Consolidated Financial Statements and Supplemental Information

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

Ernst & Young LLP

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The Hospital of Central Connecticut

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to January 31, 2011, and Year Ended September 30, 2010

Contents

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Independent Auditors' Report

To the Board of Directors of
The Hospital of Central Connecticut

We have audited the accompanying consolidated balance sheets of The Hospital of Central Connecticut (the Hospital), as of September 30, 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the period from October 1, 2010 to January 31, 2011 and the period from February 1, 2011 to September 30, 2011. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Hospital for the year ended September 30, 2010 were audited by other auditors whose report, dated December 14, 2010, expressed an unqualified opinion on those statements. In addition, we did not audit the financial statements of Grand Indemnity Company, LTD., a wholly owned subsidiary, whose statements reflect total assets of $35,280,376 and $34,153,903 as of September 30, 2011 and 2010, respectively, and total revenues of $4,727,178 and $5,577,409 for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hospital and Grand Indemnity Company, LTD., is based solely on the reports of the other auditors.

We conducted our audit 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 consolidated financial statements are free of material misstatement. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit and the report of other auditors provides a reasonable basis for our opinion.

In our opinion based on our audit and the report of other auditors, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of The Hospital of Central Connecticut as of September 30, 2011, and the results of their consolidated operations and changes in net assets and their cash flows for the period from October 1, 2010 to January 31, 2011 and the period from February 1, 2011 to September 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

Ernst & Young LLP

January 27, 2012

The Hospital of Central Connecticut

Consolidated Balance Sheets

	September 30, 2011	Predecessor Company September 30, 2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 20,299,387**	$ 27,488,766
Accounts receivable, less allowance for doubtful accounts of $11,289,428 in 2011 and $13,234,021 in 2010	**48,945,018**	36,543,623
Premiums receivable	**95,727**	37,081
Reinsurance recoverable	**7,355,995**	6,496,841
Other receivables	**1,417,221**	718,095
Due from affiliates	**73,947**	19,913
Inventories of supplies	**5,586,310**	4,849,198
Prepaid expenses and other assets	**4,291,812**	3,347,782
Assets whose use is limited – related to GIC	**2,000,000**	2,000,000
Total current assets	**90,065,417**	81,501,299
Assets whose use is limited:		
Investments related to GIC	**22,695,956**	21,420,330
Investments and other assets	**89,632,017**	91,527,136
Investments for restricted purposes	**23,371,019**	22,886,521
	135,698,992	135,833,987
Assets held in trust by others	**13,488,594**	14,035,818
Funds designated for debt services	**2,397,206**	16,427
Investments in affiliates	**3,375,339**	3,484,759
Other assets	**3,433,763**	3,614,080
Due from affiliates	**2,255,684**	1,192,649
Property, plant and equipment, net	**152,765,070**	125,427,098
Total assets	**$ 403,480,065**	$ 365,106,117
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 12,030,115**	$ 12,039,355
Accrued expenses	**11,418,151**	13,280,116
Salaries, wages, payroll taxes and amounts withheld from employees	**12,301,012**	11,779,341
Due to affiliates	**374,021**	40,867
Reserve for losses and loss adjustment expenses	**2,000,000**	2,000,000
Deferred revenue	**450,254**	339,220
Estimated third-party settlements	**23,838,552**	19,449,485
Current portion of long-term debt	**2,724,400**	3,889,577
Current portion of pension	**14,717,159**	15,595,053
Total current liabilities	**79,853,664**	78,413,014
Reserve for losses and loss adjustment expenses	**18,010,207**	22,433,279
Long-term debt	**40,002,457**	34,217,519
Accrued pension	**82,716,227**	80,880,107
Self-insurance and other long-term liabilities	**7,699,743**	11,627,088
Total liabilities	**228,282,298**	227,571,007
Net assets:		
Unrestricted	**138,381,964**	100,602,371
Temporarily restricted	**16,726,765**	16,296,477
Permanently restricted	**20,089,038**	20,636,262
Total net assets	**175,197,767**	137,535,110
Total liabilities and net assets	**$ 403,480,065**	$ 365,106,117

See accompanying notes.

The Hospital of Central Connecticut

Consolidated Statements of Operations and Changes in Net Assets

	Period From February 1, 2011 to September 30, 2011	Predecessor Company: Period From October 1, 2010 to January 31, 2011	Predecessor Company: Year Ended September 30, 2010
Unrestricted revenues, gains and other support:			
Net patient service revenue	**$ 254,327,650**	$ 128,988,814	$ 368,946,837
Other operating revenues	**6,140,983**	2,392,268	9,629,436
Net premiums earned	**123,211**	50,967	688,409
Net assets released from restrictions used for operations	**162,854**	585,042	1,144,549
Total revenues	**260,754,698**	132,017,091	380,409,231
Expenses:			
Salaries and benefits	**100,399,611**	52,762,478	145,050,837
Fringe benefits	**33,680,846**	18,478,815	51,980,699
Purchased services	**56,543,812**	27,698,602	87,685,047
Supplies and other expenses	**34,206,474**	17,487,787	54,167,261
Provision for uncollectible accounts	**(465,136)**	2,854,558	10,952,307
Depreciation and amortization	**12,790,361**	5,889,326	17,446,295
Losses and loss adjustment expenses	**(3,079,317)**	1,677,667	3,374,164
Information technology conversion	**–**	–	7,850,321
Interest	**579,711**	257,427	825,646
Total expenses	**234,656,362**	127,106,660	379,332,577
Income from operations, before early extinguishment of debt	**26,098,336**	4,910,431	1,076,654
Early extinguishment of debt	**(270,054)**	–	–
Income from operations	**25,828,282**	4,910,431	1,076,654
Non-operating gains (losses):			
Investment income	**980,761**	558,464	2,847,543
Unrestricted gifts and bequests	**82,749**	122,144	1,195,945
Gains on sales of securities	**17,036**	7,174	4,495,661
Change in fair value of interest rate swap	**(2,888,770)**	1,146,467	(2,458,798)
Total non-operating gains	**(1,808,224)**	1,834,249	6,080,351
Excess of revenues over expenses	**$ 24,020,058**	$ 6,744,680	$ 7,157,005

