Audited Consolidated Financial Statements and Supplementary Information

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

Ernst & Young LLP

Ernst & Young

Hartford Hospital

Audited Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2012 and 2011

Contents

ERNST & YOUNG

Ernst & Young LLP
Goodwin Square
225 Asylum Street
Hartford, CT 06103-1506

Tel: +1 860 247 3100
Fax: +1 860 725 6040
www.ey.com

Report of Independent Auditors

Board of Directors
Hartford Hospital

We have audited the accompanying consolidated balance sheets of Hartford Hospital (the Hospital) as of September 30, 2012 and 2011, 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 the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

As discussed in Note 1 to the accompanying consolidated financial statements, in 2012 the Hospital changed its method of reporting estimated insurance claims receivable and estimated insurance claims liabilities with the adoption of the Accounting Standards Update No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries.*

Ernst + Young LLP

January 25, 2013

Hartford Hospital

Consolidated Balance Sheets

	September 30 2012	September 30 2011
Assets		
Current assets:		
Cash and cash equivalents	$ **90,420,865**	$ 64,109,337
Accounts receivable, less allowances for doubtful accounts of $27,241,000 in 2012 and $29,331,000 in 2011	**151,801,702**	125,443,406
Other receivables	**26,353,179**	14,436,221
Due from affiliates, net	**16,937,705**	16,779,424
Inventories of supplies	**11,444,006**	11,054,904
Prepaid expenses and other assets	**8,182,320**	10,161,480
Current portion of assets whose use is limited	**450,405**	3,902,820
Total current assets	**305,590,182**	245,887,592
Assets whose use is limited:		
Investments and other assets	**262,973,702**	216,442,837
Investments for restricted purposes	**198,834,663**	175,054,417
Escrow funds for long-term debt	**23,210,563**	54,673,488
Funds designated for debt service	**7,125,567**	6,943,069
	492,144,495	453,113,811
Funds held in trust by others	**130,076,878**	115,839,220
Other assets	**93,329,541**	81,481,163
Property, plant and equipment, net	**368,556,833**	325,855,972
	$ 1,389,697,929	$ 1,222,177,758
Liabilities and net assets		
Current liabilities:		
Accounts payable	**27,220,741**	$ 19,685,830
Salaries, wages, payroll taxes and amounts withheld from employees	**21,692,976**	18,652,603
Accrued expenses	**37,950,571**	38,265,848
Estimated third-party payor settlements	**3,559,672**	6,850,045
Current portion of long-term debt	**64,503,933**	16,971,544
Current portion of accrued pension liability	**7,661,539**	13,884,957
Current portion of other liabilities	**6,640,464**	6,640,464
Total current liabilities	**169,229,896**	120,951,291
Accrued pension liability	**372,843,056**	340,366,785
Long-term debt, less current portion	**188,810,879**	191,588,806
Other liabilities	**35,149,850**	6,957,786
Net assets:		
Unrestricted	**294,595,271**	271,222,494
Temporarily restricted	**121,338,667**	98,786,922
Permanently restricted	**207,730,310**	192,303,674
	623,664,248	562,313,090
	$ 1,389,697,929	$ 1,222,177,758

See accompanying notes.

Hartford Hospital

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30 2012	2011
Unrestricted revenues, gains and other support:		
Net patient service revenue	$ **926,633,051**	$ 853,959,278
Provision for bad debts *(see Note 1)*	**22,645,968**	12,919,784
Net patient service revenue less provision for bad debts	**903,987,083**	841,039,494
Other operating revenue	**164,924,459**	121,952,140
Net assets released from restrictions for operations	**7,590,655**	9,465,204
	1,076,502,197	972,456,838
Operating expenses:		
Salaries	**452,952,481**	433,339,431
Employee benefits	**151,560,400**	128,868,720
Supplies and other	**202,770,420**	185,496,450
Purchased services	**165,509,618**	157,979,941
Depreciation and amortization	**46,693,027**	43,924,697
Interest	**4,517,043**	1,556,400
	1,024,002,989	951,165,639
Income from operations before loss on early extinguishment of debt	**52,499,208**	21,291,199
Loss on early extinguishment of debt	–	(447,904)
Income from operations	**52,499,208**	20,843,295
Nonoperating income:		
Income from investments, gifts and bequests, net	**10,781,081**	9,871,898
Other	**1,782,393**	2,736,082
	12,563,474	12,607,980
Excess of revenues over expenses before change in unrealized gains and losses on investments	**65,062,682**	33,451,275
Change in unrealized gains and losses on investments	**43,722,094**	(17,370,175)
Excess of revenues over expenses	**108,784,776**	16,081,100

Continued on next page.

Hartford Hospital

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

	Year Ended September 30 2012	2011
Unrestricted net assets:		
Excess of revenues over expenses (continued)	**$ 108,784,776**	$ 16,081,100
Transfer to affiliated entities	**(51,031,423)**	(3,748,398)
Net assets released from restrictions for the purchase of equipment	**3,353,335**	2,672,750
Change in pension and post-retirement funding obligation	**(37,733,911)**	(34,379,210)
Increase (decrease) in unrestricted net assets	**23,372,777**	(19,373,758)
Temporarily restricted net assets:		
Restricted contributions	**9,112,555**	5,743,213
Restricted investment income	**3,312,218**	7,989,646
Change in unrealized gains and losses on investments	**21,070,962**	(10,186,931)
Net assets released from restrictions for operations	**(7,590,655)**	(9,465,204)
Net assets released from restrictions for the purchase of equipment	**(3,353,335)**	(2,672,750)
Increase (decrease) in temporarily restricted net assets	**22,551,745**	(8,592,026)
Permanently restricted net assets:		
Restricted contributions	**959,611**	329,266
Restricted investment income	**229,367**	359,236
Change in unrealized gains and losses on funds held in trust by others	**14,237,658**	(4,077,820)
Increase (decrease) in permanently restricted net assets	**15,426,636**	(3,389,318)
Increase (decrease) in net assets	**61,351,158**	(31,355,102)
Net assets at beginning of year	**562,313,090**	593,668,192
Net assets at end of year	**$ 623,664,248**	$ 562,313,090

See accompanying notes.

