Consolidated Financial Statements and Supplementary Information

The Hospital of Central Connecticut
Year Ended September 30, 2012
Period From February 1, 2011 to September 30, 2011, and
Period From October 1, 2010 to January 31, 2011
With Report of Independent Auditors

Ernst & Young LLP

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The Hospital of Central Connecticut

Consolidated Financial Statements
and Supplementary Information

Year Ended September 30, 2012, Period From February 1, 2011 to September 30, 2011, and
Period From October 1, 2010 to January 31, 2011

Contents

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Independent Auditors' Report

To the Board of Directors of
The Hospital of Central Connecticut

We have audited the accompanying consolidated balance sheets of The Hospital of Central Connecticut (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 year ended September 30, 2012 and the period from October 1, 2010 to January 31, 2011 and the period from February 1, 2011 to September 30, 2011. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Grand Indemnity Company, LTD., a wholly-owned subsidiary, which statements reflect total assets of $39,558,288 and $35,280,376 as of September 30, 2012 and 2011, respectively, and total revenues of $2,981,081 and $4,727,178, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Grand Indemnity Company, Ltd., is based solely on the report of the other auditors.

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 Company'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 consolidated 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Hospital of Central Connecticut at September 30, 2012 and 2011, and the consolidated results of its operations and changes in net assets and its cash flows for the year ended September 30, 2012 and the period from October 1, 2010 to January 31, 2011 and the period from February 1, 2011 to September 30, 2011 in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

January 28, 2013

The Hospital of Central Connecticut

Consolidated Balance Sheets

	September 30, 2012	2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 32,572,707**	$ 20,299,387
Accounts receivable, less allowance for doubtful accounts of $16,017,907 in 2012 and $11,289,428 in 2011	**48,473,300**	48,945,018
Premiums receivable	**35,686**	95,727
Reinsurance recoverable	**7,505,995**	7,355,995
Other receivables	**6,782,147**	1,417,221
Due from affiliates	**84,758**	73,947
Inventories of supplies	**5,943,030**	5,586,310
Prepaid expenses and other assets	**3,613,869**	4,291,812
Assets whose use is limited – investments related to GIC	**2,000,000**	2,000,000
Total current assets	**107,011,492**	90,065,417
Assets whose use is limited:		
Investments related to GIC	**24,593,682**	22,695,956
Investments and other assets	**99,205,579**	89,632,017
Investments for restricted purposes	**26,605,513**	23,371,019
Assets held in trust by others	**15,192,304**	13,488,594
	165,597,078	149,187,586
Funds designated for debt services	**2,397,202**	2,397,206
Investments in affiliates	**2,263,048**	3,375,339
Other assets	**4,393,842**	3,433,763
Due from affiliates	**1,949,995**	2,255,684
Property, plant and equipment, net	**150,430,294**	152,765,070
Total assets	**$ 434,042,951**	$ 403,480,065
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 15,593,544**	$ 12,030,115
Accrued expenses	**9,234,729**	11,418,151
Accrued compensation	**14,266,850**	12,301,012
Due to affiliates	**1,644,937**	374,021
Unearned premiums	**26,654**	–
Reserve for losses and loss adjustment expenses	**2,000,000**	2,000,000
Deferred revenue	**572,719**	450,254
Estimated third-party settlements	**19,307,101**	23,838,552
Current portion of long-term debt	**2,165,699**	2,724,400
Current portion of pension	**14,577,542**	14,717,159
Total current liabilities	**79,389,775**	79,853,664
Reserve for losses and loss adjustment expenses	**14,961,027**	18,010,207
Long-term debt	**37,700,355**	40,002,457
Accrued pension	**141,985,877**	82,716,227
Self-insurance and other long-term liabilities	**7,802,605**	7,699,743
Total liabilities	**281,839,639**	228,282,298
Net assets:		
Unrestricted	**110,395,439**	138,381,964
Temporarily restricted	**20,015,125**	16,726,765
Permanently restricted	**21,792,748**	20,089,038
Total net assets	**152,203,312**	175,197,767
Total liabilities and net assets	**$ 434,042,951**	$ 403,480,065

See accompanying notes.

The Hospital of Central Connecticut

Consolidated Statements of Operations and Changes in Net Assets

			Predecessor Company
	September 30, 2012	**Period From February 1, 2011 to September 30, 2011**	**Period From October 1, 2010 to January 31, 2011**
Unrestricted revenues, gains and other support:			
Net patient service revenue	**$ 393,528,986**	$ 254,327,650	$ 128,988,814
Provision for bad debts	**17,293,190**	(465,136)	2,854,558
Net patient service revenue less provision for bad debts	**376,235,796**	254,792,786	126,134,256
Other operating revenues	**13,861,784**	6,140,983	2,392,268
Net premiums earned	**194,081**	123,211	50,967
Net assets released from restrictions used for operations	**1,559,503**	162,854	585,042
Total revenues	**391,851,164**	261,219,834	129,162,533
Expenses:			
Salaries and benefits	**165,293,135**	100,399,611	52,762,478
Fringe benefits	**42,901,786**	33,680,846	18,478,815
Purchased services	**90,400,652**	56,543,812	27,698,602
Supplies and other expenses	**49,742,804**	34,206,474	17,487,787
Depreciation and amortization	**19,353,058**	12,790,361	5,889,326
Losses and loss adjustment expenses	**(2,868,187)**	(3,079,317)	1,677,667
Interest	**1,957,216**	579,711	257,427
Total expenses	**366,780,464**	235,121,498	124,252,102
Income from operations, before early extinguishment of debt	**25,070,700**	26,098,336	4,910,431
Early extinguishment of debt	**–**	(270,054)	–
Income from operations	**25,070,700**	25,828,282	4,910,431
Non-operating gains (losses):			
Investment income	**1,837,455**	980,761	558,464
Unrestricted gifts and bequests	**123,070**	82,749	122,144
Gains on sales of securities	**542,071**	17,036	7,174
Change in fair value of interest rate swap	**–**	(2,888,770)	1,146,467
Change in unrealized gains and losses on investments	**7,462,766**	–	–
Total non-operating gains (losses)	**9,965,362**	(1,808,224)	1,834,249

The Hospital of Central Connecticut

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

	September 30, 2012	Period From February 1, 2011 to September 30, 2011	Predecessor Company Period From October 1, 2010 to January 31, 2011
Beginning balance of unrestricted net assets:	**$ 138,381,964**	$ 175,432,489	$ 100,602,371
Excess of revenues over expenses	**35,036,062**	24,020,058	6,744,680
Pension changes other than net periodic benefit costs	**(65,083,998)**	(52,455,742)	38,384,516
Loss on Investment in Affiliate	**(133,499)**	–	–
Change in net unrealized gain (loss) on investments	**1,795,750**	(9,521,848)	5,273,795
Net assets released from restrictions used for capital	**399,160**	907,007	33,047
Ending balance of unrestricted net assets	**110,395,439**	138,381,964	151,038,409
Beginning balance of temporarily restricted net assets:	**16,726,765**	17,632,295	16,296,477
Net realized and unrealized gain (loss) on investments	**3,780,256**	(758,420)	741,384
Income from investments	**584,048**	143,460	113,435
Contributions	**882,719**	779,291	1,099,088
Net assets released from restrictions used for operations	**(1,559,503)**	(162,854)	(585,042)
Net assets released from restrictions used for capital	**(399,160)**	(907,007)	(33,047)
Ending balance of temporarily restricted net assets	**20,015,125**	16,726,765	17,632,295
Beginning balance of permanently restricted net assets:	**20,089,038**	21,323,642	20,636,262
Change in assets held in trust by others	**1,703,710**	(1,234,604)	687,380
Ending balance of permanently restricted net assets:	**21,792,748**	20,089,038	21,323,642
Net assets at end of period	**$ 152,203,312**	$ 175,197,767	$ 189,994,346

See accompanying notes.

