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Audited Consolidated Financial Statements and Supplementary Information

Hartford HealthCare Corporation and Subsidiaries
Years Ended September 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

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Hartford HealthCare Corporation and Subsidiaries

Audited Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2012 and 2011

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Report of Independent Auditors

Board of Directors
Hartford HealthCare Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Hartford HealthCare Corporation and Subsidiaries (the Corporation) 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 Corporation'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 Corporation'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 Corporation'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 HealthCare Corporation and Subsidiaries at 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 U.S. generally accepted accounting principles.

As discussed in Note 1 to the accompanying consolidated financial statements, in 2012 the Corporation 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 28, 2013

Hartford HealthCare Corporation and Subsidiaries

Consolidated Balance Sheets

	September 30 2012		September 30 2011
	(In Thousands)		
Assets			
Current assets:			
Cash and cash equivalents	$	**206,896**	$ 139,631
Accounts receivable, less allowances for doubtful accounts of approximately $64,100 in 2012 and $58,200 in 2011		**272,907**	235,816
Other receivables		**72,013**	36,296
Inventories of supplies		**22,915**	21,927
Prepaid expenses and other assets		**19,105**	22,667
Current portion of assets whose use is limited		**3,105**	5,903
Total current assets		**596,941**	462,240
Assets whose use is limited:			
Investments and other assets		**378,117**	325,844
Investments for restricted purposes		**259,040**	226,209
Escrow funds for long-term debt		**52,448**	87,044
Funds designated for debt service		**19,557**	19,598
		709,162	658,695
Funds held in trust by others		**166,612**	148,185
Other assets		**150,759**	122,878
Property, plant and equipment, net		**790,224**	731,563
	$	**2,413,698**	$ 2,123,561
Liabilities and net assets			
Current liabilities:			
Accounts payable	$	**60,923**	$ 51,242
Salaries, wages, payroll taxes and amounts withheld from employees		**58,751**	50,662
Accrued expenses		**84,955**	63,575
Estimated third-party payor settlements		**29,931**	34,065
Current portion of long-term debt and capital leases		**81,143**	25,230
Current portion of accrued pension liability		**29,794**	33,250
Current portion of other liabilities		**11,036**	17,287
Total current liabilities		**356,533**	275,311
Long-term debt and capital leases		**403,991**	413,327
Accrued pension liability		**643,721**	544,500
Other liabilities		**97,540**	42,466
Net assets:			
Unrestricted		**509,479**	491,087
Temporarily restricted		**147,379**	121,465
Permanently restricted		**255,055**	235,405
		911,913	847,957
	$	**2,413,698**	$ 2,123,561

See accompanying notes.

Hartford HealthCare Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30 2012	2011
	(In Thousands)	
Unrestricted revenues, gains and other support:		
Net patient service revenue	$ **1,879,748**	$ 1,615,988
Provision for bad debts (*see Note 1*)	**57,193**	30,641
Net patient service revenue less provision for bad debts	**1,822,555**	1,585,347
Other operating revenue	**256,850**	177,014
Net assets released from restrictions for operations	**10,688**	10,961
	2,090,093	1,773,322
Operating expenses:		
Salaries and wages	**918,718**	803,824
Employee benefits	**284,716**	244,010
Supplies and other	**362,730**	322,433
Purchased services	**336,521**	263,920
Depreciation and amortization	**93,592**	81,701
Provision for non-patient bad debts	**20,019**	4,779
Interest	**13,221**	6,487
	2,029,517	1,727,154
Income from operations before loss on early extinguishment of debt	**60,576**	46,168
Loss on early extinguishment of debt	–	(2,635)
Operating income	**60,576**	43,533
Nonoperating income (loss):		
Income from investments, gifts and bequests, net	**16,794**	13,334
Other	**(2,231)**	(2,266)
Contribution received in the acquisition of Central Connecticut Health Alliance and Subsidiaries	–	190,132
	14,563	201,200
Excess of revenues over expenses before change in unrealized gains and losses on investments	**75,139**	244,733
Change in unrealized gains and losses on investments	**54,000**	(18,574)
Excess of revenues over expenses	**129,139**	226,159

Hartford HealthCare Corporation and Subsidiaries

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

	September 30	
	2012	**2011**
	(In Thousands)	
Unrestricted net assets:		
Excess of revenue over expenses	**$ 129,139**	$ 226,159
Transfer from temporarily restricted net assets	**123**	149
Net unrealized gains (losses) on investments	**2,153**	(9,478)
Net assets released from restrictions used for the purchase of equipment	**4,118**	3,999
Change in pension and post-retirement funding obligation	**(116,746)**	(106,048)
Other	**(395)**	–
Increase in unrestricted net assets	**18,392**	114,781
Temporarily restricted net assets:		
Restricted contributions	**11,422**	7,796
Restricted investment income	**4,068**	8,279
Change in unrealized gains and losses on investments	**25,831**	(10,965)
Transfer to unrestricted net assets	**(123)**	(149)
Net assets released from restrictions for operations	**(10,688)**	(10,961)
Other	**(478)**	–
Net assets released from restrictions used for the purchase of equipment	**(4,118)**	(3,999)
Contribution received in the acquisition of Central Connecticut Health Alliance and Subsidiaries	**–**	17,756
Increase in temporarily restricted net assets	**25,914**	7,757
Permanently restricted net assets:		
Restricted contributions	**967**	315
Restricted investment income	**256**	355
Contribution received in the acquisition of Central Connecticut Health Alliance and Subsidiaries	**–**	21,415
Change in unrealized gains and losses on funds held in trust by others	**18,427**	(5,815)
Increase in permanently restricted net assets	**19,650**	16,270
Increase in net assets	**63,956**	138,808
Net assets at beginning of year	**847,957**	709,149
Net assets at end of year	**$ 911,913**	$ 847,957

See accompanying notes.

Hartford HealthCare Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30 2012	2011
Cash flows from operating activities		
Increase in net assets	$ **63,956**	$ 138,808
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Contribution received in the acquisition of Central Connecticut Health Alliance and Subsidiaries	–	(229,303)
Depreciation and amortization	**93,592**	81,701
Loss on early extinguishment of debt	–	2,635
Change in unrealized gains and losses on assets whose use is limited	**(81,984)**	39,017
Change in unrealized gains and losses on funds held in trust by others	**(18,427)**	5,815
Provision for bad debts	**57,193**	30,641
Provision for non-patient bad debts	**20,019**	4,779
Change in net assets related to pension and post-retirement funding obligation	**116,746**	106,048
Change in fair value of interest rate swap agreements	**896**	4,961
Other changes in net assets:		
Restricted contributions and investment income	**16,713**	(16,745)
Changes in assets and liabilities, net *(Note 13)*	**(113,365)**	(52,713)
Net cash provided by operating activities	**155,339**	115,644
Cash flows from investing activities		
Purchase of property, plant and equipment, net	**(152,253)**	(111,924)
Decrease (increase) in assets whose use is limited, net	**34,315**	(127,279)
Cash received in the acquisition of Central Connecticut Health Alliance and Subsidiaries	–	35,856
Cash paid in the acquisition of Constitution Surgery Centers	–	(27,526)
Net cash used in investing activities	**(117,938)**	(230,873)
Cash flows from financing activities		
Proceeds from long-term debt and capital leases	**60,187**	430,779
Payments on long-term debt and capital leases	**(13,610)**	(282,708)
Restricted contributions and investment income	**(16,713)**	16,745
Net cash provided by financing activities	**29,864**	164,816
Net increase in cash and cash equivalents	**67,265**	49,587
Cash and cash equivalents at beginning of year	**139,631**	90,044
Cash and cash equivalents at end of year	$ **206,896**	$ 139,631

See accompanying notes.

1. Significant Accounting Policies

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

Organization

The Corporation was incorporated on August 21, 1985 as a not-for-profit organization under the Non-Stock Corporation Act of the State of Connecticut. The Corporation is organized exclusively for public welfare, charitable, scientific, literary and educational purposes, including the furtherance of the welfare, programs and activities of its subsidiaries.

The Corporation is the sole member of consolidated Hartford Hospital (Hartford), consolidated MidState Medical Center (the Medical Center), combined Windham Community Memorial Hospital (Windham), consolidated H.H.M.O.B, consolidated VNA Health Care, Inc. (VNA Health Care), Natchaug Hospital (Natchaug), consolidated Rushford Center, Inc., Clinical Laboratory Partners, LLC, and PracticeCentral, LLC. Effective February 1, 2011, Central Connecticut Health Alliance and its subsidiaries (collectively referred to as "CCHA") was acquired by the Corporation, refer to Central Connecticut Health Alliance Acquisition section of this footnote.

Hartford is a voluntary association incorporated under the General Statutes of the State of Connecticut. The consolidated financial statements of Hartford include Jefferson House and Cedar Mountain Commons (departments of Hartford) and the Institute of Living. Jefferson House is a nursing home facility that is operated as a department of Hartford Hospital as mandated by legislation enacted in 1873. Cedar Mountain Commons is a senior living community that opened in February 2001 and is owned by Hartford and Jefferson House. The Institute of Living is a mental health center in Hartford, Connecticut and is a wholly-owned subsidiary of Hartford.

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 them in their financial statements with a corresponding non-controlling interest.

1. Significant Accounting Policies (continued)

The Medical Center is a nonprofit organization incorporated under the General Statutes of the State of Connecticut. The consolidated financial statements of the Medical Center include Meriden Imaging Center and MidState MSO, LLC. In 1999, the Medical Center acquired an 80% interest in the Meriden Imaging Center. Effective February 14, 2006, MidState MSO, LLC was created to provide management services and support for medical practices.

Windham is a voluntary association incorporated under the General Statutes of the State of Connecticut. The combined financial statements of Windham include The Hatch Hospital Corporation and Windham Hospital Foundation, Inc. The Hatch Hospital Corporation and Windham Hospital Foundation, Inc. are both nonprofit organizations incorporated under the General Statutes of the State of Connecticut.

H.H.M.O.B. was incorporated under the laws of the State of Connecticut for the purpose of operating a medical office building. The consolidated financial statements of H.H.M.O.B. include Eastern Rehabilitation Network, Hartford Medical Group and Intermediate Medical Care Centers, Inc.

VNA Health Care is a nonprofit, nonstock Connecticut corporation, founded in 1901, which was incorporated on March 1, 1986 as the parent company and sole member of VNA Health Resources, Inc. VNA Health Care provides corporate management, financial and other services to its subsidiary. VNA converted its fiscal year to September 30 from June 30 in 2011; accordingly, fifteen months were reported.

Natchaug is a nonprofit organization incorporated under the General Statutes of the State of Connecticut. Natchaug provides inpatient and outpatient psychiatric healthcare services.

Rushford Center, Inc. is a nonprofit organization that includes Rushford Foundation, Inc. The Foundation is a nonprofit agency in which Rushford Center, Inc. is a 100% owner. Rushford Center, Inc. has a June 30 year-end.

Clinical Laboratory Partners, LLC was created in 1998 through a merger of three Connecticut based laboratories.

PracticeCentral, LLC became operational in fiscal year 2012 and facilitates the adoption of electronic health systems by physician practices throughout the state of Connecticut for effective data sharing and clinical integration.

1. Significant Accounting Policies (continued)

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

Eye Surgery Center Acquisition

On February 4, 2011, the Corporation 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 Corporation 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.

Central Connecticut Health Alliance Acquisition

On February 1, 2011 (the Acquisition Date), the Corporation acquired CCHA, a system of health care affiliates that provides a wide array of services throughout the region including the Hospital of Central Connecticut (HOCC) and its wholly owned subsidiary, Grand Indemnity Company, Ltd (GIC), VNA of Central Connecticut, Inc. (VNACC), Central Connecticut Senior Health Services, Inc. (CCSHS) (d/b/a Southington Care Center), which includes Mulberry Gardens of Southington, LLC (Mulberry Gardens) and The Orchards at Southington (the Orchards), Community Mental Health Affiliates, Inc. (CMHA), CenConn Services, Inc. (CSI), New Britain Occupational Health Center and Central Connecticut Sports Medicine Center.

Pursuant to the acquisition agreement, the Corporation acquired CCHA by means of an inherent contribution where no consideration was transferred by the Corporation. The Corporation accounted for this business combination by applying the acquisition method, and accordingly, the inherent contribution received was valued as the excess of assets acquired over liabilities assumed. In determining the inherent contribution received, all assets acquired and liabilities assumed were measured at fair value as of the Acquisition Date. The results of CCHA's operations have been included in the consolidated financial statements since the Acquisition Date.

1. Significant Accounting Policies (continued)

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, respectively, is recorded in the Corporation's consolidated balance sheets within other 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 Corporation 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 Corporation 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 Corporation is required to file annual operating information with the State of Connecticut Office of Health Care Access.

1. Significant Accounting Policies (continued)

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 Corporation's financial instruments are disclosed in Note 5.

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 Corporation's policy to monitor the financial strength of those institutions.

Patient Accounts Receivable

Patient accounts receivable result from the health care services provided by the Corporation. 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 Corporation'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 Corporation 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 includes 28% and 12%, and 29% and 10%, for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2012 and 2011, respectively.

1. Significant Accounting Policies (continued)

Investments

The majority of the Corporation's investment portfolio is classified as a trading portfolio with unrealized gains and losses included in the excess of revenues over expenses. CCHA had an other than trading portfolio in 2011, whereby unrealized gains and losses are excluded from excess of revenues over expenses, unless the losses are deemed to be other than temporary. During 2012, management determined that the majority of CCHA's investment portfolio was more accurately classified as trading. GIC's investments continue to be classified as available for sale with unrealized gains and losses excluded from excess of revenues over expenses and included in unrestricted net assets.

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 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 the 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. HOCC's alternative investments are stated at fair value as estimated in an unquoted market. Valuations of those investments and, therefore, the Corporation's holdings may be determined by the investment manager and are primarily based on the underlying securities. 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.

In 2011, CCHA continually reviewed its securities for impairment conditions, which could have indicated that an other-than-temporary decline in market value had occurred. In conducting this review, numerous factors were considered, which included specific information pertaining to an

1. Significant Accounting Policies (continued)

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 was reduced to its estimated realizable value if a decline in fair value was considered to be other-than-temporary. Based on improved market conditions, as well as CCHA's ability and intent to hold impaired assets to recovery, no other than temporary impairments were recorded in 2011.

The Corporation holds non-marketable equity investments in private companies. At September 30, 2012 and 2011, the carrying value of the Corporation'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 Corporation'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 Corporation 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 Corporation 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 were $3,994,000 and $4,611,000 as of September 30, 2012 and 2011, respectively. These obligations are recorded in other noncurrent liabilities in the accompanying consolidated balance sheet. 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, respectively.

1. Significant Accounting Policies (continued)

Assets Whose Use is Limited

Assets whose use is limited includes assets that are set aside internally by management or by the Board of Directors for future capital improvements, research, education, escrow funds, and debt service funds for existing obligations on long term debt. Amounts that are restricted by the Board of Directors are not available for use without the approval of the Board of Directors. 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 Corporation 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 Corporation in perpetuity. The Corporation 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 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

1. Significant Accounting Policies (continued)

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 the effective interest method. Bond issuance costs of approximately $5,557,000 and $5,426,000 are recorded in other assets in the consolidated balance sheets as of September 30, 2012 and 2011, respectively.

Interest Rate Swap Agreements

The Corporation utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. The Corporation does not hold or issue derivative financial instruments for trading purposes. The Corporation may be exposed to credit loss in the event of nonperformance by the counterparties to its interest rate swap agreements. Interest rate swap agreements are reported at fair value. Changes in fair value are recognized in the performance indicator in the consolidated statements of operations and changes in net assets.

Other Operating Revenue

Other operating revenue includes services to other institutions, 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 investments, realized and unrealized gains and losses on trading investments, restricted gifts, bequests, changes in the fair value of swap agreements and the excess of revenues over expenses of Jefferson House and Cedar Mountain Commons.

1. Significant Accounting Policies (continued)

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, unrealized gains and losses on other than trading investments and permanent transfers of assets to and from affiliates.

Unpaid Losses and Loss Adjustment Expenses

The reserve for losses and loss adjustment expenses and related reinsurance recoverable for HOCC includes case basis estimates of reported losses, plus supplemental amounts calculated based upon loss projections utilizing actuarial studies, HOCC'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.

Management believes that its aggregate reserve for losses and loss adjustment expenses and related reinsurance recoverable at year end represents its best estimate, based on the available data, of the amount necessary to cover the ultimate cost of losses; however, because of the nature of the insured risks and limited 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 date. 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 for GIC 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.

1. Significant Accounting Policies (continued)

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 Corporation and all of its subsidiaries are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code except for Clinical Laboratory Partners, LLC, CSI and H.H.M.O.B. and its subsidiaries, which are taxable entities of which income taxes are immaterial. For all entities included within Hartford HealthCare Corporation, certain net operating loss carry forwards of $15,866,000 from unrelated business activities generate a potential deferred tax asset of approximately $6,075,000. No deferred tax asset has been recorded as this amount is offset by a valuation allowance of the same amount.

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 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, 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 Corporation 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

1. Significant Accounting Policies (continued)

Corporation recognized approximately $14.3 million of EHR revenues during the year ended September 30, 2012, approximately $10.4 million and $3.9 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 Corporation'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 No. (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 Corporation on October 1, 2011. The adoption of this standard increased other current assets and other current liabilities by approximately $15.9 million, and other assets and other long-term liabilities by approximately $48.7 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 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 Corporation 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 Corporation's consolidated financial statements aside from the required changes in presentation.

1. Significant Accounting Policies (continued)

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 Corporation adopted this guidance in 2012 which had no material impact to the consolidated financial statements. Refer to Note 2 for related disclosures.

In January 2010, 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 Corporation adopted the remainder of ASU 2010-06. The adoption of this guidance did not have a significant impact on the Corporation's consolidated financial statements for the year ended September 30, 2012.

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, and approximately $5.9 million from accounts receivable to other receivables.

2. Net Patient Service Revenue and Charity Care

Revenues from the Medicare and Medicaid programs accounted for approximately 35% and 11%, and 40% and 13% of the Corporation'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.

2. Net Patient Service Revenue and Charity Care (continued)

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

The following table summarizes net patient service revenue:

	Year Ended September 30	
	2012	**2011**
	(In Thousands)	
Gross patient service revenue	**$ 4,294,961**	$ 3,624,354
Less:		
Allowances	**2,372,213**	1,965,691
Charity care	**43,000**	42,675
Net patient service revenue	**1,879,748**	1,615,988
Provision for bad debts	**57,193**	30,641
Net patient service revenue less provision for bad debts	**$ 1,822,555**	$ 1,585,347

The Corporation has agreements with third-party payors that provide for payments to the Corporation 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 Corporation recorded net changes in estimates of approximately $23,805,000 and $10,443,000, respectively which primarily related to better than previously estimated third-party payor settlements.

2. Net Patient Service Revenue and Charity Care (continued)

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

The Corporation has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under those agreements, the HMOs make fee-for-service payments to the Corporation for certain covered services based upon discounted fee schedules. In addition, the Corporation receives monthly capitation payments from certain HMOs based on the number of each HMO's participants, regardless of services actually performed by the Corporation.

The Corporation 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 Corporation. Essentially, these policies define charity care as those services for which no payment is anticipated. In accessing a patient's inability to pay, the Corporation 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'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.

2. Net Patient Service Revenue and Charity Care (continued)

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.

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.

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	39%
Medicaid	12%
Self pay	4%
All other	45%
	100%

The estimated cost of charity care provided was $20,292,000 and $16,570,000 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.

3. Net Assets

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

	2012	2011
	(In Thousands)	
Free beds	$ **30,492**	$ 25,304
Research	**35,344**	30,690
Education	**11,793**	10,139
Capital replacement	**13,996**	9.573
Other health care services	**55,754**	45,759
	$ **147,379**	$ 121,465

Permanently restricted net assets at September 30 are restricted for:

	2012	2011
	(In Thousands)	
Investments to be held in perpetuity, the income from which is expendable to support health care services	$ **66,853**	$ 65,860
Endowment requiring income to be added to original gift to support health care services	**21,590**	21,360
Restricted funds held in trust by others, the income from which is expendable to support health care services	**166,612**	148,185
	$ **255,055**	$ 235,405

The Corporation's endowment consists of hundreds of individuals funds established for a variety of purposes. Those funds include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Corporation has interpreted the Uniform Prudent 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 Corporation classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the

3. Net Assets (continued)

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 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 Corporation 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 Corporation 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 Corporation
7) The investment policies of the Corporation

The Corporation 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 Corporation must hold in perpetuity or for a donor-specific period(s). 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 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 Corporation 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 Corporation 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 Corporation 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 Corporation's objective to maintain the purchasing power of the endowment assets held

3. Net Assets (continued)

in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns. HOCC, The Medical Center, Windham, VNA Health Care and Rushford evaluated endowment spending based on need and current market conditions as well as long-term investment goals.

Endowment net asset composition (excluding funds held in trust by others) by type of fund as of September 30, 2012, consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 73,098	$ 88,443	$ 161,541
Board-designated endowment funds	117,429	–	–	117,429
	$ 117,429	$ 73,098	$ 88,443	$ 278,970

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of the year	$ 103,828	$ 59,392	$ 87,220	$ 250,440
Reclassifications	1,230	(1,230)	–	–
Endowment net assets after reclassification	105,058	58,162	87,220	250,440
Investment return:				
Investment income	1,785	804	229	2,818
Net appreciation (realized and unrealized)	10,913	19,335	27	30,275
Net asset reclassification – net unrealized loss on endowments	123	(123)	–	–
Total investment return	12,821	20,016	256	33,093
Contributions	62	–	967	1,029
Appropriation of endowment assets for expenditure	(512)	(5,080)	–	(5,592)
Endowment net assets, end of year	$117,429	$ 73,098	$ 88,443	$ 278,970

3. Net Assets (continued)

Endowment net asset composition (excluding funds held in trust by others) by type of fund as of September 30, 2011, consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 59,392	$ 87,220	$ 146,612
Board-designated endowment funds	103,828	–	–	103,828
	$ 103,828	$ 59,392	$ 87,220	$ 250,440

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of the year	$ 14,259	$ 63,077	$ 79,865	$ 157,201
Reclassifications	(268)	–	–	(268)
Endowment net assets after reclassification	13,991	63,077	79,865	156,933
Investment return:				
Investment income	1,293	586	359	2,238
Net appreciation (realized and unrealized)	(9,280)	(936)	(4)	(10,220)
Net asset reclassification – net unrealized loss on endowments	148	(148)	–	–
Total investment return	(7,839)	(498)	355	(7,982)
Contributions	208	228	329	765
Contribution received in the acquisition of Central Connecticut Health Alliance	97,583	3,223	6,685	107,491
Appropriation of endowment assets for expenditure	(115)	(6,638)	(14)	(6,767)
Endowment net assets, end of year	$ 103,828	$ 59,392	$ 87,220	$ 250,440

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 Corporation 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 material deficiencies as of September 30, 2012 and 2011, respectively.

4. Assets Whose Use is Limited

Included in assets whose use is limited are the following amounts:

	September 30	
	2012	**2011**
	(In Thousands)	
Cash and cash equivalents	**$ 18,599**	$ 3,771
Money market funds	**72,742**	110,548
Equity securities:		
U.S.	**51,697**	43,856
International	**443**	79
Fixed income bonds:		
U.S.	**46,008**	47,747
International	**237**	9,137
Mutual funds:		
U.S.	**190,781**	171,973
International	**87,424**	66,014
Common collective funds:		
U.S.	**136,111**	140,006
International	**51,786**	41,409
Alternative investments and other	**52,122**	28,106
Other notes and accounts receivable	**130**	200
Pledges receivable, net	**4,187**	1,752
	$ 712,267	$ 664,598

The composition and presentation of income from investments, gifts and bequests, net, which are included in nonoperating income (loss) in the consolidated statements of operations and changes in net assets, are as follows:

	Year Ended September 30	
	2012	**2011**
	(In Thousands)	
Interest and dividend income	**$ 9,575**	$ 5,840
Realized gain (loss) on investments, net	**5,547**	8,573
Other	**1,672**	(1,079)
	$ 16,794	$ 13,334

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.

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 Corporation 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.

5. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value in the accompanying consolidated balance sheets, excluding assets invested in the Corporation's pension plans, are classified in the table below in one of the three categories described above (in thousands):

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 206,896	$ –	$ –	$ 206,896
Assets limited as to use:				
Cash and cash equivalents	18,599	–	–	18,599
Money market funds	72,742	–	–	72,742
Equity securities:				
U.S.	51,697	–	–	51,697
International	443	–	–	443
Fixed income bonds:				
U.S.	124	45,884	–	46,008
International	178	59	–	237
Mutual funds:				
U.S.	77,458	113,323	–	190,781
International	87,424	–	–	87,424
Common collective funds:				
U.S.	–	136,111	–	136,111
International	–	51,786	–	51,786
Alternative investments	–	2,768	27,238	30,006
Other	–	232	–	232
Other assets:				
Mutual funds:				
U.S.	8,601	329	–	8,930
International	1,118	–	–	1,118
Funds held in trust by others	–	166,612	–	166,612
Total	$ 525,280	$ 517,104	$ 27,238	$ 1,069,622
Liabilities				
Interest rate swaps	–	10,867	–	10,867

The amounts reported in the table above do not include alternative investments totaling $21,884,406 that are accounted for under the equity method of accounting.

5. Fair Values of Financial Instruments (continued)

	September 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 139,631	$ –	$ –	$ 139,631
Assets limited as to use:				
Cash and cash equivalents	3,771	–	–	3,771
Money market funds	110,548	–	–	110,548
Equity securities:				
U.S.	43,856	–	–	43,856
International	79	–	–	79
Fixed income bonds:				
U.S.	–	47,747	–	47,747
International	–	9,137	–	9,137
Mutual funds:				
U.S.	171,973	–	–	171,973
International	66,014	–	–	66,014
Common collective funds:				
U.S.	–	140,006	–	140,006
International	–	41,409	–	41,409
Alternative investments	–	–	25,504	25,504
Other	8	2,594	–	2,602
Other assets:				
Cash and cash equivalents	500	–	–	500
Mutual funds:				
U.S.	5,614	238	–	5,852
International	1,079	–	–	1,079
Funds held in trust by others	–	148,185	–	148,185
Total	$ 543,073	$ 389,316	$ 25,504	$ 957,893
Liabilities				
Interest rate swaps	–	9,969	–	9,969

The Corporation established a Master Trust Pension Plan effective May 1, 2011. Each respective Hospital owns participant units in the trust. The Plan's assets are invested in a master trust consisting of cash and cash equivalents, equity, fixed income funds, and alternative investments. The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the funded status of the Plan for a significant portion of the total pension liability that can occur due to changes in interest rates. The plan follows a three-level hierarchy, which are measured at fair value on a recurring basis were categorized as Level 1, Level 2 and Level 3 investments, respectively.

5. Fair Values of Financial Instruments (continued)

Financial assets classified within the Master Trust Pension Plan as of September 30, 2012 are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 30,002	$ –	$ –	$ 30,002
Money market funds				
Equity securities:				
U.S.	250,619	–	–	250,619
International	159,265	–	–	159,265
Fixed income bonds:				
U.S.	4,524	145,914	–	150,438
International		7,951	–	7,951
Mutual funds:				
U.S.	33,165	3,703	–	36,868
International	271	823	–	1,094
Common collective funds:				
U.S.	–	341,067	–	341,067
Alternative investments and other	–	–	122,924	122,924
Total	$ 477,846	$ 499,458	$ 122,924	$ 1,100,228

5. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value included in the Corporation's pension plans as of September 30, 2011 are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 15,149	$ –	$ –	$ 15,149
Money market funds	632	–		632
Equity securities:				
U.S.	41,354	–	–	41,354
International	39	–	–	39
Fixed income bonds:				
U.S.	–	52,323	–	52,323
International	–	14,350	–	14,350
Mutual funds:				
U.S.	366,251	2,663	–	368,914
International	75,425	595	–	76,020
Common collective funds:				
U.S.	–	280,126	–	280,126
International	–	50,386	–	50,386
Alternative investments and other	–	11,684	6,090	17,774
Total	$ 498,850	$ 412,127	$ 6,090	$ 917,067

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

Assets 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. Level 3 assets are valued based on the Corporation's ownership interest in the net asset value (NAV) of the fund. As the NAV reported

5. Fair Values of Financial Instruments (continued)

by each fund is used as a practical expedient to estimate the fair value of the Corporation's interest therein. The Corporation routinely monitors and assesses methodologies and assumptions used in valuing these interests. The Level 3 assets include certain liquidity restrictions that may require 90 days advance notice for redemptions.

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

	2012	2011
	(In Thousands)	
Beginning balance at October 1	**$ 31,594**	$ 28,588
Change in unrealized gains and losses	**4,549**	(2,085)
Realized gains	**41**	200
Purchases	**113,978**	4,891
Ending balance at September 30	**$ 150,162**	$ 31,594

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 Corporation 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 consists of the following at September 30:

	2012	2011
	(In Thousands)	
Land and land improvement	**$ 53,083**	$ 51,983
Buildings and fixed equipment	**1,082,402**	1,027,042
Equipment	**806,236**	775,546
	1,941,721	1,854,571
Less accumulated depreciation	**(1,246,948)**	(1,160,721)
	694,773	693,850
Construction in process (estimated cost to complete — $33,360,000)	**95,451**	37,713
	$ 790,224	$ 731,563

7. Pensions and Other Postretirement Benefits

The Corporation has cash balance retirement plans and defined benefit pension plans (both contributory and noncontributory), covering substantially all employees and noncontributory, supplemental defined-benefit retirement plans for certain executive employees (collectively, the Plans). As noted in Note 4, a Master Trust was established in 2012. Contributions to the Plan are based on actuarially determined amounts sufficient to meet the benefits to be paid to the Plan participants. The assets of the Plan are available to pay the benefits of eligible employees for participating entities based on their allocated share of assets. The service cost component of net periodic pension cost and all other components are actuarially determined as defined by each plan.

The benefits are based on years of service and the employees' compensation as defined by each of the plans. The Corporation makes contributions in amounts sufficient to fund the Plans' current service cost and the funding policy is to contribute amounts to these plans sufficient to meet the minimum funding requirements set forth by federal government regulations. Several of the pension plans are frozen to new members.

The Corporation also has defined contribution plans covering substantially all of its employees and executives. Expense for employer contributions was approximately $21,201,000 and $17,189,000 for 2012 and 2011, respectively.

7. Pensions and Other Postretirement Benefits (continued)

The Corporation provides health care and life insurance benefits to its retired employees who meet certain eligibility requirements. The Corporation's policy is to fund the cost of postretirement 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	**$ 647,022,000**	$ 529,953,000
Unrecognized prior service credit	**(7,689,000)**	(7,366,000)
	$ 639,333,000	$ 522,587,000

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	$ 40,410,714
Unrecognized prior service credit	(3,756,267)
	$ 36,654,447

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
		(in thousands)		
Change in benefit obligation				
Benefit obligation at beginning of year	**$ (1,376,440)**	$ (1,016,162)	**$ (105,828)**	$ (101,671)
Inclusion of obligation at Acquisition Date	**–**	(278,163)	**–**	–
Service cost	**(44,689)**	(41,473)	**(2,562)**	(2,338)
Interest cost	**(70,067)**	(62,847)	**(5,353)**	(5,110)
Employee contributions	**–**	–	**(3,571)**	–
Benefits paid	**67,570**	60,827	**10,447**	4,946
Actuarial losses	**(241,497)**	(38,622)	**6,222**	(1,086)
Curtailment	**11,787**	–	**–**	–
Plan amendments, other	**–**	–	**(83)**	(569)
Benefit obligation at year-end	**$ (1,653,336)**	$ (1,376,440)	**$ (100,728)**	$ (105,828)

7. Pensions and Other Postretirement Benefits (continued)

	Pension Benefits		Other Post-Retirement Benefits	
	2012	2011	2012	2011
	(in thousands)			
Change in plans' assets				
Fair value of assets at beginning of year	$ **917,067**	$ 721,754	$ **–**	$ –
Inclusion of plan assets at Acquisition Date	**–**	222,894	**–**	–
Actual return on plans' assets	**160,319**	(6,700)	**–**	–
Benefits paid	**(67,570)**	(60,827)	**(10,447)**	(4,946)
Employer contributions	**90,412**	39,946	**6,876**	4,946
Employee contributions	**–**	–	**3,571**	–
Fair value of plans' assets at year-end	**1,100,228**	917,067	**–**	–
Underfunded status of the plans'	$ **(553,108)**	$ (459,373)	$ **(100,728)**	$ (105,828)
Components of net periodic benefit cost				
Service cost	$ **44,689**	$ 41,473	$ **2,562**	$ 2,338
Interest cost	**70,067**	62,847	**5,354**	5,110
Expected return on plans' assets	**(78,195)**	(74,257)	**–**	–
Settlement loss	**953**	–	**–**	–
Net amortization and deferral	**23,846**	14,708	**860**	644
Benefit cost included in the statements of operations and changes in net assets	$ **61,360**	$ 44,771	$ **8,776**	$ 8,092

The accumulated benefit obligation for the Corporation's plans was approximately $1,549,738,000 and $1,284,761,000 at September 30, 2012 and 2011, respectively.

The weighted-average assumptions used to develop the projected benefit obligations were as follows:

	Pension Benefits		Other Post-Retirement Benefits	
	2012	2011	2012	2011
Discount rate for determining benefit obligations at year-end	**3.40-4.25%**	4.55-5.30%	**3.85-3.90%**	5.05%
Rate of compensation increase	**3.50%**	3.50%	**–**	–

7. Pensions and Other Postretirement Benefits (continued)

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

	Pension Benefits		Other Post-Retirement Benefits	
	2012	**2011**	**2012**	**2011**
Discount rate	**4.55-5.45%**	4.60-5.58%	**5.05-5.10%**	5.10%
Expected rate of return on plan assets	**5.05-8.0%**	5.15-8.25%	–	–
Rate of compensation increase	**3.50%**	3.50%	–	–

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

The Corporation has two post-retirement benefit plans. The weighted-average annual assumed rates of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) are assumed to be 8.5% to 9.0%. Rates are assumed to decline to 5% through 2019 for one plan and through 2018 for the second plan. 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 costs and accumulated post-retirement benefit obligations by approximately $556,000 and $6,940,000 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 obligations by approximately $494,000 and $2,499,000 at September 30, 2012, respectively.

Plans' Assets

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

	Target	**2012**	**2011**
Equity securities	**57%**	**41%**	60%
Fixed income/debt securities	**25%**	**14%**	35%
Commodities/inflation/real assets	**8%**	**34%**	3%
Other	**10%**	**11%**	2%
Total	**100%**	**100%**	100%

7. Pensions and Other Postretirement Benefits (continued)

The pension plan asset portfolios have target allocations similar to the allocations noted in the table above. The goals of the plans are to provide a secure retirement benefit for plan participants and to manage pension plan assets for the exclusive benefit of the participants. The Investment Committee of the Board of Directors of each organization has responsibility for the development, review and monitoring of the investment policy. The plans' assets are invested in accordance with the policy.

Contributions

The Corporation expects to make contributions of approximately $80,378,000 in fiscal year 2013 to its Plans and approximately $5,636,000 to its other post-retirement benefit plans in fiscal year 2013.

Estimated Future Benefit Payments

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

	Pension Benefits	Other Post-Retirement Benefits
2013	$ 83,575,000	$ 5,636,000
2014	85,171,000	5,742,000
2015	85,500,000	5,972,000
2016	87,924,000	6,081,000
2017	94,218,000	6,298,000
2018-2022	515,276,000	32,902,000

8. Long-Term Debt

Details of long-term debt are as follows:

	September 30 2012	2011
	(In Thousands)	
Revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA):		
Series A, consisting of a tax-exempt serial bond and term bonds; interest at rates ranging from 4.4% to 5.0%	**$ 254,730**	$ 254,730
Series B, tax-exempt variable rate term bond	**71,085**	71,085
Series C, taxable variable rate term bond	**50,000**	50,000
Revolving line of credit (Corporation and VNA Healthcare)	**70,737**	10,060
Master financing agreement with CHEFA (Hartford) due in monthly installments with a fixed rate of 2.75% through September 17, 2015	**12,328**	16,221
Term loan (VNA Healthcare) due in monthly installments with a variable interest rate through June 1, 2014	**1,225**	1,925
Revolving Loan (Windham)	**–**	3,400
Commercial notes (Natchaug), at varying rates of imputed interest to 9.44%	**3,058**	3,234
Notes payable and capital lease obligation, at varying rates of imputed interest from 5.9% to 6%, collateralized by leased equipment (Windham)	**507**	602
Capital lease obligations (HOCC) for medical equipment, subject to liens, due in monthly installments, at varying rates of imputed interest from 2.25% to 4.72%	**3,513**	5,997
Capital lease obligation (Hartford), with option to purchase, due in monthly installments with interest at 6.25%	**8,239**	8,244
Other loans and notes, at varying rates of imputed interest	**4,738**	8,011
Premium on bonds	**4,974**	5,048
	485,134	438,557
Less current portion	**81,143**	25,230
	$ 403,991	$ 413,327

On September 29, 2011, the Corporation 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 the Corporation, Hartford, HOCC, Windham and the Medical Center, (collectively referred to as the Obligated Group). The Obligated Group members are identified as either an obligated group

8. Long-Term Debt (continued)

member or a designated affiliate. 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. The Corporation 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 the Corporation with stipulated repayment terms and conditions, each subject to the governing law of the obligated groups' state of incorporation. In addition, the Corporation 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.

The HHC 2011 Bonds were issued to refund portions of existing debt under the Corporation, and to obtain funds for future capital needs. 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.

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 Corporation'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 Corporation's other long-term debt approximates fair value at September 30, 2012 and 2011.

8. Long-Term Debt (continued)

The Medical Center entered in to an interest rate swap agreement (LIBOR Swap) in connection with a debt instrument that has subsequently been terminated, effective July 1, 2006, whereby the Medical Center receives a variable rate equal to 67% of one month LIBOR and pays a fixed rate of 3.777%. This agreement terminates July 1, 2026.

The fair value of the Medical Center's swap agreement was $6,478,759 and $5,720,844 at September 30, 2012 and 2011, respectively, and is recorded in other liabilities in the accompanying balance sheets. Although the LIBOR Swap represents an economic hedge of the interest rate on debt, it does not qualify for hedge accounting. The changes in the fair value of this agreement is reported in the accompanying statements of operations and changes in net assets as a component of income from investments along with the net cash receipts on the swap agreement.

In September 2010, Hartford 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 is 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 $12,328,000 and $16,221,000, respectively.

Hartford 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, HHC had drawn $20,002,170 and $10,060,000, 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, HHC obtained a $60,000,000 line of credit with a bank. As of September 30, 2012 the Corporation had drawn $50,034,498, on this line of credit, which is also included in current portion of debt. The rate is variable at .92% and expires March 2013.

8. Long-Term Debt (continued)

In conjunction with a debt instrument that has subsequently been terminated, Windham entered into an interest rate swap agreement with a financial institution, with an original notional amount of $19,745,000. The fair value of the swap agreement was $4,387,733 and $4,248,129 at September 30, 2012 and 2011, respectively, and is recorded in other liabilities in the accompanying balance sheets. Although the swap agreement represents an economic hedge of the interest rate, it does not qualify for hedge accounting. The changes in fair value of this agreement is reported in the accompanying statements of operations and changes in net assets as a component of other nonoperating income along with the net cash receipts on the swap agreement.

Windham had an outstanding line of credit with a financial institution for $5,000,000 which expired on April 1, 2012. Interest is set at prime. As of September 30, 2011, Windham had drawn $3,400,000 under this line of credit. This line was paid off during 2012.

Principal payments due on long-term debt are as follows (in thousands):

Fiscal Year Ending September 30:	
2013	$ 81,143
2014	17,808
2015	8,816
2016	4,267
2017	7,989
Thereafter	365,111
	$ 485,134

Interest paid for the year ended September 30, 2012 and 2011 was $13,687,000 and $6,960,000, respectively.

9. Pledges Receivable

Pledges receivable, included in assets whose use is limited, and prepaid expenses and other assets, include the following unconditional promises to give as of September 30:

	2012	2011
	(In Thousands)	
Due within one year	$ 720	$ 1,616
Due in one to five years	4,565	946
	5,285	2,562
Less allowance and discount to present value	777	293
Pledges receivable, net	$ 4,508	$ 2,269

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

10. Professional Liability and Workers' Compensation Insurance

Coverage for professional liability insurance is provided on a claims-made basis. As such, the Corporation has also recorded a liability for estimated incurred but not reported claims.

The Corporation's primary coverage is with CHS Insurance Limited, a captive insurance company in which Hartford and the Medical Center each have a 25% ownership interest. The 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 the consolidated statement of operations and changes in net assets, and was $43,493,000 and $17,687,000 for the years ended September 30, 2012 and 2011, respectively. 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. Malpractice claims are discounted at 2.49% and the incurred-but-not-reported liability was $14,065,000 and $14,918,000 at September 30, 2012 and 2011, respectively.

GIC, which is a wholly owned subsidiary of HOCC, provides professional and general liability coverage on a claims-made basis to HOCC. HOCC does not self-insure any malpractice risks other than exposures greater than its excess coverages'. Coverage provided in the attending physician program is on a claims-made basis and is based on each physician's retroactive

10. Professional Liability and Workers' Compensation Insurance (continued)

coverage date. The limits of coverage per physician are $1 million per claim and $4 million in aggregate. In 2012 and 2011, HOCC purchased excess insurance limits of $35 million, above the insured retention noted above.

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

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 an incurred-but-not-reported liability 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.

10. Professional Liability and Workers' Compensation Insurance (continued)

A significant portion of the Corporation has established a 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. 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.

HOCC self insures workers' compensation claims with retentions on the first $350,000 per claim. HOCC 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 workers' compensation losses from asserted and unasserted claims identified by the Corporation's risk management system are accrued based upon estimates that incorporate the Corporation's past experience, as well as the nature of each claim or incident and relevant trend factors.

11. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Corporation. 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 Corporation.

The Corporation 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 $40,455,000 and $30,119,000 for the years ended September 30, 2012 and 2011, respectively.

11. Commitments and Contingencies (continued)

The future minimum lease payments are as follows (in thousands):

2013	$ 14,442
2014	10,900
2015	10,078
2016	9,436
2017	8,920
Thereafter	80,039
	$ 133,815

12. Functional Expenses

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

	September 30	
	2012	**2011**
	(In Thousands)	
Health care services	**$ 1,627,877**	$ 1,387,469
Support services	**301,788**	249,136
Research	**24,885**	23,513
Education	**74,967**	69,671
	$ 2,029,517	$ 1,729,789

13. Supplemental Cash Flow Information

The changes in assets and liabilities are as follows:

	September 30	
	2012	2011
	(In Thousands)	
Increase in accounts receivable	**$ (94,284)**	$ (35,560)
Increase in other receivables	**(55,736)**	(13,628)
Decrease in notes receivable	**–**	2,875
Decrease in inventories of supplies and prepaid expenses and other assets	**2,574**	18,923
Increase in other assets	**(27,881)**	(19,094)
Increase (decrease) in accounts payable	**9,681**	(55,335)
(Decrease) increase in estimated third-party payor settlements	**(4,134)**	5,474
Increase (decrease) in salaries, wages, payroll taxes and amounts withheld from employees	**8,089**	(7,475)
Increase in accrued expenses and accrued pension liability and other liabilities	**48,326**	51,107
	$ (113,365)	$ (52,713)

14. Subsequent Event

The Corporation evaluated subsequent events through January 28, 2013, which is the date the financial statements were issued. Except those discussed below, no other events occurred that require disclosure in or adjustment to the consolidated financial statements.

Effective October 1, 2012 Hartford and the Medical Center's ownership interest in CHS Insurance Limited was transferred to HHC as a result of HHC becoming the sole owner of CHS Insurance Limited. In addition, the coverage levels for professional liability will be amended. The primary level of coverage for all Hartford HealthCare entities will be $7,500,000 per claim and $30,000,000 aggregate. The primary level of excess will be $20,000,000, shared by two insurance companies. Three other companies each cover additional layers of $10,000,000 for total excess coverage of $60,000,000.

On September 24, 2012, a Certificate of Need (CON) was filed between the Corporation and Backus Corporation ("Backus"). The CON was filed to document the potential acquisition of Backus by the Corporation. If approved, the Corporation will be the sole corporate member of Backus under this agreement.

Supplementary Information

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Report of Independent Auditors on Supplementary Information

Board of Directors
Hartford HealthCare Corporation and Subsidiaries

We have audited the consolidated financial statements of Hartford HealthCare Corporation and Subsidiaries (the Corporation) as of and for the years ended September 30, 2012 and 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, 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

Hartford Health Care Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2012
(In Thousands)

	Hartford HealthCare	Consolidated Hartford Hospital	Consolidated MidState Medical Center	Windham Hospital	The Hospital of Central Connecticut	Consolidated H.H.M.O.B.	Consolidated VNA Health Care, Inc.	Natchaug Hospital	Rushford Center, Inc.	Clinical Laboratory Partners	PracticeCentral	Central CT Senior Health Services, Inc.	Central Connecticut Health Alliance, Inc.	CenConn Services, Inc.	Community Mental Health Affiliates, Inc.	New Britain Occupational Health Center	Eliminations	Total
Assets																		
Current assets:																		
Cash and cash equivalents	$ 3,560	$ 90,421	$ 47,973	$ 4,123	$ 32,573	$ 1,453	$ 892	$ 1,872	$ 2,514	$ 4,832		$ 8,634	$ 2,345	$ 4,134	$ 1,266	$ 304		$ 206,896
Accounts receivable, less allowances	–	151,802	25,148	20,670	48,473	2,622	8,240	5,372	1,829	6,246		1,942	–	–	216	386	$ (39)	272,907
Other receivables	7,881	26,353	9,036	4,081	14,324	3,517	–	223	600	453	$ 212	–	–	–	519	–	4,814	72,013
Due from affiliates, net	–	16,938	6,319	–	85	–	–	–	14	–	–	–	2,444	167	–	–	(25,967)	–
Inventories of supplies	–	11,444	2,650	1,106	5,943	245	–	255	–	1,237	–	35	–	–	–	–	–	22,915
Prepaid expenses and other assets	1,288	8,182	2,789	463	3,614	333	251	–	635	299	–	280	–	539	369	63	–	19,105
Notes receivable from affiliates, net	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Current portion of assets whose use is limited	–	450	–	655	2,000	–	–	–	–	–	–	–	–	–	–	–	–	3,105
Total current assets	12,729	305,590	93,915	31,098	107,012	8,170	9,383	7,722	5,592	13,067	212	10,891	4,789	4,840	2,370	753	(21,192)	596,941
Assets whose use is limited:																		
Investments and other assets	–	262,974	13,032	406	99,206	–	14,172	–	–	–	–		1,924	–	–	–	(13,597)	378,117
Investments for restricted purposes	–	198,834	1,888	1,598	51,200	–	6,309	–	–	–	–	1,535	–	–	286	–	(2,610)	259,040
Escrow funds for long-term debt	29,238	23,210	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	52,448
Funds designated for debt service	2,282	7,126	6,312	1,440	2,397	–	–	–	–	–	–	–	–	–	–	–	–	19,557
	31,520	492,144	21,232	3,444	152,803	–	20,481	–	–	–	–	1,535	1,924	–	286	–	(16,207)	709,162
Funds held in trust by others	–	130,077	13,223	2,831	15,192	–	5,242	42	–	–	–	5	–	–	–	–		166,612
Due from affililiates, net	–	–	–	–	1,950	–	–	–	–	–	–	–	–	–	–	–	(1,950)	–
Investment in subsidiaries	243,270	–	–	–	2,263	–	–	–	–	–	–	–	–	–	–	–	(245,533)	–
Other assets	7,956	93,330	37,032	3,123	4,393	135	–	601	–	92	–	228	3,815	54	–	–	–	150,759
Property, plant and equipment, net	23,140	368,557	127,789	39,646	150,430	31,611	3,743	11,135	6,634	7,578	149	13,919	65	2,632	3,181	15	–	790,224
	$ 318,615	$ 1,389,698	$ 293,191	$ 80,142	$ 434,043	$ 39,916	$ 38,849	$ 19,500	$ 12,226	$ 20,737	$ 361	$ 26,578	$ 10,593	$ 7,526	$ 5,837	$ 768	$ (284,882)	$ 2,413,698
Liabilities and net assets																		
Current liabilities:																		
Accounts payable	$ 349	$ 27,220	$ 5,496	$ 7,315	$ 15,594	$ 1,100	$ 4,358	$ 649	$ 578	$ 3,417		$ 286	$ 6	$ 547	$ 201	$ 17	$ (6,210)	$ 60,923
Salaries, wages, payroll taxes and amounts withheld from employees	–	21,693	10,062	1,813	14,267	1,995	2,381	1,642	1,009	2,191	–	1,195	–	80	423	–	–	58,751
Accrued expenses	16,901	37,951	6,395	1,075	9,834	2,493	1,971	63	1,375	625	$ 217	1,763			1,109	–	3,183	84,955
Notes payable to affiliates	22,726	–	–	–	–	–	951	–	–	–	–	–	2,107	–	–	–	(25,784)	–
Due to affiliates, net	–	–	–	2,842	1,645	304	–	1,222	–	10,252	2,179	16	–	423	2,177	149	(21,209)	–
Estimated third-party payor settlements	–	3,560	3,562	1,499	19,307	–	1,134	(72)	438	–	–	271	–	–	232	–	–	29,931
Current portion of long-term debt and capital leases	689	64,504	–	11,338	2,166	26	1,400	154	71	–	–	–	–	605	190	–	–	81,143
Current portion of accrued pension liability	–	7,662	2,429	5,126	14,577	–	–	–	–	–	–	–	–	–	–	–	–	29,794
Current portion of other liabilities	–	6,640	2,237	–	2,000	–	–	159	–	–	–	–	–	–	–	–	–	11,036
Total current liabilities	40,665	169,230	30,181	31,008	79,390	5,918	12,195	3,817	3,471	16,485	2,396	3,531	2,113	1,655	4,332	166	(50,020)	356,533
Long-term debt	35,633	188,811	88,731	19,433	37,700	8,990	525	2,904	58	–	–	20,425	–	833	196	–	(248)	403,991
Accrued pension liability	–	372,843	56,786	64,663	141,986	1,591	1,726	4,126	–	–	–	–	–	–	–	–	–	643,721
Other liabilities	–	35,150	26,866	7,560	22,764	–	–	796	–	–	–	–	–	4,067	337	–	–	97,540
Net assets:																		
Unrestricted	203,086	294,595	74,346	(47,943)	110,395	23,417	16,872	7,647	6,726	4,252	(2,035)	2,564	8,480	971	887	602	(195,383)	509,479
Temporarily restricted	17,816	121,339	2,279	1,453	20,015	–	101	168	1,971	–	–	53	–	–	–	–	(17,816)	147,379
Permanently restricted	21,415	207,730	14,002	3,968	21,793	–	7,430	42	–	–	–	5	–	–	85	–	(21,415)	255,055
	242,317	623,664	90,627	(42,522)	152,203	23,417	24,403	7,857	8,697	4,252	(2,035)	2,622	8,480	971	972	602	(234,614)	911,913
	$ 318,615	$ 1,389,698	$ 293,191	$ 80,142	$ 434,043	$ 39,916	$ 38,849	$ 19,500	$ 12,226	$ 20,737	$ 361	$ 26,578	$ 10,593	$ 7,526	$ 5,837	$ 768	$ (284,882)	$ 2,413,698

Hartford Health Care Corporation and Subsidiaries

Consolidating Statement of Operations

For the Year Ended September 30, 2012
(In Thousands)

	Hartford HealthCare	Consolidated Hartford Hospital	Consolidated MidState Medical Center	Windham Hospital	The Hospital of Central Connecticut	Consolidated H.H.M.O.B.	Consolidated VNA Health Care, Inc.	Natchaug Hospital	Rushford Center, Inc.	Clinical Laboratory Partners
Unrestricted revenues and other support:										
Net patient service revenue		$ 926,633	$ 218,353	$ 90,160	$ 393,529	$ 32,723	$ 51,925	$ 47,540	$ 18,929	$ 83,217
Provision for bad debts		22,646	6,461	3,122	17,293	285	187	758	898	5,386
Net patient service revenue less provision for bad debts		903,987	211,892	87,038	376,236	32,438	51,738	46,782	18,031	77,831
Other operating revenue	$ 20,540	164,924	41,888	5,420	14,056	28,018	1,753	10	17,829	15,431
Net assets released from restrictions for operations	–	7,591	327	341	1,560	–	381	19	420	–
	20,540	1,076,502	254,107	92,799	391,852	60,456	53,872	46,811	36,280	93,262
Operating expenses:										
Salaries and wages	10,798	452,952	78,096	42,907	165,293	24,816	29,687	28,256	22,602	40,724
Employee benefits	3,089	151,560	28,750	15,336	42,902	4,952	5,803	9,049	6,168	10,727
Supplies and other	735	202,770	47,279	17,579	46,875	8,387	4,845	4,495	2,605	20,233
Purchased services	21,909	165,510	57,851	11,316	90,401	24,149	14,101	2,974	4,496	14,332
Depreciation and amortization	906	46,693	13,215	4,148	19,353	2,988	1,018	887	861	1,281
Provision for non-patient bad debts	12,589	–	8,498	717	–	–	–	–	–	–
Interest	1,598	4,517	3,996	1,324	1,957	49	58	226	3	–
	51,624	1,024,002	237,685	93,327	366,781	65,341	55,512	45,887	36,735	87,297
Income (loss) on operations	(31,084)	52,500	16,422	(528)	25,071	(4,885)	(1,640)	924	(455)	5,965
Nonoperating income (loss):										
Income from investments, gifts and bequests, net	1	10,781	1,448	750	2,503	–	905	–	1	1
Other	–	1,782	(1,588)	(935)	–	(36)	–	–	(239)	(1,164)
	1	12,563	(140)	(185)	2,503	(36)	905	–	(238)	(1,163)
Excess (deficiency) of revenues over expenses before change in unrealized gains and losses on investments	(31,083)	65,063	16,282	(713)	27,574	(4,921)	(735)	924	(693)	4,802
Change in unrealized gains and losses on investments	–	43,722	1,362	–	7,463	–	1,453	–	–	–
Excess (deficiency) of revenues over expenses	$ (31,083)	$ 108,785	$ 17,644	$ (713)	$ 35,037	$ (4,921)	$ 718	$ 924	$ (693)	$ 4,802

	Practice Central	Central CT Senior Health Services, Inc.	Central Connecticut Health Alliance, Inc.	CenConn Services, Inc.	Community Mental Health Affiliates, Inc.	VNA of Central Connecticut, Inc.	New Britain Occupational Health Center	Eliminations	Total
Unrestricted revenues and other support:									
Net patient service revenue		$ 15,742			$ 5,288	$ 2,327	$ 1,344	$ (7,962)	$ 1,879,748
Provision for bad debts		92			42	23	–	–	57,193
Net patient service revenue less provision for bad debts		15,650			5,246	2,304	1,344	(7,962)	1,822,555
Other operating revenue	$ 212	11,128	$ 607	$ 4,509	18,727	280	4	(88,486)	256,850
Net assets released from restrictions for operations	–	49	–	–	–	–	–	–	10,688
	212	26,827	607	4,509	23,973	2,584	1,348	(96,448)	2,090,093
Operating expenses:									
Salaries and wages	1,440	14,881		1,573	13,453	2,396	603	(11,759)	918,718
Employee benefits	369	4,549	(707)	404	3,146	528	225	(2,134)	284,716
Supplies and other	8	4,311	47	1,520	3,516	1,250	363	(4,088)	362,730
Purchased services	430	712	28	118	3,118	329	97	(75,350)	336,521
Depreciation and amortization		619	–	1,005	561	50	7	–	93,592
Provision for non-patient bad debts	–	8	–	–	–	–	–	(1,793)	20,019
Interest	–	191	–	82	48	–	–	(828)	13,221
	2,247	25,271	(632)	4,702	23,842	4,553	1,295	(95,952)	2,029,517
Income (loss) on operations	(2,035)	1,556	1,239	(193)	131	(1,969)	53	(496)	60,576
Nonoperating income (loss):									
Income from investments, gifts and bequests, net	–	43	7	–	–	354	–	–	16,794
Other	–	(51)	–	–	–	–	–	–	(2,231)
	–	(8)	7	–	–	354	–	–	14,563
Excess (deficiency) of revenues over expenses before change in unrealized gains and losses on investments	(2,035)	1,548	1,246	(193)	131	(1,615)	53	(496)	75,139
Change in unrealized gains and losses on investments	–	–	–	–	–	–	–	–	54,000
Excess (deficiency) of revenues over expenses	$ (2,035)	$ 1,548	$ 1,246	$ (193)	$ 131	$ (1,615)	$ 53	$ (496)	$ 129,139

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