, 2007, the Hospital and the City of New Haven, Connecticut (the "City") entered into an agreement (the "Agreement") to confirm the mutual understanding of the City and the Hospital (the "Parties") with respect to each party's performance under the development agreement between the Parties dated June 6, 2006 (the "Development Agreement") for the construction of the Cancer Hospital. As part of the Agreement, the Hospital secured an irrevocable standby LOC in the amount of $2.0 million in favor of the City, which shall expire on June 1, 2011. In the event the Hospital fails to complete one component of the project by October 1, 2010 (and if such failure is not caused by certain events beyond the Hospital's control as defined in the Agreement) then the City can draw on the LOC. As of September 30, 2009, no event has occurred which would cause the LOC to be drawn upon.

7. Long-Term Debt (continued)

The terms of the various financing arrangements between CHEFA and the Hospital, the financial institutions providing the LOCs, and the Hospital provide for financial covenants regarding the Hospital's debt service coverage ratio, liquidity ratio, and debt to capitalization ratio, among others. As of September 30, 2009 and 2008, the Hospital was in compliance with such covenants.

Sinking fund installment amounts are to be made in accordance with the Series J, K, and L financing agreements. Required monthly payments on the revenue bonds by the Hospital to a trustee are in amounts sufficient to provide for the payments of principal, interest, and sinking fund installments as well as required payments to certain reserve funds held by the trustee, in accordance with the terms of the agreements, and certain other annual costs of CHEFA.

The combined aggregate amounts of principal requirements under long-term debt, excluding capital leases, are as follows (in thousands):

2010	$ 11,537
2011	11,322
2012	8,761
2013	9,166
2014	9,300
Thereafter	343,285
	$ 393,371

The outstanding principal balance of Series B revenue bonds, approximately $6.4 million at September 30, 2009, was defeased and retired from the accompanying consolidated balance sheets in 1985. Funds in an amount necessary to satisfy the obligation were placed in an irrevocable trust.

The Hospital has entered into interest rate swap agreements with financial institutions related to the Hospital's Series K and Series L debt. The swap agreements were carried over as part of the refunding of Series I and Series J debt. The agreements require the Hospital to pay a fixed rate and receive a floating rate based on LIBOR. The change in market value, as well as the net interest paid or received under the swap agreement, for the Series J/Series L swap has been capitalized as part of the interest costs related to construction of the Cancer Hospital.

7. Long-Term Debt (continued)

Capitalized interest is as follows (in thousands):

	September 30	
	2009	**2008**
Series J and Series L interest costs	**$ 34,001**	$ 24,687
Interest income on Series J proceeds	**(25,333)**	(23,621)
Swap payments, net	**3,051**	994
Unrealized loss on swap	**10,048**	5,932
Amortization of deferred financing costs	**561**	406
Amortization of bond premiums	**(2,247)**	(1,492)
Arbitrage liability	**–**	2,265
Remarketing/LOC fees	**1,344**	715
	$ 21,425	$ 9,886

The swap agreements fix the interest rate at a level viewed as acceptable by the Hospital. Such agreements expose the Hospital to credit risk in the event of non-performance by the counterparties, some of which is collateralized. At September 30, 2009 and 2008, the fair value of swap agreements based on current interest rates was approximately $17.0 million and $7.3 million, respectively, representing a payable to the counterparties (recorded in other long-term liabilities).

In 2009, the Hospital terminated the original Series K swap and replaced it with a new swap. The unamortized amounts of approximately $2.5 million related to the original swap were fully amortized during 2009. For the original and new Series K swaps there was a combined unfavorable change in fair value of $5.6 million and $4.5 million for the years ended September 30, 2009 and 2008, respectively, which was recorded in the excess (deficiency) of revenue over expenses.

For the Series L swap, there was an unfavorable change in fair value of approximately $4.1 million and $5.4 million for the years ended September 30, 2009 and 2008, respectively, which was recorded in capitalized interest.