The Hospital of Central Connecticut

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

		Predecessor Company	
	Period From February 1, 2011 to September 30, 2011	**Period From October 1, 2010 to January 31, 2011**	**Year Ended September 30, 2010**
Beginning balance of unrestricted net assets:	**$ 175,432,489**	$ 100,602,371	$ 88,386,848
Excess of revenues over expenses	**24,020,058**	6,744,680	7,157,005
Pension changes other than net periodic benefit costs	**(52,455,742)**	38,384,516	714,815
Debt forgiveness granted to affiliate	**–**	–	(586,456)
Net unrealized (loss) gains on investments	**(9,521,848)**	5,273,795	4,400,689
Net assets released from restrictions used for capital	**907,007**	33,047	529,470
Ending balance of unrestricted net assets	**138,381,964**	151,038,409	100,602,371
Beginning balance of temporarily restricted net assets:	**17,632,295**	16,296,477	15,200,271
Net realized and unrealized (loss) gains on investments	**(758,420)**	741,384	1,097,149
Income from investments	**143,460**	113,435	364,208
Contributions	**779,291**	1,099,088	1,308,868
Net assets released from restrictions used for operations	**(162,854)**	(585,042)	(1,144,549)
Net assets released from restrictions used for capital	**(907,007)**	(33,047)	(529,470)
Ending balance of temporarily restricted net assets	**16,726,765**	17,632,295	16,296,477
Beginning balance of permanently restricted net assets:	**21,323,642**	20,636,262	19,841,202
Change in assets held in trust by others	**(1,234,604)**	687,380	795,060
Ending balance of permanently restricted net assets:	**20,089,038**	21,323,642	20,636,262
Net assets at end of period	**$ 175,197,767**	$ 189,994,346	$ 137,535,110

See accompanying notes.

The Hospital of Central Connecticut

Consolidated Statements of Cash Flows

	Period From February 1, 2011 to September 30, 2011	Predecessor Company: Period From October 1, 2010 to January 31, 2011	Predecessor Company: Year Ended September 30, 2010
Operating activities:			
Change in net assets	**$ (39,190,545)**	$ 52,459,236	$ 14,106,789
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization	**12,790,361**	5,889,326	17,446,295
Change in pension	**52,455,742**	(38,384,516)	–
Provision for bad debts	**(465,136)**	2,854,558	10,952,307
Net realized and unrealized losses (gains) on assets whose use is limited	**10,280,154**	(6,015,179)	(5,497,838)
Restricted contributions and investment income	**311,853**	(1,899,903)	(2,468,136)
Debt forgiveness granted to affiliate	**–**	–	586,456
Debt extinguishment	**270,054**		
Changes in assets and liabilities:			
Accounts receivable	**(1,244,397)**	(13,546,420)	(11,002,020)
Premiums receivable	**3,143,530**	(3,202,176)	280,780
Reinsurance recoverable	**(859,154)**	–	(945,000)
Other receivables	**7,981**	(707,107)	805,666
Due from affiliates	**698,640**	(1,815,709)	318,645
Inventories	**(263,180)**	(473,932)	150,430
Prepaid expenses	**2,390,096**	(3,334,126)	(1,114,089)
Other assets	**(117,224)**	27,487	(619,329)
Accounts payable and accrued expenses	**7,961,524**	(9,832,729)	3,882,023
Accrued compensation	**(1,933,636)**	2,455,307	(1,266,585)
Due to affiliates	**374,021**	(40,867)	40,867
Reserve for losses and loss adjustment expenses	**(7,470,552)**	3,047,480	2,335,346
Deferred revenue	**19,752**	91,282	(611,424)
Due to third-party agencies	**(2,002,816)**	6,391,883	4,710,250
Debt service	**(1,573,721)**	(807,058)	–
Pension, self-insurance and other long-term liabilities	**(13,788,843)**	(3,251,502)	(107,761)
Net cash provided by operating activities	**21,794,504**	(10,094,665)	31,983,672
Investing activities:			
Net increase in board designated and donor restricted investments	**(255,374)**	(2,051,756)	(7,414,315)
Net increase in investments in GIC	**(1,313,531)**	37,905	(21,420,330)
Net decrease (increase) in cash and cash equivalents related to GIC	**–**	–	20,580,734
Purchases of property, plant and equipment	**(17,730,932)**	(3,892,647)	(18,695,139)
Net decrease in investments in affiliates	**(239,115)**	348,535	550,591
Net cash used in investing activities	**(19,538,952)**	(5,557,963)	(26,398,459)
Financing activities:			
Debt forgiveness granted to affiliate	**–**	–	(586,456)
Principal payments on long-term debt, capital leases and line of credit	**(37,241,984)**	(992,364)	(3,669,409)
Proceeds from borrowings of long-term debt	**38,535,493**	4,318,502	1,450,000
Restricted contributions and investment income	**(311,853)**	1,899,903	2,468,136
Net cash provided (used) in financing activities	**981,656**	5,226,041	(337,729)
(Decrease) increase in cash and cash equivalents	**3,237,208**	(10,426,587)	5,247,484
Cash and cash equivalents at beginning of year	**17,062,179**	27,488,766	22,241,282
Cash and cash equivalents at end of year	**$ 20,299,387**	$ 17,062,179	$ 27,488,766

See accompanying notes.

1. Summary of Significant Accounting Policies

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

Organization

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

On February 1, 2011 (the Acquisition Date), Hartford Healthcare Corporation (HHC) became the sole corporate member of CCHA and a full corporate affiliation was completed. All assets and liabilities were revalued to fair value as of February 1, 2011. The Hospital is consolidated in HHC's financials for the period February 1, 2011 to September 30, 2011.

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

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

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

1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

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

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board 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 fiscal year 2012, the guidance in ASU 2010-06 became effective for reporting periods beginning after December 15, 2009. The adoption of the provisions of ASU 2010-06 did not have a significant impact on the Hospital's consolidated financial statements.