The Hospital of Central Connecticut

Consolidated Statements of Cash Flows

	September 30, 2012	Period From February 1, 2011 to September 30, 2011	Predecessor Company Period From October 1, 2010 to January 31, 2011
Operating activities:			
Change in net assets	**$ (22,994,455)**	$ (39,190,545)	$ 52,459,236
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization	**19,353,058**	12,790,361	5,889,326
Change in pension	**65,083,998**	52,455,742	(38,384,516)
Provision for bad debts	**17,293,190**	(465,136)	2,854,558
Net realized and unrealized (gains) losses on investments and assets whose use is limited	**(13,038,772)**	10,280,154	(6,015,179)
Restricted contributions and investment income	**(3,170,477)**	311,853	(1,899,903)
Debt extinguishment	**–**	270,054	
Changes in assets and liabilities:			
Accounts receivable	**(16,821,472)**	(1,244,397)	(13,546,420)
Premiums receivable	**60,041**	3,143,530	(3,202,176)
Reinsurance recoverable	**(150,000)**	(859,154)	–
Other receivables	**(5,364,926)**	7,981	(707,107)
Due from affiliates	**294,878**	698,640	(1,815,709)
Inventories	**(356,720)**	(263,180)	(473,932)
Prepaid expenses and other assets	**677,943**	2,390,096	(3,334,126)
Other assets	**(960,079)**	(117,224)	27,487
Accounts payable and accrued expenses	**1,380,007**	7,961,524	(9,832,729)
Accrued compensation	**1,965,838**	(1,933,636)	2,455,307
Unearned premium	**26,654**	–	
Due to affiliates	**1,270,916**	374,021	(40,867)
Reserve for losses and loss adjustment expenses	**(3,049,180)**	(7,470,552)	3,047,480
Deferred revenue	**122,465**	19,752	91,282
Due to third-party agencies	**(4,531,451)**	(2,002,816)	6,391,883
Debt service	**4**	(1,573,721)	(807,058)
Pension, self-insurance and other long-term liabilities	**(5,851,103)**	(13,788,843)	(3,251,502)
Net cash provided by (used in) operating activities	**31,240,357**	21,794,504	(10,094,665)
Investing activities:			
Net increase in board designated and donor restricted investments	**(1,472,994)**	(255,374)	(2,051,756)
Net increase in investments in GIC	**(1,897,726)**	(1,313,531)	37,905
Purchases of property, plant and equipment	**(17,018,282)**	(17,730,932)	(3,892,647)
Net decrease in investments in affiliates	**1,112,291**	(239,115)	348,535
Net cash used in investing activities	**(19,276,711)**	(19,538,952)	(5,557,963)
Financing activities:			
Principal payments on long-term debt, capital leases and line of credit	**(2,860,803)**	(37,241,984)	(992,364)
Proceeds from borrowings of long-term debt	**–**	38,535,493	4,318,502
Restricted contributions and investment income	**3,170,477**	(311,853)	1,899,903
Net cash provided by financing activities	**309,674**	981,656	5,226,041
Increase (decrease) in cash and cash equivalents	**12,273,320**	3,237,208	(10,426,587)
Cash and cash equivalents at beginning of year	**20,299,387**	17,062,179	27,488,766
Cash and cash equivalents at end of year	**$ 32,572,707**	$ 20,299,387	$ 17,062,179

See accompanying notes.

1. Summary of Significant Accounting Policies

The accounting policies that affect significant elements of The Hospital of Central Connecticut (the Hospital) consolidated financial statements are summarized below.

Organization

The Hospital, a voluntary, tax-exempt association incorporated under the General Statutes of the State of Connecticut is a wholly owned subsidiary of Central Connecticut Health Alliance (CCHA or the Alliance). The Board of Directors is appointed by CCHA and oversees the operations of the Hospital. The Hospital has a wholly owned subsidiary, Grand Indemnity Company, Ltd. (GIC), which was incorporated under the laws of Bermuda, as a Class 2 insurer, on January 6, 2009. GIC underwrites claims-made hospital medical professional liability and general liability insurance on behalf of the Hospital. GIC also underwrites provider medical insurance for the individual physicians in private practice who support the Hospital.

On February 1, 2011 (the Acquisition Date), Hartford HealthCare Corporation (HHC) became the sole corporate member of CCHA and a full corporate affiliation was completed. As a result, all of the Hospital's assets and liabilities were revalued to fair value as of February 1, 2011. The Hospital is consolidated in HHC's financials for all periods from February 1, 2011.

In connection with the acquisition, the Hospital's assets and liabilities were marked to fair value at the Acquisition Date. The increase to the Hospital's net assets at the Acquisition Date was $24,394,080 when reported at fair value, as compared to the historical value of the net assets as reported by the predecessor company. The $24,394,080 increase in the Hospital's net assets was related to property, plant and equipment.

The accompanying consolidated financial statements present the financial position and results of the operations for the periods prior to the Acquisition Date, which are reported as the predecessor company at historical value, and subsequent to acquisition, which are reported using fair value as the cost basis established on the Acquisition Date.

The consolidated statements of operations, changes in net assets and cash flows disclose activity related to the periods from February 1, 2011 to September 30, 2011, and October 1, 2010 to January 31, 2011 and are hereafter referred to collectively as the "Periods under Audit."

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with GAAP, as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The consolidated financial statements include the accounts of the Hospital and GIC. All significant inter-company balances and transactions have been eliminated in consolidation.

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

Cash and Cash Equivalents

The Hospital considers all highly liquid investments with remaining maturities of three months or less at date of purchase to be cash equivalents. Cash equivalents include money market funds. 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.

1. Summary of Significant Accounting Policies (continued)

Money market funds are not insured by the FDIC and are not a risk-free investment. Money market funds invest in a variety of instruments including mortgage-backed and asset-backed securities.

Patient Accounts Receivable

Patient accounts receivable result from the healthcare 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 42% and 19%, and 37% and 22%, for Medicare and Medicaid, respectively, for the fiscal years ending September 30, 2012 and 2011, respectively.

