Consolidated Financial Statements and Other Supplemental Information

Greenwich Health Care Services, Inc. and Subsidiaries
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

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Consolidated Financial Statements
and Other Supplemental Information

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Contents

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Report of Independent Auditors

Board of Trustees
Greenwich Health Care Services, Inc.

We have audited the accompanying consolidated balance sheets of Greenwich Health Care Services, Inc. and Subsidiaries ("GHCS") as of September 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of GHCS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Greenwich Health Care Services, Inc. and Subsidiaries at September 30, 2010 and 2009, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

January 28, 2011

Greenwich Healthcare Services, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30 2010	2009
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 34,318**	$ 34,142
Short-term investments *(Note 5)*	**23,470**	28,273
Accounts receivable for services to patients, less allowance for uncollectible accounts, charity and free care of approximately $12,096,000 in fiscal 2010 and $10,493,000 in fiscal 2009 *(Note 10)*	**33,404**	33,583
Other receivables *(Note 1)*	**635**	1,520
Prepaid expenses	**2,349**	2,345
Inventories	**1,275**	995
Total current assets	**95,451**	100,858
Assets limited as to use *(Notes 5, 7 and 11):*		
Escrow funds for long-term debt	**9**	10
Trustee assets for self-insurance	**800**	802
Board designated	**60,606**	58,700
	61,415	59,512
Long-term investments *(Note 5)*	**49,683**	44,655
Beneficial interest in trusts *(Notes 1 and 5)*	**11,805**	11,451
Beneficial interest in remainder trusts	**1,443**	1,434
Contributed property	**2,100**	2,100
Other assets	**1,588**	915
	66,619	60,555
Property, plant and equipment *(Note 1):*		
Land and land improvements	**22,505**	21,745
Buildings and fixtures	**248,397**	248,799
Equipment	**175,508**	162,380
Leasehold improvements	**21,077**	15,300
	467,487	448,224
Less accumulated depreciation	**(188,154)**	(167,165)
	279,333	281,059
Construction in progress	**524**	1,331
	279,857	282,390
Total assets	**$ 503,342**	$ 503,315

	September 30	
	2010	**2009**
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 6,882**	$ 8,959
Accrued expenses *(Note 13)*	**19,922**	27,786
Other current liabilities *(Notes 2 and 13)*	**11,677**	8,242
Current portion of long-term debt *(Note 11)*	**2,260**	2,190
Total current liabilities	**40,741**	47,177
Long-term debt, net of current portion *(Note 11)*	**45,005**	47,265
Self-insurance liabilities *(Note 7)*	**11,838**	11,687
Pension liability *(Note 8)*	**29,899**	27,902
Other long-term liabilities *(Notes 2 and 9)*	**10,621**	9,203
Interest rate swap *(Notes 1 and 11)*	**5,497**	3,455
Total liabilities	**143,601**	146,689
Commitments and contingencies		
Net assets *(Note 4):*		
Unrestricted	**310,901**	308,971
Temporarily restricted	**27,295**	25,902
Permanently restricted	**21,545**	21,753
Total net assets	**359,741**	356,626
Total liabilities and net assets	**$ 503,342**	$ 503,315

See accompanying notes.

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2010	**2009**
	(In Thousands)	
Operating revenue:		
Net patient service revenue *(Note 2)*	**$ 288,416**	$ 282,231
Other revenue *(Note 12)*	**9,324**	10,078
Net assets released from restrictions used for operations *(Note 4)*	**5,445**	6,439
Total operating revenue	**303,185**	298,748
Operating expenses *(Note 12)*:		
Salaries and benefits	**152,387**	157,685
Supplies and other	**109,355**	103,980
Depreciation	**21,723**	20,411
Interest (*Note 11*)	**449**	669
Bad debts	**10,787**	8,087
Total operating expenses	**294,701**	290,832
Income from operations	**8,484**	7,916
Nonoperating gains and losses:		
Change in unrealized loss on interest rate swap, including counterparty payments (*Note 11*)	**(3,435)**	(3,971)
Change in net unrealized gains and losses on investments	**4,661**	6,098
Other nonoperating gains and losses, net *(Note 12)*	**(1,604)**	(3,216)
Excess of revenue and gains over expenses	**8,106**	6,827

Greenwich Health Care Services, Inc. and Subsidiaries

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

	Year Ended September 30	
	2010	**2009**
	(In Thousands)	
Unrestricted net assets:		
Excess of revenue and gains over expenses (from page 4)	**$ 8,106**	$ 6,827
Transfer from NEMG *(Note 13)*	**(91)**	–
Transfer to YNHHSC	**–**	250
Amortization on interest rate swap (*Note 11*)	**(76)**	(74)
Net assets released from restrictions used for plant assets	**31**	9,337
Pension adjustment (*Note 8*)	**(6,040)**	(41,262)
Increase (decrease) in unrestricted net assets	**1,930**	(24,922)
Temporarily restricted net assets:		
Contributions	**4,173**	15,408
Income from investments	**52**	359
Net realized gains (losses) on investments	**12**	(1,570)
Change in net unrealized gains and losses on investments	**2,634**	1,073
Net assets released from restrictions used for operations *(Note 4)*	**(5,445)**	(6,439)
Net assets released from restrictions used for nonoperating activities, net *(Note 12)*	**(2)**	(2)
Net assets released from restrictions used for plant assets	**(31)**	(9,337)
Increase (decrease) in temporarily restricted net assets	**1,393**	(508)
Permanently restricted net assets:		
Net realized gains (losses) on investments	**5**	(12)
Change in net unrealized (losses) gains on investments	**(213)**	991
(Decrease) increase in permanently restricted net assets	**(208)**	979
Increase (decrease) in net assets	**3,115**	(24,451)
Net assets at beginning of year	**356,626**	381,077
Net assets at end of year	**$ 359,741**	$ 356,626

See accompanying notes.

