FINANCIAL STATEMENTS

Greenwich Hospital
Years Ended September 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Greenwich Hospital

Financial Statements

Years Ended September 30, 2012 and 2011

Contents

Report of Independent Auditors....................1

Balance Sheets....................2
Statements of Operations and Changes in Net Assets....................4
Statements of Cash Flows....................6
Notes to Financial Statements....................7

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Report of Independent Auditors

The Board of Trustees
Greenwich Hospital

We have audited the accompanying balance sheets of Greenwich Hospital (the Hospital) as of September 30, 2012 and 2011, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greenwich Hospital at September 30, 2012 and 2011, and the results of its operations and changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

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

Ernst + Young LLP

December 21, 2012

Greenwich Hospital

Balance Sheets

	September 30 2012	2011
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 35,083**	$ 32,149
Short-term investments *(Note 4)*	**10,243**	21,585
Accounts receivable for services to patients, less allowance for uncollectible accounts, charity and free care of approximately $19,737,000 in 2012 and $12,738,000 in 2011 *(Note 2)*	**36,589**	32,433
Other receivables *(Note 1)*	**17,852**	11,852
Professional liabilities insurance recoveries receivable – current portion *(Note 9)*	**2,173**	4,137
Other current assets	**8,662**	5,150
Total current assets	**110,602**	107,306
Assets limited as to use *(Note 4)*	**39,991**	33,110
Beneficial interest in the net assets of the Foundation	**51,267**	45,826
Long-term investments *(Note 4)*	**39,879**	35,756
Due from affiliate *(Note 12)*	**2,101**	4,701
Professional liabilities insurance recoveries receivable – non-current *(Note 9)*	**8,751**	11,300
Other assets *(Note 1)*	**16,060**	10,800
Property, plant and equipment: *(Note 1)*		
Land and land improvements	**8,441**	7,766
Buildings and fixtures	**244,783**	240,238
Equipment	**157,608**	182,950
	410,832	430,954
Less accumulated depreciation	**(177,284)**	(191,442)
	233,548	239,512
Construction in progress	**1,339**	25
	234,887	239,537
Total assets	**$ 503,538**	$ 488,336

	September 30	
	2012	**2011**
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 6,161**	$ 8,228
Accrued expenses *(Note 12)*	**22,858**	20,668
Professional liabilities – current portion *(Note 9)*	**2,173**	4,137
Current portion of long-term debt *(Note 7)*	**2,430**	2,360
Other current liabilities	**19,016**	11,722
Total current liabilities	**52,638**	47,115
Long-term debt, net of current portion *(Note 7)*	**40,215**	42,645
Accrued pension and postretirement benefit obligations *(Note 8)*	**54,164**	46,068
Professional liabilities *(Note 9)*	**14,202**	18,698
Interest rate swap *(Note 7)*	**6,417**	5,994
Other long-term liabilities *(Note 2)*	**16,175**	16,514
Total liabilities	**183,811**	177,034
Commitments and contingencies		
Net assets: *(Note 6)*		
Unrestricted	**267,939**	266,335
Temporarily restricted	**29,999**	24,575
Permanently restricted	**21,789**	20,392
Total net assets	**319,727**	311,302
Total liabilities and net assets	**$ 503,538**	$ 488,336

See accompanying notes.

Greenwich Hospital

Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2012	**2011**
	(In Thousands)	
Operating revenue:		
Net patient service revenue *(Note 2)*	**$ 304,346**	$ 297,010
Other revenue *(Note 13)*	**20,142**	18,563
Total operating revenue	**324,488**	315,573
Operating expenses:		
Salaries and benefits	**153,225**	164,309
Supplies and other	**126,528**	113,015
Depreciation	**18,406**	18,906
Interest *(Note 7)*	**358**	425
Bad debts	**14,042**	9,270
Total operating expenses	**312,559**	305,925
Income from operations	**11,929**	9,648
Nonoperating losses and gains:		
Change in fair value of swap, including counterparty payments *(Note 7)*	**(1,713)**	(1,847)
Change in unrealized gains and losses on investments	**7,990**	(2,162)
Other nonoperating gains and losses, net *(Note 13)*	**(2,223)**	383
Excess of revenue and gains over expenses	**15,983**	6,022

(Continued on next page)

Greenwich Hospital

Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30 2012	2011
	(In Thousands)	
Unrestricted net assets:		
Excess of revenue and gains over expenses *(continued)*	**$ 15,983**	$ 6,022
Other changes in net assets *(Note 7)*	**(79)**	(74)
Transfers to affiliates *(Note 12)*	**(6,615)**	(6,445)
Net assets released from restrictions for purchases of fixed assets	**12**	409
Transfer from Yale New Haven Health Services Corporation	**700**	700
Contributed property released from restriction	**-**	2,100
Pension and other postretirement liability adjustments *(Note 8)*	**(8,397)**	(19,055)
Increase (decrease) in unrestricted net assets	**1,604**	(16,343)
Temporarily restricted net assets:		
Net realized gains and income from investments	**1,338**	821
Change in net unrealized gains and losses on investments	**3,778**	(333)
Bequests and contributions	**4,218**	3,673
Net assets released from restrictions for purchases of fixed assets	**(12)**	(409)
Net assets released from restriction for operations	**(3,759)**	(4,366)
Net assets released from restrictions for nonoperating activities	**(139)**	(6)
Contributed property released from restriction	**-**	(2,100)
Increase (decrease) in temporarily restricted net assets	**5,424**	(2,720)
Permanently restricted net assets:		
Contributions	**100**	45
Net realized gains on investments	**7**	4
Change in net unrealized gains and losses on investments	**1,290**	(1,202)
Increase (decrease) in permanently restricted net assets	**1,397**	(1,153)
Increase (decrease) in net assets	**8,425**	(20,216)
Net assets at beginning of year	**311,302**	331,518
Net assets at end of year	**$ 319,727**	$ 311,302

See accompanying notes.

Greenwich Hospital

Statements of Cash Flows

	Year Ended September 30 2012	2011
	(In Thousands)	
Cash flows from operating activities		
Increase (decrease) in net assets	**$ 8,425**	$ (20,216)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	**18,406**	18,906
Change in net interest in the net assets of the Foundation	**(5,441)**	3,815
Net realized and change in net unrealized gains and losses on investments	**(7,216)**	2,820
Bequests and contributions	**(6,098)**	(5,498)
Pension and other postretirement liability adjustments	**8,397**	19,055
Change in fair value of interest rate swap agreement	**423**	446
Bad debts	**14,042**	9,270
Changes in operating assets and liabilities:		
Accounts receivable, net	**(18,198)**	(9,185)
Other receivables	**(6,000)**	(2,693)
Professional liabilities and related insurance recoveries receivable	**(1,947)**	28
Due from affiliate	**2,600**	1,600
Other assets	**(8,772)**	(7,355)
Accounts payable	**(2,067)**	1,411
Accrued expenses	**2,190**	1,064
Other current liabilities, accrued pension and post retirement benefit obligations and other long-term liabilities	**6,654**	1,579
Net cash provided by operating activities	**5,398**	15,047
Cash flows from investing activities		
Acquisition of property, plant and equipment, net	**(13,756)**	(15,135)
Net change in investments and assets limited as to use	**7,554**	(3,014)
Net cash used in investing activities	**(6,202)**	(18,149)
Cash flows from financing activities		
Bequests, contributions and grants	**6,098**	5,498
Repayment of long-term debt	**(2,360)**	(2,260)
Net cash provided by financing activities	**3,738**	3,238
Net increase in cash and cash equivalents	**2,934**	136
Cash and cash equivalents at beginning of year	**32,149**	32,013
Cash and cash equivalents at end of year	**$ 35,083**	$ 32,149

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization

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

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

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

Use of Estimates

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

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

1. Organization and Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

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

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

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

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

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets.

Cash and Cash Equivalents

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

1. Organization and Significant Accounting Policies (continued)

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

Accounts Receivable

Patient accounts receivable result from the healthcare services provided by the Hospital. Changes to the allowance for doubtful accounts result from changes to the provision for bad debts. Accounts written off as uncollectible are recorded as bad debt expense.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

Investments

The Hospital has designated its investment portfolio as trading. Investment income or loss (including realized gains and losses on investments, interest and dividends) and the change in net unrealized gains and losses are included in the excess of revenue over expenses unless the income or loss is restricted by donor or law.

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

To diversify its investment portfolio and to enhance opportunities for increased rate of return, the Hospital has invested in alternative investments. Alternative investments include investments in non-marketable and market-traded debt and equity securities. Alternative investments are accounted for under the equity method, which is estimated using the net asset values of each alternative investment. Net asset values of these investments, provided by the investment manager or general partner, are primarily based upon financial data derived from underlying securities and other financial instruments and estimates that require varying degrees of judgment. The investments may indirectly expose the Hospital to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, the Hospital's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors.

1. Organization and Significant Accounting Policies (continued)

Certain alternative investments are subject to various withdrawal restrictions regarding timing, fees and enhanced disclosure required transaction limits at September 30, 2012 and 2011. Future funding commitments for alternative investments aggregated approximately $1.8 million at September 30, 2012.

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

Inventories

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

Assets Limited as to Use

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

Perpetual Trusts

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

Interest Rate Swap Agreements

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

1. Organization and Significant Accounting Policies (continued)

Beneficial Interest in the Net Assets of the Foundation

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

Deferred Financing Costs

Issuance costs, included in other assets, related to the Hospital's bond issuance are being amortized over the term of the applicable indebtedness using the effective interest method. Amortization, included in interest expense in the accompanying statements of operations and changes in net assets, was approximately $30,000 for the years ended September 30, 2012 and 2011.

Beneficial Interest in Trusts

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

Beneficial Interest in Remainder Trusts

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

Benefits and Insurance

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

1. Organization and Significant Accounting Policies (continued)

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

Professional Liability Insurance

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

Property, Plant and Equipment

Property, plant and equipment purchased are carried at cost, and those acquired by gifts and bequests are carried at fair value established at date of contribution. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in income from operations. Depreciation of property, plant and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives, ranging from 3 to 50 years. The cost of additions and improvements are capitalized and expenditures for repairs and maintenance, including the cost of replacing minor items not considered substantial enhancements, are expensed as incurred.

Excess of Revenue Over Expenses

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

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

1. Organization and Significant Accounting Policies (continued)

Income Taxes

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

Impairment of Assets

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

Change in Accounting Principle

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

New Accounting Pronouncements

In August 2010, the FASB issued Accounting Standards Update No. 2010-23, *Measuring Charity Care for Disclosure*. The new guidance requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. Separate disclosure of the amount of any cash reimbursements received for providing charity care must also be disclosed. The new disclosure requirements became effective for the Hospital on October 1, 2011 and are included in the accompanying financial statements for all periods presented.

1. Organization and Significant Accounting Policies (continued)

In July 2011, the FASB issued Accounting Standards Update No. 2011-07, "*Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities"* ("ASU 2011-07"). Under ASU 2011-07, provision for bad debts related to patient service revenue will be presented as a deduction from patient service revenue (net of contractual allowances and discounts) on the statement of operations with enhanced footnote disclosure on the policies for recognizing revenue and assessing bad debts. The Hospital has adopted the presentation changes to the statement of operations for periods beginning after December 15, 2011.

Reclassifications

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

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

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program, 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.

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

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

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

Revenue from Medicare and Medicaid programs accounted for approximately 27% and 3%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2012 and approximately 26% and 3%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2011. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 39% and 32%, respectively, for the year ended September 30, 2012 and approximately 37% and 32%, respectively, for the year ended September 30, 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement through 2007 for Medicare and 1995 for Medicaid. Other years remain open for settlement.

The significant concentrations of accounts receivable for services to patients include 33% from Medicare, 3% from Medicaid, and 64% from non-governmental payors at September 30, 2012 and 36% from Medicare, 6% from Medicaid, and 59% from non-governmental payors at September 30, 2011.

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

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

	2012	2011
Gross revenue from patients	**$ 971,611**	$ 944,999
Deductions:		
Contractual allowances	**645,389**	625,691
Charity and free care (at charges)	**21,876**	22,298
Net patient service revenue	**$ 304,346**	$ 297,010

3. Uncompensated Care and Community Benefit Expense

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

The Hospital makes available free care programs for qualifying patients. In accordance with the established policies of the Hospital, during the registration, billing and collection process a patient's eligibility for free care funds is determined.

For patients who were determined by the Hospital to have the ability to pay but did not, the uncollected amounts are bad debt expense. For patients who do not avail themselves of any free care program and whose ability to pay cannot be determined by the Hospital, care given but not paid for, is classified as charity care.

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

3. Uncompensated Care and Community Benefit Expense (continued)

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

For the years ended September 30, 2012 and 2011, bad debt expense, at charges, was \$14.0 million and \$9.3 million, respectively. The bad debt expense is multiplied by the ratio of cost to charges for purposes of inclusion in the total uncompensated care amount identified above.

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

Additionally, the Hospital 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.

In addition to the quantifiable services defined above, the Hospital provides additional benefits to the community through its advocacy of community service by employees. The Hospital's employees serve numerous organizations through board representation, membership in associations and other related activities. The Hospital also solicits the assistance of other 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 and assets limited as to use at September 30 is set forth in the following table (in thousands):

	2012	2011
Money market funds	**$ 38,905**	$ 35,220
U.S. equity securities	**8,156**	5,574
U.S. equity securities – common collective trusts	**4,956**	1,925
International equity securities (c)	**6,406**	4,553
Fixed income:		
U.S. government	**7,346**	12,609
U.S. government – common collective trusts	**5,358**	4,574
International government	**1,220**	-
Corporate debt (a)	**11,518**	19,943
Mortgage backed securities (b)	**250**	376
Hedge funds:		
Absolute return (d)	**3,815**	3,715
Private equity (e)	**1,543**	1,253
Real assets (f)	**640**	522
Real estate (g)	**-**	187
	$ 90,113	$ 90,451

(a) Investments consist of PIMCO short-term and total return funds as well as bonds issued by US corporations.

(b) Investments consist of Fannie Mae, Ginnie Mae, and Federal Home Loan Mortgage Corporation Bonds.

(c) Investments with external international equity and bond managers that are domiciled in the United States. Investment managers may invest in American or Global Depository Receipts (ADR, GDR) or in direct foreign securities.

(d) Investment with external multi-strategy fund of funds manager investing in publicly traded equity and credit holdings which may be long or short positions.

(e) Investments in funds which are directly investing into private companies.

(f) Investments made in pooled investment funds.

(g) Investments with external direct real estate managers and fund of funds managers. Investment vehicles include both closed end REITs and limited partnerships.

The Hospital participates in the Yale-New Haven Health System Investment Trust (the Trust), a unitized Delaware Investment Trust created to pool assets for investment by the Health System nonprofit entities. The Hospital's ownership percentage of the Trust was approximately 1.4% as of September 30, 2012. The Hospital's pro rata portion of the Trust's investments are included in the assets limited to use by board designation table.

5. Endowment

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

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

In accordance with CUPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Hospital; and (7) the investment and spending policies of the Hospital.

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

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

5. Endowment (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 36,533	$ 11,028	$ 21,545	$ 69,106
Investment return:				
Investment income	299	105	–	404
Net appreciation (realized and unrealized)	(1,807)	768	(1,198)	(2,237)
Total investment return (loss)	(1,508)	873	(1,198)	(1,833)
Contributions	–	–	45	45
Appropriation of endowment assets for expenditure	(2,352)	(61)	–	(2,413)
Endowment net assets, end of year	$ 32,673	$ 11,840	$ 20,392	$ 64,905

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital 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

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

5. Endowment (continued)

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

	2012	2011
Restricted funds to support operations	**$ 3,183**	$ 3,733
Free care fund	**576**	633
	$ 3,759	$ 4,366

6. Temporarily and Permanently Restricted Net Assets

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

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

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

	2012	2011
Principal to be held in perpetuity (held by the Foundation), with income expendable to support health care services and other activities (reported as nonoperating gains)	**$ 13,208**	$ 13,108
Principal to be held in perpetuity (held by the trustee), with income expendable to support free care programs (reported as an increase in unrestricted net assets)	**1,634**	1,634
Principal to be held in perpetuity, with income to be spent for restricted purposes as specified by donor (reported as additions to temporarily restricted net assets until released upon satisfaction of restriction)	**6,947**	5,650
	$ 21,789	$ 20,392

7. Long-Term Debt

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

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

On March 1, 1996, the State of Connecticut Health and Educational Facilities Authority (CHEFA) issued $62.9 million of its Revenue Bonds on behalf of Greenwich Hospital, Series A, consisting of $12.8 million of serial bonds and $50.1 million of term bonds, the proceeds of which have been loaned by CHEFA to the Hospital for the master facility renovation project.

On April 3, 2006, CHEFA issued $56.6 million of its Revenue Bonds on behalf of Greenwich Hospital, Series B, consisting of auction rate certificates. The proceeds were utilized for the defeasance and retirement of the outstanding Series A revenue bonds at a redemption price of 102%, which occurred on July 1, 2006.

On May 6, 2008, CHEFA issued $53.6 million of its Revenue Bonds on behalf of Greenwich Hospital, Series C, consisting of variable rate demand bonds. The proceeds were utilized for the refunding of the outstanding Series B revenue bonds. Principal amounts related to the Series C revenue bonds mature annually each July 1 through fiscal 2026. The effective interest rate of 3.20% is the result of the variable rate paid to bondholders, disclosed as interest expense of approximately $0.1 million and net counterparty payments of approximately $1.3 million in connection with the interest rate swap included in nonoperating gains and losses.

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

7. Long-Term Debt (continued)

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

Years Ending:	
2013	$ 2,430
2014	2,505
2015	2,605
2016	2,675
2017	2,790
Thereafter	29,640
	$ 42,645

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

Pursuant to the State of Connecticut Health and Educational Authority Trust Indenture (Trust Indenture), dated May 1, 2008, the Hospital is required to maintain a debt service fund with a trustee to cover payment of principal and interest. The Hospital is required to comply with a variety of covenants, including a debt service coverage ratio. In connection with the Bonds, the Parent is part of the Obligated Group with the Hospital (including the Hospital's Foundation). At September 30, 2012 and 2011, the Obligated Group was in compliance with its debt covenants.

In connection with its Series C revenue bonds, the Hospital entered into an interest rate swap agreement (the swap) with a financial institution. Under the terms of the swap, the Hospital will receive variable interest payments and pay fixed interest payments on a notional value of $29.1 million.

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

8. Retirement Plan

Defined Contribution Pension Plan

The Hospital provides a defined contribution pension plan for those employees eligible to participate. The plan contains three separate benefits. The incentive contribution, which is generally available to all non-management employees, is designed to reward employees when the Hospital meets certain predetermined quality and financial measures (if paid, this benefit varies based on service from 1% to 3% of pay). Effective January 1, 2007, a matching contribution, which is generally available to all employees no longer accruing benefits under the defined benefit plan, is designed to provide an incentive to employees to save for retirement by matching employee contributions (employees can receive up to 3% of pay on contributions equal to 5% of pay).

The length of service contribution, effective January 1, 2007, which is generally available to all employees no longer accruing benefits under the defined benefit plan, is designed to provide future retirement income that rewards continued service at the Hospital (this benefit varies based on service from 3% to 8% of pay).

In total, the Hospital contributed approximately $5.5 million and $5.3 million to the Plan for the years ended September 30, 2012 and 2011, respectively.

Defined Benefit Pension Plan

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

8. Retirement Plan (continued)

The Hospital is required to measure plan assets and benefit obligations at a date consistent with its fiscal year-end balance sheet. Included in unrestricted net assets at September 30, 2012 and 2011, are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	2012	2011
Unrecognized actuarial loss	**$ (67,659)**	$ (59,256)
Unrecognized prior service cost	**(13)**	(20)
	$ (67,672)	$ (59,276)

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

Unrecognized actuarial loss	$ 7,974
Unrecognized prior service cost	6
	$ 7,980

The following table sets forth the change in benefit obligations, change in plan assets and the funded status of the Hospital's plan at September 30, 2012 and 2011 (in thousands):

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

8. Retirement Plan (continued)

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

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

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

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

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

The weighted-average assumptions used in the measurement of the Hospital's net periodic benefit cost and benefit obligations for the years ended September 30, 2012 and 2011, are shown in the following table:

	Net Periodic Benefit Cost		**Benefit Obligation**	
	2012	**2011**	**2012**	**2011**
Discount rate	**5.10%**	5.30%	**4.00%**	5.10%
Rate of compensation increase	**3.50**	3.25	**3.50**	3.50
Expected rate of return on plan assets	**7.75**	7.75	–	–

8. Retirement Plan (continued)

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

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

The plan assets carried at fair value as of September 30, 2012, are classified in the table below in one of the three categories described in Note 15 (in thousands):

	Level 1	Level 2	Level 3	Total
Money market funds	**$ 1,898**	**$ –**	**$ –**	**$ 1,898**
US equity securities	**18,311**	**22,026**	**–**	**40,337**
International equity securities	**–**	**30,433**	**–**	**30,433**
Fixed income:				
Corporate debt	**26,595**	**–**	**–**	**26,595**
Private equity	**–**	**–**	**8,319**	**8,319**
Hedge funds:				
Absolute return	**–**	**16,173**	**10,579**	**26,752**
Real assets	**–**	**–**	**4,580**	**4,580**
	$ 46,804	**$ 68,632**	**$ 23,478**	**$ 138,914**

8. Retirement Plan (continued)

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

	Level 1	Level 2	Level 3	Total
Money market funds	$ 979	$ –	$ –	$ 979
US equity securities	14,965	16,088	–	31,053
International equity securities	4,456	22,518	–	26,974
Fixed income:				
Corporate debt	26,438	–	–	26,438
Private equity	–	–	7,444	7,444
Hedge funds:				
Absolute return	–	14,243	9,848	24,091
Real assets	–	–	4,237	4,237
	$ 46,838	$ 52,849	$ 21,529	$ 121,216

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

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

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

8. Retirement Plan (continued)

Description of Investment Policies and Strategies

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

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

Cash Flows

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

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

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

9. Professional Liability Insurance

Yale-New Haven Hospital ("YNHH") and a number of academic medical centers are shareholders in The Medical Center Insurance Company, Ltd. (the "Captive"). The Captive was formed to insure for professional and comprehensive general liability risks of its shareholders and certain affiliated entities of the shareholders. On October 1, 1997, the Hospital was added to the YNHH program as an additional insured. The Captive and its wholly-owned subsidiary write direct insurance and reinsurance for varying levels of per claim limit exposure. The Captive has reinsurance coverage from outside reinsurers for amounts above the per claim limits.

Premiums are based on modified claims made coverage and are actuarially determined based on actual experience of the Hospital, and the Captive. The Hospital pays insurance premiums to YNHHSC.

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

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

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

10. Commitments and Contingencies

Leases

The Hospital leases various equipment and properties under operating leases and has long-term commitments under service contracts expiring at various dates through fiscal 2018. Expense under such leases and service contracts was approximately $5.3 million and $5.9 million for fiscal 2012 and 2011, respectively.

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

Years Ending:	
2013	$ 5,644
2014	5,516
2015	5,587
2016	2,975
2017	1,886
2018 and thereafter	254
	$ 21,862

The Hospital has been involved in leasing leased and owned houses and properties to Hospital employees. Expenses for the years ended September 30, 2012 and 2011, under these leases are included in supplies and other expenses. The amounts received from employees relating to these leases are included in other revenue (see Note 12).

The Hospital has a leasing arrangement, renewable annually, with an affiliate, Perryridge Corporation, to rent four office buildings (the Cohen Pavilion, 55 Holly Hill Lane, 500 West Putnam Avenue and 2015 West Main Street). Included in supplies and other expenses was approximately $3.1 million and $2.9 million for fiscal 2012 and 2011, respectively. It is anticipated that this arrangement will be renewed in the future.

10. Commitments and Contingencies (continued)

Litigation

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

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

11. Functional Expense

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

	2012	2011
Health care services	**$ 162,280**	$ 164,454
General and administrative	**150,279**	141,471
	$ 312,559	$ 305,925

12. Related-Party Transactions

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

	2012	2011
Operating expenses:		
Professional and general liability insurance	**$ 5,575**	$ 6,588
Information systems	**6,979**	814
Management services	**3,793**	4,652
Other support services	**15,445**	9,704
Physician related strategic support	**2,496**	1,624
EPIC shared project	**7,076**	1,094
Expense recoveries	**(2,176)**	(198)
	$ 39,188	$ 24,278

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

In July 2001, the Hospital granted an $11.0 million line of credit to GH Realty Holding LLC, a wholly owned subsidiary of the Perryridge Corporation (an affiliate of the Hospital), which was fully paid at September 30, 2012. In April 2004, the Hospital granted a $10.0 million line of credit to 2015 West Main Street Associates, LLC, a wholly owned subsidiary of the Perryridge Corporation, of which approximately $3.7 million and $6.1 million was outstanding at September 30, 2012 and 2011, respectively.

Future payments under these loans are as follows (in thousands):

	2012	2011
Amounts due in one year (included in other receivables)	**$ 1,600**	$ 1,600
Amounts due in two to five years	**2,101**	4,701

During the years ended September 30, 2012 and 2011, the Hospital transferred approximately $6.6 million and $6.4 million, respectively, related to operations to GHCS.

13. Supplemental Operating Data

Other revenue consisted of the following (in thousands):

	Year Ended September 30 2012	2011
Pathology services	**$ 5,073**	$ 4,878
Foundation distributed income	**2,472**	2,352
Cafeteria and vending	**1,377**	1,368
Greenwich Ambulatory Surgery Center Joint Venture	**1,346**	358
Net assets released from restrictions for operations	**3,759**	4,366
Electronic health record incentive payment	**2,043**	–
In vitro fertilization	**1,290**	1,228
Other	**2,782**	4,013
	$ 20,142	$ 18,563

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

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

13. Supplemental Operating Data (continued)

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

	2012	2011
Income from Foundation operations, primarily investment income and net realized gains	**$ 665**	$ 415
Less Foundation income distributed to the Hospital included in other revenue	**(2,472)**	(2,352)
	(1,807)	(1,937)
Unrestricted contributions	**1,780**	4,117
Interest and investment income	**237**	751
Fundraising expenses	**(1,925)**	(1,879)
Community Health at Greenwich Hospital	**(647)**	(632)
Net assets released from restrictions used for non-operating activities, net	**139**	6
Other	**–**	(43)
	$ (2,223)	$ 383

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

14. Fair Value Measurements

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

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

- **Level 1:** Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.
- **Level 2:** Observable inputs that are based on data not quoted in active markets, but corroborated by market data.

14. Fair Value Measurements (continued)

- **Level 3:** Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

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

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 35,083	$ –	$ –	$ 35,083
Money market funds	38,905	–	–	38,905
U.S. equity securities	8,156	–	–	8,156
International equity securities	6,406	–	–	6,406
Fixed income				
U.S. government	7,346	–	–	7,346
Corporate debt	11,518	–	–	11,518
Mortgage Backed Securities	250	–	–	250
International government	659	561	–	1,220
Beneficial interest in remainder trusts	1,641	–	–	1,641
Investments at fair value	$ 109,964	$ 561	$ –	$ 110,525
Common collective trusts				10,314
Alternative investments				5,998
Investments not at fair value				16,312
Total investments as of September 30, 2012				$ 126,837
Liabilities:				
Interest rate swaps	$ –	$ (6,417)	$ –	$ (6,417)

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

14. Fair Value Measurements (continued)

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

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 32,149	$ –	$ –	$ 32,149
Money market funds	35,220	–	–	35,220
U.S. equity securities	5,574	–	–	5,574
International equity securities	4,553	–	–	4,553
Fixed income				
U.S. government	12,609	–	–	12,609
Corporate debt	19,943	–	–	19,943
Mortgage Backed Securities	376	–	–	376
Beneficial interest in remainder trusts	1,621	–	–	1,621
Investments at fair value	$ 112,045	$ –	$ –	112,045
Common collective trusts				6,499
Alternative investments				5,677
Investments not at fair value				12,176
Total investments as of September 30, 2011				$ 124,221
Liabilities:				
Interest rate swaps	$ –	$ (5,943)	$ -	$ (5,943)

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

The amounts reported in the table as detailed above do not include assets invested in the Hospital's defined benefit pension plan. In addition, included in the table above are investments at September 30, 2012 and 2011 in common collective trusts totaling approximately $10.3 million and $6.5 million, respectively, other alternative investments totaling approximately $6.0 million and $5.7 million, respectively, that are accounted for under the equity method of accounting (see Note 1). The interest rate swaps listed above are classified in the accompanying balance sheets as other long-term liabilities at September 30, 2012 and 2011.

14. Fair Value Measurements (continued)

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

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

15. Subsequent Events

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