Investments

The Hospital has determined that the unrestricted portion of the Hospital's investments reported in the accompanying balance sheets are considered trading securities. In previous years, the Hospital's investments were classified as other than trading securities. As such, unrealized gains and losses that were considered temporary were excluded from excess of revenues over expenses. During 2012, the Hospital determined that its investment portfolio was more accurately classified as trading, with unrealized gains and losses included in excess of revenues over expenses. GIC's investments have been classified as available for sale with unrealized gains and losses excluded from excess of revenues over expenses. Unrealized gains and losses are included in unrestricted net assets on the statement of changes in net assets.

1. Summary of Significant Accounting Policies (continued)

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, those assets whose market value is not readily determinable, are stated at fair value as estimated in an unquoted market. Valuations of those investments and, therefore, the Hospital's holdings may be determined by the investment manager and are primarily based on the underlying securities. Assets temporarily 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 for 2012, 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.

Inventories

Inventories, used in general operations of the Hospital, are stated using the average cost method.

Property, Plant and Equipment

Property, plant and equipment is stated at cost. Improvements and major renewals are capitalized and maintenance and repairs are charged to expense as incurred. The Hospital provides for depreciation of property, plant and equipment and assets under capital leases using the straight-line method in amounts sufficient to amortize the cost of its assets over their estimated useful lives or the lease term.

Amortization of intangible assets is included in depreciation expense. The Hospital leases various medical equipment under capital leases with terms of 5 years.

Conditional asset retirement obligations recorded under the provisions of ASC 410-20, *Asset Retirement Obligations*, amounted to $1,370,379 as of September 30, 2012 and 2011.These obligations are recorded in self-insurance and other long-term liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2012, there were no asset retirement obligations settled. Accretion expense was immaterial for the years ended September 30, 2012 and 2011, respectively.

1. Summary of Significant Accounting Policies (continued)

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 assets whose use is limited. Investments for restricted purposes are those restricted based on donors' intents.

Board Designated Endowment

As of September 30, 2012 and 2011, the Hospital has $99,205,579 and $89,632,017, respectively, of unrestricted investments, which have been designated by the Board of Directors and are not available for use without the approval of the Board of Directors.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose 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 to be 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.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the donation 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 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 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.

1. Summary of Significant Accounting Policies (continued)

Investments in Affiliates

Investments in affiliates are accounted for using the equity method of accounting. Equity income related to investments in affiliates included in other operating revenues was approximately $324,195, $396,500 and $190,500, respectively, for 2102 and the Periods under Audit.

Investments in Joint Ventures

The Hospital has invested in several joint ventures and limited liability companies, which are counted for under the equity method of accounting.

	Ownership Percentage
New Britain Alliance Occupational Health	100%
New Britain MRI Limited Partnership	43%

New Britain Alliance Occupational Health is not consolidated within the financial statements of the Hospital as of September 30, 2012 and 2011, as it is immaterial to the consolidated financial statements. The Hospital withdrew from membership with Total Laundry Collaborative, LLC and recognized a loss of $925,289 in January 2012. Central Connecticut Sports Medicine was dissolved as a separate company and the assets were transferred to the Hospital.

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 $505,402 and $522,450 are recorded in other assets in the consolidated balance sheets as of September 30, 2012 and 2011, respectively.

Other Operating Revenues

Other operating revenues include services to other institutions, electronic health record incentive program revenue, rental income, grant income, research income and cafeteria income and income from investments accounted for under the equity method.

1. Summary of Significant Accounting Policies (continued)

Non-Operating Gains and Losses

Activities not related to providing health care services are considered to be non-operating. Non-operating gains and losses consist primarily of income on invested funds, unrestricted gifts and bequests, gains and losses on sales of securities, other than temporary losses on marketable securities and changes in the fair value of its interest rate swap instruments.

Other-Than-Temporary Impairments on Investments

In 2011, under the other than trading portfolio, the Hospital continually reviewed its securities for impairment conditions which could indicate that other-than-temporary decline in market value had occurred. In conducting this review, numerous factors were considered, which included specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other-than-temporary. Based on the Hospital's ability and intent to hold impaired assets to recovery, no other than temporary impairments were recorded in 2011. In 2012, GIC continues to review its securities for other-than-temporary impairment consistent with an available for sale portfolio. No impairments were recorded in 2012 or 2011 for any investments held by GIC.

Excess of Revenues Over Expenses

The statements of operations and changes in net assets include excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, include unrealized gains and losses on investments for 2011, except for losses that are deemed to be other-than-temporary, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and change in pension funding obligation.

Unpaid Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses and related reinsurance recoverable includes case basis estimates of reported losses, plus supplemental amounts calculated based upon loss projections utilizing actuarial studies, the Hospital's own historical data and industry data. In establishing this reserve and the related reinsurance recoverable, GIC utilizes the findings of an independent consulting actuary.

1. Summary of Significant Accounting Policies (continued)

The aggregate reserve for losses and loss adjustment expenses and related reinsurance recoverable at year end represents management's best estimate, based on the available data, of the amount necessary to cover the ultimate cost of losses and the amount of such losses that will be recovered under reinsurance programs; however, because of the nature of the insured risks and historical experience, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such asset and liability at the consolidated balance sheet dates. Accordingly, the ultimate asset and liability could be significantly in excess of or less than the amount indicated in these consolidated financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Recognition of Premium Revenues

Premiums written are earned on a pro-rata basis over the related policy period. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums.

Reinsurance

In the normal course of business, GIC seeks to reduce its loss exposure by reinsuring certain levels of risk with reinsurers. Premiums ceded are expensed over the term of their related policies.

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501 (a) of the Code. At times, the Hospital is involved with activities that subject minor amounts of unrelated business income to federal income tax, which are paid as they come due in accordance with the Code and the regulations there under. Such amounts are not material to the Hospital's consolidated financial statements.

Certain net operating loss carry forwards of $2,137,000 from unrelated business activities generated a potential deferred tax asset of approximately $855,000 at September 30, 2012. No deferred tax asset has been reported as this amount is offset by a valuation allowance of the same amount.

1. Summary of Significant Accounting Policies (continued)

GIC is an insurance company organized under the laws of Bermuda. GIC has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until the year 2016.

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 provides 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 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. The Hospital records EHR incentive payments as revenues when attestation that the EHR meaningful use criteria for the required period of time was demonstrated. Such revenues are recognized ratably over the relevant cost report period to determine the amount of reimbursement. Accordingly, the Hospital recognized approximately $4,861,354 of EHR revenues during the year ended September 30, 2012, of which $3,544,926 and $1,316,428 related to Medicare and Medicaid revenues, 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.

1. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In August 2010, the FASB issued Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Recoveries,* 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. The Hospital adopted the guidance in 2012 with no material impact to the consolidated financial statements.

In July 2011, the 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 disclosures relating to sources of patient service revenue and the allowance for doubtful accounts is 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 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, beginning after December 15, 2010. The Hospital adopted this guidance in 2012 with no material impact to the consolidated financial statements. Refer to Note 2 for the related disclosures.

1. Summary of Significant Accounting Policies (continued)

In January 2010, the FASB issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amended Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, to clarify certain existing fair value disclosure requirements and require a number of additional disclosures, which were adopted in 2011, with the exception of the requirement to present changes in Level 3 measurements on a gross basis, which was delayed until 2012. In 2012, the Hospital made the required Level 3 disclosure requirements in Note 5. The adoption of this guidance did not have a significant impact on the Hospital's consolidated financial statements.

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

The following table summarizes net revenues from services to patients.

	Year Ended September 30, 2012	**Period From February 1, 2011 to September 30, 2011**	**Period From October 1, 2010 to January 31, 2011**
Gross revenues from patients	**$ 870,417,634**	$ 562,868,734	$ 287,727,096
Deductions:			
Allowances	**473,120,887**	299,234,717	154,031,976
Connecticut Uncompensated Care Pool	**(3,023,820)**	(1,977,326)	(1,272,087)
Charity Care	**6,791,581**	11,283,693	5,978,393
Net patient service revenue	**393,528,986**	254,327,650	128,988,814
Provision for bad debts	**17,293,190**	(465,136)	2,854,558
Net patient service revenue less provision for bad debts	**$ 376,235,796**	$ 254,792,786	$ 126,134,256

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

Patient revenues and accounts receivable are recorded when services are performed. Payments received from certain payers are different from established billing rates of the Hospital, and these differences are accounted for as allowances.

During 2012 and the Periods under Audit, approximately 36%, 37% and 36%, of net patient service revenue was received under the Medicare program, 15%, 14% and 15%, under the state Medicaid program, 4%, 4% and 4% from self-pay patients, and 45%, 45% and 45%, respectively, from contracts with other third parties. 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 federal poverty income levels. These charges are not included in net patient service revenue for financial reporting purposes.

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 bad debt expense. In distinguishing charity care from bad debt expense, a number of factors are considered, certain of which require a high degree of judgment.

The estimated cost of charity care provided was $2,892,961, $4,818,373 and $2,552,899, respectively, for 2012 and the Periods under Audit. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital-specific data.

Net patient 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. Prior year estimates changed approximately $7,247,661, $622,400 and ($6,065,400), respectively, for 2012 and the Periods under Audit.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as formal settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Hospital management believes that the Hospital is in compliance with all

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

applicable laws and regulations and is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and reductions of funding levels could have an adverse impact on the Hospital.

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:

- Historical write-off and collection experience using a hindsight or look-back approach;
- 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.

3. Community Benefit

The Hospital provides quality health care to all, regardless of their ability to pay. Charity care is provided to those who are eligible based on the Hospital's policy. The Hospital receives insufficient payments to cover the costs of Medicare and Medicaid programs which results in community benefits. In addition to charity care responsibilities, the Hospital provides numerous other community benefits which include medical education and research, community health education, screenings, support groups, counseling services, medical and specialty clinics and in-kind support.

The Hospital utilizes guidelines developed by various organizations to quantify community benefit activities. The Hospital defines community benefit activities as those that improve access to healthcare services, enhance the health of the community and provide education of medical and health issues to the broader community. In addition to charity care and unpaid cost of government sponsored health care (Medicare and/or Medicaid shortfalls), community benefit activities will normally fall into on the following categories: unbilled community health service/community health improvement services, health professions education, subsidized health services and research. Services provided to Medicare, Medicaid and charity care patients represent the most significant levels of uncompensated care. The Hospital calculates the cost of other community benefits by identifying specific expenditures incurred by the Hospital that directly benefit the community.

4. Assets Whose Use is Limited

The Hospital has investments whose use is limited, which are carried on the consolidated balance sheets within investments related to GIC, assets held in trust by others, investments and other assets and investments for restricted purposes. The portion of these amounts required for funding current liabilities is included in current assets.

4. Assets Whose Use is Limited (continued)

The composition of assets whose use is limited at September 30 is set forth in the following table.

	2012	2011
Cash and cash equivalents	**$ 1,019,354**	$ 728,255
Equity securities	**9,536,834**	1,829,115
Fixed income bonds	**5,079,779**	18,715,798
Mutual funds	**113,322,769**	84,193,803
Common collective funds	**8,195,000**	17,577,736
Alternative investments and other	**30,443,342**	28,142,879
	$ 167,597,078	$ 151,187,586

There were no investments in a gross unrealized loss position as of September 30, 2012. No other than temporary impairment was recognized during 2012 or 2011.

Interest and dividend income on the unrestricted investments totaled $1,837,455, $980,761 and $558,464 in 2012 and for the Periods under Audit, respectively. Realized gains on the investments totaled $542,071, $17,036 and $7,174 for 2012 and the Periods under Audit, respectively.

5. Fair Value Measurements

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, a fair value hierarchy that prioritizes observable and unobservable inputs is 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.

5. Fair Value Measurements (continued)

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, 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	$ 32,572,707	$ –	$ –	$ 32,572,707
Assets whose use is limited:				
Cash and cash equivalents	189,030	–	–	189,030
Equity securities:				
U.S.	332,981	–	–	332,981
International	131,441	–	–	131,441
Fixed income securities:				
U.S.	–	168,840	–	168,840
International	–	59,733	–	59,733
Mutual funds:				
U.S.	–	113,322,769	–	113,322,769
Common collective funds:				
U.S.	–	–	–	–
International	–	8,195,001	–	8,195,001
Alternative investments:				
U.S.	–	250,210	–	250,210
International	–	2,517,075	27,237,695	29,754,770
Funds held in trust	–	14,396,846	255,461	14,652,307
Funds designated for debt services:				
Money market funds	2,397,202	–	–	2,397,202
Other assets:				
Mutual funds:				
U.S.	2,283,001	329,371	–	2,612,372
International	1,117,601	–	–	1,117,601

5. Fair Value Measurements (continued)

	September 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 20,299,387	$ –	$ –	$ 20,299,387
Assets whose use is limited:				
Cash and cash equivalents	45,322	–	–	45,322
Equity securities:				
U.S.	328,923	–	–	328,923
International	55,031	–	–	55,031
Emerging markets	24,242	–	–	24,242
Fixed income securities:				
U.S.	–	17,786,469	–	17,786,469
International	–	20,739	–	20,739
Domestic mutual funds	–	84,193,803	–	84,193,803
Domestic common collective funds	–	7,369,675	–	7,369,675
Alternative investments and other	8,475	2,361,878	25,504,535	27,874,888
Assets held in trust by others		13,379,594	109,000	13,488,594
Funds designated for debt services:				
Money market funds	2,397,206	–	–	2,397,206
Other assets:				
Mutual funds:				
U.S.	1,406,466	238,170	–	1,644,636
International	1,079,471	–	–	1,079,471

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 Value Measurements (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:

	September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Pension fund assets:				
Cash and cash equivalents	$ 3,868,179	$ –	$ –	$ 3,868,179
Domestic mutual funds	199,164,121	–	–	199,164,121
Domestic common collective funds	–	15,867,720	–	15,867,720
Alternative investments and other	–	–	6,089,569	6,089,569

For the year ended September 30 the changes in the fair value of assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	2012	**2011**
Beginning balance at October 1	**$ 31,703,004**	$ 27,337,048
Change in unrealized gains and losses	**1,694,777**	(876,644)
Investment income, net	**40,644**	242,600
Purchases	**144,300**	5,000,000
Pension assets released to master trust	**(6,089,569)**	–
Ending balance at September 30	**$ 27,493,156**	$ 31,703,004

The Hospital's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below. Where applicable, the Hospital uses quoted prices in active markets for identical assets and liabilities to determine fair value (Level 1 inputs).This pricing methodology applies to equities and fixed income mutual funds.

If quoted prices in active markets for identical assets and liabilities are not available, then quoted prices for similar assets and liabilities, quoted prices for identical assets or liabilities in inactive markets or inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, will be used to determine fair value (Level 2 inputs). The Level 2 classifications include fixed income securities, collective investment funds and interest rate swap agreement. The interest rate swap agreement is valued based on a determination of market expectations relating to the future cash flows associated with the swap contract using sophisticated modeling based on observable market-based inputs, such as interest rate curves.

5. Fair Value Measurements (continued)

Assets and liabilities that are valued using significant unobservable inputs, such as extrapolated data, proprietary models or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy. The Level 3 classification includes the equity funds held by the Hospital and GIC. The equity funds are valued based on the ownership interest in the NAV of the fund as the practical expedient to estimate fair value. The Hospital routinely monitors and assesses methodologies and assumptions used in valuing these interests. The funds include certain liquidity restrictions that may require at least 90 days advance notice for redemptions. 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. Net Assets

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

	2012	2011
Indigent care	**$ 911,759**	$ 783,781
Other health care services and capital acquisitions	**19,103,366**	15,942,984
	$ 20,015,125	$ 16,726,765

Permanently restricted net assets are restricted for the following purposes as of September 30:

	2012	2011
Investments to be held in perpetuity, the income from which is expendable to support health care services	**$ 6,600,444**	$ 6,600,444
Restricted funds held in trust by others, the income from which is expendable to support health care services	**15,192,304**	13,488,594
	$ 21,792,748	$ 20,089,038

6. Net Assets (continued)

The Hospital's endowments consist of multiple funds established for a variety of purposes. The endowments include both donor-restricted endowment funds, funds designated by the Board of Directors to function as endowments and assets held in trust by others. As required by GAAP, endowments, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor restrictions.

The Hospital has interpreted the relevant laws 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital during its annual budgeting process.

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

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a reasonably stable and predictable stream of earnings to support the operations of the endowments and to preserve and enhance over time the real value of the endowment assets. Under this 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 and management costs, of at least 6% over the long-term. Actual returns in any given year may vary from this amount.

The Investment Committee of the Board is responsible for defining and reviewing the investment policy to determine an appropriate long-term asset allocation policy. The asset allocation policy reflects the objective with allocations structured for capital growth and inflation protection over the long-term.

6. Net Assets (continued)

The current asset allocation targets and ranges as of September 30, 2012, are as follows.

Asset Class	Asset Allocation Targets Policy Target	Ranges
Global equities	46%	30%-60%
Marketable alternative assets	20%	15%-25%
Non-marketable alternative assets	4%	0%-6%
Real assets	14%	6% -20%
U.S. bonds	11%	8%-20%
Non-U.S. Bonds	5%	0%-10%

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

Changes in endowments for the year ended September 30, 2012 and 2011 are as follows.

2012	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets at beginning of year	**$ 89,632,017**	**$ 2,764,282**	**$ 6,600,444**	**$ 98,996,743**
Investment return:				
Investment income	**1,241,168**	**134,146**	**–**	**1,375,314**
Net appreciation (realized and unrealized)	**8,208,041**	**1,046,246**	**–**	**9,254,287**
Contributions	**124,353**	**4,082**	**–**	**128,435**
Appropriation of endowment assets for expenditure	**–**	**(308,775)**	**–**	**(308,775)**
Endowment net assets at end of year	**$ 99,205,579**	**$ 3,639,981**	**$ 6,600,444**	**$ 109,446,004**

6. Net Assets (continued)

2011	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 91,527,136	$ 2,788,126	$ 6,600,444	$ 100,915,706
Investment return:				
Investment income	1,628,002	147,925	–	1,775,927
Net (depreciation) appreciation (realized and unrealized)	(3,731,116)	54,166	–	(3,676,950)
Contributions	207,995	10,603	–	218,598
Appropriation of endowment assets for expenditure	–	(236,538)	–	(236,538)
Endowment net assets at end of year	$ 89,632,017	$ 2,764,282	$ 6,600,444	$ 98,996,743

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2012 and 2011, there were no funds that were below the level required by donor or law.

7. Property, Plant and Equipment

Property, plant and equipment consist of the following as of September 30.

	2012	2011
Land	**$ 6,095,226**	$ 6,138,259
Buildings and improvements	**241,334,780**	231,855,821
Equipment	**175,097,766**	173,958,428
	422,527,772	411,952,508
Less accumulated depreciation	**(274,632,798)**	(260,274,904)
	147,894,974	151,677,604
Construction in progress (estimated cost to complete $11,591,513)	**2,535,320**	1,087,466
	$ 150,430,294	$ 152,765,070

8. Long-Term Debt, Lines of Credit and Capital Leases

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%	**$ 31,199,642**	$ 31,199,642
Series C, taxable variable rate term bond	**4,544,163**	4,544,163
Barnes construction loan	**–**	367,534
Capital lease obligation	**3,512,827**	5,997,231
Unamortized bond premium	**609,422**	618,287
	39,866,054	42,726,857
Less current portion	**(2,165,699)**	(2,724,400)
Long term portion	**$ 37,700,355**	$ 40,002,457

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 HHC 2011 Bonds, an obligated group was formed. The members of the obligated group are HHC, Hartford Hospital, The Hospital of Central Connecticut, 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, Lines of Credit and Capital Leases (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 preceding schedule. The Hospital is party to the HHC 2011 Series A and Series C Revenue Bonds. The HHC 2011 Series A Revenue Bonds consist of 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 2011 Series C Revenue Bonds consist of term bonds that mature from July 1, 2042 through July 1, 2049. The HHC 2011 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 2011 Series 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 Supplementary 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.

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 HHC'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.

As part of the HHC 2011 Bonds, the Obligated Group entered into a line of credit for $20,000,000 from Bank of America which expires in March 2014. In 2012, the Obligated Group entered into an additional $60,000,000 line of credit with another bank. As of September 30, 2012, and 2011, the Hospital had not drawn on either line of credit.

Deferred financing costs of $270,054 associated with the previous CHEFA debt were written off on September 29, 2011.

8. Long-Term Debt, Lines of Credit and Capital Leases (continued)

In October 2005, the Hospital entered into a ten-year, non-interest bearing loan agreement for $2,400,000 from the Barnes Memorial Trust. The Hospital is required to make annual payments of $240,000 toward the loan. The outstanding balance on this loan as of September 30, 2012 and 2011 was $0 and $367,534, respectively.

In May 2008, the Hospital entered into a five-year, $4,950,000 capital lease agreement with CHEFA for Novalis medical equipment. This lease has an interest rate of 3.75%. The bank has a lien on the Novalis medical equipment. The outstanding balance on this lease as of September 30, 2012 and 2011 was $714,747 and $1,753,967, and the net book value of the leased equipment was $2,533,627 and $3,133,912, respectively.

In August 2008, the Hospital entered into a five-year, $3,690,000 capital lease agreement with CHEFA for pet scan equipment. This lease has an interest rate of 4.27%. The bank has a lien on the pet scan equipment. The outstanding balance on this lease as of September 30, 2012 and 2011 was $736,662 and $1,508,137 and the net book value of the leased equipment was $1,864,223 and $2,333,867, respectively.

In February 2010, the Hospital entered into a five-year, $1,450,000 capital lease agreement with CHEFA for MRI equipment. This lease has an interest rate of 3.84%. The bank has a lien on the MRI equipment. The outstanding balance on this lease as of September30, 2012 and September 30, 2011 was $735,535 and $1,020,534 and the net book value of the leased equipment was $876,132 and $1,142,009, respectively.

In December 2010, the Hospital entered into a five-year, $2,000,000 capital lease agreement with CHEFA for DaVinci Robotic equipment. This lease has an interest rate of 2.25%. The bank has a lien on the DaVinci equipment. The outstanding balance on this lease as of September 30, 2012 and September 30, 2011 was $1,325,872 and $1,714,593 and the net book value of the leased equipment was $1,755,474 and $2,074,651, respectively.

During the years ended September 30, 2012 and 2011, the Hospital paid interest of $1,957,216, $254,398 and $582,741 respectively, for 2012 and the Periods under Audit.

8. Long-Term Debt, Lines of Credit and Capital Leases (continued)

The following is a schedule of future principal payments by fiscal year on long-term debt as of September 30, 2012.

	Intercompany Loan	Capital Leases	Total
Year:			
2013	$ 20,610	$ 2,145,089	$ 2,165,699
2014	339,273	714,292	1,053,565
2015	383,979	547,568	931,547
2016	459,305	105,881	565,186
2017	494,824	–	494,824
Thereafter	34,045,811	–	34,045,811
Total principal paid	35,743,802	3,512,830	39,256,632
Add: bond premium	609,422	–	609,422
Less: current portion	20,610	2,145,089	2,165,699
	$ 36,332,614	$ 1,367,741	$ 37,700,355

9. Derivatives

In connection with the issuance of the CHEFA Series A bonds, the Hospital entered into an interest rate swap agreement (swap agreement) to synthetically fix the interest payment. Under the swap agreement, the fair value of the interest rate swap (a liability of $3,819,673 as of September 30, 2010) has been recorded in the accompanying consolidated balance sheets within other long-term liabilities. The change in fair value of the interest rate swap of $2,173,398 and $(1,501,171) for the Periods under Audit, respectively, is recorded in the consolidated statements of operations and changes in net assets as a component of non-operating income. The swap agreement was terminated with the refinancing of the hospital debt on September 29, 2011.

10. Retirement Plans

The Hospital has two noncontributory, defined benefit pension plans (New Britain and Bradley campuses) covering substantially all of its employees hired prior to January 1, 2006. Benefits are based on years of service and the employee's compensation during the last five years of employment. Employees hired after January 1, 2006 are eligible to participate in a defined contribution plan, as the defined benefit plans are closed to employees hired after January 1, 2006.

10. Retirement Plans (continued)

In addition, the Hospital has a Supplementary Executive Retirement Plan (SERP) under Section 457(b) and 457(f) of the Internal Revenue Code of 1986, as amended.

The SERP has been established to supplement the retirement benefits of eligible employees designated by the Hospital's Board of Directors. The fair value of the assets relating to the SERP are $3,730,003 and $2,724,107 as of September 30, 2012 and 2011. The accrued liability relating to the SERP, amounted to $6,414,692 and $4,083,217 as of September 30, 2012 and 2011, respectively. The expenses incurred related to the SERP amounted to $672,556, $545,778 and $353,350 for 2012 and the Periods under Audit, respectively.

Significant disclosures relating to the retirement benefit plans, which are measured as of September 30, 2012 and 2011 are as follows:

	NBGH		Bradley	
	2012	**2011**	**2012**	**2011**
Change in benefit obligation				
Benefit obligation at beginning of year	**$ (283,476,677)**	$ (271,626,303)	**$ (34,863,081)**	$ (33,733,867)
Service cost	**(7,541,230)**	(7,754,005)	**(896,679)**	(977,386)
Interest cost	**(15,210,581)**	(14,427,418)	**(1,846,069)**	(1,788,240)
Actuarial loss	**(60,425,292)**	3,043,406	**(6,875,071)**	537,168
Benefits paid	**7,824,226**	6,986,683	**1,310,981**	942,654
Administrative expenses paid	**–**	300,960	**–**	156,590
	$ (358,829,554)	$ (283,476,677)	**$ (43,169,919)**	$ (34,863,081)
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 198,577,822**	$ 187,165,367	**$ 26,411,767**	$ 24,803,955
Actual return on plan assets	**19,868,873**	(1,799,902)	**2,724,490**	(292,943)
Employer contribution	**12,000,000**	20,500,000	**1,400,000**	2,999,999
Benefits paid	**(7,824,226)**	(6,986,683)	**(1,310,981)**	(942,654)
Administrative expenses paid	**–**	(300,960)	**–**	(156,590)
	$ 222,622,469	$ 198,577,822	**$ 29,225,276**	$ 26,411,767
Accrued pension liability				
Unfunded status	**$ (136,207,085)**	$ (84,898,845)	**$ (13,944,643)**	$ (8,451,314)

10. Retirement Plans (continued)

	NBGH			Bradley		
	2012	**October 1, 2010 to January 31, 2011**	**February 1, 2011 to September 30, 2011**	**2012**	**October 1, 2010 to January 31, 2011**	**February 1, 2011 to September 30, 2011**
Components of net periodic benefit cost						
Service cost	**$ 7,541,230**	$ 2,825,690	$ 4,928,315	**$ 896,679**	$ 345,069	$ 632,317
Interest cost	**15,210,581**	4,691,377	9,736,041	**1,846,069**	581,142	1,207,098
Expected return on plan assets	**(17,363,183)**	(5,213,859)	(9,981,137)	**(2,296,126)**	(625,704)	(1,322,406)
Net amortization and deferral	**252,655**	1,653,648	–	**–**	319,916	–
Net Periodic benefit cost	**$ 5,641,283**	$ 3,956,856	$ 4,683,219	**$ 446,622**	$ 620,423	$ 517,009

	NBGH		Bradley	
	2012	**2011**	**2012**	**2011**
Assumptions:				
Weighted average assumption used to determine benefit obligations were:				
Discount rate	**4.15%**	5.30%	**4.10%**	5.25%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Weighted average assumption used to determine periodic benefit obligations were:				
Discount rate	**5.30%**	5.25%	**5.25%**	5.25%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Expected return on plan assets	**8.00%**	7.50%	**8.00%**	7.50%

The unfunded status of the accrued pension liability is included within the current and long-term portion of the pension liability on the accompanying consolidated balance sheets. The accumulated benefit obligation for the NBGH plan was $314,752,363 and $250,666,538 as of September 30, 2012 and 2011, respectively. The accumulated benefit obligation for the Bradley plan was $39,266,754 and $32,010,945 as of September 30, 2012 and 2011, respectively.

As a result of the acquisition described in Note 1, the funded status of the post retirement obligations was adjusted to fair value on the Acquisition Date. In connection with the acquisition, previously unrecognized prior service costs and actuarial loss, including amounts previously recognized in unrestricted net assets, were eliminated. Such amounts totaled $70,816,103.

10. Retirement Plans (continued)

Accumulated amounts recorded in unrestricted net assets as of September 30 not yet amortized as components of net periodic benefit costs are as follows.

	2012		2011	
	NBGH	Bradley	NBGH	Bradley
Unamortized actuarial loss	**$ 104,424,317**	**$ 11,723,548**	$ 46,757,359	$ 5,276,841
Amount recognized as a reduction in unrestricted net assets	**$ 104,424,317**	**$ 11,723,548**	$ 46,757,359	$ 5,276,841

The amortization of the above items expected to be recognized in net periodic benefit costs for the year ended September 30, 2013 is $7,182,456.

The Hospital's expected long-term rate of return on plan assets is updated periodically, taking into consideration asset allocation, historical return on the type of assets held and the current economic environment.

The Hospital's investment objective is to meet the out-going pay out requirements of the plans' and to offset future inflation and minimize future contributions. Investment risk is effectively managed through the diversification of assets for a mix of capital growth and capital protection across various investment styles. The performance goal is to have a minimum total return of the CPI plus 3% over a rolling ten-year period.

The weighted average asset allocations as of September 30, 2012 and 2011 are as follows:

	Target Allocation	NBGH		Bradley	
Asset Category	**2012**	**2012**	**2011**	**2012**	**2011**
Equity securities	**57%**	**41%**	59%	**41%**	61%
Fixed income/debt securities	**25%**	**14%**	38%	**14%**	37%
Commodities/inflation/real assets	**8%**	**34%**	–	**34%**	–
Other	**10%**	**11%**	3%	**11%**	2%
Total	**100%**	**100%**	100%	**100%**	100%

The Hospital expects to make contributions of $12,800,000 to the NBGH plan, $1,350,000 to the Bradley plan and $427,542 to its SERP during fiscal 2013.

10. Retirement Plans (continued)

The following benefit payments, which reflect expected future service, are expected to be paid during the fiscal years indicated.

Benefit Payments	NBGH	Bradley
Year:		
2013	$ 8,906,762	$ 1,369,701
2014	9,553,036	1,456,050
2015	10,588,093	1,532,774
2016	11,571,913	1,638,843
2017	12,650,693	1,841,331
2018-2022	84,754,528	11,775,040

The Hospital has a defined contribution benefit plan, which became effective January 1, 2006. Substantially all full-time employees hired after January 1, 2006, are eligible to participate in the new plan. Employees may contribute a percentage of their annual contribution subject to IRS limitations and the Hospital contributes up to 4% of annual compensation for employees that work greater than 20 hours a week and 3% of annual compensation for employees that work less than 20 hours a week. The Hospital has made employer contributions to this plan totaling $2,079,175, $71,015 and $1,215,415 for 2012 and the Periods under Audit, respectively. Employees become vested in the Hospital's contributions over three years. The portion of the employer contributions unvested upon termination of an employee are forfeited and used to reduce future contributions made by the Hospital on a dollar-for-dollar basis.

11. Professional and General Liability Insurance

Effective January 6, 2009, the Hospital transferred all assets and liabilities to GIC through a loss portfolio transfer. GIC, which is a wholly owned subsidiary of the Hospital, provides professional and general liability coverage on a claims-made basis to the Hospital.

The Hospital does not self-insure any professional liability risks other than exposures greater than its excess coverages, however, as of September 30, 2012 and 2011, the Hospital has recorded a liability for estimated incurred but not reported claims, as it currently has a claims-made policy with GIC.

11. Professional and General Liability Insurance (continued)

Coverage provided in the attending physician program is on a claims-made basis and is based on each physician's retroactive coverage date. The limits of coverage per physician are $1 million per claim and $4 million in aggregate.

In 2012 and 2011, the Hospital purchased excess insurance limits of $35 million, above the insured retention noted above.

A reconciliation of direct to net premiums on a written and earned basis is summarized as follows for year ended September 30, 2012.

	Written	Earned
Direct	$ 5,413,048	$ 5,433,065
Ceded	(2,451,984)	(2,451,984)
	$ 2,961,064	$ 2,981,081

Activity in the reserve for losses and loss adjustment expenses is summarized as follows for the year ended September 30, 2012.

	2012	**2011**
Net reserve, beginning of year	**$ 12,654,212**	$ 17,936,438
Incurred related to:		
Current year	**2,796,500**	3,873,000
Prior years	**(5,664,687)**	(5,274,650)
Total incurred	**(2,868,187)**	(1,401,650)
Paid related to:		
Current year	**(30,708)**	(3,024)
Prior years	**(300,285)**	(3,877,552)
Total paid	**(330,993)**	(3,880,576)
Net reserve, end of year	**9,455,032**	12,654,212
Plus: reinsurance recoverable	**7,505,995**	7,355,995
Gross balance, end of the year	**$ 16,961,027**	$ 20,010,207

11. Professional and General Liability Insurance (continued)

As a result of changes in estimates of insured events in prior years, the reserve for losses and loss adjustment expenses decreased by $5,664,687 in 2012.

The Hospital also maintains a tail reserve for claims made policies prior to the movement to the captive. The reserve is discounted at 3% and has a balance of $2,704,130 as of September 30, 2012.

The ultimate settlement of losses may vary significantly from the reserves recorded. In particular, ultimate settlements on medical malpractice claims depend, among other things, on the resolution of litigation, the outcome of which is difficult to predict. In addition, since the reserves have been discounted, there is the possibility that the timing of loss payments and income earned on invested assets will be significantly different than anticipate.

12. Self-Insurance of Workers' Compensation

The Hospital self-insures workers' compensation claims with retention on the first $350,000 per claim. The Hospital has also purchased excess liability insurance, which provides coverage for workers' compensation claims in excess of $350,000, and up to aggregate limits of $1,000,000 per employers' liability claim. The self-insurance plan is unfunded.

During the year, potential losses from asserted and unasserted claims identified by the Hospital's risk management system are accrued based upon estimates that incorporate the Hospital's past experience, as well as the nature of each claim or incident and relevant trend factors.

The Hospital's year-end workers' compensation reserve, as estimated by Hospital management in conjunction with its independent actuaries, is included in self-insurance and other long-term liabilities on the consolidated balance sheets and is discounted at 0.5% in 2012 and 2011. The balances as of September 30, 2012 and 2011 are $3,728,097 and $2,614,140, respectively.

13. Transactions with Affiliated Entities

The costs of services provided to the Hospital by various HHC affiliates are recorded as a direct cost of certain services and an allocation of shared expenditures. Services provided by affiliates for 2012 and periods under audit were $6,498,066, $699,924, and $2,642,672, respectively. Other inter-company activity with subsidiaries of the Hospital include recurring transactions associated with operations which have been eliminated in consolidation.

	September 30	
	2012	**2011**
Due from CCHA	**$ 2,106,655**	$ 2,255,682
Due to Hartford Hospital	**(381,961)**	(348,551)
Due to Hartford Healthcare	**(1,219,116)**	–
Other	**(43,931)**	48,479
	$ 461,647	$ 1,955,610

14. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance as explained in Note l 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 leases for various equipment and office space, which are accounted for as operating leases. Operating lease expense in 2012 and the Periods under Audit was $4,450,006, $2,868,605 and $1,768,423, respectively.

14. Commitments and Contingencies (continued)

As of September 30, 2012, future lease commitments on non-cancelable leases with remaining terms of one year or more consisted of the following:

Year	Operating Leases
2013	$ 2,527,195
2014	1,500,715
2015	1,409,994
2016	1,083,337
2017	669,708
Thereafter	1,370,989
	$ 8,561,938

15. Functional Expenses

The Hospital provides general healthcare services to residents within its geographic location including acute inpatient and outpatient services. Expenses related to providing these services are as follows.

	2012	Period From February 1, 2011 to September 30, 2011	Period From October 1, 2010 to January 31, 2011
Health care services	**$ 328,506,982**	$ 216,397,003	$ 111,569,749
General and administrative	**37,675,534**	18,143,306	12,486,505
Fundraising	**597,948**	386,107	195,848
	$ 366,780,464	$ 234,926,416	$ 124,252,102

16. Subsequent Events

For the year ended September 30, 2012, the Hospital evaluated subsequent events through January 25, 2013, which is the date the financial statements were issued. No events occurred that require disclosure or adjustment to the consolidated financial statements.

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Report of Independent Auditors on Supplementary Information

The Board of Directors of
The Hospital of Central Connecticut

We have audited the consolidated financial statements of The Hospital of Central Connecticut (the Hospital) as of and for the years ended September 30, 2012 and the period from October 1, 2010 to January 31, 2011 and the period from February 1, 2011 to September 30, 2011, and have issued our report thereon dated January 28, 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, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

January 28, 2013

The Hospital of Central Connecticut

Consolidating Balance Sheets

September 30, 2012

	The Hospital of Central Connecticut	Grand Indemnity Company, LTD.	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 27,153,802	$ 5,418,905		$ 32,572,707
Accounts receivable, less allowance for doubtful accounts of $16,017,907	48,473,300			48,473,300
Premiums receivable		35,686		35,686
Reinsurance recoverable		7,505,995		7,505,995
Other receivables	6,782,147			6,782,147
Due from affiliates	156,589		(71,831)	84,758
Inventories of supplies	5,943,030			5,943,030
Prepaid expenses and other assets	3,609,849	4,020		3,613,869
Assets whose use is limited - related to GIC		2,000,000		2,000,000
Total current assets	92,118,717	14,964,606	(71,831)	107,011,492
Assets whose use is limited:				
Investments related to GIC		24,593,682		24,593,682
Investments and other assets	99,205,579			99,205,579
Investments for restricted purposes	26,605,513			26,605,513
Assets held in trust by others	15,192,304			15,192,304
	141,003,396	24,593,682	–	165,597,078
Funds designated for debt services	2,397,202			2,397,202
Investments in affiliates	7,530,923		(5,267,875)	2,263,048
Other assets	4,393,842			4,393,842
Due from affiliates	1,949,995			1,949,995
Property, plant and equipment, net	150,430,294			150,430,294
	166,702,256	–	(5,267,875)	161,434,381
Total assets	$ 399,824,369	$ 39,558,288	$ (5,339,706)	$ 434,042,951
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 15,593,544			$ 15,593,544
Accrued expenses	9,196,153	38,576		9,234,729
Accrued compensation	14,266,850			14,266,850
Due to affiliates	1,644,937	71,831	(71,831)	1,644,937
Unearned premiums		26,654		26,654
Reserve for losses and loss adjustment expenses		2,000,000		2,000,000
Deferred revenue	572,719			572,719
Estimated third-party settlements	19,307,101			19,307,101
Current portion of long-term debt	2,165,699			2,165,699
Current portion of pension	14,577,542			14,577,542
Total current liabilities	77,324,545	2,137,061	(71,831)	79,389,775
Reserve for losses and loss adjustment expenses		14,961,027		14,961,027
Long-term debt	37,700,355			37,700,355
Accrued pension	141,985,877			141,985,877
Self-insurance and other long-term liabilities	7,802,605			7,802,605
Total liabilities	264,813,382	17,098,088	(71,831)	281,839,639
Net assets:				
Share capital		120,000	(120,000)	–
Contributed surplus		5,147,875	(5,147,875)	–
Unrestricted net assets / surplus	93,203,114	17,192,325		110,395,439
Temporarily restricted net assets	20,015,125			20,015,125
Permanently restricted net assets	21,792,748			21,792,748
Total net assets / surplus	135,010,987	22,460,200	(5,267,875)	152,203,312
Total liabilities and net assets	$ 399,824,369	$ 39,558,288	$ (5,339,706)	$ 434,042,951

The Hospital of Central Connecticut

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

For the Year Ended September 30, 2012

	The Hospital of Central Connecticut	**Grand Indemnity Company, LTD.**	**Eliminations**	**Total**
Revenues:				
Net patient service revenue	$ 393,528,986			$ 393,528,986
Provision for bad debts	17,293,190			17,293,190
Net patient service revenue less provision for bad debts	376,235,796			376,235,796
Other operating revenues	13,861,784			13,861,784
Net premiums earned		2,981,081	(2,787,000)	194,081
Net assets released from restrictions used for operations	1,559,503			1,559,503
Total revenues	391,657,083	2,981,081	(2,787,000)	391,851,164
Expenses:				
Salaries and benefits	165,293,135			165,293,135
Fringe benefits	42,901,786			42,901,786
Purchased services	93,187,652		(2,787,000)	90,400,652
Supplies and other expenses	49,535,456	207,348		49,742,804
Depreciation and amortization	19,353,058			19,353,058
Losses and loss adjustment expenses		(2,868,187)		(2,868,187)
Interest	1,957,216			1,957,216
Total expenses	372,228,303	(2,660,839)	(2,787,000)	366,780,464
Income from operations, before early extinguishment of debt	19,428,780	5,641,920		25,070,700
Non-operating gains:				
Investment income	1,837,455			1,837,455
Unrestricted gifts and bequests	123,070			123,070
Gains on sales of securities	542,071			542,071
Unrealized gain on investments	7,462,766			7,462,766
Total non-operating gains	9,965,362	–	–	9,965,362
Excess of revenues over expenses	29,394,142	5,641,920	–	35,036,062
Changes in unrestricted net assets:				
Pension changes other than net periodic benefit costs	(65,083,998)			(65,083,998)
Loss on Investment in Affiliate	(133,499)			(133,499)
Unrealized gain on investments		1,795,750		1,795,750
Net assets released from restrictions for capital	399,160			399,160
	$ (35,424,195)	$ 7,437,670	$ –	$ (27,986,525)

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