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AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

MidState Medical Center and Subsidiaries
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

MidState Medical Center and Subsidiaries

Audited Consolidated Financial Statements and Other Financial Information

Years Ended September 30, 2011 and 2010

Contents

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Report of Independent Auditors

Board of Directors
MidState Medical Center

We have audited the accompanying consolidated balance sheets of MidState Medical Center and subsidiaries (collectively referred to as the Medical Center) as of September 30, 2011 and 2010, 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 Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Medical Center'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 Medical Center'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 the Medical Center as of September 30, 2011 and 2010, 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

January 27, 2012

MidState Medical Center and Subsidiaries

Consolidated Balance Sheets

	September 30 2011	September 30 2010
Assets		
Current assets:		
Cash and cash equivalents	$ **20,898,243**	$ 29,570,490
Accounts receivable, less allowances for doubtful accounts of approximately $8,698,000 in 2011 and $8,156,000 in 2010	**29,581,747**	27,340,758
Other receivables	**1,416,029**	1,080,542
Inventories of supplies	**1,896,399**	1,599,146
Prepaid expenses and other assets	**2,626,149**	1,381,196
Current portion of assets who use is limited	–	1,168,505
Total current assets	**56,418,567**	62,140,637
Assets whose use is limited:		
Board-designated investments	**10,835,261**	11,182,066
Donor restricted investments	**1,666,292**	1,764,745
Funds designated for debt service	**6,312,325**	–
	18,813,878	12,946,811
Funds held in trust by others	**11,682,166**	12,195,310
Other assets	**28,217,035**	20,110,968
Property, plant and equipment, net	**132,230,436**	134,794,376
	$ **247,362,082**	$ 242,188,102

	September 30	
	2011	**2010**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 3,977,777**	$ 6,768,069
Salaries, wages, and amounts withheld from employee compensation	**9,084,845**	8,445,266
Estimated third-party payor settlements	**1,800,530**	942,231
Accrued expenses	**511,787**	519,192
Accrued interest payable	**–**	526,657
Current portion of long-term debt	**–**	2,335,000
Current portion of other liabilities	**10,646,951**	10,442,247
Total current liabilities	**26,021,890**	29,978,662
Accrued pension liability	**57,749,335**	52,087,773
Other liabilities	**2,432,939**	2,465,969
Long-term debt, less current portion	**88,754,643**	80,580,000
Net assets:		
Unrestricted	**57,976,004**	62,140,641
Temporarily restricted	**1,966,917**	1,962,184
Permanently restricted	**12,460,354**	12,972,873
	72,403,275	77,075,698
	$ 247,362,082	$ 242,188,102

See accompanying notes .

MidState Medical Center and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2011	**2010**
Unrestricted revenues, gains, and other support:		
Net patient service revenue	**$ 196,755,436**	$ 182,022,152
Other operating revenue	**27,159,567**	31,517,973
Net assets released from restrictions for operations	**241,164**	199,314
	224,156,167	213,739,439
Operating expenses:		
Salaries	**74,803,914**	70,494,313
Employee benefits	**26,868,042**	21,760,310
Supplies and other	**90,452,334**	86,685,888
Provision for uncollectible accounts	**8,300,420**	10,965,542
Depreciation and amortization	**13,144,617**	11,405,092
Interest	**2,222,925**	2,221,191
	215,792,252	203,532,336
Income from operations before loss on early extinguishment of debt	**8,363,915**	10,207,103
Loss on early extinguishment of debt	**(925,377)**	–
Income from operations	**7,438,538**	10,207,103
Non-operating income (loss):		
Income from investments, gifts and bequests, net	**1,172,782**	1,253,344
Change in fair value of interest rate swaps	**(106,639)**	(1,387,309)
	1,066,143	(133,965)
Excess of revenues over expenses before change in unrealized gains and losses on investments	**8,504,681**	10,073,138
Change in unrealized gains and losses on investments	**(610,653)**	668,077
Excess of revenues over expenses	**7,894,028**	10,741,215

Continued on next page.