Hartford Hospital

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2012	**2011**
Cash flows from operating activities		
Increase (decrease) in net assets	**$ 61,351,158**	$ (31,355,102)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	**46,693,027**	43,924,697
Change in unrealized gains and losses on investments	**(64,793,056)**	27,557,106
Change in unrealized gains and losses on funds held in trust by others	**(14,237,658)**	4,077,820
Provision for uncollectible accounts	**22,645,968**	12,919,784
Change in net assets related to post-retirement and pension plans	**37,733,911**	34,379,210
Loss on early extinguishment of debt	**–**	447,904
Transfer to affiliated entity	**51,031,423**	3,748,398
Other changes in net assets:		
Restricted contributions and investment income	**(13,613,751)**	(14,421,361)
Changes in assets and liabilities, net *(Note 14)*	**(47,657,183)**	(14,195,790)
Net cash provided by operating activities	**79,153,839**	67,082,667
Cash flows from investing activities		
Purchase of property, plant and equipment, net	**(89,393,888)**	(69,067,336)
Decrease (increase) in assets whose use is limited, net	**29,214,787**	(77,007,265)
Cash paid in the acquisition of Constitution Surgery Centers	**–**	(27,526,034)
Net cash used in investing activities	**(60,179,101)**	(173,600,635)
Cash flows from financing activities		
Payments on long-term debt	**(3,376,907)**	(99,924,420)
Proceeds on long-term debt	**48,131,369**	215,579,391
Transfer to affiliated entity	**(51,031,423)**	(3,748,398)
Restricted contributions and investment income	**13,613,751**	14,421,361
Net cash provided by financing activities	**7,336,790**	126,327,934
Net increase in cash and cash equivalents	**26,311,528**	19,809,966
Cash and cash equivalents at beginning of year	**64,109,337**	44,299,371
Cash and cash equivalents at end of year	**$ 90,420,865**	$ 64,109,337

See accompanying notes.

1. Significant Accounting Policies

The accounting policies that affect significant elements of Hartford Hospital's (the Hospital) consolidated financial statements are summarized below and in Note 2.

Organization

The Hospital is a voluntary association incorporated under the General Statutes of the State of Connecticut, and is an affiliate of Hartford HealthCare Corporation (HHC). The Board of Directors of the Hospital, appointed by HHC, controls the operations of the Hospital. The accompanying consolidated financial statements include Hartford Hospital, Jefferson House and Cedar Mountain Commons (both of which are departments of the Hospital), and the Institute of Living.

Prior to October 1, 2011, the Hospital had a 50% interest in Glastonbury Hand Center (the Center). Effective October 1, 2011, the Hospital acquired an additional one percent interest in the Center and began consolidating the Center in their financial statements with a corresponding non-controlling interest.

All material intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Eye Surgery Center Acquisition

On February 4, 2011, the Hospital acquired certain assets of an eye surgery center from Constitution Surgery Centers. The acquisition was to enhance ophthalmology services available to patients. Cash paid for the transaction was $27.5 million. The Hospital accounted for this transaction as an asset purchase under Accounting Standards Codification (ASC) 958-805, *Business Combinations,* with the allocation of the purchase price to the related assets acquired and liabilities assumed based upon their respective fair values. The purchase price paid in excess of the fair value of identified assets aggregated $25.8 million which has been recorded as goodwill.

Goodwill

Goodwill represents the excess of cost of an acquired entity over the net of the amounts assigned to the fair value of assets acquired and liabilities assumed. As of September 30, 2012 and 2011, goodwill of $25.8 million is recorded in the Hospital's consolidated balance sheets within other

1. Significant Accounting Policies (continued)

assets. Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. The impairment test for goodwill requires a comparison of fair value of each reporting unit that has goodwill associated with its operations with its carrying amount.

The impairment analysis includes estimating the fair value of each of the reporting units which have goodwill associated with their operations using discounted cash flow and multiples of cash earnings valuation techniques, plus valuation comparisons to recent public sales of similar businesses, if any. These valuation methods require the Hospital to make estimates and assumptions regarding future operating results, cash flows, changes in working capital and capital expenditures, profitability, and the cost of capital. Although the Hospital believes that the estimates and assumptions used are reasonable, actual results could differ from the estimates and assumptions.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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. 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.

Regulatory Matters

The Hospital is required to file annual operating information with the State of Connecticut Office of Health Care Access.

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of the Hospital's financial instruments are disclosed in Note 5.

1. Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash, commercial paper and corporate and government bonds, which are available to be converted to liquid assets within three months. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Hospital's policy to monitor the financial strength of these institutions.

Patient Accounts Receivable

Patient accounts receivable result from the health care services provided by the Hospital. 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.

The Hospital's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies and private patients. The Hospital manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable include 26% and 12%, and 29% and 10%, for Medicare and Medicaid, respectively, for the fiscal years ending September 30, 2012 and 2011, respectively.

Investments

The Hospital's investment portfolio is classified as trading, with unrealized gains and losses included in the excess of revenues over expenses.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations at the balance sheet date. Alternative investments consist of investments in hedge funds, and are measured at fair value or estimates of fair value if no readily determinable fair value exists. These estimates are determined based upon information from the funds' investment managers. The investment manager's estimates and assumptions of fair values of nonmarketable

1. Significant Accounting Policies (continued)

investments may differ significantly from the values that would have been used had a ready market existed, and may also differ significantly from the values at which such investments may be sold, and the differences could be material. The Hospital accounts for these investments using the equity method of accounting, except for investments held by the defined benefit pension plan, and reports its share of the increase or decrease in the funds value as investment gain or loss. Alternative investments held by the defined benefit pension plan are held at fair value as estimated in an unquoted market. Assets temporarily and permanently restricted (by donor) are recorded at fair value at the date of donation, which is then considered cost. Investment income (including realized gains and losses on investments, interest and dividends, and the change in unrealized gains and losses) is included in nonoperating income unless the income or loss is restricted by the donor or law. The cost of securities sold is based on the specific identification method.

The Hospital holds non marketable equity investments in private companies. At September 30, 2012 and 2011, the carrying value of the Hospital's portfolio of strategic investments totaled $7,454,065 and $5,596,866, respectively; of which 76,751 and $126,751 are accounted for at cost and $6,501,642 and $5,470,115 are accounted for using the equity method of accounting at September 30, 2012 and 2011, respectively. These investments are included in other assets on the consolidated balance sheets. The Hospital's share of the income or losses of all equity method investees, using the most current financial information available, which reflects the financial performance three months in arrears, is included in nonoperating income.

Inventories

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

Property, Plant and Equipment

Property, plant and equipment is stated on the basis of cost. The Hospital provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives.

Conditional asset retirement obligations recorded under the provisions of ASC 410-20, *Asset Retirement Obligations*, amounted to $2,522,839 and $3,141,783 as of September 30, 2012 and 2011, respectively. These obligations are recorded in other liabilities in the accompanying

1. Significant Accounting Policies (continued)

consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2012 and 2011, retirement obligations incurred and settled were approximately $619,000 and $2,500,000, respectively. Accretion expense was immaterial for the years ended September 30, 2012 and 2011.

Assets Whose Use is Limited

Assets whose use is limited includes assets that are set aside internally for future capital improvements, research, education, escrow funds and debt service funds for existing obligations on outstanding long-term debt. Restricted investment income in excess of a predetermined spending limit has also been set aside as long-term investments. Investments for restricted purposes are those restricted based on donors' intents.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those where use by the Hospital has been limited by donors, to a specific time frame or purpose. Permanently restricted net assets have been restricted by donors and are maintained by the Hospital in perpetuity. The Hospital 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 funds is expendable to support healthcare services and the assets are classified as permanently restricted.

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. Unrestricted contributions are recorded, net of expenses, within other operating revenue.

Pledges receivable to be received after one year are discounted to present value and an allowance for uncollectible pledges is recorded. Amortization of the discount is recognized as revenue and is reflected in accordance with donor-imposed restrictions, if any, on the contributions.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a

1. Significant Accounting Policies (continued)

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 and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are unrestricted contributions in the accompanying financial statements, except those relating to donations of long-lived assets.

