St. Barnabas Hospital

Financial Statements
Years Ended December 31, 2009 and 2008

St. Barnabas Hospital
Index
December 31, 2009 and 2008

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Report of Independent Auditors

To the Board of Trustees of
St. Barnabas Hospital

In our opinion, the accompanying balance sheets and the related statements of operations, changes in net assets and cash flows present fairly, in all material respects, the financial position of St. Barnabas Hospital (the "Hospital") at December 31, 2009 and 2008, and the results of its operations, its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 2 to these financial statements, the Hospital has adopted authoritative guidance related to fair value measurements and disclosures and authoritative guidance related to the fair value option as of January 1, 2008.

PricewaterhouseCoopers LLP

June 11, 2010

St. Barnabas Hospital
Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 13,099,663	$ 753,467
Marketable securities	14,273,782	10,518,919
Current portion of assets limited as to use	7,838,043	7,383,383
Patient accounts receivable, net of allowance for doubtful accounts of approximately $27,017,000 and $25,222,000 in 2009 and 2008, respectively	27,895,166	31,054,209
Due from payor reimbursement programs	19,277,330	17,523,065
Other receivables	9,098,863	10,912,694
Prepaid expenses and supplies	1,609,989	1,928,745
Total current assets	93,092,836	80,074,482
Assets limited as to use		
Externally limited		
Under malpractice funding requirements	10,150,807	14,113,389
Under financing agreements	19,987,811	18,948,530
Funds held in trust by others	15,901,930	13,755,724
Internally limited	25,044,941	55,762,175
Property, plant and equipment, net	201,746,799	198,777,789
Receivable from Union Community Health Center	12,441,425	13,740,869
Other assets	7,080,426	6,343,476
Total assets	$ 385,446,975	$ 401,516,434
Liabilities and Net Assets		
Current liabilities		
Line of credit	$ -	$ 13,400,000
Current portion of long-term debt	3,984,461	3,822,383
Accounts payable and accrued expenses	29,311,591	37,035,340
Accrued salaries, wages and related expenses	16,356,016	15,497,542
Total current liabilities	49,652,068	69,755,265
Long-term debt, net of current portion	78,528,605	82,513,065
Due to payor reimbursement programs, net of current portion	16,500,071	7,334,274
Estimated malpractice liability, net of current portion	23,601,485	26,085,485
Accrued pension liability	19,841,308	23,993,905
Accrued postretirement benefit cost, net of current portion	1,841,441	11,335,137
Other liabilities	6,295,460	5,814,818
Total liabilities	196,260,438	226,831,949
Net assets		
Unrestricted	165,054,625	152,586,487
Temporarily restricted	3,577,149	3,689,441
Permanently restricted	20,554,763	18,408,557
Total net assets	189,186,537	174,684,485
Total liabilities and net assets	$ 385,446,975	$ 401,516,434

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

St. Barnabas Hospital
Statements of Operations
Years Ended December 31, 2009 and 2008

	2009	2008
Operating revenues		
Net hospital patient service revenue	$ 271,900,185	$ 270,693,476
HIP Southern capitated health service revenue	13,799,488	13,219,211
Fordham Tremont Mental Health Clinic revenue	18,126,175	16,791,405
Other operating revenue	8,722,870	8,857,331
Net assets released from restrictions	740,481	737,494
Total operating revenues	313,289,199	310,298,917
Operating expenses		
Hospital		
Professional care of patients	175,750,367	178,725,748
Dietary services	5,106,013	4,697,943
Household and maintenance	16,037,873	16,818,211
Administration and general services	28,944,983	26,766,878
Employee health and welfare	40,735,757	37,016,831
Malpractice expense	7,000,000	5,364,521
Provision for bad debts	10,400,001	10,400,000
Interest	3,413,321	3,986,454
Depreciation, amortization and rentals	19,768,742	19,359,088
Fordham Tremont Mental Health Clinic expenses	17,296,979	17,911,234
Total operating expenses	324,454,036	321,046,908
Operating loss	(11,164,837)	(10,747,991)
Investment income (loss)	8,213,878	(30,132,613)
Deficiency of revenues over expenses	(2,950,959)	(40,880,604)
Reversal of accumulated net unrealized gains or losses	-	(4,835,845)
Change in pension and postretirement benefits	15,419,097	(20,942,393)
Increase (decrease) in unrestricted net assets before cumulative effect of a change in accounting principle	12,468,138	(66,658,842)
Cumulative effect of adoption of fair value option	-	4,835,845
Increase (decrease) in unrestricted net assets	$ 12,468,138	$ (61,822,997)

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

St. Barnabas Hospital
Statements of Changes in Net Assets
Years Ended December 31, 2009 and 2008

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Balance at December 31, 2007	214,409,484	3,656,006	25,619,045	243,684,535
Deficiency of revenues over expenses	(40,880,604)			(40,880,604)
Net unrealized losses on investments			(7,210,488)	(7,210,488)
Reversal of accumulated net unrealized gains or losses	(4,835,845)			(4,835,845)
Interest and dividend income from permanently restricted net assets		333,332		333,332
Change in pension and postretirement benefits	(20,942,393)			(20,942,393)
Restricted gifts and bequests		437,597		437,597
Net assets released from restrictions for operating purposes		(737,494)		(737,494)
Change in net assets before cumulative effect of a change in accounting principle	(66,658,842)	33,435	(7,210,488)	(73,835,895)
Cumulative effect of adoption of fair value option	4,835,845	-	-	4,835,845
Change in net assets	(61,822,997)	33,435	(7,210,488)	(69,000,050)
Balance at December 31, 2008	152,586,487	3,689,441	18,408,557	174,684,485
Deficiency of revenues over expenses	(2,950,959)			(2,950,959)
Net unrealized gains on investments			2,146,206	2,146,206
Interest and dividend income from permanently restricted net assets		263,333		263,333
Change in pension and postretirement benefits	15,419,097			15,419,097
Restricted gifts and bequests		364,856		364,856
Net assets released from restrictions for operating purposes		(740,481)		(740,481)
Change in net assets	12,468,138	(112,292)	2,146,206	14,502,052
Balance at December 31, 2009	165,054,625	3,577,149	20,554,763	189,186,537

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

St. Barnabas Hospital
Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Change in net assets	$ 14,502,052	$ (69,000,050)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in pension and postretirement benefits	(15,419,097)	20,942,393
Reversal of accumulated net unrealized gains or losses	-	4,835,845
Cumulative effect of change in accounting principle	-	(4,835,845)
Depreciation and amortization	19,214,441	18,494,113
Provision for bad debts	10,400,001	10,400,000
Change in net unrealized and realized gains and losses on investment	(6,116,828)	33,396,730
Loss on sale of property, plant and equipment	95,612	10,775
Restricted contributions	-	(437,597)
Change in operating assets and liabilities		
Patient accounts receivable	(7,240,958)	(3,846,658)
Other assets and liabilities	1,241,395	(2,842,956)
Prepaid expenses and supplies	318,756	366,632
Accounts payable, accrued expenses, salaries and wages	(7,818,758)	2,000,057
Accrued postretirement benefit cost	1,024,883	1,380,070
Accrued pension liability	417,328	(3,364,914)
Due to payor reimbursement programs, net	7,411,532	(1,769,892)
Estimated malpractice liability	(2,191,417)	1,099,390
Net cash provided by operating activities	15,838,942	6,828,093
Cash flows from investing activities		
Purchase of property, plant and equipment	(21,222,494)	(24,091,555)
Decrease in marketable securities due to liquidation of assets for the use of internal financing and malpractice settlements	39,962,039	12,912,004
(Increase) decrease in marketable securities, assets limited as to use and long-term investments, net	(6,560,405)	4,165,343
Increase in receivable for professional services rendered to UCHC	(2,425,556)	(11,608,115)
Decrease in note receivable from UCHC due to repayment	3,725,000	8,325,000
Net cash provided by (used in) investing activities	13,478,584	(10,297,323)
Cash flows from financing activities		
Payments on long-term debt	(3,822,383)	(3,673,283)
Restricted contributions	-	437,597
Cash overdrafts	251,053	2,767,633
Payments on line of credit	(13,400,000)	-
Proceeds from line of credit	-	3,400,000
Net cash (used in) provided by financing activities	(16,971,330)	2,931,947
Net increase (decrease) in cash and cash equivalents	12,346,196	(537,283)
Cash and cash equivalents		
Beginning of year	753,467	1,290,750
End of year	$ 13,099,663	$ 753,467
Supplemental disclosures of cash flow information		
Interest paid, (includes capitalized interest expense aggregating $1,046,859 and $801,000 in 2009 and 2008, respectively, which is reported as construction in progress, and is included in property, plant and equipment)	$ 4,460,190	$ 4,787,454

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

1. Organization

St. Barnabas Hospital (the "Hospital") is a not-for-profit acute care hospital providing health care related services primarily to residents of the Bronx.

St. Barnabas Community Enterprises, Inc. is the sole member of the Hospital. The Hospital financial statements only include the activity of St. Barnabas Hospital and Fordham Tremont Community Mental Health Center, which signed an Agreement of Affiliation and Shared Governance with the Hospital in 1988.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting standards generally accepted in the United States of America. The Hospital has performed an evaluation of subsequent events through June 11, 2010, which is the date the financial statements were issued.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates relate to third-party payor adjustments, allowances for doubtful accounts, malpractice, and pension and postretirement liabilities.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid financial instruments with an original maturity of three months or less, that are not limited as to use. The Hospital invests cash and cash equivalents with major banks, and has determined that the amount of credit exposure at any one financial institution is immaterial to the financial position of the Hospital. Included in cash and cash equivalents are amounts in excess of $250,000 at December 31, 2009 and 2008, which is the maximum insured by the Federal Deposit Insurance Company. Management acknowledges that this risk exists and attempts to mitigate this risk through its weekly cash management policies.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the balance sheet dates. Fair value is determined in accordance with fair value measurement and disclosure authoritative guidance, as further described in Note 4.

As of January 1, 2008, the Hospital adopted fair value measurement and disclosure authoritative guidance related to the fair value option for investments, with the result being that unrealized gains and losses are included within the Hospital's performance indicator (prior to the adoption of the fair value option, unrealized gains and losses on investments were reported outside of the Hospital's performance indicator, unless an unrealized loss was considered to be other than temporary). Investment income, which consists of interest, dividends, income from alternative investments, and realized and unrealized gains and losses on investments is included within deficiency of revenue over expenses unless the income or loss is restricted by donor or law. Investment income earned on permanently restricted net assets, upon which restrictions have been placed by donors, is added to temporarily restricted net assets and is reported within net unrealized gains (losses) on investments within the statement of changes in net assets. For the year ended December 31, 2008, a cumulative effect adjustment for change in accounting principle of $4,835,845 has been included in the statement of operations and statement of changes in net assets with no impact to net assets previously reported.

Assets Limited as to Use

Assets limited as to use primarily include cash and investments held by trustees under financing agreements, medical malpractice funding requirements, charitable trusts and designated assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet the Hospital's current liabilities or available for use in the next twelve months have been classified as current assets in the balance sheet at December 31, 2009 and 2008. Fair value of assets limited as to use is determined in accordance with fair value measurement and disclosure authoritative guidance, as further discussed in Note 4.

Funds Held in Trust by Others

Funds Held in Trust by Others represent investments held in perpetuity in which the income is received by the Hospital for donor restricted purposes or general operating purposes. These funds are recognized at the estimated fair value of the assets (determined in accordance with fair value measurement and disclosure authoritative guidance, as further discussed in Note 4), which approximates the present value of the future cash flows when the irrevocable trust is established or the Hospital is notified of its existence.

Property, Plant and Equipment

Property, plant and equipment acquisitions are recorded at cost. Depreciation of property, plant and equipment is computed using the straight line method over the estimated useful lives of the related assets as follows:

Buildings and improvements	5 - 40 years
Major movable equipment	3 - 20 years

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported at appraised or fair market value at the date of the contribution as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used as gifts of cash, or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Conditional Asset Retirement Obligations

Asset retirement obligations, reported in other noncurrent liabilities, are legal obligations associated with the retirement of long-lived assets. These liabilities are initially recorded at fair value and the related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the Hospital records changes in the liability resulting from the passage of time and revisions to either the time or the amount of the original estimate of undiscounted of cash flows. The Hospital reduces their liabilities when the related obligations are settled.

Deferred Financing Costs
Deferred financing costs, included in other assets, were incurred to obtain financing for the Hospital's construction projects and are amortized over the life of the associated bonds. Deferred financing costs were $6,647,831 at December 31, 2009 and 2008. Accumulated amortization expense was $2,923,724 and $2,607,596 at December 31, 2009 and 2008, respectively.

Temporarily and Permanently Restricted Net Assets
Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Unconditional promises to donate cash and other assets are reported at fair value at the date the promise is received. Conditional promises to donate and indications of intentions to donate are recognized when the condition is substantially met.

Gifts of long-lived assets under specific restrictions that specify the use of assets and gifts of cash or other assets that must be used to acquire long-lived assets are reported as additions to temporarily restricted net assets if the assets are not placed in service during the year.

Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity and these endowment funds are included in long term investments.

Consistent with industry practice, management and the Hospital's Board of Trustees have interpreted the State of New York's enacted version of the Uniform Management of Institutional Funds Act ("UMIFA") as requiring the preservation of the historic dollar value of donor-restricted endowment funds (absent explicit donor stipulations to the contrary). Historic dollar value is defined as the aggregate fair value in dollars of (i) an endowment fund at the time it became an endowment, (ii) each subsequent donation to the fund at the time it is made, and (iii) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund. Based on this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to permanently restricted net assets (b) the original value of subsequent gifts to permanently restricted net assets (c) the net realizable value of future payments to permanently restricted net assets in accordance with the donor's gift instrument (outstanding endowment pledges net of applicable discount) and appreciation (depreciation), gains (losses) and income earned on the fund when the donor states that such increases or decreases are to be treated as changes in permanently restricted net assets. The remaining portions of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets or unrestricted net assets.

Consistent with industry practice, management and the Hospital's Board of Trustees further understand that expenditures from a donor-restricted funds is limited to the uses and purposes for which the endowment fund is established and the use of net appreciation, realized gains (with respect to all assets) and unrealized gains (with respect only to readily marketable assets) is limited to the extent that the fair value of a donor-restricted fund exceeds the historic dollar value of the fund (unless the applicable gift instrument indicates that net appreciation shall not be expended), to the extent that such expenditure is prudent, considering the long and short term needs of the Hospital in carrying out its purposes, its present and anticipated financial requirements, expected total return on its investments and general economic conditions.

Deficiency of Revenues over Expenses

The statements of operations include deficiency of revenues over expenses as a performance indicator. The Hospital differentiates its operating activities through the use of income from operations as an intermediate measure of operations. For the purpose of display, certain investment income and other transactions, which management does not consider as components of the Hospital's operating activities, are excluded from the income from operations and reported as non-operating revenues in the statements of operations. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include adjustments to pension and postretirement benefits, equity transfers for related parties and cumulative effect of changes in accounting principles.

The natural classification of operating expenses presented in the accompanying Statement of Operations is presented as follows:

	2009	2008
Salary and wages	$ 129,247,292	$ 128,512,608
Employee benefits	43,801,961	39,578,322
Other operating expenses	118,377,020	120,075,411
Provision for bad debts	10,400,001	10,400,000
Depreciation and amortization	19,214,441	18,494,113
Interest	3,413,321	3,986,454
Total	$ 324,454,036	$ 321,046,908

Net Patient Service Revenue, Accounts Receivable, Allowance for Uncollectible Accounts

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments.

Billings relating to services rendered are recorded as net patient service revenues and patient accounts receivable in the period in which the service is performed, net of contractual and other allowances that represent differences between gross charges and the estimated receipts under such programs. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. The Hospital has implemented a monthly standardized approach to estimate and review the collectability of receivables based on the payer classification and the period from which the receivables have been outstanding. Account balances are written off against the allowance when management feels it is probable the receivable will not be recovered. Historical collection and payer reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts. In addition, the Hospital assesses the current state of its billing functions in order to identify any known collection or reimbursement issues and assess the impact, if any, on reserve estimates. The Hospital believes that the collectability of its receivables is directly linked to the quality of its billing processes, most notably those related to obtaining the correct information in order to bill effectively for the services it provides. Revisions in reserve for doubtful accounts estimates are recorded as an adjustment to the provision for bad debts.

A summary of the payment arrangements with major third-party payers follows:

- *Medicare*. Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Effective October 1, 2007, the Centers for Medicare and Medicaid Services (CMS) revised the Medicare patient classification system. The new Medicare severity adjusted diagnosis related groups (MS-DRGs) reflect changes in technology and current methods of care delivery. CMS has expanded the number of DRGs from 538 to 745 and requires identification of conditions that are present upon admission. Certain inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

- *Non-Medicare Payments*: The New York Health Care Reform Act of 1996, as updated, governs payments to hospitals in New York State. Under this system, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospital's payment rates. If negotiated rates are not established, payers are billed at hospitals established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by the New York State Department of Health ("NYSDOH") on a prospective basis. Adjustments to current and prior years' rates for these payers will continue to be made in the future. Effective December 1, 2009, NYSDOH implemented inpatient reimbursement reform. The reform updated the data utilized to calculate NYSDRG rates and service intensity weights (SIWs), in order to utilize refined data and more current information in NYSDOH promulgated rates. Similar type outpatient reforms were implemented effective December 1, 2008.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payers for adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. Additionally, certain payers' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years will be realized. During 2009 and 2008, amounts recognized in 2009 and 2008 related to prior years, including adjustments to prior year estimates increased net patient service revenue by approximately $10.1 million and $1.7 million, respectively.

There are various proposals at the Federal and State levels that could, among other things, reduce payment rates and increase managed care penetration, including Medicaid. The ultimate outcome of these proposals and other market changes cannot presently be determined.

Revenue from the Medicare and Medicaid programs accounted for approximately 22% and 37%, respectively, of the Hospital's net patient service revenue for the year ended 2009, and 21% and 33%, respectively, of the Hospital's net patient service revenue for the year ended 2008.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Charity Care

The Hospital, in keeping with its mission and philosophy to extend quality care and compassionate service, recognizes that some patients are unable to compensate the Hospital for their treatment either through third-party coverage or their own resources. The Hospital provides free care or sliding fee scales to patients financially unable to pay for services rendered. The Hospital does not pursue collection of amounts that qualify as charity care, and therefore they are not reported as revenue. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy aggregated approximately $41,485,000 and $38,975,000 in 2009 and 2008 respectively.

Donor Restricted Gifts
Unconditional promises to give cash and other assets to the Hospital are reported at fair values at the date the promise is received. The gifts are either reported as 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 the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions (included in other operating revenue) in the accompanying financial statements.

Estimated Malpractice Costs
The provision for estimated medical malpractice claims includes estimates of the ultimate costs for claims; both reported and incurred but not reported ("IBNR").

Income Taxes
The Hospital is a not-for-profit corporation and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

New Accounting Pronouncements
In June 2009, the Financial Accounting Standards Board ("FASB") established the FASB accounting Standards Codification ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with generally accepted accounting principles. All guidance included in such Codification will be considered authoritative at that time, even guidance that comes from what is currently deemed to be a non-authoritative section of a standard. Recognition of the Codification in financial statements is applicable for interim and annual periods ending after September 15, 2009. The Hospital adopted this guidance during 2009, and the adoption did not have a material impact on the Hospital's financial statements.

In May 2009, the FASB issued authoritative guidance establishing general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. This guidance is effective for interim and annual periods ending after June 15, 2009, the Hospital adopted this guidance as of December 31, 2009, and it did not have a material impact on the Hospital's financial statements.

During 2009, in accordance with U.S, GAAP, the Hospital adopted the authoritative guidance for employers' disclosures about postretirement benefit plan assets to enhance the disclosure regarding the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan, as well as, events in the economy and markets that could have a significant effect on the value of the plan assets. The adoption of this standard did not have a material impact on the Hospital's financial statements. See Note 9 for enhanced disclosures.

On January 1, 2008, the Hospital adopted authoritative guidance related to fair value measurements and disclosures. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The fair value measurement and disclosure authoritative guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity, unobservable inputs reflect the entities' own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimizes the use of unobservable inputs. The fair value measurement and disclosure authoritative guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value (as further discussed in Note 4).

Fair value measurement and disclosure authoritative guidance related to the fair value option, which gives entities the option, at specific election dates, to measure certain financial assets and liabilities at fair value was adopted by the Hospital as of January 1, 2008. The election may be applied to financial assets and liabilities on an instrument by instrument basis, is irrecoverable, and may only be applied to entire instruments. Unrealized gains and losses on instruments for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The Hospital has elected to apply the fair value option to its marketable investments and assets limited as to use.

In August 2008, the FASB issued authoritative guidance on the net asset classification of funds subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and Enhanced Disclosure for all Endowment funds. The Hospital adopted this authoritative guidance in 2008 and has included a disclosure on classification of net assets associated with donor-restricted endowment funds.

3. Capitated Arrangements

Health Insurance Plan of New York, Inc.

The Hospital entered into a capitated contract with Health Insurance Plan of New York ("HIP") to cover inpatient and outpatient services to HIP enrollees and to manage a HIP outpatient clinic. On July 1, 2008, the Hospital negotiated a new agreement with HIP. This contract is in effect until July 1, 2011, and thereafter will be renewed for successive one-year terms unless terminated by either party upon 180 days prior written notice.

Under this capitated agreement, the Hospital recognizes revenue based on a predetermined monthly contractual rate for each member regardless of the services provided and assumes responsibility for payment of contracted HIP patient services.

In-network and out-of-network costs resulting from services provided under capitation contracts are accrued in the period they are incurred. The costs of claims incurred but not reported ("IBNR") are based on historical patterns of utilization to authorized levels of service, current enrollment statistics and other information. Amounts recorded within accounts payable and accrued expenses for claims IBNR were approximately $2,675,000 and $2,168,000 at December 31, 2009 and 2008, respectively.

Healthfirst
The Hospital began treating Healthfirst Members as of July 2006 under a capitated arrangement. The Hospital receives advances for services rendered “as if” a fee for service arrangement existed. The capitated amount is reconciled to claims expenses and incurred but not reported (“IBNR”) amounts quarterly. The amounts due from Healthfirst at December 31, 2009 and 2008 are $6,926,000 and $5,752,000, respectively.

4. Investments and Assets Limited as to Use

Investments and Assets Limited as to Use with readily determinable values are recorded at fair value. Fair value is determined in accordance with fair value measurement and disclosure authoritative guidance as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The three levels of inputs are as follows:

- Level 1-Quoted prices in active markets for identical assets or liabilities.
- Level 2-Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of these assets or liabilities.
- Level 3-Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of these assets or liabilities.

Investment securities, including marketable securities and assets limited as to use, are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the net assets of the Hospital.

The composition of the Hospital’s investments and assets limited as to use at December 31, 2009 and 2008, at fair value, are as follows:

	2009	2008
Externally limited		
Under malpractice funding requirements	$ 10,150,807	$ 14,113,389
Under financing agreements	19,987,811	18,948,530
Funds held in Trust by others	15,901,930	13,755,724
Total externally limited	46,040,548	46,817,643
Internally limited	25,044,941	55,762,175
Required for current liabilities	7,838,043	7,383,383
Total assets limited as to use	78,923,532	109,963,201
Marketable securities	14,273,782	10,518,919
Total investments and assets limited as to use	$ 93,197,314	$ 120,482,120

Investment income and changes in net unrealized gains and losses on investments included in the statements of operations for the years ended December 31, 2009 and 2008 consist of the following:

	2009	2008
Interest and dividend income	$ 2,097,050	$ 3,264,117
Realized losses on sales of securities	(15,476,939)	(3,791,245)
Change in net unrealized losses on investments	21,593,767	(29,605,485)
Investment income	$ 8,213,878	$ (30,132,613)

The fair value hierarchy of investments and assets limited as to use measured at fair value on a recurring basis at December 31, 2009 and 2008 are as follows:

	Fair Value at December 31 2009	Based on Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash	$ 4,026,424	$ 4,026,424	$ -	$ -
US Treasury Obligations	18,299,300	16,668,845	1,630,455	-
Corporate Bonds	10,312,728	-	10,312,728	-
Equity	9,023,302	5,364,175	3,659,127	-
Mutual Funds	42,222,027	29,432,240	12,789,787	-
Alternative Investments	8,531,916	-	-	8,531,916
Other	781,617	-	781,617	-
	$ 93,197,314	$ 55,491,684	$ 29,173,714	$ 8,531,916

	Fair Value at December 31 2008	Based on Quoted Prices In Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash	$ 2,730,581	$ 2,730,581	$ -	$ -
US Treasury Obligations	18,794,606	16,525,145	2,269,461	-
Corporate Bonds	1,652,498	-	1,652,498	-
Equity	7,430,624	5,532,159	1,898,465	-
Mutual Funds	54,389,110	31,240,567	23,148,543	-
Alternative Investments	34,574,766	-	-	34,574,766
Other	909,935	-	909,935	-
	$ 120,482,120	$ 56,028,452	$ 29,878,902	$ 34,574,766

Rollforward activity related to Level 3 investments as noted above is as follows:

	2009	2008
Beginning balance	$ 34,574,766	$ 53,808,377
Contributions	-	500,000
Withdrawals	(26,176,884)	(4,050,000)
Net gains (losses)	197,249	(15,567,963)
Management and other fees	(63,215)	(115,648)
Ending balance	$ 8,531,916	$ 34,574,766

5. Property, Plant and Equipment

A summary of property, plant and equipment at December 31, 2009 and 2008 is as follows:

	2009	2008
Land	$ 12,814,890	$ 12,814,890
Buildings and improvements	267,943,727	255,805,724
Major moveable equipment	184,197,950	175,689,361
Construction-in-progress	20,089,656	19,155,277
	485,046,223	463,465,252
Less: Accumulated depreciation	283,299,424	264,687,463
	$ 201,746,799	$ 198,777,789

Depreciation and amortization expense for the years ended December 31, 2009 and 2008 was approximately $19,214,441 and $18,494,113, respectively.

Estimated costs to complete construction in progress projects as of December 31, 2009, approximates $15,500,000. Included in property, plant and equipment is capitalized interest, net of accumulated depreciation, of $10,254,980 and $9,664,447 for 2009 and 2008, respectively.

6. Long-term Debt

A summary of long-term debt and capital lease obligations at December 31, 2009 and 2008 is as follows:

	2009	2008
5.53% mortgage note, collateralized by a mortgage on certain property and equipment (1)	$ 17,505,269	$ 18,592,198
5.14% mortgage note, collateralized by a mortgage on certain property and equipment (2)	61,038,828	62,727,400
.46% mortgage note, collateralized by certain property and equipment (3)	3,968,969	5,015,850
Line of credit (4)	-	13,400,000
	82,513,066	99,735,448
Less: Current portion	3,984,461	17,222,383
	$ 78,528,605	$ 82,513,065

Scheduled principal repayments on the long-term debt is as follows:

	Total
2010	$ 3,984,461
2011	4,140,192
2012	4,303,680
2013	4,226,232
2014	3,602,195
Thereafter	62,256,306
	$ 82,513,066

(1) In December 1997, the Hospital entered into a mortgage note for $40,973,100 through the Dormitory Authority of New York State ("DASNY"). The debt bears interest at 5.53% per annum.

The proceeds of the debt were used to satisfy the Hospital's outstanding mortgage balance of approximately $13 million and the remaining balance was used to finance certain Hospital construction projects, which began in 1997. Under the terms of the DASNY financing, the proceeds remaining after the satisfaction of the old mortgage were placed in an escrow account to be requisitioned for reimbursement during the construction period. At December 31, 2009 unrequisitioned funds in the amount of approximately $827,000 were held in escrow. This balance is included in assets limited as to use under financing agreements.

The monthly interest payment is based on the amount of funds requisitioned under the debt agreement which was approximately $40,147,100 at December 31, 2009 and 2008. Beginning October 1, 1999, monthly principal and interest payments of $365,962 are due until September 1, 2006. Beginning in October 2006, the monthly interest and principal payments reduce to $170,148 until maturity in September 2024.

In connection with the 1997 DASNY financing, the Hospital was required to establish a letter of credit with a bank in the amount equal to the remaining owners' equity component of the project. The required balance as of December 31, 2009 is $1,439,000.

The Hospital is required to comply with the terms, covenants, provisions, or conditions of the HUD Supplement Agreement in connection with the FHA-Insured Mortgage Hospital Revenue bonds, Series 1997, dated December 10, 1997. In 2009, the Hospital did not meet certain financial ratio requirements. This does not result in acceleration of the debt, only nonpayment of principal and/or interest would result in acceleration of the debt (the Hospital has not defaulted on any principal or interest payments). Noncompliance with these financial ratio requirements places other restrictions on the Hospital such as requiring approval for additional borrowings or disposal of assets.

(2) In December 2002, the Hospital entered into a mortgage note for $68,489,000 through DASNY. The proceeds of the mortgage were used to finance the costs of certain capital additions on the property of the Hospital. The debt bears interest at a rate of 7.5% until June 2005 at which point amortization of principal commenced and interest decreased to 5.14% per annum. Under the terms of the DASNY financing, the bond proceeds were placed in an escrow account to be requisitioned for reimbursement during the construction period. At December 31, 2009, funds in the amount of approximately $12,000 were held in escrow. This balance is included in assets limited as to use under financing agreements.

In connection with the 2002 DASNY financing, the Hospital was required to establish a letter of credit with a bank in the amount equal to the remaining owners equity component of the project. The required balance as of December 31, 2009 is $4,539,000.

Under the terms of the mortgage note, the Hospital is required to maintain a sinking fund that encompasses the 1997 and 2002 mortgage loans. The sinking fund is included in assets limited as to use.

The required sinking fund balances for the next five years is as follows:

	Fund Balance
2010	$ 15,083,598
2011	15,083,598
2012	15,083,598
2013	15,083,597
2014	15,083,597

The 1997 and 2002 mortgage notes place restrictions on the incurrences of additional borrowings and requires the Hospital to satisfy certain measures of financial performance including current ratio and debt service coverage as long as the notes are outstanding. The Hospital is required to comply with the terms, covenants, provisions, or conditions of the HUD Supplement Agreement in connection with the FHA-Insured Mortgage Hospital Bonds, Series 2002, dated December 12, 2002. In 2009, the Hospital did not meet certain financial ratio requirements. This does not result in acceleration of the debt, only nonpayment of principal and/or interest would result in acceleration of the debt (the Hospital has not defaulted on any principal or interest payments). Noncompliance with these financial ratio requirements places other restrictions on the Hospital such as requiring approval for additional borrowings or disposal of assets.

(3) In 1988, Union Hospital entered into a long-term financing arrangement sponsored by the New York State Medical Care Facilities Finance Agency (“MCFAA”) which is insured by the Federal Housing Agency in the amount of $15,136,900. The obligation was collateralized by substantially all of the assets of Union Hospital.

The Hospital assumed the remaining principal obligation under this mortgage of $12,658,463 on September 27, 1999, in connection with the acquisition of Union Hospital, as well as the mortgage note’s collateral. In December 2002, the Hospital entered into a refinancing agreement through DASNY for the Hospital’s outstanding MCFFA insured mortgage note acquired in connection with the acquisition of Union Hospital. The outstanding balance at the time of the refinancing was approximately $11,197,000 and the revised interest is .46% per annum. Monthly principal and interest payments of $88,979 are due until maturity in August 2013.

The mortgage agreement requires the Hospital to make monthly deposits for mortgage insurance. As of December 31, 2009, the Hospital is current with its mortgage payments.

In addition, the Hospital is required to maintain a sinking fund, which is included in assets limited as to use. The fund may only be used to replace fixed assets and major movable equipment with prior written approval by DASNY and the United States Department of Health and Human Services.

The required sinking fund balances for the next four years (until maturity in August 2013) are as follows:

Year	Fund Balance
2010	$ 2,135,498
2011	1,779,582
2012	711,833
2013	-

In addition, the mortgage loan places restrictions on the incurrence of additional borrowings and requires the Hospital to satisfy certain measures of financial performance as long as the notes are outstanding.

The Hospital is required to comply with the terms, covenants, provisions, or conditions of the DASNY Agreement in connection with this financing. In 2009, the Hospital did not meet certain financial ratio requirements. This does not result in acceleration of the debt, only nonpayment of principal and/or interest would result in acceleration of the debt (the Hospital has not defaulted on any principal or interest payments). Noncompliance with these financial ratio requirements places other restrictions on the Hospital such as requiring approval for additional borrowings or disposal of assets.

(4) In September 2008, a line of credit was renewed in the amount of $10,000,000 with Bank of America. The Hospital extended its line of credit arrangements with Bank of America from $10,000,000 to $20,000,000 and as of December 31, 2008, the line of credit is reported as a current liability in the amount of $13,400,000, with an annual interest rate of LIBOR plus 75 basis points. In October 2009, this line of credit was terminated between Bank of America and the Hospital and the balance was paid in full. As of December 31, 2009, the line of credit balance is $0.

7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available at December 31, 2009 and 2008 for the following purposes:

	2009	2008
Indigent care	$ 1,923,488	$ 2,111,348
Other patient care	1,653,661	1,578,093
Temporarily restricted net assets	$ 3,577,149	$ 3,689,441

Permanently restricted net assets at December 31, 2009 and 2008 are restricted to:

	2009	2008
Investments to be held in perpetuity, the income from which is expendable to support health care services and indigent care	$ 20,554,763	$ 18,408,557

Permanently restricted net assets are recorded on the balance sheets within funds held in trust by others and assets limited as to use. Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of indigent care and other patient care in the amounts of $740,481 and $737,494, during 2009 and 2008, respectively.

8. Medical Malpractice Claims

The Hospital is self-insured for losses resulting from malpractice claims filed against it.

Malpractice and general liability claims have been asserted against the Hospital by various claimants. The claims are in various stages of processing and may ultimately be brought to trial. Hospital counsel is unable to conclude as to the ultimate outcome of the actions. There are known incidents reported that may result in the assertion of additional claims, and other claims may be asserted arising from services provided to patients in the past. However, it is the opinion of the Hospital's management, based on prior experience and the advice of actuarial and legal counsel, that the ultimate resolution of professional and general liability claims will not have a significant effect on the Hospital's financial condition.

The actuarially determined estimated malpractice liability at December 31, 2009 and 2008 was $27,455,068 and $29,646,486, respectively, using a discount rate of 5% for 2009 and 2008. During 2009, $2,212,958 of the medical malpractice liability was transferred to Union Community Hospital Center (see Note 12). The Hospital has established a trust fund for the payment of medical malpractice claim settlements.

The Hospital maintains an investment portfolio, classified as assets limited as to use under malpractice funding requirements for these malpractice liabilities. The balances of these investments were $14,004,390 and $17,674,389 at December 31, 2009 and 2008, respectively.

9. Pension and Other Postretirement Benefit Plans

The Hospital has a noncontributory defined benefit pension plan covering substantially all of the nonunion employees at the Hospital, the Nursing Home, UCHC and Fordham Tremont. The Hospital allocates a portion of the total annual pension expense to the Nursing Home and UCHC. The benefits are based on the five highest years of employee compensation. The Hospital's funding policy is to contribute annually the minimum funding requirement. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Effective September 1, 2005, the Plan was amended so that a Participant's monthly normal retirement benefits will be determined under the following formula (subject to the limit of 60% of the Participant's Average Monthly Compensation). Employees with five or more years of service are entitled to annual pension benefits beginning at the normal retirement age of the earlier of age 65 or age 60 with thirty years of service equal to 1.5% of their average monthly compensation times years of service; offset or reduced by 1.6% of their annual Primary Social Security Benefits times years of service. This amended formula applies for all years of service credited under the Plan, including years of service completed prior to September 1, 2005. However, a Participant's normal retirement benefit will not be less than the amount earned under the prior formula as of September 1, 2005. Notice of this plan amendment has been provided to all participants to fulfill requirements under the Employee Retirement Income Security Act of 1974.

Effective January 1, 2009, the pension plan was frozen to new participants. Effective June 26, 2009, the pension plan was amended to temporarily freeze benefits. Under this amendment, participants generally will not earn any additional benefits during 2009. Participants who have not completed at least 1,000 hours of service by June 26, 2009 will not be credited with a year of service for 2009 in determining normal retirement benefit. Compensation, in 2009, generally will not be taken into account in determining average monthly compensation.

In addition to the defined benefit pension plan, the Hospital provides health care and life insurance benefits to its retired employees eligible for the Hospital's defined benefit pension plan. An employee is eligible if they are age 60 or older; have completed five years of service immediately before retirement; and are insured as an active employee immediately before retirement.

This benefit was terminated for new employees effective January 1, 2009. Effective February 1, 2010, the Hospital modified its postretirement health benefit. A formal notice was distributed to Medicare eligible retirees giving them the option to enroll in a Medicare Advantage Plan in which the Hospital would be providing a $100 monthly subsidy to offset the premium. In addition, this benefit was amended for active employees and established specific criteria that considers both age and years of service to determine eligibility. Active employees who do not meet this criteria as of February 1, 2010 are not eligible for postretirement health benefits through the Hospital.

As a result of the postretirement benefit plan amendment, the Hospital's postretirement healthcare benefit plan no longer is eligible for Medicare Part D prescription drug federal subsidy and this subsidy has therefore been excluded from the determination of the postretirement benefit obligation at December 31, 2009.

Expected employer contribution to postretirement benefit plans	$ 97,796

Estimated Future Post-retirement Non-Pension Benefit Payments
Expected gross benefit payments (including prescription drug benefits):

	Gross Payments
2010	$ 97,796
2011	126,427
2012	149,066
2013	163,384
2014	183,338
Years 2015-2019	956,975

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets, where applicable (postretirement plan is a non-funded plan), for the years ended December 31, 2009 and 2008 and a statement of the funded status of the plans as of December 31, 2009 and 2008:

	Pension		Postretirement	
	2009	2008	2009	2008
Changes in benefit obligation				
Benefit obligation at January 1	$ (80,273,025)	$ (76,417,897)	$ (11,763,526)	$ (10,383,456)
Service cost	(20,170)	(677,239)	(543,742)	(479,476)
Interest cost	(4,714,082)	(4,643,072)	(692,959)	(639,500)
Actuarial gain (loss)	477,405	(488,631)	(171,198)	(657,469)
Benefit payments	2,175,479	1,953,814	428,142	425,968
Plan amendments	-	-	10,845,166	-
Medicare Part D prescription drug federal subsidy	-	-	(41,120)	(29,593)
Benefit obligation at December 31	$ (82,354,393)	$ (80,273,025)	$ (1,939,237)	$ (11,763,526)
Change in plan assets				
Fair value of plan assets at January 1	$ 56,279,120	$ 70,001,471	$ -	$ -
Actual return on plan assets	6,387,684	(14,355,734)	-	-
Employer contributions	2,021,760	2,587,197	387,022	396,375
Benefit payments	(2,175,479)	(1,953,814)	(428,142)	(425,968)
Medicare Part D prescription drug federal subsidy	-	-	41,120	29,593
Fair value of plan assets assets at December 31	$ 62,513,085	$ 56,279,120	$ -	$ -
Reconciliation of Funded status				
Funded status at December 31	(19,841,308)	(23,993,905)	(1,939,237)	(11,763,526)
Net amount recognized	$ (19,841,308)	$ (23,993,905)	$ (1,939,237)	$ (11,763,526)

As of December 31, 2009 and 2008, the Pension Plan's Accumulated Benefit Obligation is $80,929,928 and $78,986,435, respectively.

The Hospital recorded an adjustment to the pension and postretirement benefits as of December 31, 2009 and 2008 of $15,419,097 and $(20,942,393), respectively, which is reported as an adjustment to the Hospital's unrestricted net assets within the statements of operations.

The following table provides the components of the net periodic benefit cost for the plans for the years ended December 31, 2009 and 2008:

	Pension		Postretirement	
	2009	**2008**	**2009**	**2008**
Service cost	$ 20,170	$ 677,239	$ 543,742	$ 479,476
Interest cost on projected benefit obligation	4,714,082	4,643,072	692,959	639,500
Expected return on plan assets	(4,485,424)	(5,635,615)	-	-
Amortization of prior service cost	(934,848)	(934,848)	-	-
Amortization of net loss	3,125,108	1,017,492	175,204	112,412
Net periodic benefit cost (income)	$ 2,439,088	$ (232,660)	$ 1,411,905	$ 1,231,388

	Pension	Postretirement	Total
	2009	**2009**	**2009**
Other Changes in Plan Assets and Benefit Obligations Recognized in Unrestricted Net Assets			
Actuarial gain	$ (2,379,665)	$ 171,198	$ (2,208,467)
Amortization of prior service cost	934,848	(10,845,166)	(9,910,318)
Amortization of actuarial loss	(3,125,108)	(175,204)	(3,300,312)
Total recognized in Unrestricted Net Assets	$ (4,569,925)	$ (10,849,172)	$ (15,419,097)
Total recognized in Net Periodic Benefit Cost and Unrestricted Net Assets	$ (2,130,837)	$ (9,437,267)	$ (11,568,104)

Net periodic benefit costs associated with non-Hospital employees are allocated to each specific organization.

Plan Assets

No postretirement medical benefit plan assets were held for investment as of December 31, 2009 and 2008. Defined benefit plan assets are held in a fund. The plan assets of the defined benefit pension plan consist primarily of fixed income securities, corporate bonds, mutual funds and marketable equity securities. The benefit balance and weighted average assets allocation at December 31, 2009 and 2008, by asset category is as follows:

	2009		2008	
	Balance	**Allocation**	**Balance**	**Allocation**
Cash and cash equivalents	$ 25,948,681	41%	$ 10,114,025	18 %
Fixed income	25,318,924	41%	27,116,435	49 %
Small Cap Equities	4,853,115	8%	3,091,172	5 %
International Equities	6,392,365	10%	15,957,488	28 %
	$ 62,513,085	100%	$ 56,279,120	100 %

The fair value hierarchy of plan assets measured at fair value on a recurring basis at December 31, 2009 and 2008 as follows:

	Fair Value at December 31 2009	Quoted Prices In Active Markets (Level 1)	Based on Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value at December 31 2008
Cash	$ (245,783)	$ (245,783)	$ -	$ -	$ (4,148,749)
US Government	15,524,638	5,555,575	9,969,063	-	19,339,769
Corporate Bonds	6,564,745	71,648	6,493,097	-	5,478,900
Mutual Funds	27,622,261	26,568,296	-	1,053,965	12,697,436
Alternative Investments	11,112,328	-	10,333	11,101,995	20,613,998
Other	1,934,896	1,934,896	-	-	2,297,766
	$ 62,513,085	$ 33,884,632	$ 16,472,493	$ 12,155,960	$ 56,279,120

The fair value measurement of plan assets using significant unabsorbed inputs (level 3) changed as follows:

	Mutual Funds	Alternative Investments	Total
Balance at January 1, 2009	$ 3,476,416	$ 18,876,870	$ 22,353,286
Contributions	76,918	-	76,918
Withdrawals	(2,446,398)	(8,913,983)	(11,360,381)
Realized losses	(2,291,764)	(4,051,284)	(6,343,048)
Unrealized gains	2,197,050	4,716,014	6,913,064
Earned Income	42,690	485,650	528,340
Management and other fees	(947)	(11,272)	(12,219)
Balance at December 31, 2009	$ 1,053,965	$ 11,101,995	$ 12,155,960

Plan Investment Policy

The account is to be managed with full discretion on an accrual return basis with a moderate level of risk. Asset allocation has been set not to exceed 70% in equities and 60% in fixed income of the total portfolio value. The portfolio should be reasonably diversified by industry and qualify in accordance with the asset manager’s current outlook. Selection of equities will be focused on companies with market capitalization in excess of $500 million. With the exception of diversified commingled funds, no single issue will exceed 4% of the equity portfolio. The overall bond portfolio quality is to have a minimum A rating. With the exception of U.S. Government Securities, no single issue will represent more than 10% of the bond portfolio.

Determination of Targeted Rate of Return

The plan has selected the targeted rate of return based on the following:

	Percentage Allocation
Fixed income (including cash and cash equivalents)	73 %
Small Cap Equities	10 %
International Equities	17 %
Total fund	100 %

As of December 31, 2009, the allocation of pension assets (as noted on the previous page) differed from prior years. In conjunction with the volatility and uncertainty in the equity and credit markets, the Hospital modified its investment strategy to preserve capital and minimize stock risk. Once these markets stabilize, the Hospital is prepared to reallocate pension assets accordingly to meet the targeted levels of higher rates of return.

Pension Contributions
Annual contributions are determined by the Hospital based upon calculations prepared by the plan's actuary.

Expected 2009 employer contributions to pension plan	$ 897,525

Expected pension benefit payments by year as of December 31, 2009 are as follows:

Year Ending	**Expected Benefit Payment**
2010	2,664,895
2011	2,835,190
2012	3,160,211
2013	3,431,585
2014	3,606,342
2015-2019	23,941,723

The calculation of the plans' funded status and amounts recognized in the balance sheets as of the end of the fiscal years were based upon actuarial assumptions appropriate at these dates. The applicable assumptions at December 31, 2009 and 2008 are shown below:

	Pension		**Postretirement**	
	2009	**2008**	**2009**	**2008**
Weighted average assumptions as of December 31				
Discount rate	6.00%	6.00%	6.00%	6.00%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	3.00%	3.00%	N/A	N/A

	Pension		**Postretirement**	
	2009	**2008**	**2009**	**2008**
Weighted average assumptions used to determine net periodic benefit cost for years ended December 31				
Discount rate	6.00%	6.25%	6.00%	6.25%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	3.00%	3.00%	N/A	N/A

Pension Plan
The pension plan uses the "10% corridor method". Under the corridor approach the excess of the unrecognized net (gain)/loss over a prescribed limit (10% of the greater of the market related value of plan assets or the projected benefit obligation at the beginning of the year) is amortized over the expected future working lifetime of active participants expected to receive benefits.

Postretirement
Additionally, an 8%, 6% and 10% annual rate of increase in the per capita cost of covered postretirement healthcare benefits was assumed for pre-65, post-65 and prescription trend rates,

respectively, at December 31, 2009. The rate was assumed to decrease gradually each year to a rate of 5% in 2017, and remain at that level thereafter. The Hospital elected to immediately recognize 7.5% of any Unrecognized (Gain)/Loss. Any remaining amount in excess of 10% but less than 85% of the greater of the APBO or plan assets is amortized over the average remaining service period of active plan participants. Any remaining amount in excess of 85% of the greater of the APBO or plan assets is recognized immediately.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement medical benefit plan. A 1% change in assumed healthcare cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components of net periodic postretirement healthcare benefit cost	$ 205,590	$ (176,745)
Effect on the healthcare component of the accumulated postretirement benefit obligation	$ -	$ -

The Hospital contributes to a union administered retirement fund. Contributions made to the fund amounted to $5,626,048 and $4,358,300 in 2009 and 2008, respectively. Approximately 68% of the Hospital's employees are members of a union.

10. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors at December 31, 2009 and 2008, was as follows:

	2009	2008
Medicaid and Medicaid pending	39 %	35 %
Medicare	7 %	8 %
Managed Care	24 %	25 %
Self Pay	16 %	12 %
Other third-party payors	14 %	20 %
	100 %	100 %

11. Commitments and Contingencies

Operating Leases
The Hospital leases various equipment and facilities under non cancellable operating leases expiring at various dates through 2013. Total rental expense in 2009 and 2008 for all operating leases was $2,905,000 and $3,006,000, respectively.

The following is a schedule of future minimum lease payments under operating leases as of December 31, 2009 that have initial or remaining lease terms in excess of one year:

	Amount
2010	2,845,244
2011	2,887,241
2012	2,930,498
2013	2,975,053
2014	3,020,944

Litigation
The Hospital is involved in litigation and regulatory investigations arising in the course of business. Management estimates that these matters will be resolved without material adverse effect on the Hospital's financial position or results from operations.

12. Related Party Transactions

St. Barnabas Community Enterprises, Inc.
St. Barnabas Community Enterprises, Inc. ("Enterprises") was established during 1986 for the purpose of supporting the Hospital and other related organizations. The general resources of Enterprises will be distributed in amounts and in periods determined by Enterprises' Board of Trustees, who may also restrict the use of the funds.

Other Corporations
The following corporations are related parties to the Hospital since Enterprises is the sole member or sole stockholder of each:

Arthur Management Corporation was established in 1986 as the holding company for all for-profit corporations of Enterprises.

St. Barnabas Nursing Home ("Nursing Home") was incorporated on November 14, 1990 for the purpose of caring for ventilator dependent patients, those with HIV, and the elderly in a nursing facility. The 199-bed facility was opened in April 1994. The Hospital has previously advanced the Nursing Home funds for operations and the purchase of assets. The net payable balance for shared services at December 31, 2009 and 2008 was $125,159 and $1,117,413, respectively.

Union Community Health Center, Inc. ("UCHC") received approval from New York State Department of Health to operate as a diagnostic and treatment center in February 2000. Since inception, the Hospital has made cash advances to UCHC to fund initial costs of operations and working capital needs. In addition, the Hospital advanced its management and staff support to UCHC under a Professional Services Agreement. Under a lease agreement, UCHC leases its main facility from the Hospital.

On January 26, 2006, Community Enterprises relinquished its authority to appoint members of UCHC's Board and to serve as a member of UCHC. As such, the existing members of the UCHC Board were deemed to be its decision-making authority and UCHC would operate as a stand-alone entity. Under the aforementioned professional services agreement the Hospital carried an outstanding receivable from UCHC. On August 31, 2006, the Hospital entered into a loan agreement and promissory note with UCHC which carried a rate of prime plus 1%. Total obligations under the promissory note accumulated to $19.2 million at December 31, 2006 which the Hospital deemed to be uncollectible, due to certain changes by NYS that reduced managed care reimbursement to UCHC. The Hospital accounted for the impairment of the receivable as an equity transfer from the Hospital to UCHC and the balance reported as of December 31, 2006 was $0. If, in the future, funds become available and UCHC has excess operating funds available, UCHC shall make a transfer of funds back to the Hospital in an amount up to the amount of $19.2 million.

Subsequent to December 31, 2006, the Hospital continued to extend credit to UCHC for certain operating expenses on behalf of UCHC as well as charge UCHC for certain shared and leased services provided. The ongoing provision of these services resulted in an outstanding receivable from UCHC and effective November 30, 2008, the Hospital and UCHC entered into a new loan agreement that would not exceed $16.8 million and would carry an interest rate of prime plus 1%.

During 2009, a one-time $2.2 million adjustment was made to the receivable to properly reflect UCHC's malpractice liability as being owed to claimants in conjunction with the self-insured medical malpractice program and not payable to the Hospital. This actuarially determined amount is based on UCHC claims activity and will be paid directly to awarded parties in the ordinary course of business. The outstanding note receivable is reported as non-current in the Hospital's balance sheet in the amount of $12,441,425 and $13,740,869 at December 31, 2009 and 2008, respectively. The Hospital believes the amount outstanding at December 31, 2009 is collectible.

St. Barnabas Community Health Plan, doing business as Partners in Health ("PIH"), was incorporated during 1992 for the purpose of starting a comprehensive health plan for Medicaid participants defined under Article 44 of the Public Health Law. Until 2006, Hospital received payments and net patient service revenue from PIH relating to the provision of services to PIH enrollees. As of December 31, 2009 and 2008, the balance due from PIH was $1,162,168 and $1,132,514, respectively relating to allocated costs and short-term funding between PIH and the Hospital. PIH ceased operations as of November 1, 2006. It is currently working with legal counsel to fully liquidate its balance sheet and dissolve the corporation.

Significant related party transactions between the following entities and the Hospital during 2009 and 2008 were as follows:

	2009	2008
Nursing Home		
Net payable at beginning of year	$ (1,117,413)	$ (1,503,967)
Expenses incurred by the Hospital	8,742,254	8,925,137
Payments to the Hospital	(7,750,000)	(8,538,583)
Net payable to the Nursing Home at end of year included in other receivables, current	$ (125,159)	$ (1,117,413)

	2009	2008
UCHC		
Receivable at beginning of year	$ 13,740,869	$ 10,457,754
Expenses incurred by the Hospital	4,638,514	11,608,115
Malpractice reserve adjustment	(2,212,958)	-
Payments to the Hospital	(3,725,000)	(8,325,000)
Receivable at end of year	$ 12,441,425	$ 13,740,869

13. Fair Value of Financial Instruments

The estimated fair value amount of the Hospital's financial instruments have been determined by the Hospital, using appropriate market information and valuation methodologies. Considerable judgement is required to develop the estimates of fair value, thus, the estimates provided herein are not necessarily indicative of the amounts that could be realized in a current market exchange.

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents
The carrying amount reported in the accompanying balance sheets for cash and cash equivalents approximates it fair value.

Investments
Fair values, which are the amounts reported in the balance sheets, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Assets Limited as to Use
These assets consist primarily of cash and short-term investments and interest receivable. The carrying amount reported in the accompanying balance sheets approximates fair value.

Long-Term Debt
The carrying amount of long term debt reported in the accompanying balance sheets approximates fair value.