In August 2010, the FASB issued ASC 954-605, *Measuring Charity Care for Disclosure*. ASC 954-605 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASC 954-605 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASC 954-605 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Hospital is evaluating the effect of ASC 954-605 on its consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

In January 2011, the FASB issued ASU2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, which establishes accounting and disclosure requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition, how to account for each, and the required disclosures. In addition, ASU 2010-07included amendments to FASB's ASC Topic 350, ASC Topic 810 to make both applicable to not-for-profit entities. ASC Topic 350 clarifies the accounting for goodwill and indefinite-lived identifiable intangible assets recognized in a not-for-profit entity's acquisition of a business or nonprofit activity. Such assets are not amortized and are tested for impairment at least annually. The Hospital adopted the guidance relative to ASU 2010-07 as of October 1, 2010.

In July 2011, FASB issued new guidance, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*. The guidance requires certain health care entities to present the bad debt expense associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than as an operating expense. The guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The Hospital is evaluating the effect of the new guidance on its consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with 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.

Cash and Cash Equivalents

The Hospital considers all highly liquid investments with remaining maturities of three months or less at date of purchase to be cash equivalents. Cash equivalents include money market funds. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Hospital's policy to monitor the financial strength of these institutions.

1. Summary of Significant Accounting Policies (continued)

Money market funds are not insured by the FDIC and are not a risk-free investment. Money market funds invest in a variety of instruments including mortgage-backed and asset-backed securities. Although a money market fund seeks to preserve its $1 per share value, it is possible that a money market fund's value can decrease below $1 per share. No funds had values below $1 per share at either September 30, 2011 or September 30, 2010.

Inventories

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

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Hospital has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. The Hospital is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value. The investment income generated from these funds is expendable to support healthcare services and the assets are classified as permanently restricted.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the donation is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limits the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are unrestricted contributions in the accompanying financial statements, except those relating to donations of long-lived assets.

Board Designated Endowment

As of September 30, 2011 and 2010, the Hospital has $89,632,017 and $91,527,136, respectively, of unrestricted investments, which have been designated by the Board of Directors and are not available for use without the approval of the Board of Directors.

1. Summary of Significant Accounting Policies (continued)

Investments in Affiliates

Investments in affiliates are accounted for using the equity method of accounting. Equity income related to investments in affiliates included in other operating revenues was approximately \$396,500, \$190,500 and \$1,150,400, respectively, for the Periods under Audit.

Investments

The Hospital's investment portfolio is classified as other than trading, with unrealized gains and losses excluded from excess of revenues over expenses, unless the losses are deemed to be other than temporary. Investments in equity securities with readily determinable fair values and all investments in debt securities and mutual funds are measured at fair value in the consolidated balance sheets. Investment income (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses, unless the income or loss is restricted by donor or law.

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 Hospitals 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) 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.

Other-Than-Temporary Impairments on Investments

The Hospital continually reviews its securities for impairment conditions, which could indicate that an other-than-temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other-than-temporary. Based on recently improving market conditions, as well as the Hospital's ability and intent to hold impaired assets to recovery, no other than temporary impairments were recorded in 2011 or 2010.

1. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

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

Investments in Joint Ventures

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

	Ownership Percentage
New Britain Alliance Occupational Health	86%
Central Connecticut Sports Medicine	50%
New Britain MRI Limited Partnership	43%
Total Laundry Collaborative LLC	37%

New Britain Alliance Occupational Health is not consolidated within the financial statements of the Hospital as of September 30, 2011 and 2010, as it is immaterial to the consolidated financial statements.

Property, Plant and Equipment

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

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

1. Summary of Significant Accounting Policies (continued)

Excess of Revenues Over Expenses

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

Non-Operating Gains and Losses

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

Income Taxes

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

Certain net operating loss carryforwards of $2,900,000 from unrelated business activities generated a potential deferred tax asset of approximately $1,160,000. No deferred tax asset has been reported 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.

1. Summary of Significant Accounting Policies (continued)

Unpaid Losses and Loss Adjustment Expenses

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

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

Reinsurance

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

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2010 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, 2011 presentation.

2. Net Revenues from Services to Patients and Charity Care

The following table summarizes net revenues from services to patients.

	Period From February 1, 2011 to September 30, 2011	Period From October 1, 2010 to January 31, 2011	Year Ended September 30, 2010
Gross revenues from patients	**$ 562,868,734**	$ 287,727,096	$ 809,324,847
Deductions:			
Allowances	**299,234,717**	154,031,976	435,992,445
Connecticut Uncompensated Care Pool	**(1,977,326)**	(1,272,087)	(4,035,006)
Charity care	**11,283,693**	5,978,393	8,420,571
	308,541,084	158,738,282	440,378,010
Total net revenue from services to patients	**$ 254,327,650**	$ 128,988,814	$ 368,946,837

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

During the Periods under Audit, approximately 37%, 36% and 35%, of net patient revenue was received under the Medicare program, 14%, 15% and 15%, under the state Medicaid program, and 50%, 49% and 50%, respectively, from contracts with other third parties and self-pay patients. Significant concentrations of net patient accounts receivable are comprised of 28% Medicare, 17% Medicaid and 55% other for the year ended September 30, 2011 and 27% Medicare, 20% Medicaid and 53% other for the year ended September 30, 2010.

The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized federal poverty income levels. These charges are not included in net patient service revenue for financial reporting purposes.

Net patient revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payers. Prior year estimates changed approximately $622,400, ($6,065,400) and $0, respectively, for the Periods under Audit.

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

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Hospital management believes that the Hospital is in compliance with all applicable laws and regulations and is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and reductions of funding levels could have an adverse impact on the Hospital.

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

3. Community Benefit

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

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

4. Investments

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

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

	2011	2010
Cash and cash equivalents	**$ 728,255**	$ 827,221
Equity securities	**1,829,115**	2,321,097
Fixed income bonds	**18,715,798**	22,043,035
Mutual funds	**84,193,803**	84,572,462
Common collective funds	**17,577,736**	17,864,139
Alternative investments and other	**28,142,879**	24,241,851
	$ 151,187,586	$ 151,869,805

There were no investments in a gross unrealized loss position as of September 30, 2011. No other than temporary impairment was recognized during 2011 or 2010.