MidState Medical Center and Subsidiaries

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

	Year Ended September 30	
	2011	**2010**
Unrestricted net assets:		
Excess of revenues over expenses (continued)	**$ 7,894,028**	$ 10,741,215
Net assets released from restrictions for purchase of property and equipment	**228,245**	504,477
Change in funded status of pension plan	**(12,286,285)**	(53,627)
Transfer to permanently restricted net assets	**(625)**	(2,371)
(Decrease) increase in unrestricted net assets	**(4,164,637)**	11,189,694
Temporarily restricted net assets:		
Change in unrealized gains and losses on investments	**(99,078)**	108,396
Income from investments	**246**	376
Income from special purpose funds	**82,463**	90,933
Net assets released from restrictions for purchase of property and equipment	**(228,245)**	(504,477)
Net assets released from restrictions for operations	**(241,164)**	(199,314)
Bequests, gifts and grants	**447,834**	600,011
Pledge contributions	**42,677**	235,743
Increase in temporarily restricted net assets	**4,733**	331,668
Permanently restricted net assets:		
Transfer from unrestricted net assets	**625**	2,371
Change in unrealized gains and losses on funds held in trust by others	**(513,144)**	159,448
(Decrease) increase in permanently restricted net assets	**(512,519)**	161,819
(Decrease) increase in net assets	**(4,672,423)**	11,683,181
Net assets at beginning of year	**77,075,698**	65,392,517
Net assets at end of year	**$ 72,403,275**	$ 77,075,698

See accompanying notes.

MidState Medical Center and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2011	**2010**
Cash flows from operating activities and other income		
Change in net assets	**$ (4,672,423)**	$ 11,683,181
Adjustments to reconcile change in net assets to net cash provided by operating activities and other income:		
Noncash items:		
Depreciation and amortization	**13,144,617**	11,405,092
Change in unrealized gains and losses on investments	**709,731**	(776,473)
Change in fair value of interest rate swaps	**106,639**	(1,387,309)
Change in funded status of pension plan	**12,286,285**	53,627
Change in unrealized gains and losses on funds held in trust by others	**513,144**	(159,448)
Provision for uncollectible accounts	**8,300,420**	10,965,542
Loss on early extinguishment of debt	**925,377**	–
Other changes in net assets:		
Restricted contributions and investment income	**(573,220)**	(927,063)
Changes in operating assets and liabilities, net *(Note 12)*	**(28,698,055)**	(24,094,496)
Net cash provided by operating activities and other income	**2,042,515**	6,762,653
Cash flows from investing activities		
Purchases of property, plant and equipment, net	**(10,580,677)**	(27,849,402)
Increase in assets whose use is limited, net	**(5,408,293)**	9,873,390
Net cash used in investing activities	**(15,988,970)**	(17,976,012)
Cash flows from financing activities		
Proceeds of issuance of bonds, net of change in issuance costs	**87,615,988**	–
Principal payments on long-term debt	**(82,915,000)**	(2,390,000)
Restricted contributions and investment income	**573,220**	927,063
Net cash provided by (used in) financing activities	**5,274,208**	(1,462,937)
Decrease in cash and cash equivalents	**(8,672,247)**	(12,676,296)
Cash and cash equivalents at beginning of year	**29,570,490**	42,246,786
Cash and cash equivalents at end of year	**$ 20,898,243**	$ 29,570,490

See accompanying notes.

1. Significant Accounting Policies

The accounting policies that affect significant elements of the MidState Medical Center and its subsidiaries (collectively referred to as the Medical Center) financial statements are summarized below.

Organization

The Medical Center is a nonprofit organization incorporated under the General Statutes of the State of Connecticut. Hartford HealthCare Corporation (HHC) is the sole member of the Medical Center. The Board of HHC elects the Board of Directors and officers of the Medical Center who manage its property and affairs.

In fiscal year 1999, the Medical Center acquired an 80% interest in Meriden Imaging Center (the Center) and began consolidating its financial statements.

Effective February 14, 2006, MidState MSO, LLC (a wholly-owned subsidiary of the Medical Center) was created to provide management services and support for medical practices.

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.

Regulatory Matters

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

Cash and Cash Equivalents

Cash and cash equivalents include cash and certificates of deposit. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Medical Center's policy to monitor the financial strength of these institutions.

1. Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are stated on the basis of cost. The Medical Center 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.

Investments

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

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the balance sheet date. Assets temporarily restricted (by donor) are recorded at fair value at the date of donation, which is then considered cost. Investment income (including realized and unrealized 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.

Patient Accounts Receivable

Patient accounts receivable result from the health care services provided by the Medical Center. Additions to the allowance for doubtful accounts result from the provision for uncollectible accounts. 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.

Inventories

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

Fair Values

The carrying values of financial instruments classified as current assets and current liabilities approximate fair value based on current market conditions. The fair value of all financial instruments are disclosed in their respective notes and/or in Note 4.

1. Significant Accounting Policies (continued)

Interest Rate Swap Agreements

The Medical Center utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. The Medical Center does not hold or issue derivative financial instruments for trading purposes. The Medical Center 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 statements of operations and changes in net assets.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Medical Center 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 Medical Center in perpetuity. The Medical Center 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 trusts is unrestricted and the assets are classified as permanently restricted.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Pledges receivable at September 30, 2011 and 2010 are comprised primarily of amounts contributed for the expansion of the emergency department.

