SAINT MARY'S HOSPITAL, INC.

Consolidated Financial Statements and
Consolidating Information

September 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

SAINT MARY'S HOSPITAL, INC.

Consolidated Financial Statements and
Consolidating Information

September 30, 2011 and 2010

Table of Contents

KPMG LLP
One Financial Plaza
755 Main Street
Hartford, CT 06103

Independent Auditors' Report

The Board of Directors
Saint Mary's Hospital, Inc.:

We have audited the accompanying consolidated balance sheets of Saint Mary's Hospital, Inc. (the Hospital) as of September 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An 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 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, as well as 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 financial position of Saint Mary's Hospital, Inc. as of September 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information as of and for the year ended September 30, 2011 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audit of the 2011 consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2011 consolidated financial statements taken as a whole.

KPMG LLP

January 27, 2012

SAINT MARY'S HOSPITAL, INC.

Consolidated Balance Sheets

September 30, 2011 and 2010

(In thousands)

Assets		**2011**	**2010**
Current assets:			
Cash and cash equivalents	$	24,417	25,089
Short-term investments		497	1,182
Current portion of assets whose use is limited		6,428	4,714
Accounts receivable, net of estimated uncollectibles of $7,247 in 2011 and $7,340 in 2010		28,676	26,412
Other current assets		5,682	4,148
Total current assets		65,700	61,545
Marketable securities		13,217	12,791
Assets whose use is limited:			
By donor and held in trust by others		12,673	13,375
For estimated self-insurance liability		27,114	27,548
By bond indenture		5,143	5,078
Net interest in Foundation		4,209	4,509
Other		5	6
Total assets whose use is limited		49,144	50,516
Less current portion of assets whose use is limited		6,428	4,714
Noncurrent assets whose use is limited		42,716	45,802
Property and equipment, net		56,571	54,569
Other assets:			
Investments in joint venture arrangements		9,867	9,372
Deferred financing costs, net		181	214
Other noncurrent assets		132	260
Total other assets		10,180	9,846
Total assets	$	188,384	184,553
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term obligations	$	2,655	3,124
Accounts payable		17,920	12,497
Salaries, wages, and payroll withholdings		5,260	6,499
Due to third-party payors, net		7,100	5,935
Accrued expenses and other current liabilities		14,177	10,108
Total current liabilities		47,112	38,163
Long-term liabilities:			
Long-term obligations, net of current portion		24,165	26,789
Estimated self-insurance liability		20,064	19,334
Pension and deferred compensation		75,051	67,434
Other long-term liabilities		9,260	8,363
Total long-term liabilities		128,540	121,920
Noncontrolling interest in subsidiaries		—	1,663
Net assets (deficit):			
Unrestricted - Hospital		(3,975)	5,847
Noncontrolling interest in subsidiaries		478	—
Total unrestricted		(3,497)	5,847
Temporarily restricted		2,554	2,582
Permanently restricted		13,675	14,378
Total net assets		12,732	22,807
Total liabilities and net assets	$	188,384	184,553

See accompanying notes to consolidated financial statements.

SAINT MARY'S HOSPITAL, INC.

Consolidated Statements of Operations

Years ended September 30, 2011 and 2010

(In thousands)

		2011	2010
Revenues:			
Net revenue from patient services	$	251,279	243,847
Other operating revenues		6,700	6,984
Total revenues		257,979	250,831
Expenses:			
Salaries and wages		111,233	105,060
Employee benefits		28,993	28,297
Supplies and other expenses		99,842	89,353
Provision for uncollectible accounts, net of recoveries		9,599	13,250
Depreciation and amortization		8,977	8,691
Interest		1,345	1,810
Total expenses		259,989	246,461
Operating (loss) income		(2,010)	4,370
Nonoperating gains (losses):			
Investment gains, net		979	1,723
Equity in earnings of joint ventures		1,573	1,311
Minority interest in subsidiaries (note 10)		—	(863)
Change in net assets of Foundation		(164)	(252)
Net loss on disposal of assets		(502)	(89)
Other		(1,497)	353
Total nonoperating gains, net		389	2,183
(Deficiency) excess of revenues over expenses		(1,621)	6,553
Reclassification of beginning of year minority interest (note 10)		1,663	—
Net assets released from restriction for capital expenditures		293	328
Capital transactions with affiliates		(660)	74
Change in unrealized gains (losses) on marketable securities and other assets whose use is limited		(660)	890
Purchase of NVSC from noncontrolling partners		(720)	—
Change in accumulated pension charges to unrestricted net assets		(7,639)	3,007
(Decrease) increase in unrestricted net assets	$	(9,344)	10,852

See accompanying notes to consolidated financial statements.

SAINT MARY'S HOSPITAL, INC.

Consolidated Statements of Changes in Net Assets

Years ended September 30, 2011 and 2010

(In thousands)

		2011	2010
Unrestricted net assets:			
Reclassification of beginning of year minority interest (note 10)	$	1,663	—
(Deficiency) excess of revenues over expenses		(1,621)	6,553
Net assets released from restriction for capital expenditures		293	328
Capital transactions with affiliates		(660)	74
Change in unrealized gains (losses) on marketable securities and other assets whose use is limited		(660)	890
Purchase of NVSC from noncontrolling partners		(720)	—
Change in accumulated pension charges to unrestricted net assets		(7,639)	3,007
(Decrease) increase in unrestricted net assets		(9,344)	10,852
Temporarily restricted net assets:			
Change in net assets of Foundation		117	313
Change in net assets of Cancer Center, including releases for capital expenditures		(145)	(118)
(Decrease) increase in temporarily restricted net assets		(28)	195
Permanently restricted net assets:			
(Decrease) increase to assets held in trust by others		(703)	597
(Decrease) increase in permanently restricted net assets		(703)	597
(Decrease) increase in net assets		(10,075)	11,644
Net assets – beginning of year		22,807	11,163
Net assets – end of year	$	12,732	22,807

See accompanying notes to consolidated financial statements.

SAINT MARY'S HOSPITAL, INC.

Consolidated Statements of Cash Flows

Years ended September 30, 2011 and 2010

(In thousands)

		2011	2010
Cash flows from operating activities:			
(Decrease) increase in net assets	$	(10,075)	11,644
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:			
Purchase of NVSC from noncontrolling partners		720	
Depreciation and amortization		8,977	8,691
Net loss on disposal of assets		502	89
Change in unrealized losses (gains) on investments		660	(890)
Change in net interest in Foundation		300	(239)
Change in net assets of Cancer Center		145	118
Change in accumulated pension charges to unrestricted net assets		7,639	(3,007)
Investment gains, net		(979)	(1,723)
Equity in earnings of joint ventures and partnerships		(1,573)	(1,311)
(Increase) decrease in operating assets:			
Accounts receivable, net		(2,264)	(890)
Other current assets		(1,534)	(547)
Other non current assets		161	217
Increase (decrease) in operating liabilities:			
Due to third-party payors, net		1,165	(912)
Accounts payable and other current liabilities		7,116	2,212
Estimated self-insurance liability		730	2,486
Minority interest in subsidiaries		(1,663)	(192)
Pension, accrued compensation, and other long term liabilities		875	(2,196)
Net cash provided by operating activities		10,902	13,550
Cash flows from investing activities:			
Purchases of property and equipment		(10,343)	(7,021)
Distributions from joint ventures and partnerships		798	485
Investments in joint venture arrangements		135	(50)
Change in other assets whose use is limited		2,115	(622)
Purchase of NVSC from noncontrolling partners		(720)	
Net (decrease) in investments		(401)	(740)
Net cash used in investing activities		(8,416)	(7,948)
Cash flows from financing activities:			
Change in assets whose use is limited by bond indenture		(65)	795
Payments on long-term obligations		(3,093)	(3,036)
Net cash used in financing activities		(3,158)	(2,241)
Net (decrease) increase in cash and cash equivalents		(672)	3,361
Cash and cash equivalents – beginning of year		25,089	21,728
Cash and cash equivalents – end of year	$	24,417	25,089
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest	$	1,681	1,754
Supplemental disclosure of noncash item:			
Assets acquired under capital lease	$	—	1,950

See accompanying notes to consolidated financial statements.

(1) Organization

Saint Mary's Hospital, Inc. (the Hospital) is an acute care hospital located in Waterbury, Connecticut. The Hospital was founded in 1907 and is licensed for 347 beds and 32 newborn bassinets. The Hospital currently staffs 168 beds and 20 newborn bassinets. The Hospital provides a broad range of inpatient and outpatient services including a number of medical and surgical specialties, obstetrics, pediatrics, mental health, alcohol and substance abuse rehabilitation (outpatient) and off-site ambulatory services.

The Hospital's parent holding company is Saint Mary's Health System, Inc. (SMHS), formerly named Slocum Corporation. Saint Mary's Hospital Foundation, Inc. (the Foundation) was organized to raise funds to support the Hospital. SMHS is the sole member of the Hospital and the Foundation.

The Hospital has five consolidated subsidiaries: Franklin Medical Group, P.C. (Franklin), a for-profit Connecticut corporation; Scovill Medical Group, P.C. (Scovill), a for-profit Connecticut corporation; Primary Care Partners, P.C. (Partners), a for-profit Connecticut corporation; Saint Mary's Indemnity Company, LLC (the Indemnity Company) a Vermont limited liability company and Diagnostic Imaging of Southbury, LLC (the Diagnostic Center), a for-profit Connecticut corporation.

Franklin, consisting of certain Hospital based physicians, provides mainly outpatient services. Scovill owns and operates physician practices in the greater Waterbury area. Partners was formed during December 2008 to own and operate additional physician practices.

The Indemnity Company was formed during June 2009 to provide professional and general liability insurance to the Hospital, Franklin, Scovill, Partners, and community physicians.

The Hospital has a 60% equity interest in the Diagnostic Center, which provides diagnostic imaging services. The remaining interest is accounted for as minority interest in the accompanying consolidated financial statements.

The Hospital purchased the remaining interest in the Naugatuck Valley Surgical Center, LP as of July 31, 2011 for $720,000, and incorporated the Surgical Center as an outpatient department of the Hospital on August 1, 2011.

The assets, liabilities and operations of the Hospital's Auxiliary have not been reflected in the accompanying consolidated financial statements. Such amounts are not considered significant to the Hospital's consolidated financial position or results of its operations.

The Hospital announced in March 2011 plans to form a joint venture with LHP Hospital Group, Inc. (LHP), a leading national provider of capital and healthcare expertise to hospitals. Saint Mary's and LHP have negotiated a definitive agreement, which is subject to review and approval from appropriate regulatory bodies. The agreement calls for an equally-shared governance structure where local control and leadership of the Hospital are protected, while LHP will own a majority equity position in the newly formed joint venture that will own the Hospital.

(2) Community Benefit (Unaudited)

The Hospital is a community teaching hospital that serves the healthcare needs of the Central Naugatuck Valley area. Like other healthcare providers across the nation, the Hospital is faced with the challenge of serving those in need with fewer resources. Although the Hospital cannot meet community needs alone, it is committed to seek out unmet community needs and to be a catalyst in efforts to ensure an adequate community-wide response from government and public organizations in fulfilling community needs.

(a) Charity and Uncompensated Care

As part of fulfilling its mission, the Hospital provides care to all patients in need, regardless of their ability to pay. The Hospital has a formalized charity care policy that identifies which patients are deemed "charity care". During 2011 and 2010, charges foregone related to charity care were approximately $629,000 and $1,044,000, respectively.

In addition, the Hospital provides care to patients covered by governmental healthcare programs. During 2011 and 2010, the Hospital estimates that the cost of providing this care exceeded compensation by $9,849,000 and $9,488,000, respectively.

(b) Education, Research and Training

As a community teaching hospital affiliated with Yale School of Medicine, the Hospital has residency programs for general surgery, internal medicine and dental. These programs educate in excess of 50 residents and medical students per year. In addition to its residency programs, the Hospital furthers its educational mission by offering allied health programs affiliated with area educational facilities.

(c) Wellness and Health Promotional Activities

The Hospital provides many activities to promote the concept of healthy lifestyles, including the publishing and free distribution of *Discover*, which reaches more than 70,000 community households, health risk screenings, health fairs, support groups, speakers bureau and free telephone physician referral services through the Physician Referral program.

(d) Leadership, Advocacy and Voluntarism

The Hospital's employees are responsive to the community in the areas of planning, governance and service by annually providing thousands of hours of volunteer services, participating on boards of directors and advisory councils, testifying before public policy bodies and working with other healthcare organizations to develop healthcare policies for all persons. The Hospital also provides volunteer opportunities for community residents. The Hospital recognizes donated goods and services at their appraised or estimated value if they create or enhance nonfinancial assets or require specialized skills and would typically be purchased if not provided by donation. The volunteer services the Hospital received do not meet this criteria for recognition in the accompanying consolidated financial statements, but the volunteers donate a significant amount of time to the Hospital. In fiscal years 2011 and 2010, approximately 150 and 160 volunteers spent more than 18,800 hours and 20,000 hours, respectively, of service in Hospital departments.

(e) Dollar, Time and In-kind Donations

The Hospital also provides services to neighborhood schools and organizations at no cost. Contributions are made to programs, organizations and foundations for efforts on behalf of the poor, the disadvantaged and the general population. The Hospital also provides a variety of in-kind services including education on parenting and child abuse prevention and use of Hospital space for community meetings.

(f) Other Support Services

The Hospital provides outreach and social support services to patients. Programs such as the Sleep Disorders Support Group and the Chronic Lung Disorders/Pulmonary Support Group are integral to the healing of patients, and represent the Hospital's overall commitment to the continuum of care.

(3) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. All intercompany transactions have been eliminated in consolidation.

(b) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

(c) Charity Care and Provision for Uncollectible Accounts

The Hospital provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than its established rates. Because the Hospital does not anticipate collection of amounts determined to qualify as charity care, they are not reported as revenue.

The Hospital grants credit without collateral to patients, most of whom are local residents and are insured under third-party arrangements. Additions to the allowance for uncollectible accounts are made by means of the provision for uncollectible accounts. Accounts written off as uncollectible are deducted from the allowance and subsequent recoveries are added. The amount of the provision for uncollectible accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal and state governmental health care coverage and other collection indicators.

(d) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

The Hospital invests its surplus operating funds in overnight repurchase agreement investments. These investments are collateralized with securities issued by the United States Government or its agencies and are not covered by FDIC insurance.

(e) Assets Limited as to Use

Assets limited as to use primarily include assets held by others pursuant to donor restrictions, by trustees under indenture agreements, and by a captive insurance company for professional and general liability insurance.

(f) Marketable Securities

Investments in equity securities, mutual funds and all investments in debt securities are reported at fair value based on readily determinable fair market values or estimated fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess (deficiency) of revenues over expenses unless the investments are trading securities or are considered to be other than temporarily impaired.

In light of the market conditions over the past several years, the Hospital has reviewed its investments in order to determine if any decrease from cost to fair value is other than temporary. The Hospital has followed a policy of reviewing all investments that have been below cost by at least 25% for three quarters. Unless specific evidence exists to the contrary, these investments have been reduced to fair value, which becomes the new cost basis. The Hospital recorded $1,020,000 of other than temporary impairments on investments in 2011, which is included in investment income, net in the accompanying consolidated statements of operations.

Investment securities, in general, are exposed to various risks. Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short term liquidity of certain investments held by the Hospital which could impact the value of investments after the date of these consolidated financial statements.

(g) Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Costs for repairs and maintenance are expensed as incurred.

(Continued)

Gifts of long-lived assets are reported as unrestricted support, and are excluded from the excess (deficiency) of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restriction that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

The Hospital reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its fair value and may not be recoverable.

(h) Investments In Joint Venture Arrangements

Investments in joint venture arrangements, generally in the form of partnership interests, are accounted for using the equity method of accounting.

(i) Fair Value of Financial Instruments

FASB ASC 820 establishes a framework for measuring fair value which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

- *Level 1* – Inputs into the valuation methodology are the unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- *Level 2* – Inputs into the valuation methodology include quoted prices for similar assets or liabilities in active and inactive markets, other than quoted prices that are observable for specific assets or liabilities, and values that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified contractual term, the value must be observable for substantially the full term of the asset or liability.
- *Level 3* – Inputs into the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets held in trust by others represents a donor established perpetual trust held and administered by an outside trustee. The Hospital owns an interest in the trust rather than in the securities underlying the trust, and therefore it is generally required to consider such investments as Level 3 for the purposes of applying ASC 820. Such classification is based on the inability to redeem the investment, even though the underlying securities may not be difficult to value or may be readily marketable. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with investing in those investments.

The methods described above may produce a fair value calculation 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 fair value measurement at the reporting date.

The carrying amount of patient accounts receivable, accounts payable, and accrued expenses approximate fair value because of the short maturity of these accounts.

(j) Net Interest in Foundation

The Hospital recognizes an asset for its interest in the net assets of the Foundation, which is a financially interrelated recipient organization, as defined. The change in the Foundation's net assets during 2011 and 2010 is shown separately in the accompanying consolidated statements of operations and changes in net assets. The Hospital's interest is classified as net interest in Foundation on the accompanying consolidated balance sheets.

(k) Net Asset Categories

To ensure observance of limitations and restrictions placed on the use of resources available to the Hospital, the accounts of the Hospital are maintained in the following net asset categories:

Unrestricted – Unrestricted net assets represent available resources other than donor restricted contributions. Included in unrestricted net assets are assets set aside by the board of directors for future capital improvements or for other purposes, as deemed appropriate.

Temporarily Restricted – Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure.

Permanently Restricted – Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that only the income earned that the trustee does not reinvest be available for operations. The net appreciation of the value of investments held in trust by others remains in permanently restricted net assets until cash is transferred to the Hospital.

(l) Excess (Deficiency) of Revenues over Expenses

Excess (deficiency) of revenues over expenses included in the consolidated statements of operations reflects the Hospital's performance measure. Changes in unrestricted net assets which are excluded from excess (deficiency) 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, and 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). Nonoperating gains and losses, equity in earnings of joint ventures and adjustments related to minority interest are considered in the performance measure.

(m) Income Taxes

The Hospital is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes. The accompanying consolidated financial statements have been prepared on the basis that this tax-exempt status will be maintained.

Scovill, Franklin, and Partners are for-profit organizations subject to income taxes. Each organization has experienced operating losses and have accumulated net operating loss carryforwards at September 30, 2011. A valuation allowance has been recorded as management believes realization of such carryforwards is doubtful.

The Diagnostic Center and the Indemnity Company are pass-through entities with the tax consequences of their operating results being assessed at the member level.

(n) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Financial statement areas where management applies the use of assumptions and estimates consist primarily of the allowance for uncollectible accounts, contractual allowances and related third-party accounts, the pension liability, and the estimated self-insurance liability.

(o) Professional and General Liability

The liability for unpaid losses and loss adjustment expenses includes estimates for reported losses, plus supplemental amounts calculated based upon loss projections utilizing the Indemnity Company's and insureds' historical data. In establishing this reserve, the Indemnity Company utilizes the findings of an independent consulting actuary. Management believes that its aggregate liability for unpaid losses and loss adjustment expenses at year-end represents its best estimate, based upon available data, of the amount necessary to cover the ultimate cost of losses.

The ultimate liability and receivable could be significantly in excess of or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments will be reflected in current operations.

(p) Prior Year Reclassifications

Certain prior year balances have been reclassified in order to be consistent with the current year presentation.

(4) Net Revenue from Patient Services

A substantial portion of net revenue from patient services is derived from funds provided on behalf of patients under federal and state medical assistance programs. Revenue from some of these sources is determined by the application of reimbursement principles and is subject to audit by the applicable agencies. In the opinion of management, such principles have been properly applied in the determination of net patient service revenue. Settlement notices have been received from the Medicare program and the Medicaid program through 2006 and 2000, respectively. Retrospective adjustments for items under appeal by the Hospital or under review by the intermediary, if any, are not expected to have a material adverse effect on the Hospital's consolidated financial position or results of operations.

Net patient service revenues consist of inpatient revenues, principally from routine patient care and ancillary services and outpatient revenues from ancillary services, after considering allowances under agreements with various third-party payors. A reconciliation of gross revenues to net revenues from patient services after allowance for the years ended September 30, 2011 and 2010, is as follows (in thousands):

		2011	2010
Gross revenue from patient services	$	618,751	562,404
Contractual and other allowances		(366,843)	(317,513)
Charity care		(629)	(1,044)
Net revenue from patient services	$	251,279	243,847

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross receivables from private pay patients and third-party payors at September 30, 2011 and 2010 was as follows:

	2011	2010
Medicare (including Medicare managed care)	30.0%	28.7%
Medicaid	13.0	12.6
Other third-party payors	28.8	31.0
Private pay patients	28.2	27.7
	100.0%	100.0%

The Hospital's exposure to risk of nonpayment from private pay patients is more significant than other payors. However, the Hospital has recorded an estimate for uncollectible accounts, which, in management's opinion, is sufficient to provide for such risk. This estimate is based on a variety of factors including historical experience, the current economic environment and recent payment patterns.

(5) Regulatory and Legislative Matters

(a) State of Connecticut Regulatory Environment

Connecticut's acute care hospital regulatory system is currently administered by the State of Connecticut Office of Health Care Access (OHCA). The Hospital is subject to a regulatory system that includes the administration of a pool resulting in distribution of monies by the State to the Hospital. The Hospital receives interim payments from the State based upon the Hospital's payment shortfalls for certain payors relative to similar experience of all other hospitals in the State. During 2011 and 2010, the Hospital received $4,786,000 and $2,990,000, respectively.

(b) State of Connecticut Hospital Provider Tax

The Hospital is subject to legislation enacted in 2011 imposing a new tax on certain net patient service revenues of hospitals and changes to the disproportionate share hospital payments (DSH) pursuant to 2011 Conn. Pub. Acts 6 (145-149), as amended by 2011 Conn. Pub. Acts 44 (102-103) and Conn. Pub. Acts 61 (79). The tax is effective beginning July 1, 2011 and filed on a quarterly basis. During 2011, the Hospital recorded a tax of $2,197,268 which has been offset with $2,774,236 of additional DSH payments and is recorded in net revenue from patients.

(c) Federal Regulatory Environment

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse and security and privacy of health information. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

(6) Marketable Securities and Assets Whose Use is Limited

A comparison of cost and fair values of short-term investments, marketable securities, and assets whose use is limited, including the fair value of investments with unrealized losses that are not deemed other-than-temporarily impaired and the length of time the individual securities have been in a continuous unrealized loss position, at September 30, 2011 and 2010, is as follows (in thousands):

	2011					
	Total		Less than 12 months		12 months or more	
	Fair value	Cost	Fair value	Unrealized losses	Fair value	Unrealized losses
Cash and cash equivalents	$ 4,569	4,569	—	—	—	—
Corporate bonds	12,109	11,768	2,064	(76)	—	—
U.S. government and agency obligations	16,482	16,124	1,178	(7)	—	—
Mutual funds	11,483	10,928	4,093	(496)	192	(20)
Equity funds	1,887	1,774	—	—	—	—
Equities	8,140	8,069	—	—	—	—
	$ 54,670	53,232	7,335	(579)	192	(20)

	2010					
	Total		Less than 12 months		12 months or more	
	Fair value	Cost	Fair value	Unrealized losses	Fair value	Unrealized losses
Cash and cash equivalents	$ 2,539	2,539	—	—	—	—
Corporate bonds	10,790	10,299	—	—	765	(16)
U.S. government and agency obligations	20,295	19,975	—	—	400	(1)
Mutual funds	10,138	9,090	—	—	210	(22)
Equity funds	853	823	—	—	—	—
Equities	8,564	7,434	—	—	—	—
	$ 53,179	50,160	—	—	1,375	(39)

The above tables include permanently restricted assets held by others whose fair value exceeded cost by $292,000 at September 30, 2011 and $1,369,000 at September 30, 2010. Excluded from the tables are unrestricted assets, held at the Foundation, whose fair value exceeded cost at September 30, 2011 by $176,000 and $332,000 at September 30, 2010.

Assets whose use is limited for estimated self insurance includes approximately $3,974,000 and $6,795,000 of other assets, substantially receivables, as of September 30, 2011 and 2010, respectively.

The following table sets forth by level, within the fair value hierarchy, the Hospital's financial instruments at fair value as of September 30, 2011 (in thousands):

	(Level 1)	(Level 2)	(Level 3)	Total
Cash and cash equivalents	$ 4,320	—	—	4,320
Domestic corporate bonds	—	8,181	—	8,181
Foreign corporate bonds	—	1,275	—	1,275
U.S. government and agency obligations	—	15,349	—	15,349
Mutual funds	10,680	—	—	10,680
Equity funds	—	1,887	—	1,887
Preferred equity securities	—	305	—	305
Total	15,000	26,997	—	41,997
Assets held in trust by others: Perpetual trust	—	—	12,673	12,673
Total	$ 15,000	26,997	12,673	54,670

The following table sets forth by level, within the fair value hierarchy, the Hospital's financial instruments at fair value as of September 30, 2010 (in thousands):

	(Level 1)	(Level 2)	(Level 3)	Total
Cash and cash equivalents	$ 2,183	—	—	2,183
Domestic corporate bonds	—	5,885	—	5,885
Foreign corporate bonds	—	1,908	—	1,908
U.S. government and agency obligations	—	19,431	—	19,431
Mutual funds	9,317	—	—	9,317
Equity funds	—	853	—	853
Preferred equity securities	—	227	—	227
Total	11,500	28,304	—	39,804
Assets held in trust by others:				
Perpetual trust	—	—	13,375	13,375
Total	$ 11,500	28,304	13,375	53,179

Mutual funds and equities are traded actively on exchanges and price quotes for these shares are readily available.

For domestic and foreign bonds and U.S. government obligations multiple prices and price types are obtained from pricing vendors whenever possible, which enables cross-provider validations. A primary price source is identified based on asset type, class or issue for each security. The fair values of fixed-income securities are based on evaluated prices that reflect observable market information, such as actual trade information of similar securities, adjusted for observable differences.

The redemption period for the Hospital's financial instruments ranges from daily to monthly and require notification of one to five days, except for assets held in perpetual trust by others.

The following table presents additional information about investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended September 30 (in thousands):

Perpetual trust	2011	2010
Fair value at beginning of the year	$ 13,375	12,785
Net realized and change in unrealized gains	(50)	1,192
Appropriation of endowment assets for expenditure	(652)	(602)
Fair value at end of the year	$ 12,673	13,375

Assets held in trust by others represents a donor established perpetual trust held and administered by an outside trustee. The Hospital receives a specific portion of the return on the underlying assets of the perpetual trust. The investment income is recorded as unrestricted investment income in nonoperating gains (losses).

(7) Property and Equipment

A summary of property and equipment at September 30, 2011 and 2010 is as follows (in thousands):

		2011	2010
Land and land improvements	$	1,630	1,469
Buildings and building improvements		67,221	66,167
Equipment		105,662	104,071
Projects in process		1,177	862
		175,690	172,569
Less accumulated depreciation and amortization		119,119	118,000
Property and equipment, net	$	56,571	54,569

Property under capital leases had a net book value of $1,429,000 at September 30, 2011.

(8) Long-Term Obligations

In May 1997 the Hospital issued $36,150,000 of CHEFA Bonds, Series E, dated May 1, 1997, 5.00% – 6.00% Serial and Term Bonds payable annually in amounts ranging from $985,000 to $3,000,000 through July 1, 2022.

The Hospital is required to maintain a Debt Service Reserve fund for the Bonds issued through CHEFA, of the lesser of 10% of the principal amount of the Bonds, the amount required to fund the current portion of the principal and interest payable in any year, or 125% of the average annual debt service on the Bonds. The Hospital is also required to comply with certain financial covenants for the Bonds issued through CHEFA, including a Debt Service Coverage Ratio requirement of at least 1.25, a Debt Ratio requirement of no greater than .75 and a Current Ratio requirement of at least 1.40. The Bond agreements indicate that if the Current Ratio is below 1.40 but above 1.0 and the Debt Service Coverage Ratio is below 1.25 but above 1.0, a consultant is required.

Other long-term obligations consist of capital equipment financing notes and capital leases: HP Financial Services, with interest of 3.7%, beginning December 2004 and maturing November 2011 and Wells Fargo Equipment Finance, with interest of 5.75%, beginning August 2010 and maturing July 2015.