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2010	**2009**
	(In Thousands)	
Cash flows from operating activities		
Increase (decrease) in net assets	**$ 3,115**	$ (24,451)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	**21,723**	20,411
Change in net unrealized (gains) and losses on investments	**(7,082)**	(8,162)
Net realized (gains) losses on investments	**(17)**	1,582
Contributions	**(4,173)**	(15,408)
Decrease in contributed property and beneficial interest in remainder trusts	**(9)**	333
Decrease in beneficial interest in remainder trusts	**(354)**	312
Pension adjustment	**6,040**	41,262
Changes in operating assets and liabilities:		
Accounts receivable for services to patients, net	**179**	1,525
Trustee assets for self-insurance	**2**	–
Other receivables	**335**	191
Prepaid expenses	**(4)**	(264)
Other assets	**(1,056)**	(183)
Pension liability	**(4,043)**	554
Accounts payable	**(2,077)**	2,160
Accrued expenses	**(7,864)**	1,196
Other current liabilities	**3,426**	1,128
Other long-term liabilities and interest rate swap	**3,460**	2,883
Self-insurance liabilities	**151**	353
Net cash provided by operating activities	**11,752**	25,422
Cash flows from investing activities		
Net capital expenditures	**(19,190)**	(26,832)
Net change in investments and assets limited as to use	**4,969**	(10,266)
Net cash used in investing activities	**(14,221)**	(37,098)
Cash flows from financing activities		
Contributions	**4,835**	16,112
Payments of long-term debt	**(2,190)**	(2,115)
Net cash provided by financing activities	**2,645**	13,997
Net increase in cash and cash equivalents	**176**	2,321
Cash and cash equivalents at beginning of year	**34,142**	31,821
Cash and cash equivalents at end of year	**$ 34,318**	$ 34,142
Supplemental disclosure of cash flow information		
Cash paid for interest	**$ 111**	$ 298

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization

Greenwich Health Care Services, Inc. ("GHCS") is the parent corporation for a group of organizations consisting of Greenwich Hospital (the "Hospital") and its supporting organizations, The Greenwich Hospital Foundation (the "Foundation"), The Perryridge Corporation and Greenwich Health Services, Inc. ("GHSI"). GHCS, the Hospital and the Foundation are considered the Obligated Group under the State of Connecticut Health and Educational Facilities Authority Trust Indenture (see Note 11). GHCS is a Section 501(c)(3) organization whose tax-exempt status is based upon its support of the Hospital and provides management and other supporting services to the Hospital.

Yale-New Haven Health Services Corporation ("YNHHSC") is the sole member of GHCS and two similar organizations. Each of these three tax-exempt organizations serves as the sole member/parent for its respective delivery network of regional health care providers and related entities. Under the terms of 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, a tax-exempt organization, was formed without variance power to receive and administer funds for the benefit of the Hospital, GHCS and any or all of their affiliates that are exempt from federal income tax.

Effective April 1, 2010, control of certain physician practices within GHSI and the Hospital were assumed by YNHHSC and began operations as Northeast Medical Group, Inc. ("NEMG"). YNHHSC is the sole member of NEMG. The operations are included in the accompanying consolidated financial statements.

Principles of Consolidation

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

1. Organization and Significant Accounting Policies (continued)

Use of Estimates

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

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital and the Foundation in perpetuity.

Contributions, including unconditional promises to give, are reported at fair value in the period received. 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, donor withdraws previously imposed restrictions, or purpose restriction is accomplished, net assets are reclassified. Conditional promises to give are not recorded as revenue or support until the conditions upon which they depend have been substantially met.

Contributions to be received after one year are discounted at an appropriate 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.

1. Organization and Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

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

Accounts Receivable

Patient accounts receivable result from the health care services provided by GHCS. Changes to the allowance for doubtful accounts result from changes to the provision for bad debts. Accounts written off as uncollectible are recorded as bad debt expense. The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payer programs.

Investments

GHCS has determined that all investments reported in the accompanying consolidated balance sheets are considered trading securities. 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 and gains over expenses, unless the income or loss is restricted by donor or law.

Investments in equity securities and debt securities are measured at fair value in the accompanying consolidated balance sheets based upon the last sale price if quotations are readily available or is estimated using quoted market prices for similar securities if quotations are not readily available. The basis of marketable securities or investments received as donations or bequests is deemed to be their fair value at the date of gift.

1. Organization and Significant Accounting Policies (continued)

To diversify its investment portfolio and to enhance opportunities for increased rate of return, GHCS has invested in alternative investments. Alternative investments include investments in non-marketable and market-traded debt and equity securities. Alternative investments are reported at fair value, 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 GHCS to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, GHCS's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors. Certain alternative investments are subject to various withdrawal restrictions regarding timing, fees and transaction limits at September 30, 2010 and 2009. Future funding commitments for alternative investments aggregated approximately $4.2 million at September 30, 2010.

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 limited as to use primarily consists of cash, debt and equity securities, and alternative investments. These assets are restricted to pay interest and principal on bonds payable and self-insurance claims, and are also earmarked to fund various Board approved projects.

Interest Rate Swap

GHCS utilizes an interest rate swap to limit the variability of changes in future interest rates. The interest rate swap is reported at fair value in the accompanying consolidated financial statements. GHCS is exposed to credit loss in the event of nonperformance by the counterparties to its interest rate swap agreement. GHCS is also exposed to the risk that the swap receipts may not offset its debt service. To the extent these variable rate receipts do not equal variable interest payments on the bonds, there will be a net loss or net benefit to GHCS.

1. Organization and Significant Accounting Policies (continued)

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 consolidated statements of operations and changes in net assets, was approximately $24,000 and $23,000 for the years ended September 30, 2010 and 2009, respectively.

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 $449,000 and $401,000 for the years ended September 30, 2010 and 2009, respectively.

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.

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 40 years. Fully depreciated assets are removed when no longer in use.

1. Organization and Significant Accounting Policies (continued)

Performance Indicator

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

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

Income Taxes

GHCS and its subsidiaries, with the exception of GHSI, are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal and state income taxes pursuant to Section 501(a) of the Code.

As of September 30, 2010, GHSI had approximately $12.5 million of federal net operating losses and approximately $9.9 million of state net operating losses. These net operating losses will expire from December 31, 2010 through December 31, 2027. No deferred tax assets are reflected because management believes they will not be realized.

Professional and General Liability Insurance

The Hospital accesses modified-claims-made insurance for professional and comprehensive general risk through a Yale-New Haven Hospital ("YNHH") partially-owned captive insurance company. The Hospital has no ownership interest in the captive insurance company. The Hospital records the actuarially determined liabilities for incurred but not reported professional and comprehensive general liabilities on a discounted basis.

1. Organization and Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncement

In August 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update 2010-24, *Topic 954 – Presentation of Insurance Claims and Related Insurance Recoveries* ("ASU 2010-24"). The amendments in this update clarify that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The amendments in this update permit retrospective application and are effective for fiscal years beginning after December 15, 2010. The Hospital has not yet determined the effect that the adoption of ASU 2010-24 will have on its financial statements.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements in order to conform with the 2010 presentation.

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

GHCS has agreements with third-party payers that provide for payments to GHCS at amounts different from its established rates; the difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

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

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

Revenue from Medicare and Medicaid programs collectively accounted for approximately 30% of GHCS's net patient service revenue for each of the years ended September 30, 2010 and 2009. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

GHCS believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on GHCS. Cost reports for GHCS, which serve as the basis for final settlement with government payers, have been settled by final settlement through 2006 for Medicare and 1994 for Medicaid. Subsequent years remain open for settlement. Net patient service revenue for the years ended September 30, 2010 was not impacted by any change in estimate. For the year ended September 30, 2009, net patient revenue decreased by approximately $0.4 million for net changes in estimates and settlements related to prior years.

GHCS has agreements with various managed care companies to provide medical services to subscribing participants. The managed care companies make fee-for-service payments to GHCS for certain covered services based upon discounted fee schedules.

Net patient service revenue for the years ended September 30, 2010 and 2009 includes the following (in thousands):

	2010	**2009**
Gross patient service revenue	**$ 922,624**	$ 854,689
Less contractual and other allowances	**(634,208)**	(572,458)
	$ 288,416	$ 282,231

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 health care because of inadequate resources and/or who are uninsured or underinsured.

For financial reporting purposes, the Hospital reports care provided for which no payment was received from the patient or insurer as uncompensated care. Uncompensated care is the sum of the Hospital's free care provided, charity care provided and bad debt expense. In determining uncompensated care, the Hospital excludes contractual allowances. The cost of uncompensated care amounted to approximately $13.3 million and $13.9 million in fiscal 2010 and 2009, respectively. Additionally, the Hospital incurred losses related to the Medicare and State Medicaid programs of approximately $33.1 million and $30.1 million in fiscal 2010 and 2009, respectively. The estimated cost of uncompensated care and Medicaid losses were determined using patient-specific data.

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.

Annually, the Hospital accrues for the potential losses related to its uncollectible accounts and the amounts that meet the definition of charity and free care allowances. At September 30, 2010 and 2009, the amount estimated by management to represent the Hospital's uncollectible and charity and free care allowance, which is included in the accompanying consolidated balance sheets as a reduction of accounts receivable for services to patients, was approximately $12.0 million and $9.8 million, respectively.

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 community health services, some of which service non-English speaking residents, disabled children, and various community support groups.

3. Uncompensated Care and Community Benefit Expense (continued)

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 health care professionals to provide their services at no charge through participation in various community seminars and training programs.

4. Net Assets

Unrestricted net assets include the following at September 30, 2010 and 2009 (in thousands):

	2010	2009
Designated by Board of Trustees for:		
Depreciation fund	**$ 17,579**	$ 20,735
Quasi-endowment, capital gains, net, held by the Foundation	**36,533**	34,005
Undesignated	**256,789**	254,231
	$ 310,901	$ 308,971

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

	2010	2009
Hospital's major facility renovation project	**$ 641**	$ 549
Other specified capital expenditures	**1,490**	1,312
Indigent care	**1,022**	990
Indigent care funds held by trustee	**8,674**	8,866
Specified health care services and operations	**12,516**	11,275
Education	**2,952**	2,910
	$ 27,295	$ 25,902

4. Net Assets (continued)

Permanently restricted net assets are restricted as follows at September 30, 2010 and 2009 (in thousands):

	2010	2009
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)	**$ 13,108**	$ 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)	**6,803**	7,011
	$ 21,545	$ 21,753

GHCS has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act ("CUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, GHCS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment related to GHCS's beneficial interest in perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by GHCS in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, GHCS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of GHCS and the donor-restricted endowment fund; (3) general economic 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 GHCS; and (7) the investment and spending policies of GHCS.

4. Net Assets (continued)

Changes in endowment net assets for the year ended September 30, 2010 is as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 34,005	$ 11,098	$ 21,753	$ 66,856
Investment return:				
Investment income and realized gains	515	12	5	532
Unrealized gains (losses)	4,497	–	(213)	4,284
Total investment return (loss)	5,012	12	(208)	4,816
Appropriation of endowment assets for expenditure	(2,484)	(82)	–	(2,566)
Endowment net assets, end of year	$ 36,533	$ 11,028	$ 21,545	$ 69,106

GHCS has adopted investment policies for endowed assets that attempt to provide a predictable stream of funding to programs supported by its endowment. To satisfy its long-term rate-of-return objectives, GHCS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Net assets released from donor imposed restrictions used for operations consisted of the following at September 30, 2010 and 2009 (in thousands):

	2010	2009
Restricted funds to support operations	**$ 4,865**	$ 4,941
Free care fund	**580**	1,498
	$ 5,445	$ 6,439

5. Investments

Cost and fair values for investments are summarized as follows as of September 30, 2010 and 2009 (in thousands):

	2010		**2009**	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Short-term investments:				
Cash	**$ 148**	**$ 148**	$ 146	$ 146
Debt securities	**23,637**	**23,322**	28,332	28,127
	$ 23,785	**$ 23,470**	$ 28,478	$ 28,273
Assets limited as to use:				
Escrow funds for long-term debt:				
Cash	**$ 9**	**$ 9**	$ 10	$ 10
	$ 9	**$ 9**	$ 10	$ 10
Trustee assets for self-insurance:				
Cash	**$ 800**	**$ 800**	$ 802	$ 802
	$ 800	**$ 800**	$ 802	$ 802
By board designation:				
Cash	**$ 10,599**	**$ 10,599**	$ 18,362	$ 18,362
Debt securities	**8,891**	**9,386**	9,641	10,226
Equity securities	**7,261**	**12,090**	8,711	12,002
Alternative investments	**20,678**	**24,385**	18,125	18,110
Common collective trust	**4,013**	**4,146**	–	–
	$ 51,442	**$ 60,606**	$ 54,839	$ 58,700

5. Investments (continued)

Long-term investments are composed of the following at September 30, 2010 and 2009 (in thousands):

	2010		2009	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Investments held for operating purposes:				
Cash	**$ 261**	**$ 261**	$ 1	$ 1
Debt securities	**34**	**29**	–	–
Equity securities	**26**	**34**	–	–
Alternative investments	**88**	**84**	–	–
	409	**408**	1	1
Investments deemed held for donor-restricted purposes:				
Cash	**22,854**	**22,854**	16,358	16,358
Debt securities	**4,415**	**4,521**	7,892	8,013
Equity securities	**4,461**	**5,686**	6,403	7,209
Alternative investments	**15,247**	**16,214**	13,077	13,074
	46,977	**49,275**	43,730	44,654
Total long-term investments	**$ 47,386**	**$ 49,683**	$ 43,731	$ 44,655

Investments held in trusts consisted of the following at fair value at September 30, 2010 and 2009 (in thousands):

	2010	2009
Cash	**$ 197**	$ 308
Debt securities	**4,568**	4,513
Equity securities	**7,040**	6,630
	$ 11,805	$ 11,451

5. Investments (continued)

Effective January 1, 2010, the Hospital transferred $10 million into the newly formed Yale-New Haven Health System Investment Trust (the "Trust"), a unitized Delaware Investment Trust created to pool assets for investment by the Health System non-profit entities. The Hospital's ownership percentage of the Trust was approximately 9.16% as of September 30, 2010. The Hospital's pro rata portion of the Trust's investments are represented in the assets limited to use by board designation table.

6. Operating Leases and Other Commitments

The Hospital leases various equipment and properties under operating leases and has long-term commitments under service contracts expiring at various dates through fiscal 2014. Expense under such leases and service contracts was approximately $4.4 million and $4.5 million for fiscal 2010 and 2009, respectively.

Future minimum lease payments for each of the following five years subsequent to September 30, 2010 under noncancelable operating leases and service contracts are as follows (in thousands):

2011	$ 4,362
2012	4,094
2013	4,244
2014	4,344
2015	4,426
	$ 21,470

The Hospital has been involved in leasing leased and owned houses and properties to Hospital employees. Expenses for the years ended September 30, 2009 and 2008 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).

7. Self-Insurance Liabilities

YNHH and a number of other academic medical centers formed The Medical Center Insurance Company, Ltd. (the "Captive") to insure for professional and comprehensive general liability risks. On January 1, 1999, the Hospital was added to the YNHH program as an additional insured. The Captive and its wholly owned subsidiary write direct insurance and reinsurance for varying levels of per claim limit exposure. The Captive has reinsurance coverage from outside reinsurers for amounts above the per claim limits. Premiums are based on modified claims made coverage and are actuarially determined based on actual experience of the Hospital and the Captive. The Hospital initially pays insurance premiums to YNHHSC.

7. Self-Insurance Liabilities (continued)

For the years ended September 30, 2010 and 2009, the Hospital recorded a receivable of approximately $375,000 and a liability of approximately $(213,000), respectively, which represents the Captive's best estimate for additional premium requirements for worse than expected loss experiences. The funding of the additional premium requirements is made by the Hospital in the subsequent year.

The estimated undiscounted incurred but not reported liability for professional and general claims at September 30, 2010 and 2009 was approximately $8.8 million. The actuarially determined present value of approximately $7.4 million and $7.1 million for the years ended September 30, 2010 and 2009, respectively, is based on a discount rate of 4.0% for 2010 and 4.5% for 2009.

The Hospital is a defendant in a number of claims, including alleged malpractice and various matters. In the opinion of Hospital management, the ultimate resolution of these claims, after consideration of applicable insurance coverage as explained above, will not materially impact the Hospital's consolidated financial position or results of operations.

The Hospital is also self-insured, subject to certain umbrella and stop-loss coverage limits, for its employee health plan and workers' compensation. Estimated amounts are accrued for claims, including claims incurred but not reported ("IBNR") and are based on Hospital-specific experience. At September 30, 2010 and 2009, the estimated discounted liabilities for self-insured workers' compensation claims and IBNR aggregated approximately $4.5 million, discounted at 4.0% for 2010 and 5.5% for 2009.

8. Retirement Plan

Defined Contribution 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 nonmanagement 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

8. Retirement Plan (continued)

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 $5.4 million and $5.1 million for the years ended September 30, 2010 and 2009, respectively.

Defined Benefit Plan

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

On September 30, 2009, the Hospital adopted the measurement date provisions of FASB issued SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans* (hereafter referred to as ASC No. 715). ACS No. 715 required the Hospital to measure plan assets and benefit obligations at a date consistent with its fiscal year-end consolidated balance sheet. The amount recorded as a result of this net change approximates $0.1 million and is included in the accompanying 2009 consolidated statement of operations and changes in net assets.

Included in unrestricted net assets at September 30, 2010 and 2009 are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	2010	**2009**
Unrecognized actuarial loss	**$ (40,194)**	$ (34,147)
Unrecognized prior service cost	**(26)**	(33)
	$ (40,220)	$ (34,180)

8. Retirement Plan (continued)

The actuarial loss and prior service cost included in unrestricted net assets at September 30, 2009 and expected to be recognized in net periodic benefit cost during the year ending September 30, 2011 are as follows (in thousands):

Unrecognized actuarial loss	$ 1,655
Unrecognized prior service cost	6
	$ 1,661

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, 2010 and 2009 (in thousands):

	2010	2009
Change in benefit obligations:		
Benefit obligation, at prior measurement date	**$ 141,232**	$ 111,784
Service cost	**3,043**	2,817
Interest cost	**7,900**	7,636
Change in assumptions	**7,596**	21,485
Actuarial (gain) loss	**(861)**	414
Benefits paid	**(4,901)**	(5,517)
Change in measurement date	–	2,613
Benefit obligation, at current measurement date	**$ 154,009**	$ 141,232
Change in Plan assets:		
Fair value of Plan assets, at prior measurement date	**$ 113,330**	$ 125,698
Actual return on Plan assets	**10,681**	(9,327)
Employer contributions	**5,000**	–
Benefits paid	**(4,901)**	(5,517)
Change in measurement date	–	2,476
Fair value of Plan assets, at current measurement date	**$ 124,110**	$ 113,330
Pension liability	**$ (29,899)**	$ (27,902)

The change in assumptions primarily relates to a decrease in the discount rate used to measure the benefit obligation for the years ended September 30, 2010 and 2009.

8. Retirement Plan (continued)

The projected benefit obligation, accumulated benefit obligation and fair value of Plan assets were as follows at September 30, 2010 and 2009 (in thousands):

	2010	2009
Projected benefit obligation	**$ 154,009**	$ 141,232
Accumulated benefit obligation	**144,270**	130,999
Fair value of Plan assets	**124,110**	113,330

The following table provides the components of the net periodic benefit cost for the Plan for the years ended September 30, 2010 and 2009 (in thousands):

	2010	2009
Service cost	**$ 3,043**	$ 2,817
Interest cost	**7,900**	7,636
Expected return on Plan assets	**(10,210)**	(9,905)
Amortization of prior service cost	**6**	6
Amortization loss	**218**	–
Net periodic benefit cost	**$ 957**	$ 554

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, 2010 and 2009 are shown in the following table:

	Net Periodic Benefit Cost		Benefit Obligation	
	2010	2009	2010	2009
Discount rate	**5.70%**	7.00%	**5.30%**	5.70%
Rate of compensation increase	**3.25**	3.25	**3.25**	3.25
Expected rate of return on Plan assets	**7.75**	7.75	**–**	–

8. Retirement Plan (continued)

The asset allocation of the Plan at September 30, 2010 and 2009 (the Hospital's measurement date) was as follows:

	2010 Target Allocation	2010	2009
Equity securities	60% - 90%	**23.7%**	34.9%
Debt securities	10% - 40%	**30.5**	28.6
Alternative investments	0% - 25%	**45.8**	36.5
		100.0%	100.0%

The pension assets carried at fair value as of September 30, 2010 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
Cash and cash equivalents	$ 7,807	$ –	$ –	$ 7,807
Debt securities	30,077	–	–	30,077
Equity securities	29,385	–	–	29,385
Alternative investments	–	46,162	10,679	56,841
	$ 67,269	$ 46,162	$ 10,679	$ 124,110

The following is a rollforward of the pension assets classified in Level 3 of the valuation hierarchy described in Note 15 (in thousands):

Fair value at September 30, 2009	$ 6,777
2010 realized and unrealized gains and losses	(1,036)
2010 purchases, sales, transfers, issuances and settlements, net	4,938
Fair value at September 30, 2010	$ 10,679

Description of Investment Policies and Strategies

The primary objective of the investment policy is to provide a satisfactory return on the Plan's assets. The specific investment objective is to attain an average annual total return (net of investment management fees) of at least 5.0%.

8. Retirement Plan (continued)

The Plan's assets are managed by external investment managers. In the interest of diversification, the equity portion of the portfolio is placed with managers who have distinct and different investment philosophies. The investment manager has complete discretion to manage the assets in each particular portfolio to best achieve the investment objectives.

The Plan's assets are diversified both by asset class (e.g., equities, bonds, cash equivalents, and other alternative investments) and within each asset class (e.g., within equities by economic sector, industry, quality, and size). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the Plan's assets.

To achieve its investment objective, the Plan's assets are divided into three parts: "Fixed Income Fund," "Equity Fund" and "Alternative Investments." The purpose of dividing the funds in this manner is to ensure that the overall asset allocation among these three major asset classes remains under the regular scrutiny of the Investment Committee.

The purpose of the Fixed Income Fund (bonds and cash equivalents) is to provide a deflation hedge, reduce the overall volatility of the Fund, and produce current income (to be added to dividend income from the Equity Fund) in support of spending needs.

The Hospital expects to make cash contributions of approximately $5.0 million to the Plan in fiscal 2011.

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

2011	$ 5,884
2012	6,555
2013	7,131
2014	7,726
2015	8,245
2016 to 2020	51,720

9. Postretirement Medical and Life Insurance Benefits

Certain employees who retired prior to August 1, 1992 are provided certain postretirement health care and life insurance benefits. In addition, a 1994 early retirement benefits program provided limited postretirement medical benefits to employees who accepted the one-time early retirement offer. The accrued postretirement benefit liabilities were approximately $0.5 million at September 30, 2010 and 2009 and are included in other long-term liabilities.

10. Reimbursement Arrangements

The significant concentrations of accounts receivable for services to patients, before allowances for doubtful accounts, charity and free care consisted of the following at September 30, 2010 and 2009 (in thousands):

	2010	2009
Managed care and commercial insurance	**$ 26,453**	$ 23,312
Medicare and Medicaid	**10,362**	10,929
Self-pay patients	**8,488**	8,789
Other third-party payers (none over 10%)	**1,271**	2,476
Accounts receivable for services to patients, gross	**46,574**	45,506
Less:		
Allowance for uncollectible accounts, charity and free care	**(12,096)**	(10,493)
Medical record denials and credit balances	**(1,074)**	(1,430)
Accounts receivable for services to patients, net	**$ 33,404**	$ 33,583

11. Long-term Debt

Long-term debt consists of the following at September 30, 2010 and 2009 (in thousands):

	2010	2009
State of Connecticut Health and Educational Facilities Authority Tax Exempt Bonds, Series C (variable interest rates with an average rate of approximately 3.25% for fiscal 2010)	**$ 47,265**	$ 49,455
Less current portion	**(2,260)**	(2,190)
Long-term portion	**$ 45,005**	$ 47,265

11. Long-term Debt (continued)

On March 1, 1996, the State of Connecticut Health and Educational Facilities Authority ("CHEFA") issued $62,905,000 of its Revenue Bonds on behalf of Greenwich Hospital, Series A, consisting of $12,760,000 of serial bonds and $50,145,000 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 $56,600,000 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 $53,630,000 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 3.25% is the result of the variable rate paid to bondholders, disclosed as interest expense of approximately $111,000, and net counterparty payments of approximately $1.5 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 on May 7, 2013.

Aggregate principal and sinking fund payments required by the Hospital for the Series C revenue bonds for fiscal 2011 through fiscal 2015 and thereafter are as follows (in thousands):

2011	$ 2,260
2012	2,360
2013	2,430
2014	2,505
2015	2,605
Thereafter	35,105
	$ 47,265

11. Long-term Debt (continued)

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, see Note 1). At September 30, 2010 and 2009, the Obligated Group was in compliance with its financial debt covenants.

In connection with refinancing its Series A revenue bonds and issuing its Series B 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 approximately $32.2 million. On October 1, 2006, the Hospital concluded not to apply hedge accounting for the swap. Accordingly, the change in fair value of the swap was recorded as a nonoperating loss in the accompanying consolidated statements of operations and changes in net assets, while in 2006 the change in market value was recorded as a change in unrestricted net assets. As a result, the accumulated unrealized derivative gain of approximately $1.4 million at September 30, 2006 is being amortized into excess of revenue and gains over expenses in future years. The Hospital expects that the amount of gain existing in unrestricted net assets to be reclassified to excess of revenue and gains over expenses within the next 12 months will not be significant.

The swap remained in place for the Series C revenue bonds. At September 30, 2010 and 2009, the aggregate fair value of the swap was approximately $5,497,000 and $3,455,000, respectively, and is reflected as a liability in the accompanying consolidated balance sheets. The net interest paid or received under the swap is recorded as an adjustment of the variable interest rate on the Series C revenue bonds included in nonoperating gains and losses.

12. Supplemental Operating Data

Other revenue consisted of the following (in thousands):

	Year Ended September 30 2010	2009
Rental income	**$ 2,092**	$ 2,055
Dining room receipts	**1,311**	1,364
Purchase discounts and rebates	**1,244**	1,291
Pharmacy sales	**74**	77
Telecom services	**212**	238
Occupational medicine	**366**	264
Foundation distributed income	**2,484**	2,748
Power consumption income	**335**	450
Fitness center membership fees	**131**	137
Miscellaneous	**1,075**	1,454
	$ 9,324	$ 10,078

Functional expenses related to GHCS's operating activities for the years ended September 30, 2010 and 2009 are as follows (in thousands):

	2010	2009
Health care services	**$ 158,013**	$ 156,656
General and administrative	**136,688**	134,176
	$ 294,701	$ 290,832

12. Supplemental Operating Data (continued)

Other nonoperating gains and losses for the years ended September 30, 2010 and 2009 consisted of the following (in thousands):

	2010	2009
Income (loss) from Foundation operations, primarily investment income and net realized gains	**$ 515**	$ (2,067)
Less Foundation income distributed to the Hospital included in other revenue	**(2,484)**	(2,748)
	(1,969)	(4,815)
Unrestricted contributions	**1,605**	2,571
Interest and investment income	**1,052**	1,487
Fundraising expenses	**(1,581)**	(1,673)
Community Health at Greenwich Hospital	**(602)**	(503)
Net assets released from restrictions used for nonoperating activities, net	**2**	2
Other	**(111)**	(285)
	$ (1,604)	$ (3,216)

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).

13. Related Party Transactions

The Hospital purchased certain services from YNHHSC for the years ended September 30, 2010 and 2009 as follows (in thousands):

	Year Ended September 30	
	2010	**2009**
Operating expenses:		
Professional and general liability insurance	**$ 7,332**	$ 6,988
Information systems	**624**	940
Management services	**4,435**	4,743
Other support services	**5,213**	6,661
	$ 17,604	$ 19,332

During fiscal 2009, YNHHSC transferred $250,000 to GHCS for support of its investments in the Yale-New Haven Heart Institute at Greenwich Hospital.

The Hospital has amounts due to YNHHSC of approximately $3.5 million and $2.8 million, included in accrued expenses and other current liabilities, for the years ended September 30, 2010 and 2009, respectively.

14. Commitments and Contingencies

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 7 or are deemed to be immaterial. While the outcome of the lawsuits cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the consolidated financial position or results of operations of GHCS.

15. Fair Values of Financial Instruments

As described in Note 1, on October 1, 2008, GHCS adopted the methods of calculating fair value defined in ASC 820-10 to value its financial assets and liabilities, when applicable. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820-10 applies to other accounting pronouncements that require or permit fair value measurements and does not require new fair value measurements. Fair value measurements are applied based on the unit of account from the reporting entity's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, GHCS uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

15. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of September 30, 2010 are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Investments at fair value:				
Cash and cash equivalents	**$ 69,186**	**$ –**	**$ –**	**$ 69,186**
Debt securities	**41,826**	**–**	**–**	**41,826**
Equity securities	**24,850**	**–**	**–**	**24,850**
Alternative investments	**–**	**22,096**	**18,587**	**40,683**
Common collective trust	**4,146**	**–**	**–**	**4,146**
Beneficial interest in remainder trusts	**1,443**	**–**	**–**	**1,443**
	$ 141,451	**$ 22,096**	**$ 18,587**	**$ 182,134**
Liabilities				
Interest rate swap	**$ –**	**$ 5,497**	**$ –**	**$ 5,497**

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

	Level 1	Level 2	Level 3	Total
Assets				
Investments at fair value:				
Cash and cash equivalents	$ 70,129	$ –	$ –	$ 70,129
Debt securities	50,879	–	–	50,879
Equity securities	25,841	–	–	25,841
Alternative investments	–	15,911	15,273	31,184
Beneficial interest in remainder trusts	1,434	–	–	1,434
	$ 148,283	$ 15,911	$ 15,273	$ 179,467
Liabilities				
Interest rate swap	$ –	$ 3,455	$ –	$ 3,455

15. Fair Values of Financial Instruments (continued)

The following is a rollforward of the GHCS's investments classified in Level 3 of the valuation hierarchy described previously:

Fair value at September 30, 2009	$	15,273
2010 realized and unrealized gains and losses		437
2010 purchases, sales, transfers, issuances and settlements, net		2,877
Fair value at September 30, 2010	$	18,587

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

The following is a description of GHCS's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. 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.

16. Subsequent Events

Management has evaluated subsequent events through January 28, 2011, which is the date the consolidated financial statements were available to be issued. No events have occurred that require disclosure or adjustment of the consolidated financial statements.

Other Supplemental Information

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2010
(In Thousands)

	GHCS	Greenwich Hospital	The Greenwich Hospital Foundation	Eliminations	Total Obligated Group	The Perryridge Corporation	Greenwich Health Services, Inc.	Eliminations	Consolidated
Assets									
Current assets:									
Cash and cash equivalents	$ 180	$ 32,013	$ –	$ –	$ 32,193	$ 1,301	$ 824	$ –	$ 34,318
Short-term investments	–	23,470	–	–	23,470	–	–	–	23,470
Accounts receivable for services to patients, less allowance for uncollectible accounts, charity and free care of approximately $12,096,000	–	32,518	–	–	32,518	–	886	–	33,404
Other receivables	–	9,158	–	(6,474)	2,684	185	–	(2,234)	635
Prepaid expenses	–	2,189	–	–	2,189	160	–	–	2,349
Inventories	–	1,275	–	–	1,275	–	–	–	1,275
Total current assets	180	100,623	–	(6,474)	94,329	1,646	1,710	(2,234)	95,451
Assets limited as to use:									
Escrow funds for long-term debt	–	9	–	–	9	–	–	–	9
Trustee assets for self-insurance	–	800	–	–	800	–	–	–	800
Board designated	–	17,579	43,027	–	60,606	–	–	–	60,606
	–	18,388	43,027	–	61,415	–	–	–	61,415
Beneficial interest in investments held by Foundation	–	49,641	–	(49,641)	–	–	–	–	–
Long-term investments	–	36,595	13,088	–	49,318	–	–	–	49,683
Due from affiliate	(365)	6,301	–	–	6,301	–	–	(5,936)	–
Beneficial interest in trusts	–	11,805	–	–	11,805	–	–	–	11,805
Beneficial interest in remainder trusts	–	1,443	–	–	1,443	–	–	–	1,443
Contributed property	–	2,100	–	–	2,100	–	–	–	2,100
Other assets	–	1,588	–	–	1,588	–	–	–	1,588
	(365)	109,473	13,088	(49,641)	72,555	–	–	(5,936)	66,619
Property, plant and equipment:									
Land and land improvements	–	7,469	–	–	7,469	15,036	–	–	22,505
Buildings and fixtures	–	218,074	–	–	218,074	30,323	–	–	248,397
Equipment	–	173,116	–	–	173,116	1,304	1,088	–	175,508
Leasehold improvements	–	18,172	–	–	18,172	2,211	694	–	21,077
	–	416,831	–	–	416,831	48,874	1,782	–	467,487
Less accumulated depreciation	–	(173,524)	–	–	(173,524)	(13,539)	(1,091)	–	(188,154)
	–	243,307	–	–	243,307	35,335	691	–	279,333
Construction in progress	–	1	–	–	1	108	415	–	524
	–	243,308	–	–	243,308	35,443	1,106	–	279,857
Total assets	$ (185)	$ 471,792	$ 56,115	$ (56,115)	$ 471,607	$ 37,089	$ 2,816	$ (8,170)	$ 503,342

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2010
(In Thousands)

	GHCS	Greenwich Hospital	The Greenwich Hospital Foundation	Eliminations	Total Obligated Group	The Perryridge Corporation	Greenwich Health Services, Inc.	Eliminations	Consolidated
Liabilities and net assets									
Current liabilities:									
Accounts payable	$ –	$ 6,817	$ –	$ –	$ 6,817	$ –	$ 65	$ –	$ 6,882
Accrued expenses	7	19,604	–	–	19,611	156	155	–	19,922
Other current liabilities	617	8,733	6,474	(6,474)	9,350	1,600	2,961	(2,234)	11,677
Current portion of long-term debt	–	2,260	–	–	2,260	–	–	–	2,260
Total current liabilities	624	37,414	6,474	(6,474)	38,038	1,756	3,181	(2,234)	40,741
Long-term debt, net of current portion	–	45,005	–	–	45,005	–	–	–	45,005
Self insurance liabilities	–	11,838	–	–	11,838	–	–	–	11,838
Pension liability	–	29,899	–	–	29,899	–	–	–	29,899
Other long-term liabilities	–	10,621	–	–	10,621	6,301	–	(6,301)	10,621
Interest rate swap	–	5,497	–	–	5,497	–	–	–	5,497
Total liabilities	624	140,274	6,474	(6,474)	140,898	8,057	3,181	(8,535)	143,601
Net assets:									
Unrestricted	(809)	282,678	36,533	(36,533)	281,869	29,032	(365)	365	310,901
Temporarily restricted	–	27,295	–	–	27,295	–	–	–	27,295
Permanently restricted	–	21,545	13,108	(13,108)	21,545	–	–	–	21,545
Total net assets	(809)	331,518	49,641	(49,641)	330,709	29,032	(365)	365	359,741
Total liabilities and net assets	$ (185)	$ 471,792	$ 56,115	$ (56,115)	$ 471,607	$ 37,089	$ 2,816	$ (8,170)	$ 503,342

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2009
(In Thousands)

	GHCS	Greenwich Hospital	The Greenwich Hospital Foundation	Eliminations	Total Obligated Group	The Perryridge Corporation	Greenwich Health Services, Inc.	Eliminations	Consolidated
Assets									
Current assets:									
Cash and cash equivalents	$ 208	$ 32,032	$ –	$ –	$ 32,240	$ 1,295	$ 607	$ –	$ 34,142
Short-term investments	–	28,273	–	–	28,273	–	–	–	28,273
Accounts receivable for services to patients, less allowance for uncollectible accounts, charity and free care of approximately $10,493,000	–	32,088	–	–	32,088	–	1,495	–	33,583
Other receivables	–	7,680	–	(3,940)	3,740	104	–	(2,324)	1,520
Prepaid expenses	–	2,260	–	–	2,260	85	–	–	2,345
Inventories	–	995	–	–	995	–	–	–	995
Total current assets	208	103,328	–	(3,940)	99,596	1,484	2,102	(2,324)	100,858
Assets limited as to use:									
Escrow funds for long-term debt	–	10	–	–	10	–	–	–	10
Trustee assets for self-insurance	–	802	–	–	802	–	–	–	802
Board designated	–	20,735	37,965	–	58,700	–	–	–	58,700
	–	21,547	37,965	–	59,512	–	–	–	59,512
Beneficial interest in investments held by Foundation	–	47,113	–	(47,113)	–	–	–	–	–
Long-term investments	(36)	31,567	13,088	–	44,619	–	–	36	44,655
Due from affiliate	–	7,901	–	–	7,901	–	–	(7,901)	–
Beneficial interest in trusts	–	11,451	–	–	11,451	–	–	–	11,451
Beneficial interest in remainder trusts	–	1,434	–	–	1,434	–	–	–	1,434
Contributed property	–	2,100	–	–	2,100	–	–	–	2,100
Other assets	–	915	–	–	915	–	–	–	915
	(36)	102,481	13,088	(47,113)	68,420	–	–	(7,865)	60,555
Property, plant and equipment:									
Land and land improvements	–	6,743	–	–	6,743	15,002	–	–	21,745
Buildings and fixtures	–	218,476	–	–	218,476	30,323	–	–	248,799
Equipment	–	159,737	–	–	159,737	1,304	1,339	–	162,380
Leasehold improvements	–	12,505	–	–	12,505	2,101	694	–	15,300
	–	397,461	–	–	397,461	48,730	2,033	–	448,224
Less accumulated depreciation	–	(153,823)	–	–	(153,823)	(12,183)	(1,159)	–	(167,165)
	–	243,638	–	–	243,638	36,547	874	–	281,059
Construction in progress	–	1,331	–	–	1,331	–	–	–	1,331
	–	244,969	–	–	244,969	36,547	874	–	282,390
Total assets	$ 172	$ 472,325	$ 51,053	$ (51,053)	$ 472,497	$ 38,031	$ 2,976	$ (10,189)	$ 503,315

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2009
(In Thousands)

	GHCS	Greenwich Hospital	The Greenwich Hospital Foundation	Eliminations	Total Obligated Group	The Perryridge Corporation	Greenwich Health Services, Inc.	Eliminations	Consolidated
Liabilities and net assets									
Current liabilities:									
Accounts payable	$ –	$ 8,765	$ –	$ –	$ 8,765	$ 21	$ 173	$ –	$ 8,959
Accrued expenses	7	27,327	–	–	27,334	56	396	–	27,786
Other current liabilities	92	6,431	3,940	(3,940)	6,523	1,600	2,443	(2,324)	8,242
Current portion of long-term debt	–	2,190	–	–	2,190	–	–	–	2,190
Total current liabilities	99	44,713	3,940	(3,940)	44,812	1,677	3,012	(2,324)	47,177
Long-term debt, net of current portion	–	47,265	–	–	47,265	–	–	–	47,265
Self-insurance liabilities	–	11,687	–	–	11,687	–	–	–	11,687
Other long-term liabilities	–	27,902	–	–	27,902	–	–	–	27,902
Interest rate swap	–	9,203	–	–	9,203	7,901	–	(7,901)	9,203
Total liabilities	–	3,455	–	–	3,455	–	–	–	3,455
	99	144,225	3,940	(3,940)	144,324	9,578	3,012	(10,225)	146,689
Net assets:									
Unrestricted	73	280,445	34,005	(34,005)	280,518	28,453	(36)	36	308,971
Temporarily restricted	–	25,902	–	–	25,902	–	–	–	25,902
Permanently restricted	–	21,753	13,108	(13,108)	21,753	–	–	–	21,753
Total net assets	73	328,100	47,113	(47,113)	328,173	28,453	(36)	36	356,626
Total liabilities and net assets	$ 172	$ 472,325	$ 51,053	$ (51,053)	$ 472,497	$ 38,031	$ 2,976	$ (10,189)	$ 503,315

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2010
(In Thousands)

	GHCS	Greenwich Hospital	The Greenwich Hospital Foundation	Eliminations	Total Obligated Group	The Perryridge Corporation	Greenwich Health Services, Inc.	Eliminations	Consolidated
Operating revenue:									
Net patient service revenue	$ –	$ 279,086	$ –	$ –	$ 279,086	$ –	$ 9,330	$ –	$ 288,416
Other revenue	–	16,362	2,484	(2,484)	16,362	3,920	1,643	(12,601)	9,324
Net assets released from restrictions used for operations	–	5,445	–	–	5,445	–	–	–	5,445
Total operating revenue	–	300,893	2,484	(2,484)	300,893	3,920	10,973	(12,601)	303,185
Operating expenses:									
Salaries and benefits	–	151,725	–	–	151,725	–	4,185	(3,523)	152,387
Supplies and other	2,261	104,578	–	–	106,839	1,985	9,609	(9,078)	109,355
Depreciation	–	20,275	–	–	20,275	1,356	92	–	21,723
Interest	–	449	–	–	449	–	–	–	449
Bad debts	–	10,504	–	–	10,504	–	283	–	10,787
Total operating expenses	2,261	287,531	–	–	289,792	3,341	14,169	(12,601)	294,701
(Loss) income from operations	(2,261)	13,362	2,484	(2,484)	11,101	579	(3,196)	–	8,484
Equity loss in affiliates	(3,205)	–	–	–	(3,205)	–	–	3,205	–
Income from Foundation operations	–	–	(1,969)	1,969	–	–	–	–	–
Change in unrealized loss on interest rate swap, including counterparty payments	–	(3,435)	–	–	(3,435)	–	–	–	(3,435)
Change in net unrealized gains and losses on investments	–	4,661	4,497	(4,497)	4,661	–	–	–	4,661
Other nonoperating gains and losses, net	–	(1,595)	–	–	(1,595)	–	(9)	–	(1,604)
(Deficiency) excess of revenue over expenses	(5,466)	12,993	5,012	(5,012)	7,527	579	(3,205)	3,205	8,106
Transfer to Northeast Medical Group	(93)	–	–	–	(91)	–	–	–	(91)
Transfers to affiliates, net	4,677	(4,677)	(2,484)	2,484	–	–	2,876	(2,876)	–
Amortization on interest rate swap	–	(74)	–	–	(76)	–	–	–	(76)
Net assets released from restrictions used for plant assets	–	31	–	–	31	–	–	–	31
Pension adjustment	–	(6,040)	–	–	(6,040)	–	–	–	(6,040)
(Decrease) increase in unrestricted net assets	$ (882)	$ 2,233	$ (2,528)	$ (2,528)	$ 1,351	$ 579	$ (329)	$ 329	$ 1,930

Greenwich Health Care Services, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2009
(In Thousands)

	GHCS	Greenwich Hospital	The Greenwich Hospital Foundation	Eliminations	Total Obligated Group	The Perryridge Corporation	Greenwich Health Services, Inc.	Eliminations	Consolidated
Operating revenue:									
Net patient service revenue	$ –	$ 270,245	$ –	$ –	$ 270,245	$ –	$ 11,986	$ –	$ 282,231
Other revenue	–	17,422	2,748	(2,748)	17,422	3,751	3,164	(14,259)	10,078
Net assets released from restrictions used for operations	–	6,439	–	–	6,439	–	–	–	6,439
Total operating revenue	–	294,106	2,748	(2,748)	294,106	3,751	15,150	(14,259)	298,748
Operating expenses:									
Salaries and benefits	–	156,642	–	–	156,642	–	6,640	(5,597)	157,685
Supplies and other	–	99,355	–	–	99,355	2,060	11,227	(8,662)	103,980
Depreciation	–	19,015	–	–	19,015	1,345	51	–	20,411
Interest	–	669	–	–	669	–	–	–	669
Bad debts	–	7,851	–	–	7,851	–	236	–	8,087
Total operating expenses	–	283,532	–	–	283,532	3,405	18,154	(14,259)	290,832
Income (loss) from operations	–	10,574	2,748	(2,748)	10,574	346	(3,004)	–	7,916
Equity loss in affiliates									
Income from Foundation operations	(3,010)	–	–	–	(3,010)	–	–	3,010	–
Loss on extinguishment of long-term debt	–	–	(4,815)	4,815	–	–	–	–	–
Change in unrealized loss on interest rate swap, including counterparty payments	–	(3,971)	–	–	(3,971)	–	–	–	(3,971)
Change in net unrealized gains and losses on investments	–	6,098	5,059	(5,059)	6,098	–	–	–	6,098
Other nonoperating gains and losses, net	5	(3,219)	–	–	(3,214)	4	(6)	–	(3,216)
(Deficiency) excess of revenue over expenses	(3,005)	9,482	2,992	(2,992)	6,477	350	(3,010)	3,010	6,827
Transfer from YNHHSC	250	–	–	–	250	–	–	–	250
Transfers to affiliates, net	2,014	(2,014)	(2,748)	2,748	–	–	2,632	(2,632)	–
Amortization on interest rate swap	–	(74)	–	–	(74)	–	–	–	(74)
Net assets released from restrictions used for plant assets	–	9,337	–	–	9,337	–	–	–	9,337
Pension adjustment	–	(41,262)	–	–	(41,262)	–	–	–	(41,262)
(Decrease) increase in unrestricted net assets	$ (741)	$ (24,531)	$ 244	$ (244)	$ (25,272)	$ 350	$ (378)	$ 378	$ (24,922)

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