Interest and dividend income on the unrestricted investments totaled $980,761, $558,464 and $2,847,543 for the Periods under Audit, respectively. Realized gains on the investments totaled $17,036, $7,174 and $4,495,661 for the Periods under Audit, respectively.

5. Fair Value Measurements

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

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

5. Fair Value Measurements (continued)

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 Hospital utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

The following table presents the financial instruments carried at fair value as of September 30, 2011 and 2010, by the valuation hierarchy.

	September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 20,299,387	$ –	$ –	$ 20,299,387
Assets whose use is limited:				
Cash and cash equivalents	45,322	–	–	45,322
Equity securities:				
U.S.	328,923	–	–	328,923
International	55,031	–	–	55,031
Emerging markets	24,242	–	–	24,242
Fixed income securities:				
U.S.	–	17,786,469	–	17,786,469
International	–	20,739	–	20,739
Domestic mutual funds	84,193,803	–	–	84,193,803
Domestic common collective funds		7,369,675	–	7,369,675
Alternative investments and other	8,475	2,361,878	25,504,435	27,874,788

5. Fair Value Measurements (continued)

	September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets held in trust by others:				
Cash and cash equivalents	$ 682,933	$ –	$ –	$ 682,933
Equity securities:				
U.S.	1,002,464	–	–	1,002,464
International	274,187	–	–	274,187
Emerging markets	144,268	–	–	144,268
Fixed income securities:				
U.S.	–	495,348	–	495,348
International	–	413,242	–	413,242
Common collective funds:				
U.S.	–	9,583,101	–	9,583,101
International	–	624,960	–	624,960
Alternative investments and other	159,091	–	109,000	268,090
Funds designated for debt services:				
Money market funds	2,397,206	–	–	2,397,206
Pension fund assets:				
Cash and cash equivalents	3,868,179	–	–	3,868,179
Domestic mutual funds	199,164,121	–	–	199,164,121
Domestic common collective funds	–	15,867,720	–	15,867,720
Alternative investments and other	–	–	6,089,569	6,089,569
Other assets:				
Mutual funds:				
U.S.	1,406,466	238,170	–	1,644,636
International	1,079,471	–	–	1,079,471

5. Fair Value Measurements (continued)

	September 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 27,488,766	$ –	$ –	$ 27,488,766
Assets whose use is limited:				
Cash and cash equivalents	100,305	–	–	100,305
Equity securities:				
International	51,352	–	–	51,352
Emerging markets	20,457	–	–	20,457
Fixed income securities:				
U.S.	–	21,073,670	–	21,073,670
International	–	21,788	–	21,788
Domestic mutual funds	84,572,462	–	–	84,572,462
Domestic common collective funds	–	8,422,566	–	8,422,566
Alternative investments and other	8,600	2,346,660	21,216,125	23,571,385
Assets held in trust by others:				
Cash and cash equivalents	726,916	–	–	726,916
Equity securities:				
U.S.	2,107,899	–	–	2,107,899
International	138,427	–	–	138,427
Emerging Markets	2,962	–	–	2,962
Fixed income securities:				
U.S.	–	554,879	–	554,879
International	–	392,698	–	392,698
Common collective funds:				
U.S.	–	8,549,231	–	8,549,231
International	–	892,342	–	892,342
Alternative investments and other	565,565	–	104,901	670,465
Funds designated for debt services:				
Money market funds	16,427	–	–	16,427

5. Fair Value Measurements (continued)

	September 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Pension fund assets:				
Cash and cash equivalents	$ 661,213	$ –	$ –	$ 661,213
Domestic mutual funds	188,271,619	–	–	188,271,619
Domestic common collective funds	–	17,020,467	–	17,020,467
Other	–		6,016,022	6,016,022
Other assets:				
Mutual funds:				
U.S.	1,551,974	767,314	–	2,319,288
International	365,025	–	–	365,025
Liabilities				
Interest rate swap agreements	–	3,819,673	–	–

For the year ended September 30, 2011, the changes in the fair value of assets measured using significant unobservable inputs (Level 3) were comprised of the following:

Beginning balance at October 1, 2010	$ 27,337,048
Change in unrealized gains and losses	(876,644)
Investment income, net	242,600
Purchases	5,000,000
Ending balance at September 30, 2011	$ 31,703,004

For the year ended September 30, 2010, the changes in the fair value of assets measured using significant unobservable inputs (Level 3) were comprised of the following:

Beginning balance at October 1, 2009	$ 5,532,958
Change in unrealized gains and losses	817,663
Investment income, net	271,535
Purchases	20,758,885
Distributions	(43,993)
Ending balance at September 30, 2010	$ 27,337,048

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

5. Fair Value Measurements (continued)

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

Assets and liabilities that are valued using significant unobservable inputs, such as extrapolated data, proprietary models or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy. The Level 3 classification includes the equity funds held by the Hospital and GIC. The equity funds are valued based on the ownership interest in the NAV of the fund as the practical expedient to estimate fair value. The Hospital routinely monitors and assesses methodologies and assumptions used in valuing these interests. The funds include certain liquidity restrictions that may require at least 90 days advance notice for redemptions. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

6. Net Assets

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

	2011	2010
Indigent care	**$ 783,781**	$ 753,845
Other healthcare services and capital acquisitions	**15,942,984**	15,542,632
	$ 16,726,765	$ 16,296,477

6. Net Assets (continued)

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

	2011	2010
Investments to be held in perpetuity, the income from which is expendable to support health care services	**$ 6,600,444**	$ 6,600,444
Restricted funds held in trust by others, the income from which is expendable to support health care services	**13,488,594**	14,035,818
	$ 20,089,038	$ 20,636,262

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

The Hospital has interpreted the relevant laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital during its annual budgeting process.

The Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Hospital; and (7) the investment policies of the Hospital.

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a reasonably stable and predictable stream of earnings to support the operations of the endowments and to preserve and enhance over time the real value of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment and management costs, of at least 6% over the long-term. Actual returns in any given year may vary from this amount.

6. Net Assets (continued)

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

The current asset allocation targets and ranges as of September 30, 2011, are as follows.

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

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

Changes in endowments for the year ended September 30, 2011 and 2010 are as follows.

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

6. Net Assets (continued)

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 80,516,608	$ 2,106,953	$ 6,600,444	$ 89,224,005
Investment return:				
Investment income	2,390,873	216,910	–	2,607,783
Net appreciation (realized and unrealized)	7,256,269	730,864	–	7,987,133
Contributions	1,363,386	18,663	–	1,382,049
Appropriation of endowment assets for expenditure	–	(285,265)	–	(285,265)
Endowment net assets at end of year	$ 91,527,136	$ 2,788,125	$ 6,600,444	$ 100,915,705

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2011 and 2010, there were no funds that were below the level required by donor or law.

7. Property, Plant and Equipment

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

	2011	2010
Land	**$ 6,138,259**	$ 2,637,259
Buildings and improvements	**231,855,821**	199,708,600
Equipment	**173,958,427**	165,976,070
	411,952,507	368,321,929
Less: accumulated depreciation	**(260,274,904)**	(246,081,335)
	151,677,603	122,240,594
Construction in progress	**1,087,467**	3,186,504
	$ 152,765,070	$ 125,427,098

The cost to complete the construction in progress is $588,934 and $2,600,000 as of September 30, 2011 and 2010, respectively. Depreciation and amortization expense for the Periods under Audit amounted to $12,790,361, $5,889,326 and $17,446,295, respectively. Equipment held under capital leases of $13,073,525 and $10,839,285 are included in equipment as of September 30, 2011 and 2010, respectively.

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

Details of long-term debt are as follows:

	September 30	
	2011	**2010**
Intercompany debt with HHC:		
Series A, consisting of a tax-exempt serial bond and term bonds; interest at rates ranging from 4.4% to 5.0%	**$ 31,199,642**	$ –
Series C, taxable variable rate term	**4,544,163**	–
CHEFA Series A	**–**	30,545,000
Barnes construction loan	**367,534**	1,264,422
Capital lease obligations	**5,997,231**	6,297,674
Unamortized bond premium	**618,287**	–
	42,726,857	38,107,096
Less current portion	**(2,724,400)**	(3,889,577)
Long term portion	**$ 40,002,457**	$ 34,217,519

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

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

The HHC 2011 Bonds were issued to refund portions of existing debt under HHC, and to obtain funds for future capital needs. As such, the HHC 2011 Bonds are reflected as intercompany debt in the schedule above. The Medical Center is party to the HHC Series A and Series C Revenue Bonds. 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 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 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, 2011.

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 which expires in September 2012**.** As of September 30, 2011, the Hospital had not drawn on the line of credit.

Prepaid expenses of $270,054 associated with the previous CHEFA debt were extinguished on September 29, 2011.

In October 2005, the Hospital entered into a ten-year, non-interest bearing loan agreement for $2,400,000 from the Barnes Memorial Trust. The Hospital is required to make annual payments of $240,000 toward the loan. The outstanding balance on this loan as of September 30, 2011 and 2010 was $367,534 and $1,264,422, respectively.

In May 2008, the Hospital entered into a five-year, $4,950,000 capital lease agreement with CHEFA for novalis medical equipment. This lease has an interest rate of 3.75%.The bank has a lien on the novalis medical equipment. The outstanding balance on this lease as of September 30, 2011 and 2010 was $1,753,967 and $2,755,244, and the net book value of the leased equipment was $3,133,912 and $3,748,369, respectively.

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

In August 2008, the Hospital entered into a five-year, $3,690,000 capital lease agreement with CHEFA for pet scan equipment. This lease has an interest rate of 4.27%. The bank has a lien on the pet scan equipment. The outstanding balance on this lease as of September 30, 2011 and 2010 was $1,508,137 and $2,247,630 and the net book value of the leased equipment was $2,333,867 and $2,803,685, respectively.

In February 2010, the Hospital entered into a five-year, $1,450,000 capital lease agreement with CHEFA for MRI equipment. This lease has an interest rate of 3.84%. The bank has a lien on the MRI equipment. The outstanding balance on this lease as of September 30, 2011 and September 30, 2010 was $1,020,534 and $1,294,800 and the net book value of the leased equipment was 1,142,009 and $1,407,886, respectively.

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

The Hospital had an available line of credit with bank for credit availability of up to $2,000,000 at September 30, 2010. There were no outstanding balances under this line of credit as of September 30, 2010. The line of credit was at customary terms and carried a variable rate of interest equal to the prevailing prime rate of a large New York-based bank (2.25% as of September 30, 2010).

During the years ended September 30, 2011 and 2010, the Hospital paid interest of $254,398, $582,741 and $775,109, respectively, for the Periods under Audit.

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

The following is a schedule of future principal payments by fiscal year on long-term debt as of September 30, 2011.

	Intercompany Loan	Notes Payable	Capital Leases	Total
Year:				
2012	$ –	$ 240,000	$ 2,484,400	$ 2,724,400
2013	–	127,534	2,145,090	2,272,624
2014	339,273	–	714,292	1,053,565
2015	383,979	–	547,568	931,547
2016	459,305	–	105,881	565,186
Thereafter	34,561,248	–	–	34,561,248
Total principal paid	35,743,805	367,534	5,997,231	42,108,570
Add: bond premium	618,287	–	–	618,287
Less: current portion	–	240,000	2,484,400	2,724,400
Long-term portion	$ 36,362,092	$ 127,534	$ 3,512,831	$ 40,002,457

9. Derivatives

In connection with the issuance of the CHEFA Series A bonds, the Hospital entered into an interest rate swap agreement (swap agreement) to synthetically fix the interest payment. Under the swap agreement, the fair value of the interest rate swap (a liability of $3,819,673 as of September 30, 2010) has been recorded in the accompanying consolidated balance sheets within other long-term liabilities. The change in fair value of the interest rate swap of $2,173,398, $(1,501,171) and $1,343,101 for the Periods under Audit, respectively, is recorded in the consolidated statements of operations and changes in net assets as a component of non-operating income. The swap agreement was terminated with the refinancing of the hospital debt on September 29, 2011.