7. Long-Term Debt (continued)

The following table summarizes the Hospital's interest rate swap agreements (in thousands):

Swap Type	Expiration Date	Hospital Receives	Hospital Pays	Notional Amount at September 30 2009	2008
Series K – Fixed to Floating	July 1, 2025	LIBOR	3.11%	**$ 70,272**	$ 71,994
Series L – Fixed to Floating	July 1, 2036	LIBOR	3.68%	**44,505**	44,505
				$ 114,777	$ 116,499

For the years ended September 30, 2009 and 2008, the Hospital paid approximately $9.9 million and $15.3 million, respectively, for interest related to long-term debt and capital lease obligations, exclusive of the swap agreements.

Arbitrage rules apply to tax-exempt debt issued after August 31, 1986. The rules require that, in specified circumstances, earnings from the investment of tax-exempt bond proceeds which exceed the yield on the bonds must be remitted to the Federal government.

In December 2008, the Hospital purchased property strategically located near the new the Cancer Hospital, for future development, on Howard and Legion Avenues in New Haven, Connecticut. The purchase price was approximately $14.0 million. As part of the transaction, the Hospital assumed a note payable in the amount of $6.0 million. This additional debt is scheduled to be paid in two installments of approximately $3.0 million in December of 2009 and 2010.

On July 28, 2004, ASC obtained an LOC in the amount of $1.5 million from a bank. The LOC is collateralized by all of the assets of SSC. ASC is the corporate guarantor and the managing members of CGC are the individual guarantors for the LOC. As of September 30, 2006, SSC had drawn down approximately $0.9 million on this LOC. On July 1, 2006, the LOC converted to a fixed-term loan due in equal monthly installments through June 1, 2011. Under the terms of the LOC, SSC is required to maintain a specified minimum tangible net worth. SSC met the required covenant at September 30, 2008 and 2007. In September 2008, SSC refinanced the balance of the fixed term loan with another bank. The new term loan is due in equal monthly installments through August 31, 2013. The interest is payable at 3.987%. As a result of this transaction, a non-cash loss on refinancing of long-term debt of $29,558 was recorded in fiscal 2008.

All of ASC's tangible and intangible property is pledged as collateral for its borrowings.

7. Long-Term Debt (continued)

In September 2008, SSC obtained a line of credit in the amount of $1,000,000. SSC may borrow funds, not exceeding the commitment amount, until February 28, 2009. The interest is payable at the bank's prime rate through March 31, 2009. The amount outstanding at September 30, 2009 and 2008 was $906,000 and $100,000, respectively. On April 1, 2009, the LOC converts to a fixed term loan due in equal monthly installments through August 31, 2013.

In March 2009, SSC II had a note payable with Constitution Surgery Center, LLC and Shoreline Physicians Holding Company for $75,000 and $170,000, respectively. The interest is payable at 5% per year.

Scheduled principal payments on capital lease obligations are as follows (in thousands):

Year ending September 30:	
2010	$ 1,204
2011	1,228
2012	1,253
2013	1,278
2014	1,303
Thereafter	3,485
	9,751
Less present value discount	(2,217)
Less current portion	(733)
	$ 6,801

Net property, plant and equipment included approximately $4.9 million and $5.6 million at September 30, 2009 and 2008, respectively, related to the capital leases.

8. Pensions and Postretirement Benefits

YNHNC has qualified and non-qualified defined benefit pension plans covering substantially all employees and executives. The benefits provided are based on age, years of service and compensation. YNHNC's policy is to fund the pension benefits with at least the minimum amounts required by the Employee Retirement Income Security Act of 1974.

8. Pensions and Postretirement Benefits (continued)

YNHNC also sponsors contributory 403(b) and 401(k) plans covering substantially all employees. YNHNC's contributions for the 403(b) plan are determined based on employee contributions and years of service. Contributions to the 401(k) plans are determined based on employee compensation and years of service. YNHNC contributed approximately $9.2 million and $8.3 million for the years ended September 30, 2009 and 2008, respectively. YNHNC maintains a Section 457 non-qualified deferred compensation plan. Contributions are made on a pre-tax basis. The balances recorded at September 30, 2009 and 2008 in other assets and other long-term liabilities were $14.1 million and $11.9 million, respectively.