Bond Issuance Costs

Bond issuance costs associated with long-term debt for capital projects are amortized over the term of the debt using a method that approximates the effective interest method. Bond issuance costs of $2,176,559 and $2,245,199 are recorded in other assets in the consolidated balance sheets as of September 30, 2012 and 2011, respectively.

Other Operating Revenue

Other operating revenue includes services to other subsidiaries of HHC and other institutions, electronic health record incentive program revenue, equity earnings of CHS Insurance Limited, school tuition, rental income, grant income, research income and unrestricted contributions.

Nonoperating Income

Nonoperating income includes income on invested funds, realized and unrealized gains and losses on invested funds, restricted gifts, bequests, and the excess of revenues over expenses of Jefferson House and Cedar Mountain Commons.

Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, include the changes in pension and post-retirement funding obligations, net assets released from restrictions for the purchase of equipment, and permanent transfers of assets to and from affiliates.

1. Significant Accounting Policies (continued)

Professional Liability and Workers' Compensation Insurance

Coverage for medical malpractice insurance is provided on a claims-made basis. The primary level of coverage is $10,000,000 per claim and $39,000,000 in the aggregate. The excess indemnity coverage is layered with four different insurance companies at $15,000,000 per claim and $15,000,000 in the aggregate per layer and is reinsured through the captive. The primary coverage is with CHS Insurance Limited, a captive insurance company in which the Hospital has a 25% ownership interest. The Hospital's ownership is accounted for under the equity method and is included in other assets in the accompanying consolidated balance sheets. The investment activity of CHS Insurance Limited is included in other operating revenue within the accompanying consolidated statement of operations and changes in net assets, and was $25,653,000 and $10,430,000 for the years ended September 30, 2012 and 2011, respectively. Malpractice claims are discounted at 2.49% and the incurred-but-not-reported liability was $10,382,000 and $10,456,000 at September 30, 2012 and 2011, respectively.

The Hospital has an established policy of self-insuring the deductible portion of its workers' compensation insurance. The deductible limits are $1,000,000 per claim for fiscal years ended September 30, 2012 and 2011. In connection with this self-insurance program, Bank of America issued an irrevocable direct pay letter of credit to the Travelers Indemnity Company, the primary insurer, for an amount not to exceed $7,100,000.

Income Taxes

The Hospital and its subsidiaries are not-for-profit corporations as described in Section 50l(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 50 I (a) of the Code.

Electronic Health Record Incentive Program

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, eligible hospitals, and critical access hospitals, as defined, that are meaningful

1. Significant Accounting Policies (continued)

users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The Hospital utilizes a grant accounting model to recognize EHR incentive revenues. EHR incentive revenues are recognized ratably over the relevant cost report period to determine the amount of reimbursement. Accordingly, the Hospital recognized approximately $4.7 million of EHR revenues during the year ended September 30, 2012, approximately $3.2 million and $1.5 million relating to Medicare and Medicaid, respectively. EHR incentive revenues are included in other operating revenues in the accompanying consolidated statements of operations and changes in net assets.

The Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

New Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Recoveries* (ASU 2010-24), which provides clarification to companies in the health care industry on the accounting for professional liability and similar insurance. ASU 2010-24 states that insurance liabilities should not be presented net of insurance recoveries and that an insurance receivable should be recognized on the same basis as the liabilities, subject to the need for a valuation allowance for uncollectible accounts. ASU 2010-24 is effective for fiscal years beginning after December 15, 2010 and was adopted by the Hospital on October 1, 2011. The adoption of this standard increased other current assets and other current liabilities by approximately $9.4 million, and other assets and other long-term liabilities by approximately $28.8 million in the consolidated balance sheet as of September 30, 2012 as compared to September 30, 2011.

In July 2011, FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts* (ASU 2011-07). The provisions of ASU 2011-07 require certain health care entities to present the provision for bad debts associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than as an operating expense. Additional

1. Significant Accounting Policies (continued)

disclosures relating to sources of patient service revenue and the allowance for doubtful accounts will also be required. The guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The Hospital adopted those provisions as of and for the year ended September 30, 2012 and retrospectively applied the presentation requirements to all periods presented. See Note 1 and Note 2 for additional disclosures required by ASU 2011-07. There was no material impact to the Hospital's consolidated financial statements aside from the required changes in presentation.

In August 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosure* (ASU 2010-23). ASU 2010-23 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASU 2010-23 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASU 2010-23 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Hospital adopted this guidance in 2012 which had no material impact to the consolidated financial statements. Refer to Note 2 for the related disclosures.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2011 balances previously reported in the consolidated balance sheets and statements of operations and changes in net assets in order to conform with the year ended September 30, 2012 presentation. These reclassifications relate to classifications of the provision for allowance for bad debts which was moved to net revenue from operating expenses.

2. Revenue from Services to Patients and Charity Care

Revenues from the Medicare and Medicaid programs accounted for approximately 43%and 12%, and 40% and 43%, respectively, of the Hospital's net patient service revenue for the years ended September 30, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Hospital believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and

2. Revenue from Services to Patients and Charity Care (continued)

interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

The following table summarizes net patient service revenue:

	Year Ended September 30	
	2012	**2011**
Gross revenues from patients:		
Inpatients	**$ 1,483,172,404**	$ 1,378,020,729
Outpatients	**772,588,784**	671,298,555
	2,255,761,188	2,049,319,284
Deductions:		
Allowances	**1,303,734,039**	1,175,001,400
Charity Care	**25,394,098**	20,358,606
Net patient service revenue	**926,633,051**	853,959,278
Provision for bad debts	**22,645,968**	12,919,784
Net patient service revenue less provision for bad debts	**$ 903,987,083**	$ 841,039,494

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program 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. During 2012 and 2011, the Hospital recorded net changes in estimates of approximately $12.8 million and $3.2 million, respectively, which primarily relate to better than previously estimated third party payor settlements.

2. Revenue from Services to Patients and Charity Care (continued)

The Hospital 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 Hospital-specific data. Such amounts are included in the accompanying balance sheets. Additionally, certain payors' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

The Hospital has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

The Hospital's estimation of the allowance for doubtful accounts is based primarily upon the type and age of the patient accounts receivable and the effectiveness of the Hospital's collection efforts. The Hospital's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. On a monthly basis, the Hospital reviews its accounts receivable balances, the effectiveness of the Company's reserve policies and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

Revenue and volume trends by payor, particularly the self-pay components;

Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients;

Various allowance coverage statistics.

The Hospital regularly performs hindsight procedures to evaluate historical write-off and collection experience throughout the year to assist in determining the reasonableness of its process for estimating the allowance for doubtful accounts.

2. Revenue from Services to Patients and Charity Care (continued)

The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized poverty income levels for the State of Connecticut, but also includes certain cases where incurred charges are significant when compared to incomes.

