

# **Lawrence & Memorial Corporation and Subsidiaries**

**Consolidated Financial Statements  
September 30, 2010 and 2009**

# Lawrence & Memorial Corporation and Subsidiaries

## Index

September 30, 2010 and 2009

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	Page(s)
<b>Report of Independent Auditors</b> .....	1
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets .....	2
Consolidated Statements of Operations .....	3
Consolidated Statements of Changes in Net Assets .....	4
Consolidated Statements of Cash Flows .....	5
Notes to Consolidated Financial Statements .....	6–23
<b>Consolidating Supplemental Information</b>	
Consolidating Balance Sheets .....	24–27
Consolidating Statements of Operations .....	28–29

**Report of Independent Auditors**

To the Board of Directors of  
Lawrence & Memorial Corporation

In our opinion, based on our audits and the report of other auditors, 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 Corporation (the "Corporation") and subsidiaries at September 30, 2010 and 2009 and the results of their operations, of their changes in net assets, and of their 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 Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Visiting Nurses Association ("VNA") of Southeastern Connecticut, Inc., a wholly-owned subsidiary, whose statements as of September 30, 2010 and 2009 reflect total net assets constituting 5.5% and 5.0%, respectively, and total net revenues constituting 3.6% and 3.8%, respectively, of the related consolidated totals. Those statements have been audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for VNA of Southeastern Connecticut, Inc., is based solely on the reports of the other auditors. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors 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 24 through 29, 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.

*PricewaterhouseCoopers LLP*

December 17, 2010

**Lawrence & Memorial Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
**September 30, 2010 and 2009**

	2010	2009
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 41,222,090	\$ 30,049,949
Investments	155,780,987	141,225,546
Patient accounts receivable, net of allowance for doubtful accounts of \$7,673,848 and \$6,674,799, respectively	32,328,543	31,445,669
Other receivables	6,025,606	6,543,410
Inventories	3,796,086	3,506,113
Due from affiliates	1,928	24,500
Prepaid expenses and other current assets	1,931,561	2,538,001
Debt service fund	1,248,032	1,295,094
Total current assets	<u>242,334,833</u>	<u>216,628,282</u>
Assets limited as to use		
Cash	179,215	177,710
Construction fund	-	6,170
Investments held in trust	11,986,573	12,678,851
Endowment investments	21,666,014	20,488,707
Funds held in trust by others	5,876,049	5,611,568
Contributions receivable	1,110,916	1,327,113
Fund held in escrow by agreement with State of Connecticut Health and Educational Facilities Authority and trustees	7,156,167	7,159,610
Total assets limited as to use	<u>47,974,934</u>	<u>47,449,729</u>
Deferred financing costs and other assets, net	1,330,365	1,418,292
Property, plant and equipment, net	<u>112,579,230</u>	<u>109,741,869</u>
	<u>\$ 404,219,362</u>	<u>\$ 375,238,172</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 21,876,869	\$ 16,961,077
Accrued vacation and sick pay	11,220,455	10,641,451
Salaries, wages, payroll taxes and amounts withheld from employees	5,036,999	4,184,333
Due to affiliates	-	718,757
Due to third party payors	8,839,110	9,222,736
Other current liabilities	156,861	364,053
Current portion of long-term debt	2,906,408	2,674,572
Total current liabilities	50,036,702	44,766,979
Accrued pension and other postretirement benefits	52,135,334	43,035,284
Other liabilities	12,279,482	12,202,253
Long-term debt less current portion	62,148,146	64,577,644
Total liabilities	<u>176,599,664</u>	<u>164,582,160</u>
Net assets		
Unrestricted	203,283,725	187,324,944
Temporarily restricted	18,658,648	17,758,955
Permanently restricted	5,677,325	5,572,113
Total net assets	<u>227,619,698</u>	<u>210,656,012</u>
	<u>\$ 404,219,362</u>	<u>\$ 375,238,172</u>

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

**Lawrence & Memorial Corporation and Subsidiaries**  
**Consolidated Statements of Operations**  
**Years Ended September 30, 2010 and 2009**

	2010	2009
<b>Unrestricted revenues, gains and other support:</b>		
Net revenues from services to patients	\$ 326,063,574	\$ 295,154,990
Other operating revenues	19,082,821	17,579,868
Net assets released from restriction used for operations	412,940	460,320
Total unrestricted revenues, gains and other support	<u>345,559,335</u>	<u>313,195,178</u>
<b>Expenses:</b>		
Salaries and wages	156,922,676	146,830,700
Employee benefits	43,343,606	38,489,945
Supplies	34,587,025	32,245,723
Purchased services	22,115,804	22,007,293
Other	41,250,524	30,368,297
Interest	2,373,694	2,673,379
Depreciation and amortization	17,160,934	16,403,646
Bad debts	17,229,746	17,657,789
Total expenses	<u>334,984,009</u>	<u>306,676,772</u>
Income from operations	10,575,326	6,518,406
Non-operating gains/(losses)		
Unrestricted investment income	175,335	266,039
Income/(loss) from investments	3,332,139	(983,287)
Realized losses on investments deemed other than temporarily impaired	-	(645,291)
Total non-operating gains/(losses)	<u>3,507,474</u>	<u>(1,362,539)</u>
<b>Excess of revenues over expenses</b>	<u>14,082,800</u>	<u>5,155,867</u>
Net unrealized gains on investments	8,133,243	5,217,924
Transfer to/from affiliate	694,257	-
Net assets released from restrictions used for purchase of property, plant and equipment	660,045	385,879
Pension - related changes other than periodic pension costs	(7,611,564)	(22,254,106)
Donated equipment	-	60,000
Increase/(decrease) in unrestricted net assets	<u>\$ 15,958,781</u>	<u>\$ (11,434,436)</u>

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

**Lawrence & Memorial Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended September 30, 2010 and 2009**

	2010	2009
<b>Unrestricted net assets</b>		
Excess of revenues over expenses	\$ 14,082,800	\$ 5,155,867
Net unrealized gains/(losses) on investments	8,133,243	5,217,924
Transfer to/from affiliate	694,257	
Net assets released from restrictions used for purchase of property, plant and equipment	660,045	385,879
Pension - related changes other than periodic pension costs	(7,611,564)	(22,254,106)
Donated equipment		60,000
Increase/(decrease) in unrestricted net assets	<u>15,958,781</u>	<u>(11,434,436)</u>
Beginning of year unrestricted net assets	<u>187,324,944</u>	<u>198,759,380</u>
End of year unrestricted net assets, as reclassified	<u>\$ 203,283,725</u>	<u>\$ 187,324,944</u>
<b>Temporarily restricted net assets</b>		
Income from investments	\$ 268,083	\$ 445,602
Net assets released from restrictions	(1,072,985)	(846,199)
Contributions received	530,003	709,585
Change in value of irrevocable trusts	159,705	(108,819)
Net realized and unrealized gains/(losses) on investments	1,014,887	(579,243)
Increase/(decrease) in temporarily restricted net assets	<u>899,693</u>	<u>(379,074)</u>
Beginning of year temporarily restricted net assets	<u>17,758,955</u>	<u>18,138,029</u>
End of year temporarily restricted net assets, as reclassified	<u>\$ 18,658,648</u>	<u>\$ 17,758,955</u>
<b>Permanently restricted net assets</b>		
Change in value of funds held in trust by others	\$ 105,212	\$ (63,111)
Increase/(decrease) in permanently restricted net assets	<u>105,212</u>	<u>(63,111)</u>
Beginning of year permanently restricted net assets	<u>5,572,113</u>	<u>5,635,224</u>
End of year permanently restricted net assets	<u>\$ 5,677,325</u>	<u>\$ 5,572,113</u>
Increase/(decrease) in net assets	<u>\$ 16,963,686</u>	<u>\$ (11,876,621)</u>

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

**Lawrence & Memorial Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Years Ended September 30, 2010 and 2009**

	2010	2009
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 16,963,686	\$ (11,876,621)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,160,934	16,403,646
Net unrealized and realized gains on investments	(8,864,739)	(6,569,088)
Realized loss on other than temporarily impaired investments	-	645,291
Provision for bad debts	17,229,746	17,657,789
(Increase)/decrease in funds held in trust by others	(264,481)	172,314
Decrease/(increase) in contributions receivable	216,197	(645,861)
Other changes in net assets		
Restricted contributions and investment income	(798,086)	(125,724)
Changes in other operating accounts		
Patient accounts receivable, net	(18,112,620)	(11,033,091)
Other receivables, net	517,804	(1,854,993)
Inventories	(289,973)	(149,064)
Prepaid expenses and other current assets	606,440	(511,816)
Deferred financing costs and other assets	87,927	210,788
Accounts payable	5,125,506	(2,104,854)
Accrued vacation and sick pay	579,004	475,554
Salaries, wages, payroll taxes and amounts withheld from employees	852,666	483,413
Due to affiliates	(718,757)	295,846
Due from affiliates	22,572	1
Due to third party payors	(383,626)	1,095,823
Pension, postretirement and other liabilities	8,970,087	22,807,555
Net cash provided by operating activities	<u>38,900,287</u>	<u>25,376,908</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment, net	(20,085,147)	(23,242,099)
Purchases of investments	(151,368,583)	(108,381,734)
Sales of investments	145,197,517	113,345,116
Decrease/(increase) in debt service fund	47,062	(1,057)
Decrease in funds held in escrow	3,443	181,397
Net cash used in investing activities	<u>(26,205,708)</u>	<u>(18,098,377)</u>
<b>Cash flows from financing activities</b>		
Restricted contributions	798,086	125,724
Principal payments of long term debt	(2,320,524)	(2,537,012)
Net cash used in financing activities	<u>(1,522,438)</u>	<u>(2,411,288)</u>
Net increase in cash and cash equivalents	11,172,141	4,867,243
<b>Cash and cash equivalents</b>		
Beginning of year	30,049,949	25,182,706
End of year	<u>\$ 41,222,090</u>	<u>\$ 30,049,949</u>
<b>Supplemental disclosure of non cash activities</b>		
Construction in process included in accounts payable	<u>\$ 1,526,923</u>	<u>\$ 1,317,209</u>
Contributed securities	<u>\$ 798,086</u>	<u>\$ 125,724</u>

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

# Lawrence & Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2010 and 2009

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#### 1. Significant Accounting Policies and Organization

##### Organization

Lawrence & Memorial Corporation (the "Corporation") is a not-for-profit organization incorporated under the Non-Stock Corporation Act of the State of Connecticut. The Corporation is organized exclusively for public welfare, charitable, scientific, literary and education purposes, including the furtherance of the welfare, programs and activities of Lawrence & Memorial Hospital (the "Hospital"), a non-profit organization incorporated under the General Statutes of the State of Connecticut.

The following entities are subsidiaries of the Corporation: Lawrence & Memorial Hospital ("L&M"), L&M Systems, Inc., VNA of Southeastern Connecticut, and L&M Healthcare. The VNA of Southeastern Connecticut Inc. is consolidated using financial statement balances at June 30, 2010 and 2009.

L&M Healthcare has an affiliation agreement effective January 31, 1999 (the "Agreement") with the Hospice of Southeastern Connecticut, Inc. (the "Hospice"). The Agreement gives L&M Healthcare a membership of the Hospice with one other not-for-profit healthcare organization. L&M Healthcare does not have an equity investment in the Hospice because the affiliation agreement does not require L&M Healthcare to provide capital to the Hospice and L&M Healthcare is not entitled to any of the net assets of the Hospice should the relationship terminate or the Hospice dissolve. The Corporation and its subsidiaries have never given capital to the Hospice and the Hospice has never made capital distributions to the Corporation or its subsidiaries.

L & M Physician Association, Inc. ("LMPA") was formed exclusively for the charitable purpose of benefitting, supporting, and furthering the charitable activities of Lawrence & Memorial Hospital by engaging physicians to provide physician services to the Hospital, organizations affiliated with the Hospital and communities they serve for purpose of practicing medicine and health care services.

##### Principles of Consolidation

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

##### Use of Estimates

The preparation of 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 consolidated 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 Corporation's significant estimates include the collectability of patient accounts receivable, useful lives of fixed assets, settlements due to third party payors, estimated reserves for self-insurance liabilities, and benefit plan assumptions.

##### Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation 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 Corporation and its subsidiaries in perpetuity or in funds held in trust by others whose purpose is for the funds to be maintained in perpetuity.

# Lawrence & Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2010 and 2009

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#### **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 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.

#### **Cash and Cash Equivalents**

The Corporation and its subsidiaries consider all highly liquid investments with original 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 the Corporation does not expect the fair value of a security to recover above cost or amortized cost. Once an "other than temporary impairment" charge has been recorded, a new cost basis is established.

The Corporation continues to review its securities for appropriate valuation on an ongoing basis. The Corporation determined that a portion of their investments was impaired as of September 30, 2009. The Statement of Operations reflects an other than temporary impairment of \$645,291 during 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 Corporation'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**

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.

# Lawrence & Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2010 and 2009

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The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Corporation 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.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

#### **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 to discount amounts.

#### **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 Corporation 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 estimated 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 a 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 nonoperating.

# Lawrence & Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2010 and 2009

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#### **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 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 Corporation and its Subsidiaries for debt of the same remaining maturities.

#### **Benefit Plans**

The Hospital has a defined benefit plan and a defined contribution plan. The VNA also has a defined contribution plan (see Note 8).

#### **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 Corporation and its subsidiaries are not-for-profit organizations and are exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code, except for L&M Systems. L&M Systems provides for taxes based on current taxable income and the future tax consequences of temporary differences between financial and income tax reporting. Such amounts are not material to the consolidated financial statements. LMPA became tax exempt under Section 501(c)(3) of the Internal Revenue Code on October 13, 2009.

#### **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. The payout is only upon termination of employment.

**Lawrence & Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010 and 2009**

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**Subsequent Events**

The Corporation has performed an evaluation of subsequent events through December 17, 2010, which is the date the financial statements were issued.

**Reclassifications**

Certain 2009 information was reclassified to conform with 2010 presentation.

**2. Revenues from Services to Patients and Charity Care**

The following summarizes net revenues from services to patients:

	<b>2010</b>	<b>2009</b>
Gross charges from services to patients	\$ 663,899,138	\$ 604,305,691
Less: charity care	<u>5,279,619</u>	<u>4,820,444</u>
Charges from services to patients, net of charity care	<u>658,619,519</u>	<u>599,485,247</u>
Deductions		
Allowances	334,462,279	306,380,434
State of Connecticut uncompensated care system (receipts)	<u>(1,906,334)</u>	<u>(2,050,177)</u>
Total deductions	<u>332,555,945</u>	<u>304,330,257</u>
Net revenues from services to patients	<u>\$ 326,063,574</u>	<u>\$ 295,154,990</u>

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 Corporation, and these differences are accounted for as allowances. The Corporation receives cash from the State of Connecticut Uncompensated Care Pool. The Corporation 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 \$16,000 and \$385,000 in 2010 and 2009, respectively.

During 2010 and 2009, approximately 32% and 31%, respectively, of net patient service revenue was received under the Medicare program, and 9% and 8%, 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.

**Lawrence & Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010 and 2009**

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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.

**3. Investments**

Investments included in current assets consist of the following:

	2010	2009
Pooled endowment funds		
Cash and cash equivalents	\$ 635,077	\$ 460,598
Bonds	3,851,439	4,498,566
Mutual funds	986,991	812,537
Hedge funds	4,468,891	3,240,234
Marketable equities	11,723,616	11,476,772
Total pooled endowment funds	<u>21,666,014</u>	<u>20,488,707</u>
Investments held in trust by others		
Cash and cash equivalents	168,922	195,199
Bonds	1,949,338	1,811,440
Marketable equities	3,580,952	3,453,623
Other investments	176,837	151,306
Total investments held in trust by others	<u>5,876,049</u>	<u>5,611,568</u>
Other investments		
Cash and cash equivalents	10,528,349	13,344,183
Bonds	45,270,709	52,377,206
Mutual funds	1,014,889	853,798
Hedge funds	43,314,198	21,561,096
Marketable equities	55,639,161	53,077,369
Connecticut Hospital Laboratory Network	13,681	11,894
Total other investments	<u>155,780,987</u>	<u>141,225,546</u>
	<u>\$ 183,323,050</u>	<u>\$ 167,325,821</u>

**Lawrence & Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010 and 2009**

The Corporation'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 by the fair value guidance valuation hierarchy defined above:

	<b>2010</b>			<b>Total Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Pooled endowment funds				
Cash and cash equivalents	\$ 635,077	\$ -	\$ -	\$ 635,077
Bonds	1,253,172	2,598,267	-	3,851,439
Mutual funds	986,991	-	-	986,991
Hedge funds	-	-	4,468,891	4,468,891
Marketable equities	7,819,113	3,904,503	-	11,723,616
Total pooled endowment funds	<u>10,694,353</u>	<u>6,502,770</u>	<u>4,468,891</u>	<u>21,666,014</u>
Held in trust by others				
Cash and cash equivalents	-	-	168,922	168,922
Bonds	-	-	1,949,338	1,949,338
Other assets	-	-	3,580,952	3,580,952
Marketable equities	-	-	176,837	176,837
Total held in trust by others	<u>-</u>	<u>-</u>	<u>5,876,049</u>	<u>5,876,049</u>
Other investments				
Cash and cash equivalents	10,528,349	-	-	10,528,349
Bonds	15,249,556	30,021,153	-	45,270,709
Mutual funds	1,014,889	-	-	1,014,889
Hedge funds	-	-	43,314,198	43,314,198
Marketable equities	27,559,945	28,079,216	-	55,639,161
Connecticut Hospital	-	-	-	-
Laboratory Network	-	-	13,681	13,681
Total other investments	<u>54,352,739</u>	<u>58,100,369</u>	<u>43,327,879</u>	<u>155,780,987</u>
	<u>\$ 65,047,092</u>	<u>\$ 64,603,139</u>	<u>\$ 53,672,819</u>	<u>\$ 183,323,050</u>
	<b>2009</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Fair Value</b>
Pooled endowment funds				
Cash and cash equivalents	\$ 460,598	\$ -	\$ -	\$ 460,598
Bonds	1,041,625	3,456,941	-	4,498,566
Mutual funds	812,537	-	-	812,537
Hedge funds	-	-	3,240,235	3,240,235
Marketable equities	6,916,852	4,559,919	-	11,476,771
Total pooled endowment funds	<u>9,231,612</u>	<u>8,016,860</u>	<u>3,240,235</u>	<u>20,488,707</u>
Held in trust by others				
Cash and cash equivalents	-	-	195,199	195,199
Bonds	-	-	1,811,440	1,811,440
Other assets	-	-	151,305	151,305
Marketable equities	-	-	3,453,624	3,453,624
Total held in trust by others	<u>-</u>	<u>-</u>	<u>5,611,568</u>	<u>5,611,568</u>
Other investments				
Cash and cash equivalents	13,344,183	-	-	13,344,183
Bonds	14,153,388	38,223,818	-	52,377,206
Mutual funds	853,798	-	-	853,798
Hedge funds	-	-	21,561,096	21,561,096
Marketable equities	16,827,749	36,249,620	-	53,077,369
Connecticut Hospital	-	-	-	-
Laboratory Network	-	-	11,894	11,894
Total other investments	<u>45,179,118</u>	<u>74,473,438</u>	<u>21,572,990</u>	<u>141,225,546</u>
	<u>\$ 54,410,730</u>	<u>\$ 82,490,298</u>	<u>\$ 30,424,793</u>	<u>\$ 167,325,821</u>

# Lawrence & Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2010 and 2009

Fair value for Level 1 is based upon quoted prices in active markets that the Corporation has the ability to access at the measurement date. Market price data is generally obtained from exchange or dealer markets. The Corporation 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.

Investments included in Level 3 primarily consist of the Corporation'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 and investments in for-profit companies.

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 Corporation 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 Corporation within Level 3 of the fair value hierarchy defined above:

	Beginning October 1, 2009	Investment Income	Realized Gains	Unrealized Gains	Investment Fees	Net Purchases	Ending September 30, 2010
Investment pool							
Hedge funds	\$ 24,801,331	\$ 193,449	\$ 138,022	\$ 2,006,962	\$ (75,692)	\$ 20,719,016	\$ 47,783,088
Partnerships	11,894		1,787				13,681
Funds held in trust	5,611,568			264,482			5,876,050
Total	<u>\$ 30,424,793</u>	<u>\$ 193,449</u>	<u>\$ 139,809</u>	<u>\$ 2,271,444</u>	<u>\$ (75,692)</u>	<u>\$ 20,719,016</u>	<u>\$ 53,672,819</u>

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

	2010	2009
Investment income	\$ 442,274	\$ 571,426
Realized and unrealized gains/(losses)	1,527,335	(1,042,934)
Management fees and other costs	(46,136)	(13,975)
Total return on pooled endowment investments	<u>\$ 1,923,473</u>	<u>\$ (485,483)</u>

# Lawrence & Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2010 and 2009

Following is additional information related to funds whose fair value is not readily determinable as of September 30, 2010.

	Strategy	Fair Value	# of Investments	Remaining Life	\$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions	Restrictions in Place at Year End
Equity securities	Global developed and emerging market equity	\$ 8,901,926		1 N/A	-	No remaining commitments	Monthly with 10 day's notice		None
Absolute return	Long/short and long-biased equity and credit hedge funds	13,673,723		1 N/A	-	No remaining commitments	Annual with 90 day's notice	lock up provision of 12 months from the purchase date	None
Directional hedge	Long/short and long-biased equity and credit hedge funds	20,379,876		1 N/A	-	No remaining commitments	Quarterly with 60 day's notice	lock up provision of 25 months from the purchase date	None
Commodities	Commodity index	4,828,361		1 N/A	-	No remaining commitments	Monthly with 5 day's notice		None

#### 4. Endowments

The Corporation'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 Corporation understands net asset classification guidance to require that donor restricted endowment gifts be maintained in perpetuity. Consistent with net asset classification guidance, the Corporation 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 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 Corporation 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 Corporation 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 Corporation
- The investment policies of the Corporation

**Lawrence & Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010 and 2009**

Changes in endowment net assets for the year ended September 30:

	<b>2010</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets, beginning of year	\$ 4,930,901	\$ 11,769,419	\$ 2,866,683	\$ 19,567,003
Investment return				
Investment income	125,722	(478,575)	-	(352,853)
Net realized and unrealized loss	413,499	55,426	-	468,925
Contributions	-	338,765	-	338,765
Total investment return	539,221	(84,384)	-	454,837
Income distribution	-	-	-	-
Endowment net assets, end of year	<u>\$ 5,470,122</u>	<u>\$ 11,685,035</u>	<u>\$ 2,866,683</u>	<u>\$ 20,021,840</u>
	<b>2009</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets, beginning of year	\$ 5,195,881	\$ 12,190,143	\$ 2,866,683	\$ 20,252,707
Investment return				
Investment income	61,050	(96,771)	-	(35,721)
Net realized and unrealized loss	(383,527)	(579,243)	-	(962,770)
Contributions	57,497	455,412	-	512,909
Total investment return	(264,980)	(220,602)	-	(485,582)
Income distribution	-	(200,122)	-	(200,122)
Endowment net assets, end of year	<u>\$ 4,930,901</u>	<u>\$ 11,769,419</u>	<u>\$ 2,866,683</u>	<u>\$ 19,567,003</u>

Endowment funds classified as permanently and temporarily restricted net assets:

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

	<b>2010</b>	<b>2009</b>
<b>Temporarily restricted net assets</b>		
Unspent income and appreciation on permanently restricted endowments for purchase of equipment and healthcare services	<u>\$ 12,541,912</u>	<u>\$ 11,769,419</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 12,541,912</u>	<u>\$ 11,769,419</u>
<b>Permanently restricted net assets</b>		
Corpus of permanently restricted contributions for purchase of equipment and healthcare services	<u>\$ 2,866,683</u>	<u>\$ 2,866,683</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 2,866,683</u>	<u>\$ 2,866,683</u>

**Lawrence & Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010 and 2009**

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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 Corporation analyzed the endowments and notes there are no deficits as of September 30, 2010 and 2009.

**Endowment Investment Return Objectives and Risk Parameters**

The Corporation has adopted endowment investment and spending policies that attempt to provide 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 Corporation 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 Corporation targets a diversified asset allocation to achieve its long-term objectives within prudent Corporation 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 Corporation 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. Temporary and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at September 30, 2010 and 2009:

	<b>2010</b>	<b>2009</b>
<b>Temporarily restricted net assets</b>		
Funds held in trust by others	\$ 3,086,274	\$ 2,924,192
Contributions receivable	46,092	1,327,113
Free beds and plant replacement and expansion	12,541,912	11,769,419
Other	2,984,370	1,738,231
	<u>\$ 18,658,648</u>	<u>\$ 17,758,955</u>

**Lawrence & Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010 and 2009**

Permanently restricted net assets at September 30, 2010 and 2009 are restricted to:

	2010	2009
<b>Permanently restricted net assets</b>		
Funds held in trust by others	\$ 2,810,642	\$ 2,705,430
donor restricted endowment funds	<u>2,866,683</u>	<u>2,866,683</u>
	<u>\$ 5,677,325</u>	<u>\$ 5,572,113</u>

**6. Property, Plant and Equipment**

Property, plant and equipment consists of the following:

	2010	2009
Land and land improvements	\$ 6,073,611	\$ 5,989,744
Buildings	110,416,648	109,065,547
Equipment	<u>181,640,842</u>	<u>172,887,816</u>
	298,131,101	287,943,107
Less: Accumulated depreciation	<u>(195,187,155)</u>	<u>(183,553,654)</u>
	102,943,946	104,389,453
Construction in progress (estimated cost to complete at September 30, 2010 is \$23,718,310)	<u>9,635,284</u>	<u>5,352,416</u>
	<u>\$ 112,579,230</u>	<u>\$ 109,741,869</u>

**7. Long-Term Debt**

	2010	2009
CHEFA Series D revenue bonds		
5.0% Term bonds, due 2009 to 2013	\$ 8,750,000	\$ 11,390,000
5.0% Term bonds, due 2014 to 2022	33,870,000	33,870,000
CHEFA Series E revenue bonds		
Variable rate bonds, due 2023-2034	22,990,000	22,990,000
VNA mortgage note		
Variable rate, due 2001 to 2011	265,903	302,734
VNA Interest rate swap agreement	39,028	60,259
Capital lease obligation	<u>377,538</u>	<u>-</u>
Total long-term debt outstanding	<u>66,292,469</u>	<u>68,612,993</u>
Less: Amounts classified as current	2,906,408	2,674,572
Less: Bond discount	<u>1,237,915</u>	<u>1,360,777</u>
Total long-term portion of long-term debt	<u>\$ 62,148,146</u>	<u>\$ 64,577,644</u>

On June 24, 2004 CHEFA issued \$22,990,000 of Series E Bonds (the "Series E Bonds") on behalf of the Hospital and the Corporation (collectively referred to as the "Obligated Group" under the Series E Bond agreements). The Series E Bonds are structured with a term bond due July 1, 2034, with annual sinking fund payments due each July 1<sup>st</sup> commencing July 1, 2003. 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.

# Lawrence & Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2010 and 2009

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The proceeds of the Series E Bonds were 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 services, and mobile medical technologies. The proceeds were also 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 and Corporation.

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. The fair value of the Series D Bonds is approximately \$64.5 million and \$45.4 million at September 30, 2010 and 2009, respectively.

The VNA has a \$1.0 million ten year variable rate mortgage note bearing interest at one percent above the LIBOR rate (2.19% and 1.60% at June 30, 2010 and 2009, respectively). The VNA maintains an interest rate swap agreement for this debt at a rate of 8.35%. The loan is based on a 20 year amortization period. The VNA's interest rate swap agreement has a negative fair value of \$39,028 and \$60,259 as of June 30, 2010 and 2009, respectively, which has been reflected as a long-term liability included with long-term debt. The balance of the loan is \$265,903 and \$302,734 at June 30, 2010 and 2009, respectively. The note is collateralized by a first mortgage on the property, buildings and building improvements located in Waterford, Connecticut.

**Lawrence & Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010 and 2009**

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Principal repayments, excluding the capital lease, are as follows:

<b>Year</b>	<b>Annual Principal Repayment</b>
2011	\$ 2,814,915
2012	3,180,016
2013	3,060,000
2014	3,210,000
2015 and thereafter	<u>53,650,000</u>
	<u>\$ 65,914,931</u>

Cash interest payments of \$2,350,752 and \$2,536,615 were made in fiscal year 2010 and 2009, respectively. No interest was capitalized during 2010 and 2009.

**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 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 pensions as incurred. This plan was frozen to include only those employees who retired prior to May 1, 1994.

**Lawrence & Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010 and 2009**

The following table sets forth the Hospital's plans' funded status and amounts recognized in the consolidated statement of financial position for fiscal year 2010 and 2009 as of September 30 (measurement date of September 30):

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 117,330,146	\$ 92,839,307	\$ 1,290,578	\$ 1,305,378
Service cost	1,927,395	1,456,782	-	-
Interest cost	6,646,772	6,784,733	70,433	85,675
Employee contributions	180,479	184,560	-	-
Benefits paid	(5,267,983)	(4,825,526)	(130,095)	(141,246)
Actuarial gain/(loss)	10,384,113	20,890,290	46,604	40,771
Benefit obligation at end of year	<u>\$ 131,200,922</u>	<u>\$ 117,330,146</u>	<u>\$ 1,277,520</u>	<u>\$ 1,290,578</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 76,344,572	\$ 74,130,658	\$ -	\$ -
Actual return on plan assets	7,130,751	4,690,576	-	-
Employee contributions	180,479	184,560	-	-
Employer contributions	3,000,000	2,164,304	130,095	141,246
Benefits paid	(5,267,983)	(4,825,526)	(130,095)	(141,246)
Fair value of plan assets at end of year	<u>\$ 81,387,819</u>	<u>\$ 76,344,572</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status of the plan	(49,813,103)	(40,985,574)	(1,277,520)	(1,290,578)
Unrecognized net loss (gain) from past experience different from that assumed and effects of changes in assumptions	37,618,950	29,882,430	(531,764)	(639,914)
Unrecognized prior service cost	596,549	721,505	-	-
Accrued benefit costs recognized in the statement of operation	<u>\$ (11,597,604)</u>	<u>\$ (10,381,639)</u>	<u>\$ (1,809,284)</u>	<u>\$ (1,930,492)</u>
<b>Components of net periodic benefit costs</b>				
Service cost	\$ 1,927,395	\$ 1,456,782	\$ -	\$ -
Interest cost	6,646,772	6,784,733	70,433	85,675
Expected return on plan assets	(6,350,382)	(6,179,348)	-	-
Gain	-	-	(61,546)	(82,822)
Net amortization and deferral	124,956	124,956	-	-
Benefit cost	<u>\$ 2,348,741</u>	<u>\$ 2,187,123</u>	<u>\$ 8,887</u>	<u>\$ 2,853</u>

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

	<b>2010</b>	<b>2009</b>
Discount rate	5.80%	7.50%
Average rate of compensation increases	4.25%	4.25%
Expected return on assets	8.50%	8.50%

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

	<b>2010</b>	<b>2009</b>
Discount rate	5.07%	5.80%
Average rate of compensation increases	4.25%	4.25%

**Lawrence & Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010 and 2009**

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The Plan's asset allocations as of September 30, 2010 and 2009 are as follows:

<b>Asset Category</b>	<b>2010</b>	<b>2009</b>
Cash	2%	4%
Bonds	24%	33%
Hedge Funds	30%	26%
Marketable Equities	44%	37%
Total	100%	100%

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

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

<b>Fiscal Years Beginning October 1</b>	<b>Expected Benefits</b>
2010	\$ 5,759,993
2011	6,267,258
2012	6,545,984
2013	6,961,595
2014	7,201,011
Expected Aggregate for 5 fiscal years beginning 2015	41,672,965

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 2011 are approximately:

Pension	\$ 4,000,000
Retiree Health	132,780

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% in 2011 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 postretirement benefit obligation and service cost plus interest cost by approximately \$94,000 and \$98,000, respectively, at September 30, 2010 and 2009. 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 \$86,000 and \$76,000, respectively, at September 30, 2010 and 2009.

**Plan Assets**

The defined benefit plan assets are valued utilizing the same fair value hierarchy as the Hospital's investments as described in Note 1.

**Lawrence & Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2010 and 2009**

The following table summarizes the fair values of investments by major type held by the staff pension plan at September 30, 2010:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>2010</b>
Investments, at fair value				
Cash	\$ 1,873,724	\$ -	\$ -	\$ 1,873,724
Bonds	-	19,609,144	-	19,609,144
Hedge Funds	-	-	24,333,144	24,333,144
Marketable Equities	<u>14,103,283</u>	<u>21,468,524</u>	<u>-</u>	<u>35,571,807</u>
Total investments, at fair value	<u>\$ 15,977,007</u>	<u>\$ 41,077,668</u>	<u>\$ 24,333,144</u>	<u>\$ 81,387,819</u>

The following table summarizes the fair values of investments by major type held by the staff pension health plan at September 30, 2009:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>2009</b>
Investments, at fair value				
Cash	\$ 2,889,101	\$ -	\$ -	\$ 2,889,101
Bonds	2,581	25,256,126	-	25,258,707
Hedge Funds	-	-	19,719,016	19,719,016
Marketable Equities	<u>11,890,189</u>	<u>16,587,559</u>	<u>-</u>	<u>28,477,748</u>
Total investments, at fair value	<u>\$ 14,781,871</u>	<u>\$ 41,843,685</u>	<u>\$ 19,719,016</u>	<u>\$ 76,344,572</u>

The table below represents the change in fair value measurements for Level 3 investments held by the staff pension plans' year ended September 30, 2010 and 2009 respectively:

	<b>2010</b>	<b>2009</b>
Beginning Balance	\$ 19,719,016	\$ -
Realized and unrealized gain, net	1,629,862	2,946,715
Purchases (sales), net	<u>2,984,266</u>	<u>16,772,301</u>
Ending Balance	<u>\$ 24,333,144</u>	<u>\$ 19,719,016</u>

The investment objective for the pension and post retirement plans seeks a positive long-term total return after inflation to meet the Hospital's current and future plan obligations.

Asset allocations for both plans combine tested theory and informed market judgment to balance investment risks with the need for high returns.

The Hospital's 401(k) plan covers eligible employees who elected 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 \$3,247,418 and \$2,977,019 for 2010 and 2009, respectively.

The VNA has a defined contribution pension plan which covers substantially all of its employees who have met specified age and length of service requirements. Contributions to the plan are based on 5% of eligible salaries and totaled approximately \$433,118 and \$411,000 for the years ended June 30, 2010 and 2009, respectively.

# Lawrence & Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2010 and 2009

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#### 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, 2010 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% for 2010 and 2009. The Hospital maintains a trust to fund these liabilities on a long-term basis.

#### 10. Functional Expenses

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

	2010	2009
Health Care Services	\$ 254,587,848	\$ 239,207,882
General and Administrative	<u>80,396,162</u>	<u>67,468,890</u>
	<u>\$ 334,984,010</u>	<u>\$ 306,676,772</u>

#### 11. Contingency

The Corporation and its subsidiaries are parties to various lawsuits incidental to their business. Management believes that the lawsuits will not have a material adverse effect on their financial position, results of operations, changes in net assets or cash flows.

**Lawrence & Memorial Corporation and Subsidiaries**  
**Consolidating Balance Sheet**  
**September 30, 2010**

	Lawrence & Memorial Hospital	Lawrence & Memorial Corporation	Eliminating Entries	Obligated Group	L&M Systems, Inc.	LMPA	VNA of Southeastern Connecticut, Inc.	Eliminating Entries	Consolidated
<b>Assets</b>									
<b>Current assets</b>									
Cash and cash equivalents	\$ 33,160,240	\$ 5,285,792	\$ -	\$ 38,446,032	\$ 8,054	\$ 239,297	\$ 2,528,707	\$ -	41,222,090
Investments	106,795,008	44,866,427	-	151,661,435	-	-	4,119,552	-	155,780,987
Accounts receivable	30,942,261	-	-	30,942,261	-	143,715	1,242,567	-	32,328,543
Other receivables	5,765,211	-	-	5,765,211	224,500	35,895	-	-	6,025,606
Inventories	3,796,086	-	-	3,796,086	-	-	-	-	3,796,086
Due from affiliates	6,243,476	541,500	(6,243,476)	541,500	917,707	-	-	(1,457,279)	1,928
Prepaid expenses and other current assets	1,624,613	-	-	1,624,613	-	-	306,948	-	1,931,561
Debt service fund	1,248,032	-	-	1,248,032	-	-	-	-	1,248,032
Total current assets	189,574,927	50,693,719	(6,243,476)	234,025,170	1,150,261	418,907	8,197,774	(1,457,279)	242,334,833
<b>Assets limited as to use</b>									
Cash	179,215	-	-	179,215	-	-	-	-	179,215
Investments held in trust	11,986,573	-	-	11,986,573	-	-	-	-	11,986,573
Endowment investments	14,741,092	2,744,154	-	17,485,246	-	-	4,180,768	-	21,666,014
Investment in subsidiaries	-	3,182,689	-	3,182,689	-	-	-	(3,182,689)	-
Funds held in Trust by others	5,876,049	-	-	5,876,049	-	-	-	-	5,876,049
Contributions receivable	46,092	1,064,824	-	1,110,916	-	-	-	-	1,110,916
Funds held in escrow by agreement with Statement of Connecticut Health and Educational Facilities Authority and trustees	7,156,167	-	-	7,156,167	-	-	-	-	7,156,167
Total assets limited as to use	39,985,188	6,991,667	-	46,976,855	-	-	4,180,768	(3,182,689)	47,974,934
<b>Other assets</b>									
Deferred financing costs and other assets, net	1,330,365	-	-	1,330,365	-	-	-	-	1,330,365
<b>Property, plant and equipment</b>									
Land improvements	5,212,649	530,687	-	5,743,336	-	-	330,275	-	6,073,611
Buildings/leasehold improvements	107,593,741	148,821	-	107,742,562	-	467,701	2,206,385	-	110,416,648
Equipment/furniture	180,454,333	21,774	-	180,476,107	-	157,952	1,006,783	-	181,640,842
Accumulated depreciation	(193,724,896)	(67,012)	-	(193,791,908)	-	-	(1,395,247)	-	(195,187,155)
Construction in progress	9,635,284	-	-	9,635,284	-	-	-	-	9,635,284
Property, plant and equipment, net	109,171,111	634,270	-	109,805,381	-	625,653	2,148,196	-	112,579,230
	<u>\$ 340,061,591</u>	<u>\$ 58,319,656</u>	<u>\$ (6,243,476)</u>	<u>\$ 392,137,771</u>	<u>\$ 1,150,261</u>	<u>\$ 1,044,560</u>	<u>\$ 14,526,738</u>	<u>\$ (4,639,968)</u>	<u>\$ 404,219,362</u>

**Lawrence & Memorial Corporation and Subsidiaries**  
**Consolidating Balance Sheet**  
**September 30, 2010**

	Lawrence & Memorial Hospital	Lawrence & Memorial Corporation	Eliminating Entries	Obligated Group	L&M Systems, Inc.	LMPA	VNA of Southeastern Connecticut, Inc.	Eliminating Entries	Consolidated
<b>Liabilities and Net Assets</b>									
Current liabilities									
Accounts payable	\$ 19,524,046	\$ 85,083	\$ -	\$ 19,609,129	\$ 1,688	\$ 925,527	\$ 1,340,525	\$ -	\$ 21,876,869
Accrued vacation and sick pay	11,220,455	-	-	11,220,455	-	-	-	-	11,220,455
Salaries, wages, payroll taxes and amounts withheld from employees	5,023,219	-	-	5,023,219	-	13,780	-	-	5,036,999
Due to affiliates	4,764,147	2,395,108	(6,243,476)	915,779	541,500	-	-	(1,457,279)	-
Due to third party payors	8,559,110	-	-	8,559,110	-	-	280,000	-	8,839,110
Other current liabilities	-	-	-	-	5,969	-	150,892	-	156,861
Current portion of long-term debt	2,866,493	-	-	2,866,493	-	-	39,915	-	2,906,408
Total current liabilities	51,957,470	2,480,191	(6,243,476)	48,194,185	549,157	939,307	1,811,332	(1,457,279)	50,036,702
Accrued pension and other postretirement benefits	52,131,286	-	-	52,131,286	4,048	-	-	-	52,135,334
Other liabilities	12,279,482	-	-	12,279,482	-	-	-	-	12,279,482
Long-term debt less current portion	61,883,130	-	-	61,883,130	-	-	265,016	-	62,148,146
Total liabilities	178,251,368	2,480,191	(6,243,476)	174,488,083	553,205	939,307	2,076,348	(1,457,279)	176,599,664
Net assets									
Unrestricted	137,908,558	55,432,157	-	193,340,715	597,056	105,253	12,423,390	(3,182,689)	203,283,725
Temporarily restricted	18,251,340	407,308	-	18,658,648	-	-	-	-	18,658,648
Permanently restricted	5,650,325	-	-	5,650,325	-	-	27,000	-	5,677,325
Total net assets	161,810,223	55,839,465	-	217,649,688	597,056	105,253	12,450,390	(3,182,689)	227,619,698
	<u>\$ 340,061,591</u>	<u>\$ 58,319,656</u>	<u>\$ (6,243,476)</u>	<u>\$ 392,137,771</u>	<u>\$ 1,150,261</u>	<u>\$ 1,044,560</u>	<u>\$ 14,526,738</u>	<u>\$ (4,639,968)</u>	<u>\$ 404,219,362</u>

**Lawrence & Memorial Corporation and Subsidiaries**  
**Consolidating Balance Sheet**  
**September 30, 2009**

	Lawrence & Memorial Hospital	Lawrence & Memorial Corporation	Eliminating Entries	Obligated Group	L&M Systems, Inc.	VNA of Southeastern Connecticut, Inc.	Eliminating Entries	Consolidated
<b>Assets</b>								
<b>Current assets</b>								
Cash and cash equivalents	\$ 22,869,913	\$ 5,214,133	\$ -	\$ 28,084,046	\$ 506,860	\$ 1,459,043	\$ -	\$ 30,049,949
Investments	99,233,961	38,239,335	-	137,473,296	-	3,752,250	-	141,225,546
Accounts receivable	30,054,404	-	-	30,054,404	-	1,391,265	-	31,445,669
Other receivables	5,995,236	-	-	5,995,236	548,174	-	-	6,543,410
Inventories	3,506,113	-	-	3,506,113	-	-	-	3,506,113
Due from affiliates	2,903,156	541,500	(2,903,156)	541,500	-	-	(517,000)	24,500
Prepaid expenses and other current assets	2,312,579	-	-	2,312,579	-	225,422	-	2,538,001
Debt service fund	1,295,094	-	-	1,295,094	-	-	-	1,295,094
Total current assets	168,170,456	43,994,968	(2,903,156)	209,262,268	1,055,034	6,827,980	(517,000)	216,628,282
<b>Assets limited as to use</b>								
Cash	177,710	-	-	177,710	-	-	-	177,710
Construction fund	6,170	-	-	6,170	-	-	-	6,170
Investments held in trust	12,678,851	-	-	12,678,851	-	-	-	12,678,851
Endowment investments	14,150,668	2,633,876	-	16,784,544	-	3,704,163	-	20,488,707
Investment in subsidiaries	-	17,008,597	-	17,008,597	-	-	(17,008,597)	-
Funds held in Trust by others	5,611,568	-	-	5,611,568	-	-	-	5,611,568
Contributions receivable	48,469	1,278,644	-	1,327,113	-	-	-	1,327,113
Funds held in escrow by agreement with Statement of Connecticut Health and Educational Facilities Authority and trustees	7,159,610	-	-	7,159,610	-	-	-	7,159,610
Total assets limited as to use	39,833,046	20,921,117	-	60,754,163	-	3,704,163	(17,008,597)	47,449,729
<b>Other assets</b>								
Deferred financing costs and other assets, net	1,418,292	-	-	1,418,292	-	-	-	1,418,292
<b>Property, plant and equipment</b>								
Land improvements	5,128,782	530,687	-	5,659,469	-	330,275	-	5,989,744
Buildings/leasehold improvements	105,218,566	148,821	-	105,367,387	1,330,730	2,367,430	-	109,065,547
Equipment/furniture	170,465,895	21,774	-	170,487,669	628,079	1,772,068	-	172,887,816
Accumulated depreciation	(180,112,431)	(59,332)	-	(180,171,763)	(1,195,609)	(2,186,282)	-	(183,553,654)
Construction in progress	5,352,416	-	-	5,352,416	-	-	-	5,352,416
Property, plant and equipment, net	106,053,228	641,950	-	106,695,178	763,200	2,283,491	-	109,741,869
	<u>\$ 315,475,022</u>	<u>\$ 65,558,035</u>	<u>\$ (2,903,156)</u>	<u>\$ 378,129,901</u>	<u>\$ 1,818,234</u>	<u>\$ 12,815,634</u>	<u>\$ (17,525,597)</u>	<u>\$ 375,238,172</u>

**Lawrence & Memorial Corporation and Subsidiaries**  
**Consolidating Balance Sheet**  
**September 30, 2009**

	Lawrence & Memorial Hospital	Lawrence & Memorial Corporation	Eliminating Entries	Obligated Group	L&M Systems, Inc.	VNA of Southeastern Connecticut, Inc.	Eliminating Entries	Consolidated
<b>Liabilities and Net Assets</b>								
<b>Current liabilities</b>								
Accounts payable	\$ 15,377,893	\$ 97,828	\$ -	\$ 15,475,721	\$ 173,294	\$ 1,312,062	\$ -	\$ 16,961,077
Accrued vacation and sick pay	10,641,451	-	-	10,641,451	-	-	-	10,641,451
Salaries, wages, payroll taxes and amounts withheld from employees	4,184,333	-	-	4,184,333	-	-	-	4,184,333
Due to affiliates	1,682,710	1,939,203	(2,903,156)	718,757	517,000	-	(517,000)	718,757
Due to third party payors	9,089,438	-	-	9,089,438	-	133,298	-	9,222,736
Other current liabilities	-	-	-	-	5,969	358,084	-	364,053
Current portion of long-term debt	2,640,000	-	-	2,640,000	-	34,572	-	2,674,572
Total current liabilities	43,615,825	2,037,031	(2,903,156)	42,749,700	696,263	1,838,016	(517,000)	44,766,979
Accrued pension and other postretirement benefits	43,029,547	-	-	43,029,547	5,737	-	-	43,035,284
Other liabilities	12,202,253	-	-	12,202,253	-	-	-	12,202,253
Long-term debt less current portion	64,249,223	-	-	64,249,223	-	328,421	-	64,577,644
Total liabilities	163,096,848	2,037,031	(2,903,156)	162,230,723	702,000	2,166,437	(517,000)	164,582,160
<b>Net assets</b>								
Unrestricted	129,621,224	62,973,886	-	192,595,110	1,116,234	10,622,197	(17,008,597)	187,324,944
Temporarily restricted	17,211,837	547,118	-	17,758,955	-	-	-	17,758,955
Permanently restricted	5,545,113	-	-	5,545,113	-	27,000	-	5,572,113
Total net assets	152,378,174	63,521,004	-	215,899,178	1,116,234	10,649,197	(17,008,597)	210,656,012
	<u>\$ 315,475,022</u>	<u>\$ 65,558,035</u>	<u>\$ (2,903,156)</u>	<u>\$ 378,129,901</u>	<u>\$ 1,818,234</u>	<u>\$ 12,815,634</u>	<u>\$ (17,525,597)</u>	<u>\$ 375,238,172</u>

**Lawrence & Memorial Corporation and Subsidiaries**  
**Consolidating Statement of Operations**  
**Year Ended September 30, 2010**

	Lawrence & Memorial Hospital	Lawrence & Memorial Corporation	Eliminating Entries	Obligated Group	L&M Systems, Inc.	LMPA	VNA of Southeastern Connecticut, Inc.	Eliminating Entries	Consolidated
Net revenues from services to patients	\$ 314,168,301	\$ -	\$ -	314,168,301	\$ -	\$ -	\$ 11,895,273	\$ -	\$ 326,063,574
Other operating revenues	9,926,307	1,839,886	-	11,766,193	2,526,955	2,513,560	3,103,359	(827,246)	19,082,821
Net assets released from restriction	412,940	-	-	412,940	-	-	-	-	412,940
	<u>324,507,548</u>	<u>1,839,886</u>	<u>-</u>	<u>326,347,434</u>	<u>2,526,955</u>	<u>2,513,560</u>	<u>14,998,632</u>	<u>(827,246)</u>	<u>345,559,335</u>
Operating expenses									
Salaries and wages	143,999,074	-	-	143,999,074	914,300	2,523,605	9,714,975	(229,278)	156,922,676
Employee benefits	40,325,006	-	-	40,325,006	346,137	909,151	2,361,280	(597,968)	43,343,606
Supplies	33,524,606	-	-	33,524,606	176,929	144,643	740,847	-	34,587,025
Purchased services	21,093,240	1,377	-	21,094,617	396,398	448,152	176,637	-	22,115,804
Other	38,810,996	671,508	-	39,482,504	522,190	587,347	658,483	-	41,250,524
Interest	2,332,245	-	-	2,332,245	4,773	-	36,676	-	2,373,694
Depreciation and amortization	16,728,407	7,680	-	16,736,087	168,695	-	256,152	-	17,160,934
Bad debts	15,052,335	-	-	15,052,335	670,481	1,619,872	125,000	(237,942)	17,229,746
	<u>311,865,909</u>	<u>680,565</u>	<u>-</u>	<u>312,546,474</u>	<u>3,199,903</u>	<u>6,232,770</u>	<u>14,070,050</u>	<u>(1,065,188)</u>	<u>334,984,009</u>
Income from operations	12,641,639	1,159,321	-	13,800,960	(672,948)	(3,719,210)	928,582	237,942	10,575,326
Nonoperating gains									
Unrestricted investment income	175,335	-	-	175,335	-	-	-	-	175,335
(Loss)/income on investments	2,341,396	(15,980,979)	-	(13,639,583)	(297,132)	-	99,780	17,169,074	3,332,139
	<u>2,516,731</u>	<u>(15,980,979)</u>	<u>-</u>	<u>(13,464,248)</u>	<u>(297,132)</u>	<u>-</u>	<u>99,780</u>	<u>17,169,074</u>	<u>3,507,474</u>
Excess of revenues over expenses	15,158,370	(14,821,658)	-	336,712	(970,080)	(3,719,210)	1,028,362	17,407,016	14,082,800
Net unrealized gains/(losses) on investments	5,459,058	1,901,354	-	7,360,412	-	-	772,831	-	8,133,243
Transfer to L & M Affiliate	(4,900,000)	4,900,000	-	-	(642,774)	642,774	-	-	-
Net assets released from restrictions used for purchases of property and equipment	181,470	478,575	-	660,045	-	-	-	-	660,045
Transfer to/from affiliate	-	-	-	-	694,257	-	-	-	694,257
Forgiveness of debt	-	-	-	-	399,419	3,181,689	-	(3,581,108)	-
Pension - related changes other than periodic pension costs	(7,611,564)	-	-	(7,611,564)	-	-	-	-	(7,611,564)
Decrease in unrestricted net assets	<u>\$ 8,287,334</u>	<u>\$ (7,541,729)</u>	<u>\$ -</u>	<u>\$ 745,605</u>	<u>\$ (519,178)</u>	<u>\$ 105,253</u>	<u>\$ 1,801,193</u>	<u>\$ 13,825,908</u>	<u>\$ 15,958,781</u>

**Lawrence & Memorial Corporation and Subsidiaries**  
**Consolidating Statement of Operations**  
**Year Ended September 30, 2009**

	Lawrence & Memorial Hospital	Lawrence & Memorial Corporation	Eliminating Entries	Obligated Group	L&M Systems, Inc.	VNA of Southeastern Connecticut, Inc.	Eliminating Entries	Consolidated
Net revenues from services to patients	\$ 283,933,518	\$ -	\$ -	\$ 283,933,518	\$ -	\$ 11,221,472	\$ -	\$ 295,154,990
Other operating revenues	8,924,533	2,179,900	-	11,104,433	3,324,953	3,150,482	-	17,579,868
Net assets released from restriction	460,320	-	-	460,320	-	-	-	460,320
	<u>293,318,371</u>	<u>2,179,900</u>	<u>-</u>	<u>295,498,271</u>	<u>3,324,953</u>	<u>14,371,954</u>	<u>-</u>	<u>313,195,178</u>
Operating expenses								
Salaries and wages	135,533,992	-	-	135,533,992	1,839,702	9,457,006	-	146,830,700
Employee benefits	35,728,800	-	-	35,728,800	548,276	2,212,869	-	38,489,945
Supplies	31,017,186	14	-	31,017,200	229,317	999,206	-	32,245,723
Purchased services	21,328,169	1,215	-	21,329,384	506,800	171,109	-	22,007,293
Other	29,002,754	323,970	-	29,326,724	700,765	340,808	-	30,368,297
Interest	2,570,991	-	-	2,570,991	66,572	35,816	-	2,673,379
Depreciation and amortization	15,891,356	8,156	-	15,899,512	253,761	250,373	-	16,403,646
Bad debts	15,807,846	-	-	15,807,846	1,785,718	64,225	-	17,657,789
	<u>286,881,094</u>	<u>333,355</u>	<u>-</u>	<u>287,214,449</u>	<u>5,930,911</u>	<u>13,531,412</u>	<u>-</u>	<u>306,676,772</u>
Income from operations	6,437,277	1,846,545	-	8,283,822	(2,605,958)	840,542	-	6,518,406
Nonoperating gains								
Unrestricted investment income	266,039	-	-	266,039	-	-	-	266,039
(Loss)/income on investments	(691,170)	47,448	-	(643,722)	(647,881)	308,316	-	(983,287)
Realized losses on investments deemed other than temporarily impaired	-	-	-	-	-	(645,291)	-	(645,291)
	<u>(425,131)</u>	<u>47,448</u>	<u>-</u>	<u>(377,683)</u>	<u>(647,881)</u>	<u>(336,975)</u>	<u>-</u>	<u>(1,362,539)</u>
Excess of revenues over expenses	6,012,146	1,893,993	-	7,906,139	(3,253,839)	503,567	-	5,155,867
Net unrealized gains/(losses) on investments	4,304,504	1,529,423	-	5,833,927	-	(616,003)	-	5,217,924
Net assets released from restrictions used for purchases of property and equipment	208,519	177,360	-	385,879	-	-	-	385,879
Forgiveness of debt	-	-	-	-	2,987,065	-	(2,987,065)	-
Pension - related changes other than periodic pension costs	(22,254,106)	-	-	(22,254,106)	-	-	-	(22,254,106)
Donated equipment	60,000	-	-	60,000	-	-	-	60,000
Decrease in unrestricted net assets	<u>\$ (11,668,937)</u>	<u>\$ 3,600,776</u>	<u>\$ -</u>	<u>\$ (8,068,161)</u>	<u>\$ (266,774)</u>	<u>\$ (112,436)</u>	<u>\$ (2,987,065)</u>	<u>\$ (11,434,436)</u>