YNHNC also provides certain health care and life insurance benefits upon retirement to substantially all its employees. YNHNC's policy is to fund these annual costs as they are incurred from the general assets of YNHNC. The estimated cost of these postretirement benefits is actuarially determined and accrued over the employees' service periods.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (hereafter referred to as ASC No. 715). In 2009, YNHNC adopted the measurement date provisions of ASC No. 715. ASC No. 715 required YNHNC to measure defined benefit plan assets and obligations as of September 30, the date of its fiscal year-end consolidated balance sheet. Prior to the implementation of this change, the measurement date for YNHNC's pension and postretirement benefit plans was June 30. The adjustment of $4.5 million represents a decrease to unrestricted net assets and an increase to other long-term liabilities. The adoption of the measurement date provision of ASC No. 715 had no effect on YNHNC's consolidated financial statements for fiscal 2009 or any prior period presented. It will not affect YNHNC's operating results in future periods.

Included in unrestricted net assets at September 30, 2009 and 2008 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credit of $0.7 million and $0.9 million, respectively, and unrecognized actuarial losses of $83.6 million and $10.2 million, respectively. The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2010 are $0.8 million and $1.2 million, respectively.

8. Pensions and Postretirement Benefits (continued)

The following table sets forth the change in benefit obligation, change in plan assets, and the reconciliation of underfunded status of YNHNC's defined benefit plans as of September 30, 2009 and June 30, 2008 (in thousands):

	Defined Benefit Pension Plans		**Postretirement Benefits Plan**	
	2009	**2008**	**2009**	**2008**
Change in benefit obligation:				
Benefit obligation at prior measurement date	**$ 303,197**	$ 296,514	**$ 39,671**	$ 41,349
Service cost	**13,276**	12,102	**2,306**	2,357
Interest cost	**19,978**	17,868	**2,663**	2,516
Actuarial loss (gain)	**21,788**	(8,081)	**7,536**	(5,324)
Benefits paid	**(16,264)**	(15,206)	**(1,662)**	(1,227)
Change in measurement date	**7,699**	–	**1,242**	–
Benefit obligation at current measurement date	**349,674**	303,197	**51,756**	39,671
Change in plan assets:				
Fair value of assets at prior measurement date	**242,470**	252,542	**–**	–
Actual return on plan assets	**(21,386)**	(3,416)	**–**	–
Employer contributions	**11,613**	8,550	**1,662**	1,227
Benefits paid	**(16,264)**	(15,206)	**(1,662)**	(1,227)
Fair value of assets at current measurement date	**216,433**	242,470	**–**	–
Reconciliation of underfunded status:				
Underfunded status	**(133,241)**	(60,727)	**(51,756)**	(39,671)
Contributions after measurement date and on or before fiscal year end	**–**	–	**–**	398
Accrued benefit cost	**$ (133,241)**	$ (60,727)	**$ (51,756)**	$ (39,273)

8. Pensions and Postretirement Benefits (continued)

Benefit Obligation and Assumptions

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the defined benefit plans were as follows (in thousands):

	September 30, 2009	June 30, 2008
Projected benefit obligation	**$ (349,674)**	$ (303,197)
Accumulated benefit obligation	**(254,607)**	(226,291)
Fair value of plan assets	**216,433**	242,470

At September 30, 2009 and 2008, the underfunded status of the qualified defined benefit pension plan was approximately $91.7 million and $26.4 million, respectively, and that of the non-qualified defined benefit pension plan was approximately $41.5 million and $34.3 million, respectively. Additionally, there are assets limited as to use of approximately $46.8 million and $35.8 million, which are available to satisfy the obligations of the non-qualified defined benefit pension plan at September 30, 2009 and 2008, respectively.

The net periodic benefit cost for the years ended September 30, 2009 and 2008 is as follows (in thousands):

	Defined Benefit Pension Plans		Postretirement Benefits Plan	
	2009	**2008**	**2009**	**2008**
Service cost	**$ 13,276**	$ 12,102	**$ 2,306**	$ 2,357
Interest cost	**19,978**	17,868	**2,663**	2,516
Expected return on plan assets	**(18,015)**	(17,020)	–	–
Amortization of prior service cost	**(461)**	(462)	**76**	265
Recognized net actuarial loss	**53**	338	–	–
Net periodic benefit cost	**$ 14,831**	$ 12,826	**$ 5,045**	$ 5,138

8. Pensions and Postretirement Benefits (continued)

Weighted-average assumptions and dates used to determine benefit obligations at September 30, 2009 and June 30, 2008 are as follows:

	Defined Benefit Pension Plans		Postretirement Benefits Plan	
	2009	**2008**	**2009**	**2008**
Discount rate for determining benefit obligations at year-end, qualified plan	**5.50%**	6.90%	**5.50%**	6.90%
Discount rate for determining benefit obligations at year end, non-qualified plan	**5.50**	7.50	**–**	–
Rate of compensation increase	**5.00**	5.00	**–**	–

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2009 and 2008 are as follows:

	Defined Benefit Pension Plans		Postretirement Benefits Plan	
	2009	**2008**	**2009**	**2008**
Discount rate	**6.90%**	6.25%	**6.90%**	6.25%
Expected rate of return on plan assets	**7.75**	7.75	–	–
Rate of compensation increase	**5.00**	5.00	–	–

For measurement purposes relating to the postretirement benefit plan, a 10.0% and 11.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 2009 and fiscal 2008, respectively. Rates are assumed to decline to 4.0% through fiscal 2014.

8. Pensions and Postretirement Benefits (continued)

Assumed health care cost trend rate assumptions have a significant effect on the amounts reported. A 1% change in the assumed healthcare cost trend rate would have the following effects (in thousands):

	1% Increase	**1% Decrease**
Effect on total of service and interest cost components	$ 20	$ (19)
Effect on postretirement benefit obligation	233	(232)

The asset allocation of YNHNC's qualified pension plan at September 30, 2009 and 2008 was as follows:

	Target Allocation	**Percentage of Plan Assets**	
Asset Category	**2010**	**2009**	**2008**
Equity securities	**42%**	49%	46%
Debt securities	**25**	27	29
Real estate	**10**	7	10
All other assets	**23**	17	15
Total	**100%**	100%	100%

YNHNC'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 allocation of the investment pool to various sectors of the markets is designed to reduce volatility in the portfolio. YNHNC'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. The actual return on assets of the pension plan for the years ended September 30, 2009 and 2008 was (4.1)% and (8.1)%, respectively.

8. Pensions and Postretirement Benefits (continued)

The future cash flows of YNHNC relative to retirement benefits are expected to be as follows (in thousands):

	Defined Benefit Pension Plans	Postretirement Benefits Plan
Estimated benefit payments related to years ending September 30:		
2010	$ 27,520	$ 1,942
2011	28,053	2,314
2012	28,668	2,459
2013	30,669	2,702
2014	31,283	2,963
2015 to 2019	168,852	19,131

YNHNC expects to contribute approximately $1.9 million for postretirement benefits in fiscal 2010.

9. Professional Liability Insurance

In 1978, the Hospital and a number of other academic medical centers formed the Medical Centre Insurance Company, Ltd. (the "Captive") to insure for professional and comprehensive general liability risks. In 1997, the Captive formed MCIC Vermont, Inc. to write direct insurance for the professional and general liability risks of the shareholders. Since 1997, the Captive has acted as a reinsurer for varying levels of per claim limit exposure. MCIC Vermont, Inc. 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, the Captive and MCIC Vermont, Inc.

In fiscal 1998, the Hospital entered into a purchase and sales management agreement with YNHHSC that transferred the Hospital's participation in the Captive to YNHHSC for its book value as calculated by the Captive. Under the terms of the agreement, the Hospital retains certain elements of control and assumes limited risk associated with the ongoing operation of the Captive. The Hospital pays insurance premiums to YNHHSC.

Additionally, because the purchase and sales management agreement entered into with YNHHSC in 1998 meets the criteria for deposit accounting, the Hospital recorded an actuarially determined liability for IBNR professional and general liabilities with an offsetting deposit (asset) of an equal amount (approximately $11.8 million).

9. Professional Liability Insurance (continued)

The estimated undiscounted IBNR liability for professional and general claims at September 30, 2009 and 2008 was approximately $28.8 million and $28.1 million, respectively, and is recorded at the actuarially determined present value of approximately $22.2 million and $21.3 million, respectively, based on a discount rate of 4.5% in 2009 and 5.0% in 2008.