The Hospital provides services without charge or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such services are not reported as revenue. For patients who were determined by the Hospital to have the ability to pay but did not, the uncollected amounts are recorded as part of the provision for bad debts. In distinguishing charity care from the provision for bad debts, a number of factors are considered, certain of which require a high degree of judgment.

The estimated cost of charity care provided was $11,173,400 and $8,957,790 for the years ended September 30, 2012 and 2011, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital-specific data.

Patient service revenue, net of contractual allowances and before the provision for bad debts, recognized in the period from major payor sources for the year ended September 30, 2012, is as follows:

Medicare	40%
Medicaid	11%
Self pay	4%
All other	45%
	100%

3. Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	2012	2011
Health care services:		
Free beds	**$ 29,499,059**	$ 24,458,498
Research	**35,343,894**	30,689,521
Education	**11,758,617**	10,094,964
Capital replacement	**11,778,741**	7,237,273
Other health care services	**32,958,356**	26,306,666
	$ 121,338,667	$ 98,786,922

Permanently restricted net assets at September 30 are restricted for:

	2012	2011
Investments to be held in perpetuity, the income from which is expendable to support health care services	**$ 56,149,656**	$ 55,190,045
Endowment requiring income to be added to original gift to support health care services	**21,503,776**	21,274,409
Restricted funds held in trust by others, the income from which is expendable to support health care services	**130,076,878**	115,839,220
	$ 207,730,310	$ 192,303,674

The Hospital's endowment consists of hundreds of individuals funds established for a variety of purposes. The endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Hospital has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The

3. Net Assets (continued)

remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1) The duration and preservation of the fund
2) The purposes of the Hospital and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Hospital
7) The investment policies of the Hospital

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Hospital must hold in perpetuity or for a donor-specific period(s). Under the policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 4% over the long term. Actual returns in any given year may vary from this amount.

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

The Hospital has a policy of appropriating for distribution each year of 4% of the four quarter average market value of each fiscal year in which the distribution is planned. This is consistent with the Hospital's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

3. Net Assets (continued)

Changes in endowment funds for the fiscal year ended September 30, 2012 consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 53,862,717	$ 76,464,454	$ 130,327,171
Investment return:			
Investment income	615,382	229,367	844,749
Net appreciation (realized and unrealized)	17,285,715	–	17,285,715
Total investment return	17,901,097	229,367	18,130,464
Contributions	–	959,611	959,611
Appropriation of endowment assets for expenditure	(4,489,751)	–	(4,489,751)
Endowment net assets at end of year	$ 67,274,063	$ 77,653,432	$ 144,927,495

Changes in endowment funds for the fiscal year ended September 30, 2011 consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 59,918,239	$75,775,952	$ 135,694,191
Investment return:			
Investment income	421,733	359,236	780,969
Net depreciation (realized and unrealized)	(839,351)	–	(839,351)
Total investment return	(417,618)	359,236	(58,382)
Contributions	–	329,266	329,266
Appropriation of endowment assets for expenditure	(5,637,904)	–	(5,637,904)
Endowment net assets at end of year	$ 53,862,717	$76,464,454	$ 130,327,171

3. Net Assets (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor, as stipulated by UPMIFA requires the Hospital to retain as a fund of perpetual duration. These deficiencies periodically result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions in which case the Board of Directors may deem unprudent the continuation of appropriation for a limited period. There were no significant deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2012 or 2011.

4. Assets Whose Use is Limited

Included in assets whose use is limited at September 30 are the following:

	2012	2011
Cash and cash equivalents	**$ 16,906,268**	$ 2,071,049
Money market funds	**30,786,535**	65,519,377
Domestic equity securities	**41,186,599**	34,729,511
Fixed income securities:		
U.S.	**41,073,215**	25,730,197
International	**–**	8,844,634
Mutual funds:		
U.S.	**67,764,935**	73,786,682
International	**82,054,217**	62,759,657
Common collective funds:		
U.S.	**129,916,194**	127,659,082
International	**41,493,797**	40,179,160
Alternative investments:		
U.S.	**20,888,454**	–
Other notes and accounts receivable	**129,856**	200,522
Pledges receivable, net	**4,187,423**	1,752,715
Due from affiliated entities, net	**16,207,407**	13,784,045
	$ 492,594,900	$ 457,016,631

4. Assets Whose Use is Limited (continued)

The Hospital advances funds to affiliates to provide capital for the expansion of certain mission-related activities. The Hospital expects these advances to be repaid, generally with interest. Periodically, amounts outstanding are reviewed for collectability and adjustments are provided where collection is doubtful.

The composition and presentation of nonoperating income in the consolidated statements of operations and changes in net assets, is as follows:

	Year Ended September 30	
	2012	**2011**
Interest and dividend income	**$ 6,942,439**	$ 4,075,682
Realized gains on investments, net	**5,901,416**	7,928,671
Contributions	**804,629**	650,919
Other	**(1,085,010)**	(47,291)
	$ 12,563,474	$ 12,607,980

5. Fair Values of Financial Instruments

As defined in ASC 820-10, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820-10 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

5. Fair Values of Financial Instruments (continued)

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

Financial assets carried at fair value in the accompanying consolidated balance sheets, excluding assets invested in the Hospital's defined benefit pension plan, are classified in the table below in one of the three categories described above:

	September 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 90,420,865	$ –	$ –	$ 90,420,865
Assets limited as to use:				
Cash and cash equivalents	16,906,268	–	–	16,906,268
Money market funds	30,786,535	–	–	30,786,535
Equity securities				
U.S.	41,186,599	–	–	41,186,599
International	–	–	–	–
Fixed income bonds:				
U.S.	–	41,073,215	–	41,073,215
International	–	–	–	–
Mutual funds:				
U.S.	67,764,935	–	–	67,764,935
International	82,054,217	–	–	82,054,217
Common collective funds:				
U.S.	–	129,916,194	–	129,916,194
International	–	41,493,797	–	41,493,797
Other assets:				
Domestic mutual funds	6,318,194	–	–	6,318,914
Funds held in trust by others	–	130,076,878	–	130,076,878

The amounts reported in the table above do not include alternative investments totaling $20,888,454 that are accounted for under the equity method of accounting.

5. Fair Values of Financial Instruments (continued)

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

	September 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 64,109,337	$ –	$ –	$ 64,109,337
Assets limited as to use:				
Cash and cash equivalents	2,071,049	–	–	2,071,049
Money market funds	65,519,377	–	–	65,519,377
Domestic equity securities	34,729,511	–	–	34,729,511
Fixed income securities:				
U.S.	–	25,730,197	–	25,730,197
International	–	8,844,634	–	8,844,634
Mutual funds:				
U.S.	73,786,682	–	–	73,786,682
International	62,759,657	–	–	62,759,657
Common collective funds:				
U.S.	–	127,659,082	–	127,659,082
International	–	40,179,160	–	40,179,160
Other assets:				
Domestic mutual funds	4,208,400	–	–	4,208,400
Funds held in trust by others	–	115,839,220	–	115,839,220

Financial assets carried at fair value included in the cash balance retirement plan as of September 30, 2012 are held in a master trust. The Hospital owns participant units in the trust which was established on May 1, 2012. Financial assets classified within the trust are 43.3% Level 1, 45.4% Level 2 and 11.3% for Level 3.

5. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value included in the defined benefit cash balance retirement plan as of September 30, 2011 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 10,518,470	$ –	$ –	$ 10,518,470
Domestic equity securities	40,514,124	–	–	40,514,124
Fixed income securities:				
U.S.	–	49,049,039	–	49,049,039
International	–	14,305,453	–	14,305,453
Mutual funds:				
U.S.	91,097,250	–	–	91,097,250
International	59,483,410	–	–	59,483,410
Common collective funds:				
U.S.	–	201,803,168	–	201,803,168
International	–	45,570,541	–	45,570,541

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based upon model-based valuations techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including public market participants, dealers and brokers.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

6. Property, Plant and Equipment

Property, plant and equipment consist of the following at September 30:

	2012	2011
Land and land improvements	**$ 24,168,711**	$ 23,011,190
Buildings and fixed equipment	**556,370,268**	526,586,817
Movable equipment	**407,092,717**	383,220,441
	987,631,696	932,818,448
Less accumulated depreciation	**682,475,713**	635,128,928
	305,155,983	297,689,520
Construction in process (estimated cost to complete - $26,700,000)	**63,400,850**	28,166,452
	$ 368,556,833	$ 325,855,972

The Hospital capitalized interest expense of $1,083,286 for the years ended September 30, 2012.

7. Pensions and Other Post-retirement Benefits

The Hospital has a cash balance retirement plan, the Retirement Plan for Employees of Hartford Hospital, covering substantially all employees, and a noncontributory, supplemental defined-benefit retirement plan for certain executive employees (collectively, the pension plans).

The Hospital provides health care and life insurance benefits to its retired employees who meet certain eligibility requirements. The Hospital's policy is to fund the cost of post-retirement benefits, other than pensions, as incurred.

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic benefit cost:

	2012	2011
Unrecognized actuarial loss	**$ 384,158,111**	$ 344,687,961
Unrecognized prior service credit	**(7,267,193)**	(5,530,954)
	$ 376,890,918	$ 339,157,007

7. Pensions and Other Post-retirement Benefits (continued)

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

Unrecognized actuarial loss	$ 25,812,146
Unrecognized prior service credit	(3,659,810)
	$ 22,152,336

The following table sets forth the plans' funded status and amounts recognized in the consolidated balance sheets:

	Pension Benefits		Other Post-Retirement Benefits	
	2012	**2011**	**2012**	**2011**
Change in benefit obligations				
Benefit obligation at beginning of year	**$ (782,262,134)**	$ (757,387,873)	**$ (75,948,756)**	$ (76,107,566)
Service cost	**(31,677,554)**	(31,499,870)	**(2,469,488)**	(2,247,313)
Interest cost	**(38,864,858)**	(38,240,998)	**(3,855,362)**	(3,887,066)
Plan participants' contributions	–	–	**(3,436,765)**	–
Benefits paid	**49,219,473**	46,950,284	**8,860,557**	3,840,944
Actuarial gains and losses	**(127,629,437)**	(2,083,677)	**8,842,454**	3,020,947
Plan amendments	–	–	–	(568,702)
Benefit obligation at end of year	**(931,214,510)**	(782,262,134)	**(68,007,360)**	(75,948,756)
Change in plan assets				
Fair value of plan assets at beginning of year	**512,341,455**	552,985,060	–	–
Actual return on plan assets	**105,653,734**	6,223,548	–	–
Benefits paid	**(49,219,473)**	(46,950,284)	**(8,860,557)**	(3,840,944)
Employer contribution	**60,684,245**	83,131	**8,860,557**	3,840,944
Fair value of plan assets at end of year	**629,459,961**	512,341,455	–	–
Funded Status of the Plan	**$ (301,754,549)**	$ (269,920,679)	**$ (68,007,360)**	$ (75,948,756)
Components of net periodic benefit cost				
Service cost	**$ 31,677,554**	$ 31,499,870	**$ 2,469,488**	$ 2,247,313
Interest cost	**38,864,858**	38,240,998	**3,855,362**	3,887,066
Expected return on plan assets	**(43,310,053)**	(48,967,204)	–	–
Net amortization and deferral	**17,637,965**	7,676,567	**118,934**	319,311
Loss on settlement	**953,474**	–	–	–
Benefit cost	**$ 45,823,798**	$ 28,450,231	**$ 6,443,784**	$ 6,453,690

7. Pensions and Other Post-retirement Benefits (continued)

The accumulated benefit obligation for the pension plans were $877,682,091 and $739,738,503 as of September 30, 2012 and 2011, respectively.

The weighted-average assumptions used to develop net periodic benefit cost and the projected benefit obligation were as follows:

	2012	2011
Discount rate for projected benefit obligation	**3.85%**	5.00%
Discount rate for net periodic benefit cost	**5.00%**	5.05%
Expected long-term rate of return on plan assets	**8.00%**	8.00%
Measurement date	**September 30**	September 30

The Hospital has a defined contribution plan for all new employees. The cash balance retirement plan is frozen to all new members effective in fiscal year 2010. Expense for employer contributions was approximately $11,193,634 and $9,295,203 in 2012 and 2011, respectively. These amounts are included in accrued pension liability on the consolidated balance sheets.

The expected rate of return on plan assets was determined by the expected return on each asset class based on a model that considers historical and expected future performance.

The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 9%. Rates are assumed to decline to 5% through 2019. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the service and interest cost and accumulated post-retirement benefit obligation by approximately $365,483 and $2,842,424 at September 30, 2012, respectively. A one percentage point decrease in the assumed health care cost trend rate would decrease the service and interest cost and accumulated post-retirement benefit obligation by approximately $314,416 and $2,499,267 at September 30, 2012, respectively.

7. Pensions and Other Post-retirement Benefits (continued)

Plan Assets

The pension plan weighted-average asset allocations at September 30, by asset category, are as follows:

Asset Category	Target Allocation	2012	2011
Equity securities	**57%**	**41%**	59%
Fixed income/debt securities	**25%**	**14%**	33%
Commodities/inflation/real assets	**8%**	**34%**	7%
Other	**10%**	**11%**	1%
Total	**100%**	**100%**	100%

The goals of the plan are to provide a secure retirement benefit for plan participants and to manage plan assets for the exclusive benefit of the participants. The Investment Committee of the Board of Directors has responsibility for the development, review and monitoring of the investment policy. The plan assets are invested in accordance with the policy.

Contributions

The Hospital expects to contribute $51,354,973 to its pension plans and $4,241,435 to its other post-retirement benefit plan in 2013.

