AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Hartford Health Care Corporation and Subsidiaries
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

Ernst & Young LLP

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Audited Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2010 and 2009

Contents

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Report of Independent Auditors

Board of Directors
Hartford Health Care Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Hartford Health Care Corporation and Subsidiaries (the Corporation) as of September 30, 2010 and 2009, 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of 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 Health Care Corporation and Subsidiaries at September 30, 2010 and 2009, 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.

Ernst & Young LLP

February 25, 2011

Hartford Health Care Corporation and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2010	**2009**
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 90,044**	$ 82,561
Accounts receivable, less allowances of $50,883 in 2010 and $40,919 in 2009, respectively	**177,076**	173,216
Other receivables	**27,022**	22,700
Inventories of supplies	**15,055**	14,119
Prepaid expenses and other assets	**27,564**	21,884
Estimated third-party payor settlements	**–**	6,060
Notes receivable	**2,875**	4,161
Total current assets	**339,636**	324,701
Assets whose use is limited:		
Investments and other assets	**230,105**	194,255
Investments for restricted purposes	**185,916**	191,312
	416,021	385,567
Funds held in trust by others	**139,270**	124,401
Other assets	**68,558**	48,280
Property, plant and equipment, net	**532,217**	500,955
	$ 1,495,702	$ 1,383,904
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 60,856**	$ 61,651
Salaries, wages, payroll taxes and amounts withheld from employees	**41,733**	58,521
Accrued expenses	**29,447**	33,420
Estimated third-party payor settlements	**2,610**	–
Current portion of accrued pension and other liabilities	**31,854**	25,115
Current portion of long-term debt and capital leases	**44,621**	15,157
Total current liabilities	**211,121**	193,864
Accrued pension and other liabilities	**406,900**	363,364
Long-term debt	**168,532**	165,631
Net assets:		
Unrestricted	**376,306**	350,486
Temporarily restricted	**113,708**	107,425
Permanently restricted	**219,135**	203,134
	709,149	661,045
	$ 1,495,702	$ 1,383,904

See accompanying notes.

Hartford Health Care Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2010	**2009**
	(in thousands)	
Unrestricted revenues and other support:		
Net patient service revenue	**$ 1,248,572**	$ 1,124,796
Other operating revenue	**168,060**	156,205
Net assets released from restrictions used for operations	**9,859**	10,942
	1,426,491	1,291,943
Operating expenses:		
Salaries and wages	**630,357**	593,414
Employee benefits	**166,567**	135,313
Supplies and other	**283,019**	257,178
Purchased services	**194,931**	183,850
Depreciation and amortization	**64,992**	60,718
Provision for uncollectible accounts	**64,021**	46,405
Interest	**4,462**	4,609
	1,408,349	1,281,487
Operating income	**18,142**	10,456
Nonoperating income (loss):		
Income (loss) from investments, gifts and bequests, net	**6,987**	(7,857)
Other	**(427)**	(11,525)
	6,560	(19,382)
Excess (deficiency) of revenues over expenses before change in unrealized gains and losses on investments	**24,702**	(8,926)
Change in unrealized gains and losses on investments	**25,285**	2,052
Excess (deficiency) of revenues over expenses	**49,987**	(6,874)

Continued on next page.

Hartford Health Care Corporation and Subsidiaries

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

	Year Ended September 30	
	2010	**2009**
	(in thousands)	
Unrestricted net assets:		
Excess (deficiency) of revenue over expenses	**49,987**	(6,874)
Transfers from temporarily restricted net assets	**211**	3,092
Net unrealized loss on endowments and other investments	**–**	(707)
Net assets released from restrictions used for the purchase of equipment	**3,823**	1,965
Change in pension and post retirement funding obligation	**(28,294)**	(287,548)
Other	**93**	448
Increase (decrease) in unrestricted net assets	**25,820**	(289,624)
Temporarily restricted net assets:		
Restricted contributions	**7,811**	6,970
Restricted investment income (loss)	**647**	(10,917)
Change in unrealized gains and losses on investments	**12,180**	3,906
Net assets released from restrictions for operations	**(9,859)**	(10,942)
Net assets released from restrictions used for the purchase of equipment	**(3,823)**	(1,965)
Transfers to unrestricted and permanently restricted net assets	**(673)**	(1,578)
Other	**–**	55
Increase (decrease) in temporarily restricted net assets	**6,283**	(14,471)
Permanently restricted net assets:		
Restricted contributions	**1,358**	176
Restricted investment income (loss)	**70**	(422)
Transfer to other entity	**–**	(518)
Transfers from (to) unrestricted and temporarily restricted net assets	**462**	(1,514)
Change in unrealized gains and losses on funds held in trust by others and other adjustment	**14,111**	(4,910)
Increase (decrease) in permanently restricted net assets	**16,001**	(7,188)
Increase (decrease) in net assets	**48,104**	(311,283)
Net assets at beginning of year	**661,045**	972,328
Net assets at end of year	**$ 709,149**	$ 661,045

See accompanying notes.