10. Commitments and Contingencies

Leases

YNHNC leases certain office, clinical and parking spaces under non-cancelable operating leases that range in terms ending in 2009 through 2023. Future minimum lease payments under these leases are as follows (in thousands):

2010	$ 10,068
2011	9,660
2012	7,340
2013	6,438
2014	5,683
Thereafter	18,425
	$ 57,614

YNHNC incurred net rent expense under these leases of approximately $10.6 million and $10.4 million for the years ended September 30, 2009 and 2008, respectively.

The Hospital has entered into a contract to lease space in a building (which is currently scheduled to be constructed) adjacent to the Hospital upon completion of construction. This lease has a term of twenty years from the commencement date with the option to extend the lease for four successive terms of ten consecutive years. Rental payments will increase by 5% every five years. The Hospital is also subject to additional rent for its share of expenses, as defined in the contract. The Hospital has the option to purchase the property at the end of the fifth, tenth, or twentieth years or at the end of each of the first three ten-year extension periods. The building is scheduled to be completed for occupancy by March 2010, at which point the Hospital's rental obligation will commence.

10. Commitments and Contingencies (continued)

The Hospital has entered into an agreement to lease space in a building (which is being constructed) upon completion of construction. The Hospital will enter into three leases for Office and Retail space, Housing space, and Parking. The base rent is determined based on the final project budget. If actual costs are less than the final budget the rent will be reduced to the extent that the return is not more than 8½%. The Hospital will lease these spaces for three years after which the Hospital has the obligation to purchase the property. Construction is scheduled to be completed in phases, at which point the Hospital's rental obligation will commence.

Cancer Hospital

The Hospital is constructing a 16-story, approximately 500,000 square-foot building for the treatment of cancer which was partially placed into service in October 2009. The Cancer Hospital is being built on Hospital-owned property. The Cancer Hospital will include 112 inpatient beds, expanded operating rooms and radiology services, expanded diagnostic services, a women's cancer center and other facilities. The total cost of the project is estimated to be $467.6 million including construction, equipment, architect and engineering fees, financing costs, capitalized interest, and contingencies. The Hospital has received a Certificate of Need for the Cancer Hospital from the State of Connecticut's Office of Health Care Access. The Hospital has obtained the various required zoning and construction approvals from the City. The Hospital is financing a portion of the project with the issuance of bonds (see Note 7) and a fundraising campaign.

In 2007, the Hospital entered into a shared facilities and services agreement with the University. In 2009 and 2008, the Hospital received $17.8 million and $33.1 million, respectively, from the University in connection with the Cancer Hospital construction and future operating costs which is recorded as deferred revenue. Deferred revenue at September 30, 2009 and 2008 was $50.9 million and $33.1 million, respectively.

In connection with the construction of the Cancer Hospital, the Hospital and the University entered into a joint fundraising agreement. As of September 30, 2009, the joint fund raising efforts for the new facility had successfully raised $93.9 million of the $100.0 million joint target. As of September 30, 2009, the Hospital had attained approximately $47.4 million related to the fundraising activity which includes the Hospital's shares of amounts raised by the University.

10. Commitments and Contingencies (continued)

Litigation

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against YNHNC. Such lawsuits and claims are either specifically covered by insurance as explained in Note 9 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 consolidated financial position or changes in net assets of YNHNC.

YNHNC 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 YNHNC, cannot be determined at this time.

11. Functional Expenses

YNHNC provides general acute health care services to residents within its geographic area. Net expenses related to providing these services are as follows (in thousands):

	Year Ended September 30	
	2009	**2008**
Health care services	**$ 1,054,430**	$ 951,683
General and administrative	**157,558**	142,206
	$ 1,211,988	$ 1,093,889

12. Related Party Transactions

YNHNC provided facility space and certain services to related parties as follows (in thousands):

	Year Ended September 30	
	2009	**2008**
Recovery of expenses:		
YNHHSC:		
Facility rental	**$ 2,471**	$ 2,293
Shared services	**3,014**	3,110
Other	**3,908**	2,751
	$ 9,393	$ 8,154
Bridgeport Hospital:		
Resident fees	**$ 1,662**	$ 1,586
Other	**710**	640
	$ 2,372	$ 2,226

YNHHSC is the sole member of Bridgeport Hospital Healthcare Services, Inc., which is the sole member of Bridgeport Hospital.

YNHNC is the parent organization of Yale-New Haven Ambulatory Services Corporation, a Connecticut, non-stock taxable corporation.

YNHNC purchased certain services from YNHHSC as follows (in thousands):

	Year Ended September 30	
	2009	**2008**
Operating expenses:		
Professional and general liability insurance	**$ 21,447**	$ 21,129
Information systems	**16,785**	15,414
System business office	**13,720**	12,635
Other business services	**52,757**	48,608
	$ 104,709	$ 97,786

12. Related Party Transactions (continued)

Amounts receivable from and payable to related organizations included in other receivables, accounts payable and other long-term liabilities, respectively, in the consolidated balance sheets are as follows (in thousands):

	September 30	
	2009	**2008**
Other receivables:		
YNHHSC	**$ 1,808**	$ 1,941
Bridgeport Hospital	**605**	220
Greenwich Hospital	**9**	91
	$ 2,422	$ 2,252
Accounts payable:		
YNHHSC	**$ 11,041**	$ 10,837
Bridgeport Hospital	**–**	129
Greenwich Hospital	**93**	87
Other long-term liabilities:		
YNHHSC	**37,912**	33,070
	$ 49,046	$ 44,123

YNHNC maintains certain investments for YNHHSC employees that participate in YNHNC's sponsored benefit plans. The costs associated with the YNHHSC employees that participate in benefit plans are recovered by YNHNC.

YNHNC funds certain capital assets purchased by YNHHSC. Included in prepaid expenses and other assets were approximately $1.3 million and $4.1 million, respectively, at September 30, 2009 and approximately $2.5 million and $5.5 million, respectively, at September 30, 2008.

Additionally, for the years ended September 30, 2009 and 2008, YNHNC funded YNHHSC approximately $13.7 million and $6.5 million, respectively, as part of its participation in the New Clinical Program Development Fund ("NCPDF"). The NCPDF was established for the purpose of funding and supporting clinical research and clinical programs. The NCPDF Board approves the funding of initiatives.

13. Other Revenue

Other revenue consisted of the following (in thousands):

	Year Ended September 30 2009	2008
Cafeteria and vending	**$ 5,815**	$ 5,141
Contributions	**1,245**	2,507
Parking income	**2,382**	1,954
Net assets released from restrictions for operations	**4,180**	9,643
Net assets released from restrictions for free care	**814**	3,902
Net assets released from restrictions for medical research and clinical programs	**17,821**	18,986
Grants	**4,431**	4,048
Rental income	**1,649**	1,810
Other	**4,319**	4,418
	$ 42,656	$ 52,409

14. Fair Values of Financial Instruments

As discussed in Note 1, on October 1, 2008, YNHNC adopted the methods of calculating fair value as defined in ASC No. 820-10 to value its financial assets and liabilities, where applicable. ASC No. 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

ASC No. 820-10 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.

14. Fair Values of Financial Instruments (continued)

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

Financial assets carried at fair value as of September 30, 2009 and 2008 are classified in the following table in two of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 60,217	$ –	$ –	$ 60,217
Money market funds	135,920	–	–	135,920
Mutual funds	9,637	–	–	9,637
U.S. government obligations	70,239	–	–	70,239
Interest in Yale University Endowment Pool	–	130,398	–	130,398
Debt securities	750	–	–	750
Common stock	2,128	–	–	2,128
Investments at fair value	$ 278,891	$ 130,398	$ –	409,289
Common collective trusts				207,691
Alternative investments				63,020
Perpetual trust				11,105
Investments not at fair value				281,816
Total investments				$ 691,105
Liabilities:				
Interest rate swaps	$ –	$ (16,958)	$ –	$ (16,958)

The fair value of long-term debt was approximately $411 million at September 30, 2009.

14. Fair Values of Financial Instruments (continued)

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 in common collective trusts totaling approximately $207.0 million, other alternative investments totaling approximately $63.0 million, and perpetual trusts totaling approximately $11.0 million that are accounted for under the equity method of accounting. The interest rate swaps listed above are classified in the accompanying balance sheet as other long-term liabilities at September 30, 2009 and 2008.

15. Subsequent Events

As discussed in Note 1, YNHNC adopted ASC 855-10, which requires YNHNC to disclose the date through which subsequent events have been evaluated. Subsequent events have been evaluated through December 22, 2009, which is the date the financial statements were available to be issued. No events have occurred that require disclosure or adjustment of the financial statements.

Other Financial Information

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Report of Independent Auditors on Other Financial Information

Board of Trustees
YNH Network Corporation and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following consolidating balance sheet at September 30, 2009 and consolidating statement of operations and changes in net assets for the year then ended of YNH Network Corporation and Subsidiaries are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst + Young LLP

December 22, 2009

YNH Network Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2009

(In Thousands)

	YNHNC	Hospital	ASC	York	CHCP	QMPC	Eliminations	Total
Assets								
Current assets:								
Cash and cash equivalents	$ 1,056	$ 51,804	$ 3,649	$ 2,909	$ 18	$ 781	$ –	$ 60,217
Short-term investments:								
Interest in Yale University Endowment Pool	–	130,398	–	–	–	–	–	130,398
Other short-term investments	–	326,262	–	–	–	–	–	326,262
Total short-term investments	–	456,660	–	–	–	–	–	456,660
Accounts receivable for services to patients, net	–	123,653	1,983	1,979	–	801	–	128,416
Other receivables	48	30,337	28	1,695	–	1,831	(2,710)	31,229
Other current assets	–	19,123	370	1,534	–	3	–	21,030
Amounts on deposit with trustee in debt service fund	–	4,458	–	–	–	–	–	4,458
Total current assets	1,104	686,035	6,030	8,117	18	3,416	(2,710)	702,010
Assets limited as to use:								
Funds reserved for the Cancer Hospital and other purposes	–	76,806	–	–	–	–	–	76,806
Beneficial interest in perpetual trusts	–	11,105	–	–	–	–	–	11,105
	–	87,911	–	–	–	–	–	87,911
Long-term investments	–	81,859	–	–	–	–	–	81,859
Deferred financing costs, less accumulated amortization	–	3,954	–	–	–	–	–	3,954
Other assets	12,830	59,119	313	817	1	1	(12,826)	60,255
Property, plant, and equipment:								
Land and land improvements	–	24,976	–	3,091	–	–	–	28,067
Buildings and fixtures	–	488,966	3,970	15,264	–	–	–	508,200
Equipment	–	330,760	2,393	566	–	10	–	333,729
	–	844,702	6,363	18,921	–	10	–	869,996
Less accumulated depreciation	–	553,768	2,544	9,742	–	7	–	566,061
	–	290,934	3,819	9,179	–	3	–	303,935
Construction in progress	–	360,678	–	–	–	–	–	360,678
	–	651,612	3,819	9,179	–	3	–	664,613
Total assets	$ 13,934	$ 1,570,490	$10,162	$18,113	$ 19	$ 3,420	$ (15,536)	$ 1,600,602

YNH Network Corporation and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2009

(In Thousands)

	YNHNC	Hospital	ASC	York	CHCP	QMPC	Eliminations	Total
Liabilities and net assets (deficiency)								
Current liabilities:								
Accounts payable	$ –	$ 78,666	$ 450	$ 2,125	$ –	$ 1,656	$ (2,140)	$ 80,757
Accrued expenses	37	114,985	246	–	–	3,180	(48)	118,400
Current portion of long-term debt	–	11,075	462	733	–	–	–	12,270
Other liabilities	–	1,110	915	513	–	–	(473)	2,065
Total current liabilities	37	205,836	2,073	3,371	–	4,836	(2,661)	213,492
Long-term debt, net of current portion	–	388,966	762	6,801	–	–	–	396,529
Accrued pension and postretirement benefit obligations	–	192,862	–	–	–	–	–	192,862
Other long-term liabilities	–	144,431	2,205	252	–	–	–	146,888
Deferred revenue	–	50,864	–	–	–	–	–	50,864
Total liabilities	37	982,959	5,040	10,424	–	4,836	(2,661)	1,000,635
Net assets (deficiency):								
Unrestricted	13,897	514,304	5,122	7,689	19	(1,416)	(12,875)	526,740
Temporarily restricted	–	47,505	–	–	–	–	–	47,505
Permanently restricted	–	25,722	–	–	–	–	–	25,722
Total net assets (deficiency)	13,897	587,531	5,122	7,689	19	(1,416)	(12,875)	599,967
Total liabilities and net assets (deficiency)	$ 13,934	$ 1,570,490	$ 10,162	$ 18,113	$ 19	$ 3,420	$ (15,536)	$ 1,600,602

YNH Network Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2009

(In Thousands)

	YNHNC	Hospital	ASC	York	CHCP	QMPC	Eliminations	Total
Operating revenue:								
Net patient service revenue	$ –	$ 1,196,644	$15,236	$22,774	$ –	$ 4,554	$ (274)	$ 1,238,934
Other revenue	2,352	40,468	262	1,713	–	293	(2,432)	42,656
Total operating revenue	2,352	1,237,112	15,498	24,487	–	4,847	(2,706)	1,281,590
Operating expenses:								
Salaries and benefits	–	576,787	5,637	2,400	–	3,153	17,535	605,512
Supplies and other expenses	85	503,528	6,134	21,006	1	1,019	(17,769)	514,004
Depreciation	–	43,050	658	815	–	2	–	44,525
Insurance	–	19,909	118	41	–	674	–	20,742
Bad debts	–	24,873	675	50	–	2	–	25,600
Interest	–	1,549	56	–	–	–	–	1,605
Total operating expenses	85	1,169,696	13,278	24,312	1	4,850	(234)	1,211,988
Income (loss) from operations	2,267	67,416	2,220	175	(1)	(3)	(2,472)	69,602
Nonoperating gains (losses):								
Income from investments, donations and other, net	(2,024)	(39,251)	(2,102)	34	(1)	(1)	2,069	(41,276)
Change in unrealized gains and losses on investments	–	30,283	–	–	–	–	–	30,283
Change in fair value of swap, including counterparty payments	–	(5,547)	–	–	–	–	–	(5,547)
Excess (deficiency) of revenue over expenses	243	52,901	118	209	(2)	(4)	(403)	53,062

(Continued on next page.)

YNH Network Corporation and Subsidiaries

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

Year Ended September 30, 2009

(In Thousands)

	YNHNC	Hospital	ASC	York	CHCP	QMPC	Eliminations	Total
Unrestricted net assets:								
Excess (deficiency) of revenue over expenses (continued)	$ 243	$ 52,901	$ 118	$ 209	$ (2)	$ (4)	$ (403)	$ 53,062
Other changes in net assets	(48)	(3,534)	–	(48)	–	–	48	(3,582)
Transfer to Yale-New Haven Health Services Corporation – Clinical Development Fund	–	(13,682)	–	–	–	–	–	(13,682)
Net assets released from restrictions for purchases of fixed assets	–	43,544	–	–	–	–	–	43,544
Pension and other postretirement liability adjustments	–	(78,001)	–	–	–	–	–	(78,001)
Increase (decrease) in unrestricted net assets	195	1,228	118	161	(2)	(4)	(355)	1,341
Temporarily restricted net assets:								
Income from investments	–	1,730	–	–	–	–	–	1,730
Net realized (losses) gains on investments	–	(12,860)	–	–	–	–	–	(12,860)
Change in net unrealized gains and losses on investments	–	12,417	–	–	–	–	–	12,417
Bequests, contributions, and grants	–	32,007	–	–	–	–	–	32,007
Net assets released from restrictions for purchases of fixed assets	–	(43,544)	–	–	–	–	–	(43,544)
Net assets released from restrictions for free care	–	(814)	–	–	–	–	–	(814)
Net assets released from restrictions for operations	–	(4,839)	–	–	–	–	–	(4,839)
Net assets released from restrictions for medical research and clinical programs	–	(17,821)	–	–	–	–	–	(17,821)
Decrease in temporarily restricted net assets	–	(33,724)	–	–	–	–	–	(33,724)
Permanently restricted net assets:								
Change in beneficial interest in perpetual trusts	–	(396)	–	–	–	–	–	(396)
Decrease in permanently restricted net assets	–	(396)	–	–	–	–	–	(396)
(Decrease) increase in net assets	195	(32,892)	118	161	(2)	(4)	(355)	(32,779)
Net assets (deficiency) at beginning of year	13,702	620,423	5,004	7,528	21	(1,412)	(12,520)	632,746
Net assets (deficiency) at end of year	$ 13,897	$ 587,531	$ 5,122	$ 7,689	$ 19	$(1,416)	$ (12,875)	$ 599,967