Estimated Future Benefits Payments

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

	Pension Benefits	Other Post-Retirement Benefits
2013	$ 62,863,250	$ 4,241,435
2014	60,004,237	4,227,991
2015	60,928,661	4,339,617
2016	62,447,501	4,332,754
2017	65,444,360	4,437,166
2018-2022	333,890,921	22,531,277

8. Long-Term Debt

Details of long-term debt are as follows:

	September 30	
	2012	**2011**
Intercompany debt with HHC:		
Series A, consisting of a tax exempt serial bond and term bonds; interest at rates ranging from 4.4% to 5.0%	**$ 92,750,683**	$ 90,364,187
Series B, tax-exempt variable rate term bond	**48,221,793**	48,221,793
Series C, taxable variable rate term bond	**28,831,592**	28,831,592
State of Connecticut Health and Educational Authority (CHEFA) Easy Loan	**12,327,990**	16,221,042
Capital lease obligations	**8,239,129**	8,243,545
Lines of credit	**58,191,234**	10,059,865
Other notes	**2,987,305**	4,827,560
Premium on long-term debt	**1,765,086**	1,790,766
	253,314,812	208,560,350
Less current portion	**64,503,933**	16,971,544
	$ 188,810,879	$ 191,588,806

On September 29, 2011, HHC issued approximately $375,815,000 of CHEFA Revenue Bonds Series A, B, and C (the HHC 2011 Bonds). In conjunction with the issuance of the 2011 Bonds, an obligated group was formed. The members of the obligated group are HHC, Hartford Hospital, The Hospital of Central Connecticut at New Britain General and Bradley Memorial, Windham Community Memorial Hospital and MidState Medical Center (collectively referred to as the "Obligated Group"). Obligated Group members are jointly and severally liable under a Master Trust Indenture (MTI) to make all payments required with respect to obligations under the MTI. HHC does have the right to name designated affiliates, although presently none exist. Though designated affiliates are not obligated to make debt service payments on the obligations under the MTI, each designated affiliate would have an independent designated affiliate agreement and promissory note with HHC with stipulated repayment terms and conditions, each subject to the governing law of the obligated groups' state of incorporation. In addition, HHC may cause each designated affiliate to transfer such amounts as necessary to enable the obligated group members to comply with the terms of the MTI, including payment of the outstanding obligations.

8. Long-Term Debt (continued)

The HHC 2011 Bonds were issued to refund portions of existing debt under HHC, and to obtain funds for future capital needs. As such, the HHC 2011 Bonds are reflected as intercompany debt in the schedule above. The HHC Series A Revenue Bonds consist of serial bonds that mature annually from July 1, 2014 through July 1, 2023 and the term bonds mature from July 1, 2024 through July 1, 2041. The HHC Series B Revenue Bonds consist of term bonds that mature from July 1, 2042 through July 1, 2049. The HHC Series B Revenue Bonds are secured by an irrevocable letter of credit issued by Bank of America which expires on September 29, 2018. The HHC Series C Revenue Bonds consist of term bonds that mature from July 1, 2042 through July 1, 2049. The HHC Series C Revenue Bonds are secured by an irrevocable letter of credit issued by JP Morgan Chase Bank which expires on October 1, 2016. The reimbursement terms of the letters of credit for the HHC Series B and C Revenue Bonds are such that in the event a letter of credit is drawn upon due to a failed remarketing the components available shall equal the aggregate principal and interest amount of bonds outstanding.

The MTI and Supplemental MTI provide for the potential establishment and maintenance of a Debt Service Reserve Fund, a pledge of gross receipts, as defined, and parity with the HHC Series A Revenue Bonds that remain outstanding. The MTI and loan agreements establish certain restrictive covenants, including a debt service coverage ratio and days cash on hand requirement. No violations of covenants existed as of September 30, 2012 or 2011.

The fair value of the HHC 2011 Bonds was approximately $396,836,000 and $375,815,000 at September 30, 2012 and 2011, respectively. The carrying value of the HHC 2011 Bonds was $375,815,000 as of September 30, 2012 and 2011. The fair value of the HHC 2011 Bonds was determined by the Hospital's investment advisor using a market approach that uses prices and other relevant information generated by market transactions involving identical or comparable liabilities. The carrying value of the Hospital's other long-term debt approximates fair value at September 30, 2012 and 2011.

In September 2010, the Hospital entered into a master financing agreement with CHEFA, for funds to be used to purchase all or a portion of the costs of various capital expenditures. The interest rate is 2.75% and payable in monthly installments of $357,156 for a period of five years. The outstanding balance related to the master financing agreement as of September 30, 2012 and 2011 was $12,327,990 and $16,221,042, respectively.

8. Long-Term Debt (continued)

The Hospital entered into a capital lease for a satellite location. The lease is a twenty year lease with an option to purchase at the end of the thirty-seventh month. The monthly installments are $71,637 with interest at 6.25%. The outstanding capital lease obligation was $8,239,129 and $8,243,545 as of September 30, 2012 and 2011, respectively.

As part of the HHC 2011 Bonds, the Obligated Group entered into a new line of credit for $20,000,000 from Bank of America. This line expires in March 2014. As of September 30, 2012 and 2011, the Hospital had drawn $17,186,119 and $10,059,865, respectively on this line of credit, with a variable rate of 1.32% and 1.25%, respectively and is included in current portion of long-term debt on the consolidated balance sheets. In 2012, Obligated Group obtained an additional $60,000,000 line of credit with another bank. As of September 30, 2012, the Hospital had drawn $41,005,115 on this line of credit, which is also included in current portion of long term debt with a variable rate of .92% which expires March 2013.

Scheduled principal repayments are as follows:

2013	$ 64,503,933
2014	13,562,948
2015	5,746,998
2016	1,558,621
2017	1,540,618
Thereafter	166,401,694
	$ 253,314,812

Interest paid for the years ended September 30, 2012 and 2011 was $4,517,043 and $1,558,782, respectively.

9. Pledges Receivable

Pledges receivable, included in board-designated investments and other assets, include the following unconditional promises to give as of September 30:

	September 30 2012	September 30 2011
Due within one year	**$ 371,159**	$ 1,178,882
Due in one to five years	**4,565,011**	810,117
	4,936,170	1,988,999
Less allowance and discount to present value	**748,747**	236,284
Pledges receivable, net	**$ 4,187,423**	$ 1,752,715

The discount recognizes the present value of the pledges. The allowance recognizes the estimated uncollectible portion of the pledges.

10. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance as explained in Note 1 or are deemed to be immaterial. While the outcomes of the lawsuits cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or changes in net assets of the Hospital.

The Hospital has several operating lease agreements for certain real estate, medical equipment and computer equipment. Certain of these leases have renewal options for periods up to five years and escalation clauses. Rent is payable in equal monthly installments. Rent expense was $30,069,300 and $21,915,275 for the years ended September 30, 2012 and 2011, respectively.

10. Commitments and Contingencies (continued)

The future minimum lease payments are as follows:

2013	$ 7,927,967
2014	5,818,488
2015	5,537,522
2016	5,610,220
2017	5,720,742
Thereafter	65,059,254
	$ 95,674,193

11. Related-Party Transactions

The Hospital provides general and administrative services to certain of its affiliates and is reimbursed for the cost of these services. Fees charged to affiliates for the year ended September 30, 2012 and 2011, which are included in other operating revenue in the consolidated statement of operations and changes in net assets, were approximately $40,349,344 and $35,132,123, respectively.