Hartford Health Care Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2010	**2009**
	(in thousands)	
Cash flows from operating activities		
Increase (decrease) in net assets	**$ 48,104**	$ (311,283)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	**64,992**	60,718
Change in unrealized gains and losses on investments	**37,465**	(5,212)
Change in unrealized gains and losses on funds held in trust by others and other adjustment	**(14,111)**	4,949
Provision for uncollectible accounts	**64,021**	46,405
Change in pension and postretirement funding obligation	**28,294**	287,548
Change in fair value of interest rate swap agreements	**1,797**	2,426
Restricted contributions and investment (income) loss	**(9,886)**	4,193
Transfer to other entity	**–**	518
Other	**(93)**	(503)
Other changes in net assets:		
Changes in assets and liabilities, net *(Note 12)*	**(90,513)**	(34,085)
Net cash provided by operating activities	**130,070**	55,674
Cash flows from investing activities		
Purchase of property, plant and equipment, net	**(96,254)**	(98,608)
(Increase) decrease in investments, net	**(68,584)**	53,097
Net cash used in investing activities	**(164,838)**	(45,511)
Cash flows from financing activities		
Proceeds from debt financing	**36,516**	1,201
Payments on debt and capital leases	**(4,151)**	(4,867)
Restricted contributions and investment income (loss)	**9,886**	(4,193)
Net cash provided by (used in) financing activities	**42,251**	(7,859)
Net increase in cash and cash equivalents	**7,483**	2,304
Cash and cash equivalents at beginning of year	**82,561**	80,257
Cash and cash equivalents at end of year	**$ 90,044**	$ 82,561

See accompanying notes.

1. Significant Accounting Policies

The accounting policies that affect significant elements of the Hartford Health Care 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 Hartford Hospital a non-stock corporation. The Corporation currently includes the following entities:

The Corporation is the sole member of consolidated Hartford Hospital (the Hospital), 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., and Clinical Laboratory Partners, LLC.

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

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 the Windham Hospital Foundation, Inc. The Hatch Hospital Corporation and the Windham Hospital Foundation, Inc. are both nonprofit organizations incorporated under the General Statutes of the State of Connecticut.

1. Significant Accounting Policies (continued)

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, H.H. Management Services, Inc., Hartford Medical Group and Intermediate Medical Care Centers, Inc.

VNA Health Care is a nonprofit, nonstick 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.

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. and 291 Center Street, LLC. The Foundation is a nonprofit agency and 291 Center Street, LLC is a limited liability company in which Rushford Center, Inc. is a 100% owner.

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

VNA Health Care and Rushford Center, Inc. have a June 30 year-end.

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

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 values 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 their respective notes and/or in Note 5.

Investments

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

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the balance sheet date. Alternative investments, those assets whose market value is not readily determinable, are stated at fair value as estimated in an unquoted market. Valuations of those investments and, therefore, the Corporation's holdings may be determined by the investment manager and are primarily based on the underlying securities. Assets temporarily restricted (by donor) are recorded at fair value at the date of donation, which is then considered cost. Investment income (including realized gains and losses on investments, interest and dividends, and the change in unrealized gains and losses) is included in nonoperating income unless the income or loss is restricted by the donor or law. The cost of securities sold is based on the specific identification method.

The Corporation holds non-marketable equity investments in private companies. At September 30, 2010 and 2009, the carrying value of the Corporation's portfolio of strategic investments totaled $5,716,091 and $4,986,470, respectively; of which $624,052 and $629,052 are accounted for at cost and $5,015,288 and $4,357,302 are accounted for using the equity method of accounting at September 30, 2010 and 2009, respectively. These investments are included in prepaid expenses and 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.

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 is 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.

1. Significant Accounting Policies (continued)

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 14%, and 27% and 12%, for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2010 and 2009, respectively.

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 recorded under the provisions of Accounting Standards Codification (ASC) 410-20, *Asset Retirement Obligations*, amounted to $5,738,000 and $5,617,000 as of September 30, 2010 and 2009, 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 2010 and 2009, retirement obligations incurred and settled were minimal. Accretion expense of $354,000 and $334,000 was recorded during the years ended September 30, 2010 and 2009, respectively.

1. Significant Accounting Policies (continued)

Assets Whose Use is Limited

Assets whose use is limited includes internally designated assets that are assets set aside for future capital improvements, research and education. 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 and the net assets are classified as permanently restricted. The investment income generated from these funds is expendable to support healthcare services.

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.

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Pledges receivable to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of the discount is recognized as revenue and is reflected in accordance with donor imposed restrictions, if any, on the contributions. The pledges are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the 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.

1. Significant Accounting Policies (continued)

Excess (Deficiency) of Revenues over Expenses

The consolidated statements of operations and changes in net assets include the excess (deficiency) of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the excess (deficiency) of revenues over expenses, include the changes in pension and postretirement funding obligations, net assets released from restrictions for the purchase of equipment, net asset transfers and changes in unrealized gains and losses on investments and endowments.

Nonoperating Income

Nonoperating income includes income on investments, realized and unrealized gains and losses on 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.

Other Operating Revenue

Other operating revenue primarily includes services provided to other institutions and research income.

Professional Liability and Workers' Compensation Insurance

Coverage for medical malpractice insurance is provided on a claims-made basis. The primary level of coverage is $10,000,000 per claim and $39,000,000 in the aggregate. The excess indemnity coverage is layered with four different insurance companies at $15,000,000 per claim and $15,000,000 in the aggregate per layer. The primary coverage is with CHS Insurance Limited, a captive insurance company in which the Hospital and the Medical Center each have a 25% ownership interest. The ownership is accounted for under the equity method in the accompanying consolidated statements of operations. The investment in CHS Insurance Limited is included in other assets in the consolidated balance sheets.

The Corporation has an established policy of self-insuring the deductible portion of its workers' compensation insurance. The deductible limits are $1,000,000 per claim for fiscal years ended September 30, 2010 and 2009. 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 $2,200,000.

1. Significant Accounting Policies (continued)

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, and H.H.M.O.B., including one of its subsidiaries Eastern Rehabilitation Network, which are taxable entities of which income taxes are immaterial.

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.

Adoption of New Accounting Standards

In December 2008, the Financial Accounting Standards Board (FASB) issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in Accounting Standard Codification (ASC) 715. This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. See Note 7 for these additional disclosures for the year ended September 30, 2010. The adoption of this guidance did not have a significant impact on the Corporation's consolidated financial statements for the year ended September 30, 2010.