10. Retirement Plans

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

10. Retirement Plans (continued)

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

The SERP has been established to supplement the retirement benefits of eligible employees designated by the Hospital's Board of Directors. The fair value of the assets relating to the SERP are $2,724,107 and $2,684,313 as of September 30, 2011 and 2010. The accrued liability relating to the SERP, which is funded annually, amounted to $4,083,217 and $3,084,313 as of September 30, 2011 and 2010, respectively. The expenses incurred related to the SERP amounted to $545,778, $353,350 and $1,019,098 for the Periods under Audit, respectively.

Significant disclosures relating to the retirement benefit plans, which are measured as of September 30, 2011 and 2010 are as follows.

	NBGH		Bradley	
	2011	**2010**	**2011**	**2010**
Change in benefit obligation				
Benefit obligation, beginning of year	**$ (271,626,303)**	$ (252,886,218)	**$ (33,733,867)**	$ (31,676,934)
Service cost	**(7,754,005)**	(7,811,748)	**(977,386)**	(947,405)
Interest cost	**(14,427,418)**	(13,643,971)	**(1,788,240)**	(1,708,268)
Actuarial loss	**3,043,406**	(3,888,119)	**537,168**	(472,485)
Benefits paid	**6,986,683**	6,242,594	**942,654**	844,432
Administrative expenses paid	**300,960**	361,159	**156,590**	226,793
Benefit obligation, end of year	**$ (283,476,677)**	$ (271,626,303)	**$ (34,863,081)**	$ (33,733,867)
Change in plan assets				
Fair value of plan assets, beginning	**$ 187,165,367**	$ 166,505,275	**$ 24,803,955**	$ 22,319,867
Actual return on plan assets	**(1,799,902)**	16,063,845	**(292,943)**	2,155,313
Employer contributions	**20,500,000**	11,200,000	**2,999,999**	1,400,000
Benefits paid	**(6,986,683)**	(6,242,594)	**(942,654)**	(844,432)
Administrative expenses paid	**(300,960)**	(361,159)	**(156,590)**	(226,793)
Fair value of plan assets, end of year	**$ 198,577,822**	$ 187,165,367	**$ 26,411,767**	$ 24,803,955
Accrued pension liability				
Unfunded status	**$ (84,898,855)**	$ (84,460,936)	**$ (8,451,314)**	$ (8,929,912)

10. Retirement Plans (continued)

	NBGH			Bradley		
	October 1, 2010 to January 31, 2011	**February 1, 2011 to September 30, 2011**	**2010**	**October 1, 2010 to January 31, 2011**	**February 1, 2011 to September 30, 2011**	**2010**
Components of net periodic benefit cost:						
Service cost	$ 2,825,690	$ 4,928,315	$ 7,811,748	$ 345,069	$ 632,317	$ 947,405
Interest cost	4,691,377	9,736,041	13,643,971	581,142	1,207,098	1,708,268
Expected return on plan assets	(5,213,859)	(9,981,137)	(16,179,756)	(625,704)	(1,322,406)	(1,876,140)
Net amortization and deferral	1,653,648	–	3,911,839	319,916	–	1,000,319
Net periodic benefit cost	$ 3,956,856	$ 4,683,219	$ 9,187,802	$ 620,423	$ 517,009	$ 1,779,852

	NBGH		Bradley	
	2011	**2010**	**2011**	**2010**
Assumptions:				
Weighted average assumption used to determine benefit obligations were:				
Discount rate	**5.30%**	5.25%	**5.25%**	5.25%
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%
Weighted average assumption used to determine periodic benefit cost were:				
Discount rate	**5.25%**	5.60%	**5.25%**	5.60%
Rate of compensation increase	**3.50%**	4.00%	**3.50%**	4.00%
Expected return on plan assets	**7.50%**	8.25%	**7.50%**	8.25%

The unfunded status of the accrued pension liability is included within the current and long-term portion of the pension, self-insurance and other long-term liabilities on the accompanying consolidated balance sheets. The accumulated benefit obligation for the NBGH plan was $250,666,538 and $236,601,618 as of September 30, 2011 and 2010, respectively. The accumulated benefit obligation for the Bradley plan was $32,010,945 and $30,726,333 as of September 30, 2011 and 2010, respectively.

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

10. Retirement Plans (continued)

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

	2011		2010	
	NBGH	**Bradley**	**NBGH**	**Bradley**
Unamortized prior service (credit) costs			$ (1,630,408)	$ 88,862
Unamortized actuarial loss	**$ 46,757,359**	**$ 5,276,841**	98,297,959	12,200,542
Amount recognized as a reduction in unrestricted net assets	**$ 46,757,359**	**$ 5,276,841**	$ 96,667,551	$ 12,289,404

The amortization of the above items expected to be recognized in net periodic benefit costs for the year ended September 30, 2012 is $252,644.

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

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

The weighted average asset allocations as of September 30, 2011 and 2010 are as follows:

	Target Allocation	NBGH		Bradley	
Asset Category	**2011**	**2011**	**2010**	**2011**	**2010**
Cash and cash equivalents	3%	**2%**	0%	**2%**	0%
Equity securities	65%	**57%**	64%	**59%**	65%
Fixed income	32%	**38%**	33%	**37%**	32%
Other	0%	**3%**	3%	**2%**	2%

10. Retirement Plans (continued)

The Hospital expects to make contributions of $13,000,000 to the NBGH plan, $1,400,000 to the Bradley plan and $317,159 to its SERP during fiscal 2012.

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

Benefit Payments	NBGH	Bradley
Year:		
2012	$ 8,051,621	$ 1,193,087
2013	$ 8,636,718	$ 1,290,215
2014	$ 9,345,686	$ 1,391,399
2015	$ 10,478,668	$ 1,487,987
2016	$ 11,520,209	$ 1,600,917
2017-2021	$ 77,233,227	$ 10,754,186

The Hospital has a defined contribution benefit plan, which became effective January 1, 2006. Substantially all full-time employees, hired after January 1, 2006, are eligible to participate in the new plan. Employees may contribute a percentage of their annual contribution subject to IRS limitations and the Hospital contributes up to 4% of annual compensation for employees that work greater than 20 hours a week and 3% of annual compensation for employees that work less than 20 hours a week. The Hospital has made employer contributions to this plan totaling $71,015, $1,215,415 and $1,749,494 and for the Periods under Audit, respectively. Employees become vested in the Hospital's contributions over three years. The portion of the employer contributions unvested upon termination of an employee are forfeited and used to reduce future contributions made by the Hospital on a dollar-for-dollar basis.

11. Professional and General Liability Insurance

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

The Hospital does not self-insure any professional liability risks other than exposures greater than its excess coverage's, however, as of September 30, 2011 and 2010, the Hospital has recorded a liability for estimated incurred but not reported claims, as it currently has a claims-made policy with GIC.

11. Professional and General Liability Insurance (continued)

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

In 2011 and 2010, the Hospital purchased excess insurance limits of $35 million, above the insured retention noted above.

A reconciliation of direct to net premiums on a written and earned basis is summarized as follows for year ended September 30, 2011.

	Written	Earned
Direct	$ 7,191,667	$ 7,179,162
Ceded	(2,451,984)	(2,451,984)
	$ 4,739,683	$ 4,727,178

Activity in the reserve for losses and loss adjustment expenses is summarized as follows for the year ended September 30, 2011.

	September 30	
	2011	**2010**
Net reserve, beginning of year	**$ 17,936,438**	$ 16,546,092
Incurred related to:		
Current year	**3,873,000**	2,923,380
Prior years	**(5,274,650)**	450,784
Total incurred	**(1,401,650)**	3,374,164
Paid related to:		
Current year	**3,024**	24,124
Prior years	**3,877,552**	1,959,694
Total paid	**3,880,576**	1,983,818
Net reserve, end of the year	**12,654,212**	17,936,438
Plus: reinsurance recoverable	**7,355,995**	6,496,841
Gross balance, end of the year	**$ 20,010,207**	$ 24,433,279

11. Professional and General Liability Insurance (continued)

As a result of changes in estimates of insured events in prior years, the reserve for losses and loss adjustment expenses decreased by $5,274,650 in 2011.

The Hospital also maintains a tail reserve for claims made policies prior to the movement to the captive. The reserve is discounted at 3% and has a balance of $3,715,224 as of September 30, 2011.

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

12. Self-Insurance of Workers' Compensation

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

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

The Hospital's year-end workers' compensation reserve, as estimated by Hospital management in conjunction with its independent actuaries, is included in pension, self-insurance and other long-term liabilities on the consolidated balance sheets and is discounted at 0.5% and 1.0% in 2011 and 2010, respectively. The balances as of September 30, 2011 and 2010 are $2,614,140 and $2,123,088, respectively.

13. Transactions with Affiliated Entities

Due from affiliates on the accompanying consolidated balance sheets represent amounts due from CCHA of $2,225,682 and $1,192,649 and due from other CCHA affiliates of $73,947 and $19,913 for the years ended September 30, 2011 and 2010, respectively. Due to affiliates on the accompanying consolidated balance sheets represent amounts due to other affiliates of $374,019 and $40,867 as of September 30, 2011 and 2010, respectively.

13. Transactions with Affiliated Entities (continued)

CCHA provides administrative and management services to the Hospital. There is no formal agreement and the monthly fee is agreed to during the budget process of CCHA. The administrative fee for the Periods under Audit was $545,778, $353,350 and $1,929,786, respectively. During 2010, the Hospital forgave $586,456 due from New Britain Alliance Occupational Health which has been included within the consolidated statements of operations and changes in net assets.

14. Leases

The Hospital has leases for various equipment and office space, which are accounted for as operating leases. Operating lease expense in the Periods under Audit was $2,868,605, $1,768,423 and $3,691,607, respectively.

As of September 30, 2011, future lease commitments on noncancelable leases with remaining terms of one year or more consisted of the following:

Year	Operating Leases
2012	$ 2,460,523
2013	1,696,715
2014	1,080,323
2015	1,041,283
2016	824,924
Thereafter	1,721,402
	$ 8,825,170

15. Contingencies

The Hospital is a party to various lawsuits incidental to its business. Management believes that the lawsuit will not have a material adverse effect on its financial position.

The Hospital and the Hospital's defined benefit pension plans invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

15. Contingencies (continued)

FASB ASC 410, *Asset Retirement and Environmental Obligations* addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as asbestos-containing facilities, when the amount of the liability can be reasonably estimated. Management is currently evaluating the fair market value of its Asset Retirement Obligation (ARO), relating to its various facilities.

An ARO liability of $1,370,379 and $1,698,359 has been established as of September 30, 2011 and 2010, respectively, and is included within self-insurance and other long-term liabilities on the consolidated balance sheets.

During 2010, the Hospital incurred asbestos abatement expenses of $84,604. Management will continue to evaluate its exposure to asbestos removal and adjust the ARO for the fair value of the associated costs.

Prior to 2010, the Hospital contracted with an external information systems vendor for all information technology services, including personnel and hardware. During 2010, the Hospital signed a release and settlement agreement to regards to the termination of the Master Agreement for information technology services. The agreement resulted in a $5.5 million termination fee to be paid in three equal installments beginning in 2011. Information technology conversion expense as of September 30, 2010 consists of transition costs of $3.5 million and a termination fee of $4.3 million.

16. Functional Expenses

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

	Period From February 1, 2011 to September 30, 2011	Period From October 1, 2010 to January 31, 2011	Year Ended September 30, 2010
Health care services	$ 216,397,003	$ 114,424,307	$ 346,177,514
General and administrative	18,143,306	12,486,505	32,599,952
Fundraising	386,107	195,848	555,111
	$ 234,926,416	$ 127,106,660	$ 379,332,577

17. Subsequent Events

For the year ended September 30, 2011, the Hospital evaluated subsequent events through January 27, 2012, which is the date the financial statements were issued. No events occurred that require disclosure or adjustment to the consolidated financial statements, except for the Hospital has given notice of its plan to withdraw from its investment in Total Laundry Collaborative, LLC of which the Hospital owned 37%. The impact of the withdrawal will be a loss of approximately $925,000.

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Report of Independent Auditors on Other Consolidating Financial Information

The Board of Directors
The Hospital of Central Connecticut

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations and changes in net assets of the individual entities. The consolidating information has been subjected to the auditing procedures applied in our audit 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. The financial statements of the Hospital for the year ended September 30, 2010 were audited by other auditors whose report, dated December 14, 2010, expressed an unqualified opinion on those statements. In addition, we did not audit the financial statements of Grand Indemnity Company, LTD., a wholly owned subsidiary, whose statements reflect total assets of $35,280,376 and $34,153,903 as of September 30, 2011 and 2010, respectively, and total revenues of $4,727,178 and $5,577,409 for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Hospital and Grand Indemnity Company, LTD., is based solely on the report of the other auditors.

Ernst & Young LLP

January 27, 2012

The Hospital of Central Connecticut

Consolidating Balance Sheets

September 30, 2011

	The Hospital of Central Connecticut	Grand Indemnity Company, LTD.	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 17,170,654	$ 3,128,733		$ 20,299,387
Accounts receivable, less allowance for bad debts of $11,289,428	48,945,018	–		48,945,018
Premiums receivable	–	95,727		95,727
Reinsurance recoverable	–	7,355,995		7,355,995
Other receivables	1,564,794	–	$ (147,573)	1,417,221
Current portion of pledges receivable, net	–	–	–	–
Due from affiliates	73,947	–	–	73,947
Inventories	5,586,310	–	–	5,586,310
Prepaid expenses	4,287,847	3,965	–	4,291,812
Assets whose use is limited - related to GIC	–	2,000,000	–	2,000,000
Total current assets	77,628,570	12,584,420	(147,573)	90,065,417
Assets whose use is limited:				
Investments related to GIC	–	22,695,956	–	22,695,956
Assets held in trust by others	–	–	–	–
Board restricted endowment	89,632,017	–	–	89,632,017
Temporary and permanently donor restricted investments	23,371,019	–	–	23,371,019
	113,003,036	22,695,956	–	135,698,992
Assets held in trust by others	13,488,594	–	–	13,488,594
Funds designated for debt services	2,397,206	–	–	2,397,206
Investments in affiliates	8,643,214	–	(5,267,875)	3,375,339
Other assets	3,433,763	–	–	3,433,763
Due from affiliates	2,255,684	–	–	2,255,684
Property, plant and equipment, net	152,765,070	–	–	152,765,070
	182,983,531	–	(5,267,875)	177,715,656
Total assets	$ 373,615,137	$ 35,280,376	$ (5,415,448)	$ 403,480,065
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 11,992,115	$ 38,000		$ 12,030,115
Accrued expenses	11,371,480	46,671		11,418,151
Accrued compensation	12,301,012	–		12,301,012
Due to affiliates	374,021	147,573	$ (147,573)	374,021
Unearned premiums	–	–	–	–
Reserve for losses and loss adjustment expenses	–	2,000,000	–	2,000,000
Deferred revenue	434,859	15,395	–	450,254
Due to third-party agencies	23,838,552	–	–	23,838,552
Current portion of long-term debt	2,724,400	–	–	2,724,400
Current portion of pension	14,717,159	–	–	14,717,159
Total current liabilities	77,753,598	2,247,639	(147,573)	79,853,664
Reserve for losses and loss adjustment expenses	–	18,010,207	–	18,010,207
Long-term debt	40,002,457	–	–	40,002,457
Accrued pension	82,716,227	–	–	82,716,227
Self-insurance and other long-term liabilities	7,699,743	–	–	7,699,743
Total liabilities	208,172,025	20,257,846	(147,573)	228,282,298
Net assets:				
Share capital	–	120,000	(120,000)	–
Contributed surplus	–	5,147,875	(5,147,875)	–
Unrestricted net assets / surplus	128,627,309	9,754,655	–	138,381,964
Temporarily restricted net assets	16,726,765	–	–	16,726,765
Permanently restricted net assets	20,089,038	–	–	20,089,038
Total net assets / surplus	165,443,112	15,022,530	(5,267,875)	175,197,767
Total liabilities and net assets	$ 373,615,137	$ 35,280,376	$ (5,415,448)	$ 403,480,065

The Hospital of Central Connecticut

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

For the Year Ended September 30, 2011

	The Hospital of Central Connecticut	Grand Indemnity Company, LTD.	Eliminations	Total
Revenues:				
Net revenues from services to patients	$ 383,316,464			$ 383,316,464
Other operating revenues	8,533,251			8,533,251
Net premiums earned	–	$ 4,727,178	$ (4,553,000)	174,178
Net assets released from restrictions used for operations	747,896	–	–	747,896
Total revenues	392,597,611	4,727,178	(4,553,000)	392,771,789
Expenses:				
Salaries	153,162,089	–	–	153,162,089
Fringe benefits	52,159,661	–	–	52,159,661
Purchased services	88,795,414	–	(4,553,000)	84,242,414
Supplies and other expenses	52,279,921	(585,660)	–	51,694,261
Provision for bad debts, net of recoveries of $3,136,962	2,389,422	–	–	2,389,422
Depreciation and amortization	18,679,687	–	–	18,679,687
Losses and loss adjustment expenses	–	(1,401,650)	–	(1,401,650)
Information technology conversion	–	–	–	–
Interest	837,138	–	–	837,138
Total expenses	368,303,332	(1,987,310)	(4,553,000)	361,763,022
Income from operations, before early extinguishment of debt	24,294,279	6,714,488	–	31,008,767
Early extinguishment of debt	270,054	–	–	270,054
Non-operating gains (losses):				
Investment income	1,539,225	–	–	1,539,225
Unrestricted gifts and bequests	204,893	–	–	204,893
Gains on sales of securities	24,210	–	–	24,210
Change in fair value of interest rate swap	(1,742,303)	–	–	(1,742,303)
Total non-operating gains	26,025	–	–	26,025
Excess of revenues over expenses	24,050,250	6,714,488	–	30,764,738
Changes in unrestricted net assets:				
Pension changes other than net periodic benefit costs	(14,071,226)	–	–	(14,071,226)
Net unrealized gains on investments	(3,308,136)	(939,803)	–	(4,247,939)
Fixed asset fair value adjustment	24,394,080	–	–	24,394,080
Net assets released from restrictions for capital	940,054	–	–	940,054
	$ 32,005,022	$ 5,774,685	$ –	$ 37,779,707

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