Amounts due from affiliates related to these services at September 30 are as follows:

	2012	**2011**
Intercompany receivable	**$ 3,184,097**	$ 790,316
Notes receivable from affiliates	**13,753,608**	15,989,108
	$ 16,937,705	$ 16,779,424

12. Guarantees

The Hospital guarantees certain debt issues of related parties. The related parties would not have been able to obtain favorable financing terms and rates without the Hospital's guarantee. The term of the guarantees is equal to the term of the related debt, with maturities between 2013 and 2015. The maximum potential amount of future payments the Hospital could be required to make under its guarantees at September 30, 2012 and 2011 were approximately $1,925,000. If the related party does not make the necessary principal and interest payments required by the debt agreements, the Hospital is required to pay the monthly debt service.

12. Guarantees (continued)

The Hospital also guarantees the termination value of a swap agreement of a related party. The arrangement relates to an interest rate swap contract with a counterparty with an original notional amount of $19,745,000 to fix the variable rate debt at a rate of 4.15%. The Hospital would be responsible for any termination payments related to the swap in the event of either nonperformance by the counterparty or by the counterparty's election to terminate the swap agreement. This guarantee is expected to significantly reduce annual debt service payments of the related party. The swap's termination value was approximately $4,387,733 and $4,248,129 as of September 30, 2012 and 2011, respectively.

In 2009, the Hospital entered into a guarantee agreement with two entities in which the Hospital has non-marketable equity investments in, for the issuance of financial guarantees in order to assist these entities in obtaining bank financing, which expire in June 2016 and September 2016, respectively. The Hospital believes that, based on its knowledge of their businesses, these entities continue to be an acceptable credit risk. The amount of the financial guarantees is approximately $346,000 and $5,000,000 at September 30, 2012 and 2011, respectively.

13. Functional Expenses

The Hospital provides health care services to residents within its geographic location. Net expenses related to providing these services are as follows:

	Year Ended September 30	
	2012	**2011**
Health care services	**$ 924,150,590**	$ 858,815,250
Research	**24,885,158**	23,127,300
Education	**74,966,541**	69,670,993
	$ 1,024,002,989	$ 951,613,543

14. Supplemental Cash Flow Information

The changes in assets and liabilities are as follows:

	Year Ended September 30	
	2012	**2011**
Increase in accounts receivable	**$ (49,004,264)**	$ (21,003,837)
(Increase) decrease in other receivables	**(11,916,958)**	4,310,524
Increase in due from affiliates	**(158,281)**	(6,738,805)
Decrease in inventories of supplies and prepaid expenses and other assets	**1,590,058**	895,438
Increase in other assets	**(11,848,378)**	(15,010,483)
(Decrease) increase in estimated third-party settlements	**(3,290,373)**	4,869,382
Increase (decrease) in accounts payable	**7,534,911**	(22,252,539)
Increase (decrease) in salaries, wages, payroll taxes and amounts withheld from employees	**2,202,373**	(3,398,713)
Increase in accrued expenses	**522,723**	16,885,371
Increase in accrued pension liability and other liabilities	**16,711,006**	27,247,872
	$ (47,657,183)	$ (14,195,790)

15. Subsequent Event

The Hospital evaluated subsequent events through January 25, 2013, which is the date the financial statements were issued. No other events occurred that require disclosure or adjustment to the consolidated financial statements. Effective October 1, 2012, the Hospital's ownership interest in CHS Insurance Limited was transferred to HHC as a result of HHC becoming the sole owner of CHS Insurance Ltd. In addition, the coverage levels for professional liability were amended. The primary level of coverage for all HHC entities will be $7,500,000 per claim and $30,000,000 in the aggregate. The primary level of excess coverage will be $20,000,000, shared by two insurance companies. Three other companies each cover additional layers of $10,000,000 for a total excess coverage of $60,000,000.

Ernst & Young

Ernst & Young LLP
Goodwin Square
225 Asylum Street
Hartford, CT 06103-1506

Tel: +1 860 247 3100
Fax: +1 860 725 6040
www.ey.com

Report of Independent Auditors on Supplementary Information

Board of Directors
Hartford Hospital

We have audited the consolidated financial statements of Hartford Hospital as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated January 25, 2013 which contained an unqualified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and statement of operations are presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

January 25, 2013

Hartford Hospital

Consolidating Balance Sheet

Year Ended September 30, 2012

	Hartford Hospital	Jefferson House Combined [1]	The Institute of Living	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 86,685,189	$ 3,450,783	$ 284,893	$ 90,420,865
Accounts receivable, less allowances for doubtful accounts of $27,241,000	149,897,688	1,904,014	–	151,801,702
Other receivables	26,338,847	4,309	10,023	26,353,179
Due from affiliates, net	14,295,347	1,737,406	904,952	16,937,705
Inventories of supplies	11,444,006	–	–	11,444,006
Prepaid expenses and other assets	8,148,253	34,068	(1)	8,182,320
Current portion of assets whose use is limited	450,405	–	–	450,405
Total current assets	297,259,735	7,130,580	1,199,867	305,590,182
Assets whose use is limited:				
Investments and other assets	160,438,984	74,488,484	28,046,234	262,973,702
Investments for restricted purposes	166,867,237	5,947,939	26,019,487	198,834,663
Escrow funds for long-term debt	23,210,563	–	–	23,210,563
Funds designated for debt service	7,125,567	–	–	7,125,567
	357,642,351	80,436,423	54,065,721	492,144,495
Funds held in trust by others	103,637,269	24,456,643	1,982,966	130,076,878
Other assets	93,329,541	–	–	93,329,541
Property, plant and equipment, net	353,071,642	9,541,195	5,943,996	368,556,833
	$ 1,204,940,538	$ 121,564,841	$ 63,192,550	$ 1,389,697,929

(1) Includes Cedar Mountain Commons

Hartford Hospital

Consolidating Balance Sheet (continued)

Year Ended September 30, 2012

	Hartford Hospital	Jefferson House Combined [1]	The Institute of Living	Total
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 27,045,389	$ 175,352		$ 27,220,741
Salaries, wages, payroll taxes and amounts withheld from employees	21,441,478	251,498		21,692,976
Accrued expenses	36,575,174	1,219,085	$ 156,312	37,950,571
Estimated third-party payor settlements	3,559,672	–	–	3,559,672
Current portion of long-term debt	64,503,933	–	–	64,503,933
Current portion of accrued pension liability	7,661,539	–	–	7,661,539
Current portion of other liabilities	6,640,464	–	–	6,640,464
Total current liabilities	167,427,649	1,645,935	156,312	169,229,896
Accrued pension liability	372,843,056	–	–	372,843,056
Long-term debt, less current portion	188,810,879	–	–	188,810,879
Other liabilities	35,149,850	–	–	35,149,850
Net assets:				
Unrestricted	169,620,159	89,449,024	35,526,088	294,595,271
Temporarily restricted	101,571,787	3,474,517	16,292,363	121,338,667
Permanently restricted	169,517,159	26,995,365	11,217,786	207,730,310
	440,709,105	119,918,906	63,036,237	623,664,248
	$ 1,204,940,539	$ 121,564,841	$ 63,192,549	$ 1,389,697,929