1. Significant Accounting Policies (continued)

New Accounting Standards

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements*, (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each "class" of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 becomes effective for reporting periods beginning after December 15, 2009. Management is currently evaluating the effect that the provisions of ASU 2010-06 will have on the consolidated financial statements.

In April 2009, the FASB issued a new accounting pronouncement regarding mergers and acquisitions for not-for-profit entities (formerly SFAS No. 164, "*Not-for-Profit Entities: Mergers and Acquisitions, including an amendment of FASB Statement No. 142*)." The pronouncement, found under ASC Topic 958, established principles and requirements for how a not-for-profit entity accounts for mergers and acquisitions. The pronouncement also makes FASB Statement No. 142, "*Goodwill and Other Intangible Assets*", found under FASB ASC Topic 350, and FASB Statement No. 160, "*Noncontrolling Interests in Consolidated Financial Statements*", found under FASB ASC Topic 810, fully applicable to not-for-profit entities. These pronouncements will be effective for the Corporation on October 1, 2010. The Corporation is currently evaluating the impact on its consolidated financial statements.

Subsequent Events

The Corporation evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the year ended September 30, 2010, the Corporation evaluated subsequent events through February 25, 2011 which is the date the financial statements were issued. Refer to Note 13. No events occurred that require adjustment to the consolidated financial statements.

1. Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2009 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, 2010 presentation. For the year ended September 30, 2009, $16,041,710 of amounts previously recorded in other operating revenue has been reclassified to net patient service revenue.

2. Net Patient Service Revenue and Charity Care

Revenues from the Medicare and Medicaid programs accounted for approximately 40% and 12%, respectively, of the Corporation's net patient service revenue for the years ended September 30, 2010 and 2009. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The 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	
	2010	**2009**
	(in thousands)	
Gross patient service revenue	**$ 2,779,860**	$ 2,533,111
Less:		
Allowances	**1,492,732**	1,370,018
Charity care	**38,556**	38,297
	$ 1,248,572	$ 1,124,796

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

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 2010 and 2009, the Corporation recorded net changes in estimates of approximately $2,286,000 and $3,800,000, respectively which primarily related to better than previously estimated third-party payor settlements.

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 Hospital utilizes the generally recognized poverty income levels for the State of Connecticut, but also includes certain cases where incurred charges are significant when compared to incomes.

3. Net Assets

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

	2010	2009
	(in thousands)	
Free beds	**$ 24,362**	$ 22,138
Research	**34,206**	31,174
Education	**11,490**	13,034
Capital replacement	**10,669**	10,625
Other health care services	**32,981**	30,454
	$ 113,708	$ 107,425

Permanently restricted net assets at September 30 are restricted for:

	2010	2009
	(in thousands)	
Investments to be held in perpetuity, the income from which is expendable to support health care services	**$ 58,950**	$ 57,877
Endowment requiring income to be added to original gift to support health care services	**20,915**	20,856
Restricted funds held in trust by others, the income from which is expendable to support health care services	**139,270**	124,401
	$ 219,135	$ 203,134

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.

3. Net Assets (continued)

The Board of Directors of the Corporation has interpreted the Uniform Prudent Management of Institutional funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time 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) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are primarily 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.

3. Net Assets (continued)

The Hospital has a policy of appropriating for distribution each year 4% of its endowment fund's fair value as of October 31 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 in perpetuity of for a specified term as well as to provide additional real growth through new gifts and investment returns. 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, 2010, consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (272)	$ 987	$ 2,965	$ 3,680
Board-designated endowment funds	14,531	62,090	76,900	153,521
	$ 14,259	$ 63,077	$ 79,865	$ 157,201

Changes in endowment funds for the fiscal year ended September 30, 2010, consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of the year	$ 12,680	$ 53,340	$ 78,733	$ 144,753
Reclassifications	(67)	(395)	(296)	(758)
Endowment net assets after reclassification	12,613	52,945	78,437	143,995
Investment return:				
Investment income	388	1,457	58	1,903
Net appreciation (realized and unrealized)	1,098	12,081	12	13,191
Net asset reclassification – net unrealized loss on endowments	278	(278)	–	–
Total investment return	1,764	13,260	70	15,094
Contributions	–	124	1,358	1,482
Appropriation of endowment assets for expenditure	(118)	(3,252)	–	(3,370)
Endowment net assets, end of year	$ 14,259	$ 63,077	$ 79,865	$ 157,201

3. Net Assets (continued)

Endowment net asset composition (excluding funds held in trust by others) by type of fund as of September 30, 2009, consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (550)	$ 53,340	$ 78,733	$ 131,522
Board-designated endowment funds	13,230	–	–	13,230
	$ 12,680	$ 53,340	$ 78,733	$ 144,753

Changes in endowment funds for the fiscal year ended September 30, 2009, consisted of the following (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of the year	$ 11,021	$ 64,587	$ 80,655	$ 156,263
Reclassifications	3,122	(1,387)	(1,715)	20
Endowment net assets after reclassification	14,143	63,200	78,940	156,283
Investment return:				
Investment income	406	1,494	(380)	1,520
Net depreciation (realized and unrealized)	(1,203)	(5,203)	(3)	(6,409)
Net asset reclassification – net unrealized loss on endowments	(550)	550	–	–
Total investment return	(1,347)	(3,159)	(383)	(4,889)
Contributions	–	36	176	212
Appropriation of endowment assets for expenditure	(116)	(6,737)	–	(6,853)
Endowment net assets, end of year	$ 12,680	$ 53,340	$ 78,733	$ 144,753

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor of UPMIFA requires the Corporation to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were deficiencies of $271,607 and $549,810 which are reported in unrestricted net assets as of September 30, 2010 and 2009, respectively.

4. Assets Whose Use is Limited

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

	September 30 2010	September 30 2009
	(in thousands)	
Cash and cash equivalents	**$ 13,601**	$ 9,258
Investments:		
United States government obligations	**13,185**	13,221
Other marketable securities	**119,860**	93,336
Marketable equity securities	**266,933**	267,019
Other notes and accounts receivable	**115**	7
Pledges receivable, net	**2,327**	2,726
	$ 416,021	$ 385,567

Realized losses, net, were $348,000 and $13,420,000 for the years ended September 30, 2010 and 2009, respectively. Investment income was $6,711,000 and $6,646,000 for the years ended September 30, 2010 and 2009, respectively. Realized losses, net, and investment income are included within income (loss) from investments, gifts and bequests, net in the consolidated statement of operations.

5. Fair Values of Financial Instruments

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

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

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

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

5. Fair Values of Financial Instruments (continued)

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

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

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 90,044	$ –	$ –	$ 90,044
Assets limited as to use:				
Cash and cash equivalents	13,601	–	–	13,601
United States government obligations	13,185	–	–	13,185
Other marketable securities	9,289	110,571	–	119,860
Marketable equity securities	255,280	11,653	–	266,933
Funds held in trust by others	–	139,270	–	139,270
Other assets:				
Escrow funds for debt service	5,473	–	–	5,473
Pension plan assets:				
Cash and cash equivalents	17,286	–	–	17,286
Marketable equity securities	191,613	–	–	191,613
Corporate and government bonds	43,240	–	–	43,240
Mutual Funds	142,781	1,477	–	144,258
Insurance accounts	–	14,336	–	14,336
Common collective trusts	–	311,021	–	311,021
Liabilities				
Interest rate swap agreements	–	9,009	–	9,009

5. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of September 30, 2009 are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 82,561	$ –	$ –	$ 82,561
Assets limited as to use:				
Cash and cash equivalents	9,258	–	–	9,258
United States government obligations	13,221	–	–	13,221
Other marketable securities	9,816	83,520	–	93,336
Marketable equity securities	256,071	10,948	–	267,019
Funds held in trust	–	124,401	–	124,401
Other assets:				
Escrow funds for long-term debt	11,842	–	–	11,842
Liabilities				
Interest rate swap agreements	–	7,212	–	7,212

Fair value for Level 1 assets is based upon quoted market prices while fair value for Level 2 assets were determined primarily through prices obtained from third party pricing sources, as quoted market prices for such securities are not readily available. Fair value for Level 2 liabilities is based upon a market approach that uses prices and other relevant information generated by market transactions involving identical or comparable liabilities.

6. Property, Plant and Equipment

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

	2010	2009
	(in thousands)	
Land and land improvement	**$ 39,362**	$ 33,455
Buildings and fixed equipment	**732,575**	673,675
Equipment	**539,992**	495,221
	1,311,929	1,202,351
Less accumulated depreciation	**(825,327)**	(765,929)
	486,602	436,422
Construction in process (estimated cost to complete — $44,370)	**45,615**	64,533
	$ 532,217	$ 500,955

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). 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. Effective June 30, 2000, one of the Corporation's defined benefit cash balance pension plan's was frozen. In addition, 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.

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:

	2010	2009
Unrecognized actuarial loss	**$ 428,061,000**	$ 397,918,000
Unrecognized transition obligation	**–**	747,000
Unrecognized prior service credit	**(11,522,000)**	(10,738,000)
	$ 416,539,000	$ 387,927,000

The actuarial loss and prior service credit included unrestricted net assets at September 30, 2010 and expected to be recognized in net periodic benefit cost during the year ending September 30, 2011 are as follows:

Unrecognized actuarial loss	$ 18,026,000
Unrecognized prior service credit	(3,107,000)
	$ 14,919,000

7. Pensions and Other Postretirement Benefits (continued)

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

	Pension Benefits		Other Post-Retirement Benefits	
	2010	**2009**	**2010**	**2009**
	(in thousands)			
Change in benefit obligation				
Benefit obligation at beginning of year	**$ (940,740)**	$ (801,134)	**$ (101,389)**	$ (81,511)
Early effect of measurement date	**–**	(6,631)	**–**	–
Service cost	**(32,161)**	(28,050)	**(2,372)**	(2,002)
Interest cost	**(52,165)**	(51,447)	**(5,505)**	(5,295)
Employee contributions	**(24)**	(86)	**(109)**	(98)
Benefits paid	**53,895**	56,939	**4,514**	4,301
Liability losses	**(39,235)**	(89,369)	**(3,795)**	(6,449)
Settlement/Termination	**–**	(20,959)	**–**	–
Assumption changes	**(3,520)**	–	**4,621**	(10,335)
Plan amendments	**(2,212)**	(3)	**2,364**	–
Benefit obligation at year-end	**$ (1,016,162)**	$ (940,740)	**$ (101,671)**	$ (101,389)
Change in plans' assets				
Fair value of assets at beginning of year	**$ 693,526**	$ 799,509		
Early effect of measurement date	**–**	5,675		
Actual return on plans' assets	**72,869**	(86,519)		
Benefits paid	**(53,895)**	(56,939)	**$ (4,515)**	$ (4,301)
Employer contributions	**9,230**	31,697	**4,406**	4,203
Employee contributions	**24**	86	**109**	98
Other	**–**	17	**–**	–
Fair value of plans' assets at year-end	**721,754**	693,526	**–**	–
Underfunded status of the plans'	**$ (294,408)**	$ (247,214)	**$ (101,671)**	$ (101,389)
Components of net periodic benefit cost				
Service cost	**$ 32,161**	$ 28,050	**$ 2,372**	$ 2,002
Interest cost	**52,165**	51,447	**5,505**	5,295
Expected return on plans' assets	**(67,101)**	(66,959)	**–**	–
Settlement loss	**203**	276	**–**	–
Net amortization and deferral	**6,476**	(6,749)	**883**	223
Benefit cost included in the statements of operations and changes in net assets	**$ 23,904**	$ 6,065	**$ 8,760**	$ 7,520

The accumulated benefit obligation for the Corporation's plans were approximately $951,303,000 and $908,285,000 at September 30, 2010 and 2009, respectively.

7. Pensions and Other Postretirement Benefits (continued)

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

	Pension Benefits		Other Post-Retirement Benefits	
	2010	**2009**	**2010**	**2009**
Discount rate for determining benefit obligations at year-end	**5.0-5.58%**	5.50-6.10%	**5.10%**	5.55%
Rate of compensation increase	**3.50-4.00%**	3.50-4.00%	**–**	–

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

	Pension Benefits		Other Post-Retirement Benefits	
	2010	**2009**	**2010**	**2009**
Discount rate	**5.50-6.10%**	6.25-7.55%	**5.55%**	6.25%
Expected rate of return on plan assets	**7.00-9.00%**	7.00-9.00%	**–**	–
Rate of compensation increase	**3.50-4.00%**	3.50-4.00%	**–**	–

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% and 10%. Rates are assumed to decline to 5% through 2016 for one plan and to 4% through 2017 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 $177,000 and $174,000, and $2,164,000 and $2,921,000 at September 30, 2010, 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 $192,000 and $146,000, and $2,246,000 and $2,478,000 at September 30, 2010, respectively.

7. Pensions and Other Postretirement Benefits (continued)

Plans' Assets

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

	2010	**2009**
Equity securities	**67%**	65%
Debt securities	**25%**	31%
Other	**8%**	4%
Total	**100%**	100%

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 $10,022,000 in fiscal year 2011 to its Plans and approximately $4,410,000 to its other post-retirement benefit plans in fiscal year 2011.

7. Pensions and Other Postretirement Benefits (continued)

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
2011	$ 69,672	$ 5,608
2012	74,504	5,884
2013	68,101	6,188
2014	65,846	6,527
2015	69,346	6,806
2016-2020	387,310	38,406

As discussed in Note 1, the Corporation adopted the FASB's authoritative disclosure guidance on reporting for assets of postretirement benefit plans for the fiscal year ended September 30, 2010. As discussed in the Fair Value Measurements note (Note 5), the Corporation follows a three-level hierarchy to categorize assets measured at fair value. In accordance with this hierarchy, as of September 30, 2010, 55% and 45% of the Corporation Plans' assets which are measured at fair value on a recurring basis were categorized as Level 1 and Level 2 investments, respectively. Securities with readily determinable values are carried at fair value as determined based on independent published sources. Alternative investments, as described in Note 1, are stated at fair value, as estimated in an unquoted market but corroborated by market data.

8. Long-Term Debt

Details of long-term debt are as follows:

	September 30 2010	September 30 2009
	(in thousands)	
Revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA):		
Series A, B, A-1 and B-1 (Medical Center)	**$ 82,915**	$ 85,305
Series B and A-1 (Hospital)	**45,940**	45,940
Series D (Windham)	**19,350**	19,555
Revolving Loan (Hospital)	**26,517**	10,000
Master financing agreement with CHEFA (Hospital) due in monthly installments with a fixed rate of 2.75% through September 17, 2015	**20,000**	–
Term loan (H.H.M.O.B.) due in monthly installment with variable interest rate through April 1, 2011 when a balloon payment is due	**10,377**	11,294
Term loan (VNA Healthcare) due in monthly installments with a variable interest rate through June 1, 2014	**2,800**	3,500
Commercial notes, at varying rates of imputed interest to 9.44%	**3,854**	3,367
Notes payable and capital lease obligation, at varying rates of imputed interest from 5.9% to 6%, collateralized by leased equipment	**1,400**	1,511
Other loans and notes	**–**	316
	213,153	180,788
Less current portion	**44,621**	15,157
	$ 168,532	$ 165,631

The Medical Center's Series A revenue bonds totaling $69,785,000, consisting of $43,010,000 of serial bonds and $26,775,000 of term bonds, were obtained to finance construction of a new hospital. The Series A revenue bonds bear interest at rates ranging from 4.10% to 6.25%. Principal amounts related to the serial bonds mature annually each July 1 through 2016 and the term bonds mature on July 1, 2026. During 2000, additional $500,000 in Series B bonds was issued in conjunction with a related entity. The fair value of the bonds was approximately $87,180,000 at September 30, 2010. During 2002, an additional $13,935,000 in Series A-1 bonds was issued to fund an expansion of the hospital. The Series A-1 bonds are variable rate demand bonds secured by an irrevocable direct pay letter of credit issued by Bank of America. The letter of credit expires May 1, 2012. Under the $13,935,000 bond indenture, the Medical Center has one balloon principal payment of $13,935,000 due on July 1, 2031. As of September 30, 2010 and 2009, the variable interest rate approximated 0.25% and 0.70%, respectively.

8. Long-Term Debt (continued)

Under the terms of the revenue bond indentures, The Medical Center is required to maintain certain deposits with a trustee. The terms provide for the establishment of various funds, a pledge of gross receipts, as defined, restrictions on incurrence of certain indebtedness, and financial covenants.

During 2006, The Medical Center entered into a synthetic refinancing of its existing Series A Fixed Rate Bonds (Fixed Rate Bonds), whereby The Medical Center called the Fixed Rate Bonds on July 1, 2006 from the current bondholders through a tender offer paying a call premium of 103. Bonds that were not tendered, $6,046,000, were redeemed at a premium of 102. The Medical Center simultaneously resold the Fixed Rate Bonds to an unrelated third-party financial institution. The Medical Center entered into a Total Return Distribution Agreement with the financial institution whereby The Medical Center receives the fixed rate, ranging from 5.1% to 5.5%, and pays a variable rate equal to the BMA Index plus 26.5 basis points. This agreement had an effective date of July 1, 2006 and includes a total return payment at termination equal to any gain, paid by the financial institution, or loss, paid by the Corporation, in the value of the Fixed Rate Bonds. The Total Return Distribution Agreement has termination dates based on the serial maturity dates of the Fixed Rate Bonds. The Total Return Distribution Agreement was amended on April 13, 2010. Based upon the amendment, the agreement will be terminated on May 15, 2011 and The Medical Center is also required to post collateral for the fair value of the agreement that exceeds $5.0 million.

In connection with the synthetic refinancing, The Medical Center also entered in to an interest rate swap agreement (LIBOR Swap), 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 3.77%. This agreement terminates July 1, 2026.

The fair value of The Medical Center's swap agreements were $(5,823,740) and $(4,625,870) at September 30, 2010 and 2009, respectively, and are recorded in the current portion of accrued pension and other liabilities in the accompany balance sheets. Although the Total Return Distribution Agreement and LIBOR Swap represent economic hedges of the interest rate on the bonds, they do not qualify for hedge accounting. The changes in the fair value of these agreements are 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 agreements.

8. Long-Term Debt (continued)

During 2008, an additional $30,000,000 in Series B-1 bonds was issued to fund an expansion of The Medical Center. The Series B-1 bonds are variable rate demand bonds secured by an irrevocable direct pay letter of credit issued by Bank of America. The letter of credit expires June 18, 2012. Under the $30,000,000 bond indenture, The Medical Center has one balloon principal payment of $30,000,000 due on July 1, 2038. As of September 30, 2010 and 2009, the variable interest rate approximated 0.25% and 0.30%, respectively.

In August 2000, $30,675,000 of a $31,175,000 CHEFA Variable Rate Demand Revenue Bonds, the Hospital Issue Series B, were issued and are secured by an irrevocable direct pay letter of credit issued by Bank of America. The letter of credit expires May 1, 2012. The Bonds were issued to finance the construction of a 78-unit, independent living and assisted living facility (Cedar Mountain Commons) and the funding of various equipment purchases, software purchases and renovation projects.

In March 2002, $15,265,000 of a $36,110,000 CHEFA Variable Rate Demand Revenue Bonds, Health Care Capital Asset Program Issue, Series A-1, were issued to the Hospital and secured by an irrevocable direct pay letter of credit issued by Bank of America. The letter of credit expires on May 1, 2012. The Bonds were issued to purchase a parking garage from Hartford Hospital Real Estate Corporation.

Under the terms of the Bond Indentures, the Hospital has balloon principal payments of $30,675,000 and $15,265,000 due on July 1, 2030 and 2031, respectively. At September 30, 2010 and 2009 there were no borrowings under the letter of credit. The financing documents contain certain restrictive covenants including the maintenance of a minimum debt service coverage ratio and a pledge of gross receipts, as defined. As of September 30, 2010, the variable interest rate approximated 0.26%.

The Hospital has a $35,000,000 revolving loan from Bank of America. The loan expires in May 2011. As of September 30, 2010 and 2009, the Hospital drew $26,500,000 and $10,000,000, respectively, on the revolving loan, which has a variable rate. On December 30, 2010, the Corporation amended the revolving loan which increased the commitment from $35,000,000 to $63,500,000. In addition, Windham has an outstanding line of credit with a financial institution for $5,000,000 which expires on June 1, 2011. Interest is set at prime, and there have been no drawings under this under the line of credit as of September 30, 2010 and 2009.

8. Long-Term Debt (continued)

CHEFA 2007 Series D Revenue bonds in the amount of $19,745,000 were issued by the Windham. Proceeds from the issuance were used to redeem Series C CHEFA Bonds, payoff various capital leases, and fund equipment and facility improvements. In conjunction with the issuance of the Series D CHEFA Bonds, Windham entered into two interest rate swap agreements with a financial institution, with an original notional amount of $19,745,000, to fix the debt at a rate of 4.15%. The fair value of the swap agreements were $(3,185,469) and $(2,585,845) at September 30, 2010 and 2009, respectively, and are recorded in accrued pension and other liabilities in the accompanying balance sheets. Although the swap agreements represent economic hedges of the interest rate on the bonds, they do not qualify for hedge accounting. The changes in fair value of these agreements are 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 agreements.

The Series D CHEFA Bonds contain a covenant which includes the maintenance of a minimum debt service coverage ratio and a pledge of gross receipts, as defined. As of September 30, 2010, Windham was in compliance with the covenant. In addition, funds are required to be set aside for the purposes of future debt payments. The carrying value of the Series D CHEFA Bonds approximates fair value.

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

Fiscal Year Ending September 30:	
2011	$ 44,621
2012	8,485
2013	6,963
2014	8,022
2015	7,411
Thereafter	137,651
	$ 213,153

Interest paid for the year ended September 30, 2010 and 2009 was $3,218,000 and $3,711,000, respectively.

9. Pledges Receivable

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

	2010	2009
	(in thousands)	
Due within one year	**$ 1,497**	$ 2,164
Due in one to five years	**1,661**	2,316
	3,158	4,480
Less allowance and discount to present value	**435**	715
Pledges receivable, net	**$ 2,723**	$ 3,765

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

10. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the 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 $20,159,000 and $17,897,000 for the years ended September 30, 2010 and 2009, respectively.

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

2011	$ 11,144
2012	10,901
2013	8,523
2014	6,985
2015	6,485
Thereafter	64,061
	$ 108,099

11. 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 2010	September 30 2009
	(in thousands)	
Health care services	**$ 1,087,927**	$ 982,860
Support services	**231,805**	220,684
Research	**22,085**	19,796
Education	**66,532**	58,147
	$ 1,408,349	$ 1,281,487

12. Supplemental Cash Flow Information

The changes in assets and liabilities are as follows:

	September 30 2010	September 30 2009
	(in thousands)	
Increase in accounts receivable	**$ (67,881)**	$ (56,064)
(Increase) decrease in other receivables	**(4,322)**	313
Decrease in notes receivable	**1,286**	2,828
Increase in inventories of supplies and prepaid expenses and other assets	**(6,616)**	(5,405)
(Increase) decrease in other assets	**(20,278)**	66,772
(Decrease) increase in accounts payable	**(795)**	14,766
Increase in estimated third-party payor settlements	**8,670**	5,424
(Decrease) increase in salaries, wages, payroll taxes and amounts withheld from employees	**(16,788)**	2,093
Increase (decrease) in accrued expenses and accrued pension and other liabilities	**16,211**	(64,812)
	$ (90,513)	$ (34,085)

13. Subsequent Event

On November 18, 2009, a Certificate of Need (CON) was filed between the Corporation and Central Connecticut Health Systems (CCHA). The CON was filed to document the potential acquisition of CCHA by the Corporation. On February 19, 2010, the CON was deemed complete and final approval from the Federal Trade Commission was received effective February 1, 2011. The Corporation will be the sole corporate member of CCHA under this agreement. As of the date the financial statements were issued, management is preparing the initial accounting for the acquisition.

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Report of Independent Auditors on Other Financial Information

Board of Directors
Hartford Health Care Corporation and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating financial statements are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

February 25, 2011

Hartford Health Care Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2010
(In Thousands)

	Hartford Health Care Corporation	Consolidated Hartford Hospital	Consolidated MidState Medical Center	Windham Hospital	Consolidated H.H.M.O.B.
Assets					
Current assets:					
Cash and cash equivalents	$ 722	$ 44,299	$ 29,570	$ 3,991	$ 5,274
Accounts receivable, less allowances	–	117,360	27,341	14,091	1,670
Other receivables	3,181	18,747	1,080	1,197	2,327
Inventories of supplies	–	10,906	1,599	1,175	185
Prepaid expenses and other assets	209	21,226	2,551	705	595
Notes receivable	2,459	–	–	–	–
Due from affiliates, net	–	10,041	–	32	85
Total current assets	6,571	222,579	62,141	21,191	10,136
Assets whose use is limited:					
Investments and other assets	–	219,208	11,182	347	–
Investments for restricted purposes	–	184,054	2,043	1,892	–
Funds held in trust by others	–	119,917	12,195	2,608	–
Notes receivable from affiliates, net	–	–	–	–	–
Investment in subsidiaries	13,907	–	–	–	–
Other assets	8,327	34,929	19,833	3,981	1,241
Property, plant and equipment, net	2,598	299,013	134,794	36,227	30,587
	$ 31,403	$ 1,079,700	$ 242,188	$ 66,246	$ 41,964
Liabilities and net assets					
Current liabilities:					
Accounts payable	$ 1,524	$ 41,938	$ 6,768	$ 3,465	$ 635
Salaries, wages, payroll taxes and amounts withheld from employees	–	22,051	8,445	1,930	1,223
Accrued expenses	2,694	21,381	1,046	747	2,494
Estimated third-party payor settlements	–	1,981	942	(1,586)	–
Current portion of accrued pension and other liabilities	–	16,410	10,442	3,965	22
Current portion of long-term debt and capital leases	–	30,300	2,335	703	10,377
Notes payable to affiliates, net	14,245	–	–	–	–
Due to affiliates, net	2,127	–	–	–	4,821
Total current liabilities	20,590	134,061	29,978	9,224	19,572
Accrued pension and other liabilities	–	289,814	54,554	56,911	1,187
Long-term debt	–	62,157	80,580	20,047	–
Net assets:					
Unrestricted	10,813	290,596	62,141	(25,204)	21,205
Temporarily restricted	–	107,379	1,962	1,538	–
Permanently restricted	–	195,693	12,973	3,730	–
	10,813	593,668	77,076	(19,936)	21,205
	$ 31,403	$ 1,079,700	$ 242,188	$ 66,246	$ 41,964

Hartford Health Care Corporation and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2010
(In Thousands)

	Consolidated VNA Health Care, Inc.	Natchaug Hospital	Rushford Center, Inc.	Clinical Laboratory Partners	Elimination	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 2,303	$ 989	$ 2,052	$ 844		$ 90,044
Accounts receivable, less allowances	4,825	4,284	2,514	4,991		177,076
Other receivables	–	206	–	292	$ (8)	27,022
Inventories of supplies	–	–	–	1,190	–	15,055
Prepaid expenses and other assets	418	534	419	907	–	27,564
Notes receivable	–	–	–	–	416	2,875
Due from affiliates, net	–	–	–	–	(10,158)	–
Total current assets	7,546	6,013	4,985	8,224	(9,750)	339,636
Assets whose use is limited:						
Investments and other assets	9,195	–	1,202	–	(11,029)	230,105
Investments for restricted purposes	2,188	–	–	–	(4,261)	185,916
Funds held in trust by others	4,550	–	–	–	–	139,270
Notes receivable from affiliates, net	–	–	–	–	–	–
Investment in subsidiaries	–	–	–	–	(13,907)	–
Other assets	–	135	11	101	–	68,558
Property, plant and equipment, net	3,883	11,430	6,628	7,057	–	532,217
	$ 27,362	$ 17,578	$ 12,826	$ 15,382	$ (38,947)	$ 1,495,702
Liabilities and net assets						
Current liabilities:						
Accounts payable	$ 2,325	$ 620	$ 519	$ 2,927	$ 135	$ 60,856
Salaries, wages, payroll taxes and amounts withheld from employees	1,994	1,345	1,480	3,265	–	41,733
Accrued expenses	1,540	–	315	699	(1,469)	29,447
Estimated third-party payor settlements	1,082	(119)	210	100	–	2,610
Current portion of accrued pension and other liabilities	950	–	65	–	–	31,854
Current portion of long-term debt and capital leases	700	158	48	–	–	44,621
Notes payable to affiliates, net	–	–	–	–	(14,245)	–
Due to affiliates, net	–	142	36	13,687	(20,813)	–
Total current liabilities	8,591	2,146	2,673	20,678	(36,392)	211,121
Accrued pension and other liabilities	2,429	2,979	145	–	(1,119)	406,900
Long-term debt	2,100	3,604	44	–	–	168,532
Net assets:						
Unrestricted	7,278	8,640	7,569	(5,296)	(1,436)	376,306
Temporarily restricted	225	209	2,395	–	–	113,708
Permanently restricted	6,739	–	–	–	–	219,135
	14,242	8,849	9,964	(5,296)	(1,436)	709,149
	$ 27,362	$ 17,578	$ 12,826	$ 15,382	$ (38,947)	$ 1,495,702

Hartford Health Care Corporation and Subsidiaries

Consolidating Statement of Operations

For the Year Ended September 30, 2010
(In Thousands)

	Hartford Health Care Corporation	Consolidated Hartford Hospital	Consolidated MidState Medical Center	Windham Hospital	Consolidated H.H.M.O.B.
Unrestricted revenues and other support:					
Net patient service revenue		$ 800,993	$ 182,022	$ 86,943	$ 24,578
Other operating revenue	$ 15,270	123,273	31,518	2,182	24,441
Net assets released from restrictions used for operations	–	8,674	199	440	–
	15,270	932,940	213,739	89,565	49,019
Operating expenses:					
Salaries and wages	4,806	398,506	70,494	39,301	18,409
Employee benefits	1,211	100,636	21,760	14,575	3,515
Supplies and other	158	181,562	48,713	19,641	7,697
Purchased services	8,842	158,482	37,974	6,445	18,255
Depreciation and amortization	394	42,799	11,405	4,523	2,446
Provision for uncollectible accounts	3,122	37,825	10,965	5,459	554
Interest	461	614	2,221	1,557	233
	18,994	920,424	203,532	91,501	51,109
Operating income (loss)	(3,724)	12,516	10,207	(1,936)	(2,090)
Nonoperating income:					
Income from investments, gifts & bequests, net	–	5,015	1,253	339	–
Other	–	393	(1,387)	(85)	746
	–	5,408	(134)	254	746
Excess (deficiency) of revenues over expenses before change in unrealized gains and losses on investments	(3,724)	17,924	10,073	(1,682)	(1,344)
Change in unrealized gains and losses on investments	–	23,167	668	20	–
Excess (deficiency) of revenues over expenses	$ (3,724)	$ 41,091	$ 10,741	$ (1,662)	$ (1,344)

Continued on next page.

Hartford Health Care Corporation and Subsidiaries

Consolidating Statement of Operations (continued)

For the Year Ended September 30, 2010
(In Thousands)

	Consolidated VNA Health Care, Inc.	Natchaug Hospital	Rushford Center, Inc.	Clinical Laboratory Partners	Elimination	Total
Unrestricted revenues and other support:						
Net patient service revenue	$ 38,477	$ 42,671	$ 11,437	$ 66,195	$ (4,744)	$ 1,248,572
Other operating revenue	2,135	17	17,314	19,240	(67,330)	168,060
Net assets released from restrictions used for operations	244	45	257	–	–	9,859
	40,856	42,733	29,008	85,435	(72,074)	1,426,491
Operating expenses:						
Salaries and wages	23,168	25,315	17,589	39,441	(6,672)	630,357
Employee benefits	4,948	7,562	2,792	9,568	–	166,567
Supplies and other	4,118	4,210	3,904	15,159	(2,143)	283,019
Purchased services	8,140	3,188	1,997	13,894	(62,286)	194,931
Depreciation and amortization	664	968	586	1,207	–	64,992
Provision for uncollectible accounts	184	775	2,169	2,968	–	64,021
Interest	74	266	9	–	(973)	4,462
	41,296	42,284	29,046	82,237	(72,074)	1,408,349
Operating income (loss)	(440)	449	(38)	3,198	–	18,142
Nonoperating income:						
Income from investments, gifts & bequests, net	318	–	62	–	–	6,987
Other	27	–	96	(217)	–	(427)
	345	–	158	(217)	–	6,560
Excess (deficiency) of revenues over expenses before change in unrealized gains and losses on investments	(95)	449	120	2,981	–	24,702
Change in unrealized gains and losses on investments	1,315	–	115	–	–	25,285
Excess of revenues over expenses	$ 1,220	$ 449	$ 235	$ 2,981	$ –	$ 49,987

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