Pledges receivable to be received after one year are discounted to net present value. Pledges are recognized in accordance with donor imposed restrictions, if any, on the contributions.

Assets Whose Use is Limited

Assets whose use is limited includes assets that are set aside by the Board of Directors for future capital improvements, health care services based on donor's intent and debt service funds for existing obligations on outstanding long-term debt.

1. Significant Accounting Policies (continued)

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and 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 for contributions of long-lived assets.

Bond Issuance Costs

Bond issuance costs associated with long-term debt for capital projects are amortized over the term of the debt using the effective interest method. Bond issuance costs of $1,819,787 and $1,530,674 are recorded in other assets in the consolidated balance sheets at September 30, 2011 and 2010, respectively.

Income Taxes

The Medical Center is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Center is an S Corporation, a pass-through entity not subject to federal income taxes. MidState MSO is a single member limited liability company treated as part of its sole member for federal tax purposes.

Medical Malpractice 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 Medical Center has a 25% ownership interest. The Medical Center's ownership is accounted for under the equity method in the accompanying statements of operations and changes in net assets. The investment in CHS Insurance Limited is included in other assets in the accompanying consolidated balance sheets.

1. Significant Accounting Policies (continued)

Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, include changes in the funded status of the pension plan and contributions of long-lived assets.

Nonoperating Income

Nonoperating income primarily consists of income on invested funds, gifts and bequests, and changes in fair value of swap agreements.

Pension Plans

The Medical Center maintains a defined benefit pension plan (Note 8) and a defined contribution plan. Pension expense for the defined contribution plan was $2,944,299 and $2,808,772 for the years ended September 30, 2011 and 2010, respectively.

New Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 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 2012, the guidance in ASU 2010-06 becomes 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 Medical Center's consolidated financial statements.

1. Significant Accounting Policies (continued)

In August 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosure*. ASU 2010-23 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. It also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. It is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Medical Center is evaluating the effect on its consolidated financial statements.

In July 2011, FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*. ASU 2011-07 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, with enhanced footnote disclosure on the policies for recognizing revenue and assessing bad debts, and qualitative and quantitative information about changes in the allowance for doubtful accounts. The guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The Medical Center is evaluating the effect on its consolidated financial statements.

In August 2010, the FASB also issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under ASU 2010-24, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the balance sheet. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Medical Center is evaluating the effect of ASU 2010-24 on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2010 balances previously reported in the consolidated balance sheets and statement of operations and changes in net assets in order to conform with the year ended September 30, 2011 presentation.

2. Revenue from Services to Patients, Charity Care and Accounts Receivable

Revenues from the Medicare and Medicaid programs accounted for approximately 36% and 11%, and 35% and 8%, respectively, of the Medical Center's net patient service revenue for the years ended September 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Medical Center 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. While no such regulatory inquiries are outstanding, 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 Medical Center.

The following table summarizes net revenue from services to patients:

	Year Ended September 30	
	2011	**2010**
Gross revenues from patients:		
Inpatients	**$ 204,208,669**	$ 181,180,626
Outpatients	**219,207,273**	193,690,236
	423,415,942	374,870,862
Deductions:		
Allowances	**223,635,468**	189,210,727
Charity care	**3,025,038**	3,637,983
	226,660,506	192,848,710
Net patient service revenue	**$ 196,755,436**	$ 182,022,152

The significant concentrations of accounts receivable for services to patients include 37% from Medicare, 16% from Medicaid, 27% from commercial insurance carriers and 20% from others at September 30, 2011 (35%, 16%, 28% and 21%, respectively, at September 30, 2010).

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

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center 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, and 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. The Medical Center recorded net changes in estimates of approximately $2.2 million related to better than previously estimated third-party payor settlements at September 30, 2011.

The Medical Center 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 Medical Center-specific data. Such amounts are included in the accompanying balance sheets.

The Medical Center 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 Medical Center for certain covered services based upon discounted fee schedules.

The Medical Center 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 Medical Center. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Medical Center 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. These charges are not included in net patient service revenue for financial reporting purposes.

3. Assets Whose Use is Limited

Fair value of assets whose use is limited at September 30 is as follows:

	2011	2010
Cash and cash equivalents	$ 115,438	$ 130,969
Money market funds	6,312,325	1,168,505
Domestic equity securities	5,587,167	6,069,956
Domestic fixed income bonds	2,404,624	4,115,861
Mutual Funds:		
U.S.	2,897,124	592,470
International	1,265,000	1,767,555
Other	232,200	270,000
	$ 18,813,878	$ 14,115,316

The Medical Center is the income beneficiary of funds held in trust by others. The market value of the trusts for the Medical Center were $11,682,166 and $12,195,310 at September 30, 2011 and 2010, respectively.

The composition and presentation of unrestricted investment income and gains from investments, which are included in nonoperating income in the consolidated statements of operations and changes in net assets, are as follows:

	Year Ended September 30	
	2011	2010
Interest and dividend income	$ 130,175	$ 261,107
Realized gains on investments, net	5,723	65,106
Income from endowments	794,483	973,487
	$ 930,381	$ 1,299,700

4. 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 that 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 Medical Center uses 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.

4. Fair Values of Financial Instruments (continued)

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

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 20,898,243	$ –	$ –	$ 20,898,243
Assets limited as to use:				
Cash and cash equivalents	115,438	–	–	115,438
Money market funds	6,312,325	–	–	6,312,325
Domestic equity securities	5,587,167	–	–	5,587,167
Domestic fixed income bonds	–	2,404,624	–	2,404,624
Mutual funds:				
U.S.	2,897,124	–	–	2,897,124
International	1,265,000	–	–	1,265,000
Other	–	232,200	–	232,200
Funds held in trust by others:				
Cash and cash equivalents	494,041	–	–	494,041
Domestic equity securities	6,247,799	–	–	6,247,799
Mutual funds:				
U.S.	1,035,671	–	–	1,035,671
International	458,049	–	–	458,049
Domestic fixed income bonds	–	3,084,317	–	3,084,317
Domestic common collective funds	–	357,082	–	357,082
Other	–	5,207	–	5,207
Other assets:				
Cash and cash equivalents	250,000	–	–	250,000
Money market funds	–	250,107	–	250,107
Liabilities				
Interest rate swap agreements	–	5,720,844	–	5,720,844

4. Fair Values of Financial Instruments (continued)

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:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 29,570,490	$ –	$ –	$ 29,570,490
Assets limited as to use:				
Cash and cash equivalents	130,969	–	–	130,969
Money market funds	1,168,505	–	–	1,168,505
Domestic equity securities	6,069,956	–	–	6,069,956
Domestic fixed income bonds	–	4,115,861		4,115,861
Mutual funds:				
U.S.	592,470	–	–	592,470
International	1,767,555	–	–	1,767,555
Other	–	270,000	–	270,000
Funds held in trust by others:				
Cash and cash equivalents	515,742	–	–	515,742
Domestic equity securities	6,522,236	–	–	6,522,236
Mutual funds:				
U.S.	1,081,164	–	–	1,081,164
International	478,169	–	–	478,169
Domestic fixed income bonds	–	3,219,796	–	3,219,796
Domestic common collective funds	–	372,767	–	372,767
Other	–	5,436	–	5,436
Liabilities				
Interest rate swap agreements	–	5,823,740	–	5,823,740

4. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value included in the defined benefit pension plan are classified in the table below in one of the three categories described above:

	September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Pension plan assets:				
Money market funds	**$ 631,651**	**$ –**	**$ –**	**$ 631,651**
Mutual funds:				
U.S.	**20,811,251**	**–**	**–**	**20,811,251**
International	**8,848,087**	**–**	**–**	**8,848,087**
Common collective funds:				
U.S.	**–**	**57,993,541**	**–**	**57,993,541**
International	**–**	**4,815,217**	**–**	**4,815,217**
Other	**–**	**9,000,000**	**–**	**9,000,000**

	September 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Pension plan assets:				
Money market funds	$ 704,024	$ –	$ –	$ 704,024
Mutual funds:				
U.S.	21,462,051	–	–	21,462,051
International	10,098,643	–	–	10,098,643
Common collective funds:				
U.S.	–	56,678,902	–	56,678,902
International	–	5,563,991	–	5,563,991

Fair value for Level 1 assets is based upon quoted market prices. Fair value for Level 2 assets is based upon model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers. The interest rate swap agreement is valued based on a determination of market expectations related to the future cash flows associated with the swap contract using sophisticated modeling based on observable market based inputs, such as interest rate curves.

The Medical Center's long-term debt obligations were reported in the accompanying consolidated balance sheets at carrying value which totaled $87,127,753 at September 30, 2011. The fair value of these obligations at September 30, 2011 was determined by the Medical Center's investment advisor using a discounted cash flow analysis. Carrying value also approximated fair value at September 30, 2010.

5. Net Assets and Endowments

Temporarily restricted net assets are primarily available for the purchase of equipment and for health care services. Permanently restricted net assets included permanently restricted gifts and funds held in trust.

The Medical Center's endowment consists of approximately 100 individuals funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Medical Center has interpreted 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 Medical Center classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The 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 Medical Center 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 Medical Center 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 Medical Center
7) The investment policies of the Medical Center

The Medical Center 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. The Medical Center's spending policy is that investment income and realized gains and losses associated with the endowments are appropriated for spending every year, and unrealized gains and losses are reinvested back into the endowment as accumulated earnings.

5. Net Assets and Endowments (continued)

Endowment assets include those assets of donor-restricted funds that the Medical Center must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds.

Endowment net asset composition by type of fund as of September 30, 2011, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 888,104	$ 778,188	$ 1,666,292
Board-designated endowment funds	$ 10,835,261	–	–	10,835,261
	$ 10,835,261	$ 888,104	$ 778,188	$ 12,501,553

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 11,182,066	$ 987,182	$ 777,563	$ 12,946,811
Net asset reclassifications	(625)	–	625	–
Endowment net assets after reclassification	11,181,441	987,182	778,188	12,946,811
Investment return:				
Investment income	365,655	–	–	365,655
Net depreciation (realized and unrealized)	(597,200)	(99,078)	–	(696,278)
Total investment return	(231,545)	(99,078)	–	(330,623)
Appropriation of endowment assets for expenditure	(114,635)	–	–	(114,635)
Endowment net assets at end of year	$ 10,835,261	$ 888,104	$ 778,188	$ 12,501,553

Endowment net asset composition by type of fund as of September 30, 2010, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 987,182	$ 777,563	$ 1,764,745
Board-designated endowment funds	$ 11,182,066	–	–	11,182,066
	$ 11,182,066	$ 987,182	$ 777,563	$ 12,946,811

5. Net Assets and Endowments (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 10,222,190	$ 878,786	$ 775,192	$ 11,876,168
Net asset reclassifications	(2,371)	–	2,371	–
Endowment net assets after reclassification	10,219,819	878,786	777,563	11,876,168
Investment return:				
Investment income	351,188	–	–	351,188
Net appreciation (realized and unrealized)	729,074	108,396	–	837,470
Total investment return	1,080,262	108,396	–	1,188,658
Appropriation of endowment assets for expenditure	(118,015)	–	–	(118,015)
Endowment net assets at end of year	$ 11,182,066	$ 987,182	$ 777,563	$ 12,946,811

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 Medical Center 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 were deemed prudent by the Board of Directors. There were no significant deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2011 or 2010.

6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	September 30 2011	September 30 2010
Land and land improvements	**$ 9,533,537**	$ 9,516,529
Buildings and building improvements	**114,490,931**	114,240,836
Equipment	**121,616,252**	110,639,255
Construction in process (estimated cost to complete -- $1,806,800)	**338,221**	1,372,133
	245,978,941	235,768,753
Accumulated depreciation	**(113,748,505)**	(100,974,377)
	$ 132,230,436	$ 134;794,376

7. Pledges Receivable

Pledges receivable, included in other assets in the accompanying balance sheets, are expected to be received as follows:

	September 30 2011	2010
Due within one year	**$ 166,227**	$ 199,466
Due in one to five years	**135,585**	314,106
	301,812	513,572
Less allowance and discount	**(29,901)**	(57,831)
Net pledge receivable	**$ 271,911**	$ 455,741

The discount reduces the pledge receivables to net present value. The allowance recognizes the estimated uncollectible portion of the pledges.

8. Pension Plan

The Medical Center has a defined benefit pension plan, covering substantially all of its employees and executives, and a noncontributory, supplemental defined-benefit retirement plan for certain executive employees (collectively, the pension plans). The benefits are based on years of service and the employees' compensation during the last five years of employment. The Medical Center makes contributions in amounts sufficient to fund the Plan's current service cost and to fund the past service costs plus interest thereon over a period of approximately 30 years. An accrued pension liability is included in the accompanying balance sheets related to the pension plans. The Medical Center also has a nonqualified pension plan covering substantially all of its employees and executives.

The following table sets forth the Plan's funded status and amounts recognized in the Medical Center's consolidated balance sheets:

	September 30 2011	2010
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 146,595,384**	$ 135,397,266
Service cost	**3,567,057**	3,359,189
Interest cost	**8,070,842**	7,945,224
Net benefits payments and transfers	**(3,839,127)**	(4,161,885)
Actuarial loss	**5,454,926**	4,055,590
Benefit obligation at end of year	**$ 159,849,082**	$ 146,595,384

8. Pension Plan (continued)

	September 30 2011	2010
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 94,507,611**	$ 84,724,830
Actual return on plan assets	**(1,868,737)**	9,144,666
Employer contribution	**13,300,000**	4,800,000
Net benefit payments and transfers	**(3,839,127)**	(4,161,885)
Fair value of plan assets at end of year	**102,099,747**	94,507,611
Funded status of the plan	**$ (57,749,335)**	$ (52,087,773)
Components of net periodic benefit cost		
Service cost	**$ 3,567,057**	$ 3,359,189
Interest cost	**8,070,842**	7,945,224
Expected return on plan assets	**(8,157,939)**	(7,783,685)
Net amortization and deferral	**3,195,317**	2,640,982
Benefit cost	**$ 6,675,277**	$ 6,161,710

The accumulated benefit obligation for the pension plans was $147,749,024 and $133,640,577 at September 30, 2011 and 2010, respectively.

To develop the expected long-term rate of return on plan assets assumption, the Medical Center considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Included in unrestricted net assets at September 30, 2011 and 2010, respectively, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credit of $952,588 and $1,054,035 and unrecognized actuarial loss of $67,315,680 and $55,130,842. The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2012 is $4,013,661.

Plan Assets

The Plan's investment objectives are to achieve long-term growth in excess of long-term inflation and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets over a long-term time horizon. In order to minimize the risk, the Plan aims to minimize the variability in yearly returns. The Plan also aims to diversify its holding among sectors, industries, and companies. No more than 5% of the plan's portfolio (excluding U.S. government securities and cash) may be held in an individual company's stocks or bonds.

8. Pension Plan (continued)

The Medical Center's pension plan weighted-average allocations at September 30, 2011 and 2010, by asset category are as follows:

Asset Category	Target Allocation	2011	2010
Equity securities	70%	**65%**	69%
Debt securities	30	**34**	30
Cash	0	**1**	1

Contributions

The Medical Center estimates fiscal year 2012 plan contributions of $6,900,000.

Estimated Future Benefit Payments

Benefit payments are expected to be paid as follows:

Fiscal Year	Pension Benefits
2012	$ 5,127,253
2013	5,776,059
2014	8,942,858
2015	7,119,873
2016	7,811,653
Years 2017 – 2021	49,431,327

Assumptions

The weighted-average assumptions used to determine projected benefit obligations are as follows:

	September 30	
	2011	**2010**
Discount rate	**5.25%**	5.45%
Rate of increase in compensation	**3.50**	3.50

8. Pension Plan (continued)

The weighted-average assumptions used to determine net periodic benefit cost are as follows:

	September 30	
	2011	**2010**
Discount rate	**5.45%**	5.80%
Expected return on plan assets	**8.0**	8.0
Rate of increase in compensation	**3.5**	4.0

9. Long-Term Debt

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%	**$ 82,094,766**	
Series C, taxable variable rate term bond	**5,032,987**	
Medical Center revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority: Series A, B, A-1 and B-1	**–**	$ 82,915,000
Premium on long-term debt	**1,626,890**	–
	88,754,643	82,915,000
Less current portion	**–**	2,335,000
	$ 88,754,643	$ 80,580,000

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

9. Long-Term Debt (continued)

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.

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 Medical Center had not drawn on the line of credit.

The Medical Center issued Series A Revenue Bonds (Medical Center Series A Bonds) totaling $69,785,000, consisting of $43,010,000 of serial bonds and $26,775,000 of term bonds, to finance the Medical Center's construction of a new hospital. The Medical Center Series A 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, an additional $500,000 in Medical Center Series B Bonds was issued in conjunction with a related entity. The Medical Center Series A and B Bonds were extinguished during 2011 in conjunction with the HHC 2011 Bonds.

9. Long-Term Debt (continued)

During 2002, an additional $13,935,000 in Series A-1 bonds (Medical Center Series A-1 Bonds) was issued to fund an expansion of the Medical Center. The Medical Center 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 had one balloon principal payment of $13,935,000 due on July 1, 2031. As of September 30, 2010, the variable interest rate approximated .25%. The Medical Center Series A-1 Bonds were extinguished during 2011 in conjunction with the HHC 2011 Bonds.

During 2006, the Medical Center entered into a synthetic refinancing of its existing Medical Center Series A Bonds, whereby the Medical Center called the Medical Center Series A Bonds on July 1, 2006 from the current bondholders through a tender offer paying a call premium of 103. Bonds that were not tendered, totaling $6,046,000, were redeemed at a premium of 102. The Medical Center simultaneously resold the Medical Center Series A 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 Medical Center, in the value of the Medical Center Series A Bonds. The Total Return Distribution Agreement has termination dates based on the serial maturity dates of the Medical Center Series A Bonds. The Total Return Swap Transaction was amended on April 13, 2010 and again on May 15, 2011. The Total Return Swap Transaction was terminated on September 29, 2011 in conjunction the extinguishment of the Medical Center Series A Bonds.

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 3.777%. This agreement terminates July 1, 2026.

The fair market value of the swap agreements were $5,720,844 and $5,823,740 at September 30, 2011 and 2010, respectively, and are recorded in the current portion of other liabilities in the accompanying 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 market value of these agreements are reported in the accompanying statements of operations and changes in net assets as a component of income from investments along with the net cash receipts on the swap agreements.

9. Long-Term Debt (continued)

During 2008, an additional $30,000,000 in Medical Center Series B-1 bonds were issued to fund an expansion of the Medical Center. The Medical Center 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, the variable interest rate approximated .25%. These bonds were extinguished in 2011 as part of the HHC 2011 Bonds.

Scheduled principal repayments are as follows:

2014	$ 854,268
2015	966,934
2016	1,156,500
Thereafter	84,150,051
	$ 87,127,753

Interest paid during 2011 and 2010 was $2,177,709 and $2,252,864, respectively.

10. Commitments and Contingencies

There have been medical malpractice claims that fall within the Medical Center's medical malpractice insurance coverage which have been asserted against the Medical Center. In addition, there are known incidents that have occurred through September 30, 2011 that may result in the assertion of claims.

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

The Medical Center has noncancelable operating leases, primarily for offsite properties. Rental expense for operating leases was $2,315,943 and $2,298,667 at September 30, 2011 and 2010, respectively.

10. Commitments and Contingencies (continued)

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of September 30, 2011 are:

2012	$ 2,338,384
2013	2,215,567
2014	2,165,130
2015	2,078,186
2016	2,057,218
Thereafter	15,056,117
Total minimum lease payments	$ 25,910,602

11. Transactions with Affiliates

The costs of services provided to the Medical Center by various HHC affiliates are recorded as a direct cost of certain services and an allocation of shared expenditures. Services provided by affiliates for the year ended September 30, 2011 and 2010 were approximately $33,037,613 and $19,446,168, respectively. Other inter-company activity with subsidiaries of MidState Medical Center include recurring transactions associated with operations and cash management which have been eliminated in consolidation.

12. Functional Expenses

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

	Year Ended September 30	
	2011	**2010**
Health care services	**$ 171,206,927**	$ 140,437,312
Support services	**45,510,702**	63,095,024
	$ 216,717,629	$ 203,532,336

13. Supplemental Cash Flow Information

The changes in assets and liabilities are as follows:

	Year Ended September 30	
	2011	**2010**
Increase in accounts receivable	**$ (10,541,409)**	$ (15,505,160)
Increase in other receivables	**(335,487)**	(272,175)
Increase in inventories and prepaid expenses and other assets	**(1,542,206)**	(188,513)
Increase in other assets	**(8,423,412)**	(11,281,745)
Decrease in accounts payable	**(2,790,292)**	(854,787)
Increase in estimated third-party payor settlements	**858,299**	56,764
Increase (decrease) in salaries, wages and amounts withheld from employee compensation	**639,579**	(843,377)
Decrease in accrued interest payable	**(526,657)**	(31,673)
(Decrease) increase in other accrued expenses	**(7,405)**	23,071
Increase in other liabilities	**595,658**	4,872,686
Decrease in accrued pension liability	**(6,624,723)**	(69,587)
	$ (28,698,055)	$ (24,094,496)

14. Subsequent Events

For the year ended September 30, 2011, the Medical Center 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.

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Report of Independent Auditors on Other Financial Information

Board of Directors
MidState Medical Center and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating balance sheet and statement of operations 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

January 27, 2012

MidState Medical Center and Subsidiaries

Consolidating Balance Sheet

September 30, 2011

	MidState Medical Center	Meriden Imaging Center, Inc.	MidState MSO, LLC	Total	Eliminating Entries	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$ 19,361,929	$ 1,497,811	$ 38,503	$ 20,898,243		$ 20,898,243
Accounts receivable, less allowances	23,676,854	1,038,646	4,866,247	29,581,747		29,581,747
Other receivables	1,416,029	–	–	1,416,029		1,416,029
Inventories of supplies	1,896,399	–	–	1,896,399		1,896,399
Prepaid expenses and other assets	2,561,470	55,897	8,782	2,626,149		2,626,149
Total current assets	48,912,681	2,592,354	4,913,532	56,418,567		56,418,567
Assets whose use is limited:						
Board-designated investments	10,835,261	–	–	10,835,261		10,835,261
Donor restricted investments	1,666,292	–	–	1,666,292		1,666,292
Funds designated for debt service	6,312,325	–	–	6,312,325		6,312,325
	18,813,878	–	–	18,813,878		18,813,878
Funds held in trust by others	11,682,166	–	–	11,682,166		11,682,166
Other assets	30,090,642	10,650	700,000	30,801,292	$ (2,584,257)	28,217,035
Property, plant and equipment, net	131,596,623	361,578	272,235	132,230,436		132,230,436
	$ 241,095,990	$ 2,964,582	$ 5,885,767	$ 249,946,339	$ (2,584,257)	$ 247,362,082
Liabilities and net assets						
Current liabilities:						
Accounts payable	$ 3,784,535	$ 193,242		$ 3,977,777		$ 3,977,777
Salaries, wages and amounts withheld from employee compensation	9,082,834	–	$ 2,011	9,084,845		9,084,845
Estimated third-party payor settlements	1,800,530	–	–	1,800,530		1,800,530
Accrued expenses	76,059	374,131	61,597	511,787		511,787
Current portion of other liabilities	10,646,951	–	–	10,646,951		10,646,951
Total current liabilities	25,390,909	567,373	63,608	26,021,890		26,021,890
Accrued pension liability	57,749,335	–	–	57,749,335		57,749,335
Other liabilities	1,953,497	–	–	1,953,497	$ 479,442	2,432,939
Long-term debt, less current portion	88,754,643	–	–	88,754,643	–	88,754,643
Net assets:						
Unrestricted	52,820,335	2,397,209	5,822,159	61,039,703	(3,063,699)	57,976,004
Temporarily restricted	1,966,917	–	–	1,966,917	–	1,966,917
Permanently restricted	12,460,354	–	–	12,460,354	–	12,460,354
	67,247,606	2,397,209	5,822,159	75,466,974	(3,063,699)	72,403,275
	$ 241,095,990	$ 2,964,582	$ 5,885,767	$ 249,946,339	$ (2,584,257)	$ 247,362,082

MidState Medical Center and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2011

	MidState Medical Center	Meriden Imaging Center, Inc.	MidState MSO, LLC	Total	Eliminating Entries	Consolidated
Gross revenue from patients	$ 423,415,942			$ 423,415,942		$ 423,415,942
Deductions:						
Allowances	223,635,468			223,635,468		223,635,468
Charity care	3,025,038			3,025,038		3,025,038
Net patient service revenue	196,755,436			196,755,436		196,755,436
Other operating revenue	14,343,247	$ 8,654,646	$ 4,176,644	27,174,537	$ (14,970)	27,159,567
Net assets released from restrictions	241,164	–	–	241,164		241,164
	211,339,847	8,654,646	4,176,644	224,171,137	(14,970)	224,156,167
Operating expenses:						
Salaries	73,213,622	–	1,590,292	74,803,914		74,803,914
Employee benefits	26,412,104	–	455,938	26,868,042		26,868,042
Supplies and other	80,180,211	8,360,932	1,911,191	90,452,334		90,452,334
Provision for uncollectible accounts	7,875,420	–	425,000	8,300,420		8,300,420
Depreciation and amortization	12,845,628	218,863	80,126	13,144,617		13,144,617
Interest	2,222,925	–	–	2,222,925		2,222,925
	202,749,910	8,579,795	4,462,547	215,792,252		215,792,252
Income (loss) from operations before loss on early extinguishment of debt	8,589,937	74,851	(285,903)	8,378,885	(14,970)	8,363,915
Loss on early extinguishment of debt	(925,377)	–	–	(925,377)		(925,377)
Income from operations	7,664,560	74,851	(285,903)	7,453,508	(14,970)	7,438,538
Income from investments, gifts and bequests, net	1,172,782	–	–	1,172,782		1,172,782
Change in fair value of interest rate swaps	(106,639)	–	–	(106,639)		(106,639)
	1,066,143	–	–	1,066,143		1,066,143
Excess of revenues over expenses before change in unrealized gains and losses on investments	8,730,703	74,851	(285,903)	9,445,028	(14,970)	8,504,681
Change in unrealized gains and losses on investments	(610,653)	–	–	(610,653)		(610,653)
Excess (deficiency) of revenues over expenses	$ 8,120,050	$ 74,851	$ (285,903)	$ 8,834,375	$ (14,970)	$ 7,894,028