(1) Includes Cedar Mountain Commons

Hartford Hospital

Consolidating Statement of Operations

Year Ended September 30, 2012

	Hartford Hospital	Jefferson House Combined [1]	The Institute of Living	Eliminations	Total
Unrestricted revenues, gains and other support:					
Net patient service revenue	$ 926,633,051				$ 926,633,051
Provision for bad debts	22,645,968				22,645,968
Net patient service revenue less provision for bad debts	903,987,083				903,987,083
Other operating revenue	164,600,638		$ 563,057	$ (239,236)	164,924,459
Net assets released from restrictions for operations	7,374,565	$ 22,604	193,486	–	7,590,655
	1,075,962,286	22,604	756,543	(239,236)	1,076,502,197
Operating expenses:					
Salaries	452,952,481				452,952,481
Employee benefits	151,560,400				151,560,400
Supplies and other	202,543,051	20,927	445,678	(239,236)	202,770,420
Purchased services	165,507,941	1,677	–	–	165,509,618
Depreciation and amortization	46,274,726	–	418,301	–	46,693,027
Interest	4,517,043	–	–	–	4,517,043
	1,023,355,642	22,604	863,979	(239,236)	1,024,002,989
Income from operations	52,606,644	–	(107,436)	–	52,499,208
Nonoperating income (loss):					
Income (loss) from investments, gifts and bequests, net	10,255,689		525,392		10,781,081
Other	(21,309)	1,803,702	–		1,782,393
	10,234,379	1,803,702	525,392	–	12,563,474
Excess (deficiency) of revenues over expenses before change in unrealized gains and losses on investments	62,841,023	1,803,702	417,956	–	65,062,682
Change in unrealized gains and losses on investments	28,516,089	10,496,812	4,709,193		43,722,094
Excess of revenues over expenses	$ 91,357,112	$ 12,300,514	$ 5,127,150	$ –	$ 108,784,776

(1) Includes Cedar Mountain Commons

Hartford Hospital

Consolidating Balance Sheet

Year Ended September 30, 2011

	Hartford Hospital	Jefferson House Combined [1]	The Institute of Living	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 60,477,778	$ 2,146,351	$ 1,485,208	$ 64,109,337
Accounts receivable, less allowances for doubtful accounts of $29,331,000	123,703,917	1,739,489	–	125,443,406
Other receivables	14,438,542	–	(2,321)	14,436,221
Due from affiliates, net	16,276,475	898,005	(395,056)	16,779,424
Inventories of supplies	11,054,904	–	–	11,054,904
Prepaid expenses and other assets	10,118,833	42,647	–	10,161,480
Current portion of assets whose use is limited	3,902,820	–	–	3,902,820
Total current assets	239,973,269	4,826,492	1,087,831	245,887,592
Assets whose use is limited:				
Investments and other assets	129,222,699	63,759,587	23,460,551	216,442,837
Investments for restricted purposes	146,779,526	5,453,385	22,821,506	175,054,417
Escrow funds for long-term debt	54,673,488	–	–	54,673,488
Funds designated for debt service	6,943,069	–	–	6,943,069
	337,618,782	69,212,972	46,282,057	453,113,811
Funds held in trust by others	92,291,655	21,804,495	1,743,070	115,839,220
Other assets	81,481,163	–	–	81,481,163
Property, plant and equipment, net	309,372,889	10,120,786	6,362,297	325,855,972
	$ 1,060,737,759	$ 105,964,745	$ 55,475,255	$ 1,222,177,758

(1) Includes Cedar Mountain Commons

Hartford Hospital

Consolidating Balance Sheet (continued)

Year Ended September 30, 2011

	Hartford Hospital	Jefferson House Combined (1)	The Institute of Living	Total
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 19,542,101	$ 143,729		$ 19,685,830
Salaries, wages, payroll taxes and amounts withheld from employees	18,445,257	207,346		18,652,603
Accrued expenses	36,997,829	1,157,741	$ 110,278	38,265,848
Estimated third-party payor settlements	6,850,045	–	–	6,850,045
Current portion of long-term debt	16,971,544	–	–	16,971,544
Current portion of accrued pension liability	13,884,957	–	–	13,884,957
Current portion of other liabilities	6,640,464	–	–	6,640,464
Total current liabilities	119,332,197	1,508,816	110,278	120,951,291
Accrued pension liability	340,366,785	–	–	340,366,785
Long-term debt, less current portion	191,588,806	–	–	191,588,806
Other liabilities	6,957,786	–	–	6,957,786
Net assets:				
Unrestricted	163,006,762	77,148,434	31,067,298	271,222,494
Temporarily restricted	82,502,856	2,964,277	13,319,789	98,786,922
Permanently restricted	156,982,566	24,343,218	10,977,890	192,303,674
	402,492,184	104,455,929	55,364,977	562,313,090
	$ 1,060,737,758	$ 105,964,745	$ 55,475,255	$ 1,222,177,758

(1) Includes Cedar Mountain Commons

Hartford Hospital

Consolidating Statement of Operations

Year Ended September 30, 2011

	Hartford Hospital	Jefferson House Combined (1)	The Institute of Living	Eliminations	Total
Unrestricted revenues, gains and other support:					
Net patient service revenue	$ 853,959,278				$ 853,959,278
Provision for bad debts	12,915,771		$ 4,013		12,919,784
Net patient service revenue less provision for bad debts	841,043,507		(4,013)		841,039,494
Other operating revenue	121,645,764		545,612	$ (239,236)	121,952,140
Net assets released from restrictions for operations	9,161,084	$ 26,403	277,717	–	9,465,204
	971,850,355	26,403	819,316	(239,236)	972,456,838
Operating expenses:					
Salaries	433,339,431	–	–	–	433,339,431
Employee benefits	128,868,720	–	–	–	128,868,720
Supplies and other	185,371,396	23,281	341,009	(239,236)	185,496,450
Purchased services	157,976,819	3,122	–	–	157,979,941
Depreciation and amortization	43,450,600	–	474,097	–	43,924,697
Interest	1,556,400	–	–	–	1,556,400
	950,563,366	26,403	815,106	(239,236)	951,165,639
Income from operations before loss on early extinguishment of debt	21,286,989	–	4,210	–	21,291,199
Loss on early extinguishment of debt	(447,904)	–	–	–	(447,904)
Income from operations	20,839,085	–	4,210	–	20,843,295
Nonoperating income (loss):					
Income from investments, gifts and bequests, net	8,711,872	–	1,160,026	–	9,871,898
Other	(18,983)	2,755,065	–	–	2,736,082
	8,692,889	2,755,065	1,160,026	–	12,607,980
Excess of revenues over expenses before change in unrealized gains and losses on investments	29,531,974	2,755,065	1,164,236	–	33,451,275
Change in unrealized gains and losses on investments	(10,212,490)	(5,359,616)	(1,798,069)	–	(17,370,175)
Excess (deficiency) of revenues over expenses	$ 19,319,484	$ (2,604,551)	$ (633,833)	$ –	$ 16,081,100

(1) Includes Cedar Mountain Commons

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory