Consolidated Financial Statements and Other Financial Information

YNH Network Corporation and Subsidiaries
Years Ended September 30, 2011 and 2010
with Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

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Contents

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Report of Independent Auditors

Board of Trustees
YNH Network Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of YNH Network Corporation and Subsidiaries ("YNHNC") as of September 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of YNHNC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of YNH Network Corporation and Subsidiaries at September 30, 2011 and 2010, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

December 21, 2011

YNH Network Corporation and Subsidiaries

Consolidated Balance Sheets

	September 30 2011	2010
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 74,087**	$ 74,032
Short-term investments	**402,559**	342,847
Accounts receivable for services to patients, less allowance for uncollectible accounts, charity and free care of approximately $43,491,000 in 2011 and $37,083,000 in 2010	**169,456**	138,810
Other receivables	**55,395**	36,895
Other current assets	**25,597**	26,225
Amounts of deposit with trustee in debt service fund	**6,320**	4,624
Total current assets	**733,414**	623,433
Assets limited as to use	**129,997**	65,651
Long-term investments	**141,525**	153,223
Deferred financing costs, less accumulated amortization	**5,488**	3,849
Other assets	**130,986**	74,680
Property, plant, and equipment:		
Land and land improvements	**21,804**	21,804
Buildings and fixtures	**971,195**	951,002
Equipment	**422,736**	419,041
	1,415,735	1,391,847
Less accumulated depreciation	**581,143**	539,086
	834,592	852,761
Construction in progress	**43,212**	17,563
	877,804	870,324
Total assets	**$ 2,019,214**	$ 1,791,160

	September 30 2011	2010
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 102,419**	$ 104,946
Accrued expenses	**121,508**	109,330
Current portion of long-term debt	**10,411**	11,238
Current portion of capital lease obligation	**3,740**	3,425
Other current liabilities	**3,848**	3,586
Total current liabilities	**241,926**	232,525
Long-term debt, net of current portion	**509,248**	377,755
Long-term capital lease obligation, net of current portion	**112,649**	116,389
Accrued pension and postretirement benefit obligations	**240,901**	201,403
Other long-term liabilities	**180,967**	157,558
Deferred revenue	**48,321**	50,016
Total liabilities	**1,334,012**	1,135,646
Commitments and contingencies		
Net assets:		
Unrestricted	**615,732**	580,733
Temporarily restricted	**43,947**	48,525
Permanently restricted	**25,523**	26,256
Total net assets	**685,202**	655,514
Total liabilities and net assets	**$ 2,019,214**	$ 1,791,160

See accompanying notes.

YNH Network Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2011	**2010**
	(In Thousands)	
Operating revenue:		
Net patient service revenue	**$ 1,462,366**	$ 1,341,462
Other revenue	**48,257**	50,270
Total operating revenue	**1,510,623**	1,391,732
Operating expenses:		
Salaries and benefits	**697,187**	643,207
Supplies and other expenses	**629,660**	564,271
Depreciation	**69,390**	53,217
Insurance	**13,514**	17,257
Bad debts	**26,664**	27,722
Interest	**16,900**	12,380
Total operating expenses	**1,453,315**	1,318,054
Income from operations	**57,308**	73,678
Non-operating gains and losses, net	**13,708**	12,835
Excess of revenue over expenses	**71,016**	86,513

(Continued on next page).

YNH Network Corporation and Subsidiaries

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

	Year Ended September 30	
	2011	2010
	(In Thousands)	
Unrestricted net assets:		
Excess of revenue over expenses (continued)	**$ 71,016**	$ 86,513
Other changes in net assets	**36**	1,948
Transfer to Yale-New Haven Health Services Corporation – Clinical Development Fund	**(12,000)**	(19,000)
Transfer from Yale-New Haven Health Services Corporation	**2,900**	–
Net assets released from restrictions for purchases of fixed assets	**1,774**	2,287
Pension and other postretirement liability adjustments	**(28,727)**	(17,755)
Increase in unrestricted net assets	**34,999**	53,993
Temporarily restricted net assets:		
Income from investments	**512**	502
Net realized gains (losses) on investments	**3,065**	1,365
Change in net unrealized gains and losses on investments	**319**	3,494
Bequests, contributions, and grants	**15,280**	25,361
Net assets released from restrictions for purchases of fixed assets	**(1,774)**	(2,287)
Net assets released from restrictions for free care	**(782)**	(835)
Net assets released from restrictions for operations	**(5,003)**	(3,846)
Net assets released from restrictions for clinical programs	**(16,195)**	(22,734)
(Decrease) increase in temporarily restricted net assets	**(4,578)**	1,020
Permanently restricted net assets:		
Change in beneficial interest in perpetual trusts	**(733)**	534
(Decrease) increase in permanently restricted net assets	**(733)**	534
Increase in net assets	**29,688**	55,547
Net assets at beginning of year	**655,514**	599,967
Net assets at end of year	**$ 685,202**	$ 655,514

See accompanying notes.

YNH Network Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30 2011	2010
	(In Thousands)	
Cash flows from operating activities		
Increase in net assets	**$ 29,688**	$ 55,547
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	**69,390**	53,217
Net realized and change in net unrealized gains and losses on investments	**(21,802)**	(34,397)
Change in fair value of interest rate swap agreements	**(4,444)**	9,168
Amortization of long-term debt premium	**(885)**	(734)
Bad debts	**26,664**	27,722
Amortization of deferred financing costs	**317**	105
Change in perpetual trusts	**733**	(534)
Transfer to Yale-New Haven Health Services Corporation – Clinical Development Fund	**12,000**	19,000
Transfer from Yale-New Haven Health Services Corporation	**(2,900)**	–
Bequests, contributions and grants, net of pledges	**(16,941)**	(27,691)
Pension and other postretirement liability adjustments	**28,727**	17,755
Changes in operating assets and liabilities:		
Accounts receivable, net	**(57,310)**	(38,117)
Other receivables	**(18,500)**	(5,666)
Other assets	**(55,677)**	(19,618)
Accounts payable	**(2,527)**	24,189
Accrued expenses	**12,178**	(9,070)
Other current liabilities, accrued pension and postretirement benefit obligations, other long-term liabilities, and deferred revenue	**38,167**	(6,903)
Net cash provided by operating activities	**36,878**	63,973
Cash flows from investing activities		
Net acquisitions of property, plant, and equipment	**(79,924)**	(144,298)
Capitalized interest	**3,054**	382
Net change in investments	**(27,189)**	76,707
Increase in debt service fund	**(1,696)**	(166)
Assets whose use is limited	**(65,079)**	22,794
Transfer to Yale-New Haven Health Services Corporation – Clinical Development Fund	**(12,000)**	(19,000)
Transfer from Yale-New Haven Health Services Corporation	**2,900**	–
Net cash used in investing activities	**(179,934)**	(63,581)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	**105,436**	–
Proceeds from notes payable	**40,000**	–
Payments on capital lease obligations	**(3,425)**	(2,731)
Repayments of long-term debt	**(13,885)**	(11,537)
Deferred financing costs	**(1,956)**	–
Bequests, contributions and grants, net of pledges	**16,941**	27,691
Net cash provided by financing activities	**143,111**	13,423
Net increase in cash and cash equivalents	**55**	13,815
Cash and cash equivalents at beginning of year	**74,032**	60,217
Cash and cash equivalents at end of year	**$ 74,087**	$ 74,032

See accompanying notes.

1. Organization and Significant Accounting Policies

Organization

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

YNHHSC is also the sole member of two similar organizations. Each of these three tax-exempt organizations serves as the sole member/parent for its respective delivery network of regional health care providers and related entities. YNHNC and subsidiaries continue to operate with a separate Board of Trustees, management staff and medical staff; however, YNHHSC must approve the strategic plans, operating and capital budgets and Board of Trustees appointments of YNHNC and subsidiaries.

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

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

York is organized as a Connecticut corporation for the purpose of initiating or acquiring business entities. Currently, York has two subsidiaries: Medical Center Pharmacy and Home Care Center, Inc. ("MCP") and Medical Center Realty, Inc. ("MCR"). MCP is a Connecticut stock, for-profit company which operated a retail pharmacy with multiple locations until February 2011. MCR is a Connecticut stock, for-profit company which owns or holds leases on YNHHSC's affiliated real estate, such as physician office buildings, commercial space and parking garages. York is the sole shareholder of MCP and MCR.

1. Organization and Significant Accounting Policies (continued)

In 2011 MCP sold all of the fixed assets at all of its five locations and the business operations to Walgreens for approximately $5.0 million. The gain on sale, resulting from the transaction was approximately $4.9 million, which is included in non-operating gains and losses in the accompanying consolidated statements of operations and changes in net assets. The following table summarizes the disposal group:

	September 30	
	2011	**2010**
Carrying value of disposed assets	**$ 150,334**	$ 163,562
Carrying value of disposed liabilities	**–**	–
Revenue	**8,472,388**	24,080,986
Pre-tax profit/(loss) of disposal group	**(564,358)**	454,508

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

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients, and liabilities, including estimated net settlements with third-party payors and professional liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements.

Estimates also affect the amounts of revenue and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

1. Organization and Significant Accounting Policies (continued)

During fiscal 2011 and 2010, the Hospital recorded a change in estimate of approximately $10.6 million and $9.0 million, respectively. Included in the change are amounts related to favorable third-party payor settlements at September 30, 2011 and 2010, respectively.

Temporarily and Permanently Restricted Net Assets

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

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

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions receivable at September 30, 2011 and 2010 were comprised primarily of amounts contributed for the construction of the Yale-New Haven Smilow Cancer Hospital ("Cancer Hospital").

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

1. Organization and Significant Accounting Policies (continued)

Contributions receivable, included in other receivables and other assets in the accompanying consolidated balance sheets at September 30, 2011 and 2010, are expected to be received as follows (in thousands):

	September 30	
	2011	**2010**
Less than one year	**$ 1,187**	$ 1,527
One to five years	**1,662**	3,138
Thereafter	**–**	52
	2,849	4,717
Less unamortized discount on contributions receivable (0.3% to 4.2%)	**(174)**	(329)
	2,675	4,388
Allowance for uncollectible contributions	**(80)**	(132)
	$ 2,595	$ 4,256

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 short-term or long-term investment portfolios.

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

1. Organization and Significant Accounting Policies (continued)

Accounts Receivable

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

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

Investments

YNHNC has designated its investment portfolio as trading. 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 consolidated balance sheets.

Certain alternative investments (non-traditional, not-readily-marketable assets) are structured such that YNHNC holds limited partnership interests or pooled units and are accounted for under the equity method and utilizing Yale University's (the "University") reported net asset value per unit for measurement of the units' fair value for the Yale University investment. Individual investment holdings within the alternative investments may, in turn, include investments in both non-marketable and market-traded securities. Valuations of those investments and, therefore, YNHNC's holdings may be determined by the investment manager or general partner. Fund of funds investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The equity method reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose YNHNC to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, YNHNC's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors. YNHNC has made investment commitments of approximately $84.6 million in these alternative investments, of which approximately $76.6 million has been funded as of September 30, 2011.

1. Organization and Significant Accounting Policies (continued)

Effective January 1, 2010, the Hospital transferred all of its Endowment and Operating invested assets, excluding operating cash, 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 Trust is comprised of two pools: the Long-Term Investment Pool (“L-TIP”) and the Intermediate-Term Investment Pool (“I-TIP”). Governance of the Trust is performed by the Yale New Haven Health System Investment Committee.

Under the terms of the investment management agreement with the Trust, withdrawals of the Hospital’s investment in the L-TIP can be made annually by the Hospital on July 1. Amounts withdrawn are subject to a schedule that allows larger withdrawals with longer notice periods. As of September 30, 2011, the Hospital can withdraw 100% of its investment in the L-TIP on July 1, 2012. Withdrawals of the Hospital’s investment in the I-TIP in any amount can be made quarterly with 30 days advance notice.

The Trust has an agreement with the University’s investment office (the “Investment Management Agreement”) which allows the University to manage a portion of the Trust’s investments as part of the University’s Endowment Pool (the “Pool”). Under the terms of the agreement for the years ended September 30, 2011 and 2010, the Trust transferred $100.0 million and $55.0 million, respectively, to the University in exchange for units in the Pool. The Trust’s interest in the Pool is reported at fair value based on the net asset value per units held. The Pool invests in domestic equity, foreign equity, absolute return, private equity, real assets, fixed income and cash.

Under the terms of the investment management agreement with the University, withdrawals of the Trust’s investment in the Pool can be made annually by the Trust on July 1. For withdrawals of amounts less than $150.0 million or 75% of the Trust’s investment in the Pool, $100.0 million or 50% of the Trust’s investment in the Pool, and $50.0 million or 25% of the Trust’s investment in the Pool, the advance notice period is set to a maximum of 180 days, 90 days, and 30 days, respectively, prior to the University’s fiscal year ending June 30. For withdrawals greater than $150.0 million or more than 75% of the Trust’s investment in the Pool, the advance notice period is set to a maximum of 270 days prior to the University’s fiscal year end of June 30.

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

1. Organization and Significant Accounting Policies (continued)

Inventories

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

Assets Limited as to Use

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

In March 2006, the Hospital entered into an arrangement with the University whereby the University will manage certain Board-designated assets of the Hospital. These Board-designated assets are commingled in the University's endowment pool. At September 30, 2011 and 2010, the carrying value of assets managed by the University under this arrangement was approximately $8.6 million and $7.5 million, respectively. Because of the limitations on their use, the assets are separately classified from assets invested under the Investment Management Agreement.

Perpetual Trusts

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

Interest Rate Swap Agreements

YNHNC utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. Interest rate swap agreements are reported at fair value. YNHNC is exposed to credit loss in the event of non-performance by the counterparties to its interest rate swap agreements. YNHNC is also exposed to the risk that the swap receipts may not offset its variable rate debt service. To the extent these variable rate payments do not equal variable interest payments on the bonds, there will be a net loss or net benefit to YNHNC.

1. Organization and Significant Accounting Policies (continued)

Benefits and Insurance

YNHNC is effectively self-insured for medical, hospitalization, dental and prescription drug benefits provided to employees. YNHNC makes annual contributions to the YNHHSC Voluntary Employee Beneficiary Association ("VEBA") plan to fund medical, dental, hospitalization, group term life insurance and prescription drug benefits. Annually, premiums are set to reflect the estimated cost of benefits. During the years ended September 30, 2011 and 2010, YNHNC made actuarially determined contributions, net of premium adjustments, to the VEBA plan of approximately $89.4 million and $81.5 million, respectively.

YNHNC is self-insured for workers' compensation claims. Estimated amounts are accrued for claims, including claims incurred but not reported ("IBNR") and are based on YNHNC-specific experience. At September 30, 2011 and 2010, the estimated discounted liabilities for self-insured workers' compensation claims and IBNR aggregated approximately $13.4 million, discounted at 3.5%, and $12.0 million, discounted at 4.0%, respectively, and are included in accrued expenses in the accompanying balance sheets.

Professional Liability Insurance

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

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 the 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.

1. Organization and Significant Accounting Policies (continued)

The Hospital and the Housing Authority of New Haven ("HANH") have entered into an agreement to swap parcels of land on the Legion/Howard/Sylvan/Ward block located in New Haven, Connecticut. As part of the key terms of the agreement, HANH has pledged an account to the Hospital in the amount of $5.7 million. The pledged account was established at the time the Hospital conveyed the land to HANH in July 2010. In the event that HANH fails to meet certain requirements of the agreement, including conveying its land parcel to the Hospital, the Hospital has the right to withdraw from the pledged account in the amount of $5.2 million, unless the pledged account is extended with an annual increase of approximately $180,000. As of September 30, 2011, no events have occurred that would require an increase to the pledged account or that would require the Hospital to withdraw funds from the pledged account.

Deferred Revenue

Deferred revenue includes amounts which have been received that relate to future years. Amounts will be reduced as revenue is earned (see Note 10).

Excess of Revenue over Expenses

In the accompanying consolidated statements of operations and changes in net assets, excess of revenue over expenses is the performance indicator. Peripheral or incidental transactions are included in excess of revenue over expenses. Those gains and losses deemed by management to be closely related to ongoing operations are included in other revenue; other gains and losses are classified as non-operating (see Note 14). Included in non-operating expenses are amounts related to the proposed acquisition with the Saint Raphael Healthcare System (see Note 10).

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

Income Taxes

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

1. Organization and Significant Accounting Policies (continued)

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

Operating Expenses

YNHNC records amounts received from the University, area hospitals and other local healthcare providers for costs incurred on behalf of those organizations as reductions to expenses. For the years ended September 30, 2011 and 2010, YNHNC recorded approximately $52.9 million and $51.1 million, respectively, as reductions to expenses.

Deferred Financing Costs

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

Impairment of Assets

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

New Accounting Pronouncement

In August 2010, the Financial Accounting Standards Board ("FASB") issued amended guidance relating to measuring charity care for disclosures. The amended 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. YNHNC will be required to adopt the disclosures required by the amended guidance for periods beginning after December 15, 2010.

1. Organization and Significant Accounting Policies (continued)

In August 2010, 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. YNHNC will adopt the presentation changes to the consolidated statement of financial position for periods beginning after December 15, 2010.

In July 2011, the FASB also issued ASU 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"*. Under ASU No. 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. YNHNC will adopt the presentation changes to the consolidated statement of operations for periods beginning after December 15, 2011.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2010 balances previously reported in the balance sheets in order to conform with the year ended September 30, 2011 presentation.

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

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

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

Third-party payor receivables included in other receivables were $31.1 million and $16.1 million at September 30, 2011 and 2010, respectively. Third-party payor receivables included in other long-term assets were $12.3 million and $7.7 million at September 30, 2011 and 2010, respectively. Third-party payor liabilities included in other current liabilities were $1.3 and $1.1 million at September 30, 2011 and 2010, respectively. Third-party payor liabilities included in other long-term liabilities were $28.3 million and $29.5 million at September 30, 2011 and 2010, respectively.

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

Revenue from Medicare and Medicaid programs accounted for approximately 28% and 14%, respectively, of YNHNC's net patient service revenue for the year ended September 30, 2011 and approximately 30% and 13%, respectively, of YNHNC's net patient service revenue for the year ended September 30, 2010. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 31% and 28%, respectively, for the year ended September 30, 2011 and approximately 31% and 27%, respectively, for the year ended September 30, 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

YNHNC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing except as disclosed in Note 10. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on YNHNC. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement for various years ranging through 2005 for Medicare and through 1995 for Medicaid. Other years remain open for settlement.

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

The significant concentrations of accounts receivable for services to patients include 29% from Medicare, 8% from Medicaid, and 63% from non-governmental payors at September 30, 2011 and 26% from Medicare, 8% from Medicaid, and 66% from non-governmental payors at September 30, 2010.

Net patient service revenue is comprised of the following for the years ended September 30, 2011 and 2010 (in thousands):

	2011	2010
Gross revenue from patients	**$ 4,524,028**	$ 3,994,705
Deductions:		
Contractual allowances	**3,000,453**	2,590,937
Charity and free care (at charges)	**61,299**	62,606
Net patient service revenue	**$ 1,462,276**	$ 1,341,162

3. Uncompensated Care and Community Benefit Expense

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

For financial reporting purposes, YNHNC reports care provided for which no payment was received from the patient or insurer as uncompensated care. Uncompensated care is the sum of YNHNC's free care provided, charity care provided and bad debt expense. In determining uncompensated care, YNHNC excludes contractual allowances. The cost of uncompensated care amounted to approximately $55.9 million and $54.2 million in 2011 and 2010, respectively. Additionally, YNHNC incurred losses related to the State Medicaid program of approximately $127.8 million and $113.3 million in 2011 and 2010, respectively. The estimated cost of uncompensated care and Medicaid losses were determined using YNHNC-specific data.

3. Uncompensated Care and Community Benefit Expense (continued)

YNHNC makes available free care programs for qualifying patients. In accordance with the established policies of YNHNC, during the registration, billing and collection process a patient's eligibility for free care funds is determined. For patients who were determined by YNHNC to have the ability to pay but did not, the uncollected amounts are bad debt expense. For patients who do not avail themselves of any free care program and whose ability to pay cannot be determined by YNHNC, care given but not paid for, is classified as charity care.

Annually, YNHNC accrues for the potential losses related to its uncollectible accounts and the amounts that meet the definition of charity and free care allowances. At September 30, 2011 and 2010, the amount estimated by management to represent YNHNC's uncollectible and charity and free care allowance, which is included in the accompanying consolidated balance sheets as a reduction of accounts receivable for services to patients, was approximately $43.5 million and $37.1 million, respectively.

Additionally, YNHNC provides benefits for the broader community which includes services provided to other needy populations that may not qualify as poor but need special services and support. Benefits include the cost of health promotion and education of the general community, interns and residents, health screenings, and medical research. These benefits are provided through the community health centers, some of which service non-English speaking residents, disabled children, and various community support groups. YNHNC voluntarily assists with the direct funding of several City of New Haven programs, including an economic development program and a youth initiative program.

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

4. Investments and Assets Limited as to Use

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

	September 30 2011	September 30 2010
Money market funds	**$ 108,579**	$ 55,764
U.S. equity securities	**11,113**	11,573
U.S. equity securities –common collective trusts	**33,319**	59,551
International equity securities (a)	**37,523**	70,445
Fixed income:		
U.S. government	**41,719**	28,038
U.S. government – common collective trusts	**58,205**	64,101
International government (b)	**31,704**	8,134
Commodities	**1,010**	1,038
Hedge funds:		
Absolute return (c)	**44,783**	59,740
Long/short equity (d)	**12,653**	11,909
Real estate (e)	**10,168**	9,081
Interest in Yale University endowment pool (f)	**278,719**	175,332
Perpetual trusts (g)	**10,906**	11,639
Total	**$ 680,401**	$ 566,345

(a) 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.

(b) Investments with external commodities futures manager.

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

(d) Investment with an external long-short equity fund of funds manager with underlying portfolio investments consisting of publicly traded equity positions.

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

(f) Yale University Endowment Pool maintains a diversified investment portfolio, through the use of external investment managers operating in a variety of investment vehicles, including separate accounts, limited partnerships and commingled funds. The pool combines an orientation to equity investments with an allocation to non-traditional asset classes such as an absolute return, private equity, and real assets.

(g) Investments consist of several domestic and international equity and fixed income mutual funds, REITs, commodities and money market funds. There is also an investment in a hedge fund of funds.

4. Investments and Assets Limited as to Use (continued)

The Hospital's ownership percentage of the Trust was approximately 85.2% and 81.2% as of September 30, 2011 and 2010, respectively. The Hospital's prorata portion of the Trust's investments are included above in the table.

Included in assets limited as to use at September 30, 2011 are funds to be used for various renovations and expansion at the Hospital which was funded by the Series M bond (see Note 7). These funds consisted of money market funds of approximately $60.7 million at September 30, 2011.

The composition and presentation of unrestricted investment income, gains and losses from investments, and the net change in unrealized gains and losses, are as follows for the years ended September 30, 2011 and 2010 (in thousands):

	2011	**2010**
Interest and dividend income, net	**$ 2,835**	$ 3,024
Realized gains (losses) on investments, net	**20,366**	7,493
Change in fair value of swap, including counterparty payments	**(9,781)**	(16,515)
Change in unrealized gains and (losses) on investments	**(1,949)**	22,044
	$ 11,471	$ 16,046

5. Endowment

YNHNC'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.

5. Endowment (continued)

YNHNC has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act ("CUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, YNHNC classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment related to YNHNC's beneficial interest in perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by YNHNC in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, YNHNC considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of YNHNC and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of YNHNC; and (7) the investment and spending policies of YNHNC.

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

	Temporarily Restricted	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	**$ 41,829**	**$ 26,256**	**$ 68,085**
Investment return:			
Investment income	**443**	**–**	**443**
Net appreciation (realized and unrealized)	**3,104**	**–**	**3,104**
Total investment return	**3,547**	**–**	**3,547**
Contributions	**2**	**–**	**2**
Appropriation of endowment assets for expenditure	**(8,040)**	**–**	**(8,040)**
Other changes:			
Change in value of beneficial interest trusts	**–**	**(733)**	**(733)**
Endowment net assets, end of year	**$ 37,338**	**$ 25,523**	**$ 62,861**

5. Endowment (continued)

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

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 44,813	$ 25,722	$ 70,535
Investment return:			
Investment income	444	–	444
Net appreciation (realized and unrealized)	4,523	–	4,523
Total investment return	4,967	–	4,967
Appropriation of endowment assets for expenditure	(7,951)	–	(7,951)
Other changes:			
Change in value of beneficial interest trusts	–	534	534
Endowment net assets, end of year	$ 41,829	$ 26,256	$ 68,085

	September 30,	
	2011	**2010**
	(in thousands)	
The portion of perpetual endowment funds subject to a time restriction under CUPMIFA:		
Without purpose restrictions	**$ 8,478**	$ 9,429
With purpose restrictions	**28,860**	32,400
Total endowment funds classified as temporarily restricted net assets	**$ 37,338**	$ 41,829

Return Objectives and Risk Parameters

YNHNC has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under these policies, 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.

5. Endowment (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, YNHNC relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). YNHNC targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

6. Temporarily and Permanently Restricted Net Assets

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

	September 30	
	2011	**2010**
Plant improvement and expansion	**$ 441**	$ 457
Specific hospital operations, teaching, research, free care, and training	**43,506**	48,068
	$ 43,947	$ 48,525

Permanently restricted net assets of approximately $25.5 million and $26.3 million at September 30, 2011 and 2010, respectively, consist of donor restricted endowment principal and beneficial interests in perpetual trusts. The income generated from permanently restricted funds is expendable for purposes designated by donors, including research, free care, health care, and other services.

7. Long-Term Debt

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

	September 30	
	2011	**2010**
Revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority ("CHEFA"):		
Series J – 5.12% effective interest rate (Hospital)	**$ 164,295**	$ 169,390
Series K – 3.11% effective interest rate (Hospital)	**98,305**	101,405
Series L – 3.68% effective interest rate (Hospital)	**107,460**	107,460
Series M – 5.24% effective interest rate (Hospital)	**101,825**	–
Note payable-0.07% effective interest rate (Hospital)	**40,000**	–
Other – 6.50% effective interest rate (Hospital)	**–**	2,817
Line of credit payable (ASC)	**452**	679
Capital lease obligation- November 2010, (Hospital)	**55,309**	56,631
Capital lease obligation- December 2010, (Hospital)	**55,082**	56,382
Note payable – effective interest rate of 5.00% (ASC)	**–**	82
Capital lease obligations, at varying rates of imputed interest of 6.25%, collateralized by leased equipment (York)	**5,998**	6,801
	628,726	501,647
Add premium	**7,322**	7,160
Less current portion	**(14,151)**	(14,663)
	$ 621,897	$ 494,144

In September 2006, the Hospital issued Series J revenue bonds totaling approximately $280.9 million. The proceeds, including a premium of approximately $10.1 million, were used to finance a portion of the construction costs of the Cancer Hospital, and to pay for certain bond issuance costs. The bond premium is being amortized and was included in capitalized interest through March 2010. As of the opening of the Cancer Hospital, the bond premium is being amortized in the statement of operations. The Series J revenue bonds were issued in three sub-series as follows: (1) Series J-1, approximately $174.4 million, consisting of approximately $83.7 million of serial bonds and approximately $90.7 million in term bonds bearing interest at 5% per annum; (2) Series J-2, approximately $40.0 million of revenue bonds bearing interest at 3.65% at September 30, 2007; (3) Series J-3, approximately $66.5 million of revenue bonds bearing interest 3.70% at September 30, 2007. Series J-2 and J-3 revenue bonds were refunded during the year ended September 30, 2008 by the issuance of Series L revenue bonds.

7. Long-Term Debt (continued)

In May 2008, the Hospital issued Series K and Series L revenue bonds totaling approximately $216.6 million. The Series K revenue bonds were issued as Variable Rate Demand Bonds ("VRDBs") in two sub-series, Series K-1 and K-2, approximately $54.6 million each, with an effective rate of 1.1% in 2011 and 2010. The proceeds from the Series K issuance were used to refund the Series I revenue bonds. The Series L revenue bonds were issued as VRDBs in two sub-series, Series L-1 and L-2, approximately $53.7 million each, with an effective rate of 0.8% in 2011 and 2010. The proceeds from the Series L issuance were used to refund the Series J-2 and J-3 revenue bonds.

Both the Series K and Series L VRDBs are required to be supported by letter of credit facilities ("LOCs") which have been executed with two financial institutions. These LOCs are scheduled to expire on May 2, 2016 and May 14, 2016.

In December 2010, the Hospital issued Series M revenue bonds totaling approximately $104.4 million. The proceeds, including a premium of approximately $1.0 million, are being used to finance costs for the expansion and renovations to the Adult Emergency Department, the purchase and installation of machinery and equipment, various renovations and improvements to the Hospital's infrastructure, and to pay for certain bond issuance costs. The bond premium is being amortized and is included in capitalized interest. The Series M revenue bonds were issued as one series consisting of approximately $33.9 million of serial bonds bearing interest at 4.69%, and approximately $17.6 million, $17.8 million, and $35.1 million in term bonds bearing interest at 5.25%, 5.75%, and 5.50%, respectively, per annum.

On October 4, 2007, the Hospital and the City of New Haven, Connecticut (the "City") entered into an agreement (the "Agreement") relating to each party's performance under a development agreement for the construction of the Cancer Hospital. As part of the Agreement, the Hospital secured an irrevocable standby LOC in the amount of $2.0 million in favor of the City to ensure completion of one component of the project by the Hospital. Having met the terms of the Agreement, the LOC was cancelled on July 30, 2010.

On August 30, 2011, the Hospital entered into a loan agreement with Bank of America, N.A. ("Bank") for $40.0 million. The Hospital agrees to repay the Bank the aggregate principal amount in five equal annual payments of $8.0 million, beginning on October 1, 2012. The loan shall bear interest at a rate equal to LIBOR plus 0.50% per annum with an option to convert to a fixed loan upon formal notification to the Bank, which may include a portion of or the total outstanding loan balance at the time notification is made.

7. Long-Term Debt (continued)

The terms of the various financing arrangements between CHEFA and the Hospital, the financial institutions providing the LOCs and the Hospital, and the Bank and the Hospital provide for financial covenants regarding the Hospital's debt service coverage ratio, liquidity ratio, and debt to capitalization ratio, among others. As of September 30, 2011 and 2010, the Hospital was in compliance with such covenants.

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

Scheduled principal payments on all long-term debt, including capital lease obligations, are as follows (in thousands):

	Long-Term Debt	Capital Lease Obligations
2012	$ 10,411	$ 10,305
2013	18,866	6,428
2014	19,070	5,950
2015	19,445	6,150
2016	19,945	6,235
Thereafter	424,600	69,491
	$ 512,337	104,559
Less interest		(41,775)
		62,784
2 Howe Street 2013 purchase obligation		53,605
		$ 116,389

7. Long-Term Debt (continued)

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

Capitalized interest at September 30, 2011 and 2010 totaled $24.9 million and $21.8 million, respectively.

The swap agreements fix the interest rate at a level viewed as desirable by the Hospital. Such agreements expose the Hospital to credit risk in the event of non-performance by the counterparties, some of which is collateralized. At September 30, 2011 and 2010, the fair value of swap agreements based on current interest rates was approximately $31.9 million and $27.5 million, respectively, representing a payable to the counterparties (recorded in other long-term liabilities).

For the Series K swap, there was an unfavorable change in fair value of approximately $0.9 million and $4.4 million for the years ended September 30, 2011 and 2010, respectively, which was recorded in the excess of revenue over expenses. As a result of the unfavorable change in market value of the Series K swap, $4.2 million has been collateralized by the Hospital and is being held by the financial institution as of September 30, 2011, as required by the swap agreement. No collateral is required under the Series L swap agreement.

In 2011, the Hospital transferred the original Series L Swap and replaced it with a new counterparty, under identical terms and conditions. For the Series L swaps, there was an unfavorable change in fair value of approximately $3.5 million and $4.7 million for the years ended September 30, 2011 and 2010, respectively, which was recorded in the excess of revenue over expenses.

7. Long-Term Debt (continued)

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

Swap Type	Expiration Date	Hospital Receives	Hospital Pays	Notional Amount at September 30 2011	2010
Series K – Fixed to Floating	July 1, 2025	LIBOR	3.11%	**$ 66,269**	$ 68,365
Series L – Fixed to Floating	July 1, 2036	LIBOR	3.68%	**44,505**	44,505
				$ 110,774	$ 112,870

For the years ended September 30, 2011 and 2010, YNHNC paid approximately $16.3 million and $14.2 million, respectively, for interest related to long-term debt.

Arbitrage rules apply for Series J-1 and Series M tax-exempt debt. The rules require that, in specified circumstances, earnings from the investment of tax-exempt bond proceeds which exceed the yield on the bonds must be remitted to the Federal government.

In December 2008, the Hospital purchased property strategically located near the Cancer Hospital for future development on Howard and Legion Avenues in New Haven, Connecticut. The purchase price was approximately $14.0 million. As part of the transaction, the Hospital assumed a note payable in the amount of $6.0 million. The final installment for this debt was paid in December 2010.

In September 2008, SSC obtained a line of credit in the amount of $1,000,000. The interest was payable at the bank's prime rate through March 31, 2009. On April 1, 2009, the LOC converted to a fixed term loan due in equal monthly installments through August 31, 2013. The amount outstanding at September 30, 2011 and 2010 was $452,000 and $679,000, respectively.

The debt agreements of SSC include the pledging as collateral SSC's owned equipment and fixtures, inventory and receivables. The debt agreements contain covenants related to the maintenance of financial ratios, including debt service coverage and days cash on hand. At September 30, 2011 and 2010, SSC was in compliance with the financial ratio covenants.

7. Long-Term Debt (continued)

The Hospital has entered into a contract to lease space in a building adjacent to the Hospital. The Hospital's rental obligation commenced December 2009. This lease has a term of twenty years from the commencement date with the option to extend the lease for four successive terms of ten consecutive years. Rental payments will increase by 5% every five years. The Hospital is also subject to additional rent for its share of expenses, as defined in the contract. The Hospital has the option to purchase the property at the end of the fifth, tenth, or twentieth years or at the end of each of the first three ten-year extension periods.

The Hospital has entered into an agreement to lease space in a building located at 2 Howe Street, New Haven, Connecticut. The Hospital's rental obligation commenced during the first quarter of fiscal 2010. The Hospital will lease these spaces for three years after which the Hospital has the obligation to purchase the property for approximately $53.6 million.

Assets recorded under the capital lease obligations totaled $128.7 as of September 30, 2011 and 2010. Accumulated depreciation for the capital lease obligations totaled $13.5 million and $9.7 million at September 30, 2011 and 2010, respectively.

8. Pensions and Postretirement Benefits

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

YNHNC also sponsors contributory 403(b) and 401(k) plans covering substantially all employees. YNHNC's contributions for the 403(b) plan are determined based on employee contributions and years of service. Contributions to the 401(k) plans are determined based on employee compensation and years of service. YNHNC contributed approximately $10.9 million and $10.4 million for the years ended September 30, 2011 and 2010, respectively. YNHNC maintains a Section 457 non-qualified deferred compensation plan. Contributions are made on a pre-tax basis. The balances recorded at September 30, 2011 and 2010 in other assets and other long-term liabilities were $18.4 million and $17.0 million, respectively.

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

8. Pensions and Postretirement Benefits (continued)

Included in unrestricted net assets at September 30, 2011 and 2010 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credit of $0.3 million and $0.5 million, respectively, and unrecognized actuarial losses of $129.7 million and $101.3 million, respectively. The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2012 are $0.8 million and $4.3 million, respectively.

The following table sets forth the change in benefit obligation, change in plan assets, and the reconciliation of underfunded status of YNHNC's defined benefit plans as of September 30, 2011 and 2010 (in thousands):

	Defined Benefit Pension Plans		Postretirement Benefits Plan	
	2011	**2010**	**2011**	**2010**
Change in benefit obligation:				
Benefit obligation at prior measurement date	**$ 374,050**	$ 349,674	**$ 58,103**	$ 51,756
Service cost	**18,385**	15,931	**3,092**	3,075
Interest cost	**17,407**	18,418	**3,014**	2,793
Actuarial loss	**13,409**	13,517	**818**	1,780
Benefits paid	**(17,609)**	(23,490)	**(1,340)**	(1,301)
Benefit obligation at current measurement date	**405,642**	374,050	**63,687**	58,103
Change in plan assets:				
Fair value of assets at prior measurement date	**228,281**	216,433	**–**	–
Actual return on plan assets	**2,338**	16,037	**–**	–
Employer contributions	**12,885**	19,301	**1,340**	1,301
Benefits paid	**(17,609)**	(23,490)	**(1,340)**	(1,301)
Fair value of assets at current measurement date	**225,895**	228,281	**–**	–
Accrued benefit cost	**$ (179,747)**	$ (145,769)	**$ (63,687)**	$ (58,103)

8. Pensions and Postretirement Benefits (continued)

Benefit Obligation and Assumptions

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

	2011	2010
Projected benefit obligation	**$ (405,642)**	$ (374,050)
Accumulated benefit obligation	**(301,241)**	(276,266)
Fair value of plan assets	**225,895**	228,281

At September 30, 2011 and 2010, the underfunded status of the qualified defined benefit pension plan was approximately $136.8 million and $105.8 million, respectively, and that of the non-qualified defined benefit pension plan was approximately $43.0 million and $40.0 million, respectively. Additionally, there are assets limited as to use of approximately $58.4 million and $54.0 million, which are available to satisfy the obligations of the non-qualified defined benefit pension plan at September 30, 2011 and 2010, respectively.

The net periodic benefit cost for the years ended September 30, 2011 and 2010 is as follows (in thousands):

	Defined Benefit Pension Plans		**Postretirement Benefits Plan**	
	2011	**2010**	**2011**	**2010**
Service cost	**$ 18,385**	$ 15,931	**$ 3,092**	$ 3,075
Interest cost	**17,407**	18,418	**3,014**	2,793
Expected return on plan assets	**(19,350)**	(19,528)	–	–
Amortization of prior service cost	**(462)**	(462)	**264**	264
Recognized net actuarial loss	**2,711**	1,230	–	–
Net periodic benefit cost	**$ 18,691**	$ 15,589	**$ 6,370**	$ 6,132

8. Pensions and Postretirement Benefits (continued)

Weighted-average assumptions and dates used to determine benefit obligations at September 30, 2011 and 2010 are as follows:

	Defined Benefit Pension Plans		Postretirement Benefits Plan	
	2011	**2010**	**2011**	**2010**
Discount rate for determining benefit obligations at year-end, qualified plan	**4.80%**	4.80%	**5.10%**	5.30%
Discount rate for determining benefit obligations at year end, non-qualified plan	**5.10**	5.30	–	–
Rate of compensation increase	**5.00**	5.00	–	–

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2011 and 2010 are as follows:

	Defined Benefit Pension Plans		Postretirement Benefits Plan	
	2011	**2010**	**2011**	**2010**
Discount rate for determining benefit obligations at year-end, qualified plan	**4.8%**	5.50%	**5.30%**	5.50%
Discount rate for determining benefit obligations at year end, non-qualified plan	**5.30**	5.50	–	–
Expected rate of return on plan assets	**7.75**	7.75	–	–
Rate of compensation increase	**5.00**	5.00	–	–

For measurement purposes relating to the postretirement benefits plan, a 8.0% and 9.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 2011 and fiscal 2010, respectively. Rates are assumed to decline to 4.0% through fiscal 2014.

8. Pensions and Postretirement Benefits (continued)

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

	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 18	$ (21)
Effect on postretirement benefit obligation	192	(193)

The asset allocation of YNHNC's qualified pension plan at September 30, 2011 and 2010 was as follows:

	Target Allocation	Percentage of Plan Assets	
Asset Category	**2012**	**2011**	**2010**
Equity securities	**39%**	41%	47%
Debt securities	**26**	28	25
Real estate	**11**	12	9
All other assets	**24**	19	19
Total	**100%**	100%	100%

Financial assets carried at fair value, as of September 30, 2011 and 2010 are classified in the following tables (see Footnote 14 for description) (in thousands):

	September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds	**$ 4,673**	**$ –**	**$ –**	**$ 4,673**
U.S. equity securities	**47,070**	**–**	**–**	**47,070**
International equity securities	**45,118**	**–**	**–**	**45,118**
Fixed income:				
U.S. government	**51,551**	**–**	**–**	**51,551**
International government	**13,260**	**–**	**–**	**13,260**
Commodities	**4,923**	**–**	**5,745**	**10,668**
Private equity	**–**	**–**	**331**	**331**
Hedge funds:				
Absolute return	**–**	**29,362**	**–**	**29,362**
Long/short equity	**–**	**8,235**	**–**	**8,235**
Real estate	**–**	**–**	**15,627**	**15,627**
Total investments	**$ 166,595**	**$ 37,597**	**$21,703**	**$ 225,895**

8. Pensions and Postretirement Benefits (continued)

	September 30, 2010			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 3,455	$ –	$ –	$ 3,455
U.S. equity securities	52,257	–	–	52,257
International equity securities	53,714	–	–	53,714
Fixed income:				
U.S. government	55,305	–	–	55,305
Commodities	5,790	–	5,852	11,642
Hedge funds				
Absolute return	–	29,546	–	29,546
Long/short equity	–	7,763	–	7,763
Real estate	–	–	14,599	14,599
Total investments	$ 170,521	$ 37,309	$ 20,451	$ 228,281

The following is a rollforward of the pension assets classified as level 3 of the valuation hierarchy as described in Note 15:

	Commodities	Private Equity	Real Estate	Total
Fair value at September 30, 2009	$ 3,249	$ –	$ 14,507	$ 17,756
2010 Realized and unrealized gains and losses	2,237	–	(2,473)	(236)
2010 Purchases, sales, transfers, issuances and settlements, net	366	–	2,566	2,932
Fair value at September 30, 2010	5,852	–	14,599	20,452
2011 Realized and unrealized gains and losses	686	–	3,049	3,735
2011 Purchases, sales, transfers, issuances and settlements, net	(793)	331	(2,021)	(2,483)
Fair value at September 30, 2011	$ 5,745	$ 331	$ 15,627	$ 21,703

YNHNC's investment strategy for its pension assets balances the liquidity needs of the pension plan with the long-term return goals necessary to satisfy future pension obligations. The target asset allocation seeks to capture the equity premium granted by the capital markets over the long-term while ensuring security of principal to meet near-term expenses and obligations through the fixed income allocation. The allocation of the investment pool to various sectors of the markets is designed to reduce volatility in the portfolio. YNHNC's pension portfolio return assumption of 7.75% is based on the targeted weighted average return of comparative market indices for the asset classes represented in the portfolio and discounted for pension expenses. The actual return on assets of the pension plan for the years ended September 30, 2011 and 2010 was 2.7% and 7.1%, respectively.

8. Pensions and Postretirement Benefits (continued)

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

	Defined Benefit Pension Plans	Postretirement Benefits Plan
Estimated benefit payments related to years ending September 30:		
2012	$ 32,597	$ 2,535
2013	32,753	2,734
2014	33,501	2,926
2015	35,347	3,181
2016	35,049	3,437
2017 to 2021	188,438	22,249

The Hospital expects to contribute approximately $42.6 million for pension benefits and $2.5 million for postretirement benefits payments in fiscal 2012.

9. Professional Liability Insurance

In 1978, the Hospital and a number of other academic medical centers formed the Medical Centre Insurance Company, Ltd. (the “Captive”) to insure for professional and comprehensive general liability risks. In 1997, the Captive formed MCIC Vermont, Inc. (“MCIC”) to write direct insurance for the professional and general liability risks of the shareholders. Since 1997, the Captive has acted as a reinsurer for varying levels of per claim limit exposure. MCIC has reinsurance coverage from outside reinsurers for amounts above the per claim limits. Premiums are based on modified claims made coverage and are actuarially determined based on actual experience of the Hospital, the Captive and MCIC.

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

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

9. Professional Liability Insurance (continued)

The estimated undiscounted IBNR liability for professional and general claims at September 30, 2011 and 2010 was approximately $30.4 million and $28.9 million, respectively, and is recorded at the actuarially determined present value of approximately $25.6 million and $23.5 million, respectively, based on a discount rate of 3.5% in 2011 and 4.0% in 2010.

10. Commitments and Contingencies

Leases

YNHNC leases certain office, clinical and parking spaces under non-cancelable operating leases that range in terms ending in 2012 through 2023. Future minimum lease payments under these leases are as follows (in thousands):

2012	$ 8,747
2013	7,554
2014	6,778
2015	3,913
2016	3,829
Thereafter	15,024
	$ 45,845

YNHNC incurred net rent expense under these leases of approximately $11.1 million for the year ended September 30, 2011 and $10.7 million for the year ended 2010.

Cancer Hospital

The Hospital has a shared facilities and services agreement with the University in connection with the Cancer Hospital which is recorded as deferred revenue. Deferred revenue, from this agreement, at September 30, 2011 and 2010 was $48.3 million and $50.0 million, respectively.

In connection with the Cancer Hospital, the Hospital and the University entered into a joint fundraising agreement. As of September 30, 2011 and 2010, the joint fund raising efforts for the new facility had successfully raised $98.5 million and $98.4 million, respectively, of the $100.0 million joint target. As of September 30, 2011 and 2010, the Hospital had attained approximately $49.2 million related to the fundraising activity which includes the Hospital's shares of amounts raised by the University.

10. Commitments and Contingencies (continued)

Litigation

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against YNHNC. Such lawsuits and claims are either specifically covered by insurance as explained in Note 9 or are deemed to be immaterial. While the outcomes of the lawsuits and claims cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the consolidated financial position or changes in net assets of YNHNC.

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

Proposed Acquisition

The Hospital entered into an agreement on September 26, 2011 to acquire certain assets and assume certain liabilities of the Saint Raphael Healthcare System for $160 million. The regulatory review of the proposed transaction by appropriate state and federal agencies has been initiated. During the regulatory approval process, the Connecticut Attorney General's Office, the Connecticut Office of Health Care Access and the Federal Trade Commission will review the proposed transaction. Upon regulatory approval completion, the proposed transaction would be completed.

11. Functional Expenses

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

	Year Ended September 30	
	2011	**2010**
Health care services	**$ 1,264,292**	$ 1,146,412
General and administrative	**188,917**	171,303
	$ 1,453,209	$ 1,317,715

12. Related Party Transactions

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

	Year Ended September 30 2011	Year Ended September 30 2010
Recovery of expenses:		
YNHHSC:		
Facility rental	**$ 2,736**	$ 2,672
Shared services	**2,322**	2,421
Other	**1,190**	2,136
	$ 6,248	$ 7,229
Bridgeport Hospital:		
Resident fees	**$ 2,444**	$ 2,357
Other	**1,000**	921
	$ 3,444	$ 3,278

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

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

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

	Year Ended September 30 2011	Year Ended September 30 2010
Operating expenses:		
Professional and general liability insurance	**$ 20,758**	$ 21,470
Information systems	**18,807**	17,465
System business office	**15,268**	14,281
Other business services	**48,029**	39,083
	$ 102,862	$ 92,299

12. Related Party Transactions (continued)

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

	September 30	
	2011	**2010**
Other receivables:		
YNHHSC	**$ 2,974**	$ 776
Bridgeport Hospital	**362**	433
Greenwich Hospital	**23**	33
Northeast Medical Group, Inc	**340**	245
	$ 3,699	$ 1,487
Accounts payable:		
YNHHSC	**$ 24,668**	$ 12,565
Greenwich Hospital	**51**	–
Other long-term liabilities:		
YNHHSC	**38,162**	35,678
	$ 62,881	$ 48,243

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

YNHNC funds certain capital assets purchased by YNHHSC. Included in prepaid expenses and other assets were approximately $2.7 million and $30.7 million, respectively, at September 30, 2011 and approximately $1.1 million and $5.8 million, respectively, at September 30, 2010.

Additionally, for the years ended September 30, 2011 and 2010, YNHNC funded YNHHSC approximately $12.0 million and $19.0 million, respectively, as part of its participation in the New Clinical Program Development Corporation ("NCPDC"). The NCPDC was established for the purpose of funding and supporting clinical research and clinical programs. The NCPDC Board approves the funding of initiatives.

13. Other Revenue

Other revenue consisted of the following (in thousands):

	Year Ended September 30 2011	Year Ended September 30 2010
Cafeteria and vending	**$ 7,129**	$ 6,407
Contributions	**2,667**	1,949
Parking income	**3,555**	2,930
Net assets released from restrictions for operations	**5,003**	3,846
Net assets released from restrictions for free care	**782**	835
Net assets released from restrictions for medical research and clinical programs (including $12.0 million and $19.0 million, for 2011 and 2010, respectively, for amounts restricted for New Clinical Program Development)	**16,195**	22,734
Grants	**7,432**	6,201
Rental income	**1,404**	1,640
Other	**4,074**	3,728
	$ 48,241	$ 50,270

14. Non-Operating Gains (Losses)

Non-operating gains and losses consisted of the following (in thousands)

	Year Ended September 30 2011	Year Ended September 30 2010
Income from investments, donations and other, net	**$ 17,336**	$ 7,306
Gain on sale of Medical Center Pharmacy, net of taxes	**3,238**	–
Change in unrealized gains and losses on investments	**(1,949)**	22,044
Change in fair value of swap, including counterparty payments	**(9,781)**	(16,515)
Acquisition costs related to Saint Raphael Healthcare System	**(6,051)**	–
FICA Tax Refund	**10,915**	–
	$ 13,708	$ 12,835

15. Fair Values of Financial Instruments

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

ASC No. 820-10 establishes a three tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

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

Financial assets carried at fair value as of September 30, 2011 and 2010 are classified in the following tables in one of the three categories described above (in thousands):

	September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 74,087**	**$ –**	**$ –**	**$ 74,087**
Money market funds	**108,579**	**–**	**–**	**108,579**
U.S. equity securities	**11,113**	**–**	**–**	**11,113**
International equity securities	**37,523**	**–**	**–**	**37,523**
Fixed income:				
U.S. government	**41,719**	**–**	**–**	**41,719**
International government	**31,704**	**–**	**–**	**31,704**
Interest in Yale University endowment pool	**–**	**278,719**	**–**	**278,719**
Investments at fair value	**$ 304,725**	**$ 278,719**	**$ –**	**583,444**
Common collective trusts				**91,524**
Alternative investments				**68,614**
Perpetual trusts				**10,906**
Investments not at fair value				**171,044**
Total investments				**$ 754,488**
Liabilities:				
Interest rate swaps	**$ –**	**$ (31,951)**	**$**	**$ (31,951)**

15. Fair Values of Financial Instruments (continued)

	September 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 74,032	$ –	$ –	$ 74,032
Money market funds	55,764	–	–	55,764
U.S. equity securities	11,573	–	–	11,573
International equity securities	70,445	–	–	70,445
Fixed income:				
U.S. government	28,038	–	–	28,038
International government	8,134	–	–	8,134
Interest in Yale University endowment pool	–	175,332	–	175,332
Investments at fair value	$ 247,986	$ 175,332	$ –	423,318
Common collective trusts				123,652
Alternative investments				81,768
Perpetual trusts				11,639
Investments not at fair value				217,059
Total investments				$ 640,377
Liabilities:				
Interest rate swaps	$ –	$ (27,530)	$	$ (27,530)

The fair value of long-term debt was approximately $529.4 million and $405.0 million at September 30, 2011 and 2010, respectively. The fair value of the capital leases was approximately $126.0 million and $125.3 million at September 30, 2011 and 2010, 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, 2011 and 2010 in common collective trusts totaling approximately $91.5 million and $123.7 million, respectively, other alternative investments totaling approximately $68.6 million and $81.8 million, respectively, and perpetual trusts totaling approximately $10.9 million and $11.6 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, 2011 and 2010.

15. Fair Values of Financial Instruments (continued)

The following is a summary of total investments as of September 30, 2011 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	Carrying Value	Unfunded Commitments	Redemption Frequency	Notice Period	Funds Availability
Hedge Funds:					
Long/short equity	$ 12,653	$ –	Annually	100 days	December 31
Absolute return	44,783	–	Annually	100 days	December 31
Real Estate	10,168	4,261	N/A	N/A	N/A
Commodities	1,010	4,087	N/A	N/A	N/A

16. Medical Residents FICA Tax Refund

In March 2010, the Internal Revenue Service ("IRS") announced that, for periods ending before April 1, 2005, medical residents would be eligible for student exception of Federal Insurance Contributions Act ("FICA") taxes. Under the student exception, FICA taxes do not apply to wages for services performed by students employed by a school, college, or university where the student is pursuing a course of study. As a result, the IRS will allow refunds for institutions that file timely FICA refund claims and provide certain information to meet the requirements of perfection, established by the IRS, for their claims applicable to periods prior to April 1, 2005. Institutions are potentially eligible for medical resident FICA refunds for both the employer and employee portions of FICA taxes paid, plus statutory interest. For the year ended September 30, 2011, the Hospital has recorded estimated net revenue of approximately $10.9 million, in non-operating gains and losses, related to FICA medical resident refunds claims that are expected to meet the IRS requirements to be eligible for refunds. At September 30, 2011, the Hospital has recorded a net receivable of approximately $24.7 million included in other assets and a payable of approximately $13.8 million included in other long-term liabilities. The Hospital has established its estimate based on information presently available; the estimate is subject to change as the IRS adjudicates the claims.

17. Subsequent Events

Subsequent events have been evaluated through December 21, 2011, which is the date the financial statements were available to be issued. No events have occurred that require disclosure or adjustment of the financial statements.

Other Financial Information

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Report of Independent Auditors
on Other Financial Information

Board of Trustees
YNH Network Corporation and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following consolidating balance sheet at September 30, 2011 and consolidating statement of operations and changes in net assets for the year then ended of YNH Network Corporation and Subsidiaries are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

December 21, 2011

YNH Network Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2011
(In Thousands)

	YNHNC	Hospital	ASC	York	CHCP	QMPC	Eliminations	Total
Assets								
Current assets:								
Cash and cash equivalents	$ 946	$ 65,883	$ 4,697	$ 2,555	$ –	$ 6	$ –	$ 74,087
Short-term investments	–	402,559	–	–	–	–	–	402,559
Accounts receivable for services to patients, net	–	167,383	1,947	126	–	–	–	169,456
Other receivables	48	56,201	–	92	–	–	(946)	55,395
Other current assets	–	24,630	490	477	–	–	–	25,597
Amounts on deposit with trustee in debt service fund	–	6,320	–	–	–	–	–	6,320
Total current assets	994	722,976	7,134	3,250	–	6	(946)	733,414
Assets limited as to use	–	129,997	–	–	–	–	–	129,997
Long-term investments	–	141,525	–	–	–	–	–	141,525
Deferred financing costs, less accumulated amortization	–	5,488	–	–	–	–	–	5,488
Other assets	9,308	129,845	213	926	1	1	(9,308)	130,986
Property, plant, and equipment:								
Land and land improvements	–	19,467	–	2,337	–	–	–	21,804
Buildings and fixtures	–	952,346	3,989	14,860	–	–	–	971,195
Equipment	–	419,565	3,116	50	–	5	–	422,736
	–	1,391,378	7,105	17,247	–	5	–	1,415,735
Less accumulated depreciation	–	566,850	3,837	10,453	–	3	–	581,143
	–	824,528	3,268	6,794	–	2	–	834,592
Construction in progress	–	43,207	5	–	–	–	–	43,212
	–	867,735	3,273	6,794	–	2	–	877,804
Total assets	$ 10,302	$ 1,997,566	$ 10,620	$ 10,970	$ 1	$ 9	$ (10,254)	$ 2,019,214

YNH Network Corporation and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2011
(In Thousands)

	YNHNC	Hospital	ASC	York	CHCP	QMPC	Eliminations	Total
Liabilities and net assets (deficiency)								
Current liabilities:								
Accounts payable	$ –	$ 99,381	$ 1,308	$ 1,248	$ (17)	$ 1,445	$ (946)	$ 102,419
Accrued expenses	83	120,959	466	–	–	–	–	121,508
Current portion of long-term debt	–	10,185	226	–	–	–	–	10,411
Current portion of capital lease obligation	–	2,862	–	878	–	–	–	3,740
Other current liabilities	–	3,848	–	–	–	–	–	3,848
Total current liabilities	83	237,235	2,000	2,126	(17)	1,445	(946)	241,926
Long-term debt, net of current portion	–	509,022	226	–	–	–	–	509,248
Long-term capital lease obligation, net of current portion	–	107,529	–	5,120	–	–	–	112,649
Accrued pension and postretirement benefit obligations	–	240,901	–	–	–	–	–	240,901
Other long-term liabilities	–	180,471	143	353	–	–	–	180,967
Deferred revenue	–	48,321	–	–	–	–	–	48,321
Total liabilities	83	1,323,479	2,369	7,599	(17)	1,445	(946)	1,334,012
Net assets (deficiency):								
Unrestricted	10,219	604,617	8,251	3,371	18	(1,436)	(9,308)	615,732
Temporarily restricted	–	43,947	–	–	–	–	–	43,947
Permanently restricted	–	25,523	–	–	–	–	–	25,523
Total net assets (deficiency)	10,219	674,087	8,251	3,371	18	(1,436)	(9,308)	685,202
Total liabilities and net assets (deficiency)	$ 10,302	$ 1,997,566	$ 10,620	$ 10,970	$ 1	$ 9	$ (10,254)	$ 2,019,214

YNH Network Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2011
(In Thousands)

	YNHNC	Hospital	ASC	York	CHCP	QMPC	Eliminations	Total
Operating revenue:								
Net patient service revenue	$ –	$ 1,442,057	$ 20,242	$ –	$ –	$ 67	$ –	$ 1,462,366
Other revenue	4,515	46,640	166	1,451	–	–	(4,515)	48,257
Total operating revenue	4,515	1,488,697	20,408	1,451	–	67	(4,515)	1,510,623
Operating expenses:								
Salaries and benefits	–	690,314	6,868	5	–	–	–	697,187
Supplies and other expenses	80	620,912	7,197	1,400	–	71	–	629,660
Depreciation	–	67,948	732	707	–	3	–	69,390
Insurance	–	13,376	138	–	–	–	–	13,514
Bad debts	–	26,390	272	–	–	2	–	26,664
Interest	–	16,867	33	–	–	–	–	16,900
Total operating expenses	80	1,435,807	15,240	2,112	–	76	–	1,453,315
Income (loss) from operations	4,435	52,890	5,168	(661)	–	(9)	(4,515)	57,308
Nonoperating gains (losses), net:	(563)	14,272	(3,538)	2,973	–	(1)	565	13,708
Excess (deficiency) of revenue over expenses	3,872	67,162	1,630	2,312	–	(10)	(3,950)	71,016

(Continued on next page.)

YNH Network Corporation and Subsidiaries

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

Year Ended September 30, 2011

(In Thousands)

	YNHNC	Hospital	ASC	York	CHCP	QMPC	Eliminations	Total
Unrestricted net assets:								
Excess (deficiency) of revenue over expenses (continued)	$ 3,872	$ 67,162	$ 1,630	$ 2,312	$ –	$ (10)	$ (3,950)	$ 71,016
Other changes in net assets	(753)	(273)	309		–	–	753	36
Transfer (to) from YNH Network Corporation	(6,250)	6,250	(250)	(6,000)	–	–	6,250	–
Transfer to Yale-New Haven Health Services Corporation – Clinical Development Fund	–	(12,000)	–	–	–	–	–	(12,000)
Transfer from Yale-New Haven Health Services Corporation	–	2,900	–	–	–	–	–	2,900
Net assets released from restrictions for purchases of fixed assets	–	1,774	–	–	–	–	–	1,774
Pension and other postretirement liability adjustments	–	(28,727)	–	–	–	–	–	(28,727)
Increase (decrease) in unrestricted net assets	(3,131)	37,086	1,689	(3,688)	–	(10)	3,053	34,999
Temporarily restricted net assets:								
Income from investments	–	512	–	–	–	–	–	512
Net realized gains on investments	–	3,065	–	–	–	–	–	3,065
Change in net unrealized gains and losses on investments	–	319	–	–	–	–	–	319
Bequests, contributions, and grants	–	15,280	–	–	–	–	–	15,280
Net assets released from restrictions for purchases of fixed assets	–	(1,774)	–	–	–	–	–	(1,774)
Net assets released from restrictions for free care	–	(782)	–	–	–	–	–	(782)
Net assets released from restrictions for operations	–	(5,003)	–	–	–	–	–	(5,003)
Net assets released from restrictions for clinical programs	–	(16,195)	–	–	–	–	–	(16,195)
Increase in temporarily restricted net assets	–	(4,578)	–	–	–	–	–	(4,578)
Permanently restricted net assets:								
Change in beneficial interest in perpetual trusts	–	(733)	–	–	–	–	–	(733)
Increase in permanently restricted net assets	–	(733)	–	–	–	–	–	(733)
(Decrease) increase in net assets	(3,131)	31,775	1,689	(3,688)	–	(10)	3,053	29,688
Net assets (deficiency) at beginning of year	13,350	642,312	6,562	7,059	18	(1,426)	(12,361)	655,514
Net assets (deficiency) at end of year	$ 10,219	$ 674,087	$ 8,251	$ 3,371	$ 18	$ (1,436)	$ (9,308)	$ 685,202