Long-term obligations at September 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
CHEFA Series E Bonds, principal payable annually and interest payable in semi-annual installments	$ 24,875	26,430
Capital equipment financing notes	614	1,808
Capital leases	1,532	1,911
	27,021	30,149
Less unamortized portion of bond discount	(201)	(236)
Less current portion	(2,655)	(3,124)
	$ 24,165	26,789

Principal payments on the Hospital's long-term obligations and capital lease payments are as follows (in thousands):

	Long-term obligations	Capital leases
Year ending September 30:		
2012	$ 2,264	454
2013	1,750	454
2014	1,850	435
2015	1,960	332
2016	2,090	—
Thereafter	15,575	—
	$ 25,489	1,675
Interest payments		(143)
		$ 1,532

The CHEFA Series E bonds and capital equipment financing notes are collateralized by substantially all of the Hospital's land, buildings and equipment.

Long-term debt is carried at cost. Fair values are estimated based on quoted market prices for the same or similar issues. The estimated fair value of the CHEFA Series E bonds and capital equipment financing notes approximates $24,201,000 as of September 30, 2011.

(9) Line of Credit

At September 30, 2011, the Hospital maintained a financing agreement with Webster Bank for a $5,000,000 line of credit which has an August 13, 2012 maturity date. Interest on the line of credit was at the Hospital's choice of either the lending institution's prime rate or at the LIBOR rate plus 110 basis points. At September 30, 2011, there was no outstanding balance under this line of credit agreement. Additionally, $450,000 of the unused line of credit secures a stand-by letter of credit.

(10) Unrestricted, Temporarily, and Permanently Restricted Net Assets

The changes in consolidated unrestricted net assets attributable to the Hospital and noncontrolling interest for the year ended September 30, 2011 were as follows (in thousands):

		Total	Controlling interest	Noncontrolling interest
Unrestricted net assets, beginning of year	$	5,847	5,847	—
Reclassification of minority interest in accordance with adoption of FAS 164		1,663	—	1,663
		7,510	5,847	1,663
Excess (deficiency) of revenues over (under) expenses		(1,621)	(2,241)	620
Net assets released from restriction for capital expenditures		293	293	—
Capital transactions with affiliates		(660)	110	(770)
Change in unrealized gains on marketable securities and other assets whose use is limited		(660)	(652)	(8)
Purchase of NVSC from noncontrolling		(720)	307	(1,027)
Change in accumulated pension charges to unrestricted net assets		(7,639)	(7,639)	—
Unrestricted net assets, end of year	$	(3,497)	(3,975)	478

Temporarily restricted net assets are available for the following purposes at September 30, 2011 and 2010 (in thousands):

		2011	2010
Cancer	$	519	673
Building and equipment		667	463
Community services		386	326
Education		216	247
Other		766	873
	$	2,554	2,582

Permanently restricted net assets at September 30, 2011 and 2010 are restricted to (in thousands):

		2011	2010
Investments held by trustee in perpetuity, the income from which is expendable to support Hospital operations	$	12,707	13,410
Investments held by Hospital Foundation in perpetuity, the income from which is expendable to support:			
Hospital operations		818	818
Medical education		150	150
	$	13,675	14,378

(11) Endowment

Effective October 1, 2008, the Hospital adopted FASB Staff Position No. 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds (FSP 117-1), now part of FASB ASC 958-205, *Not-for-Profit Entities -- Presentation of Financial Statements*. On October 1, 2007 the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted by the State of Connecticut (Act). The new law updated existing fundamental investment principles providing standards to guide investing in a prudent manner and eliminating the restriction that endowment funds could not be spent below its historical dollar value. The Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds; the duration and preservation of the fund, the purposes of the Hospital and the donor-restricted endowment funds, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Hospital, and the investment policies of the Hospital.

The Hospital's endowment consists of funds established for a variety of purposes including donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. At September 30, 2011 and 2010, the Hospital has no funds designated by the Board of Directors as endowment.

The Hospital 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. The Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by the Act.

Endowment funds consist of the following at September 30, 2011 and 2010 (in thousands):

		Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds at September 30, 2011	$	108	13,675	13,783
Donor-restricted endowment funds at September 30, 2010	$	122	14,378	14,500

Changes in endowment funds for the year ended September 30, 2011 are as follows (in thousands):

		Temporarily restricted	Permanently restricted	Total
Endowment net assets, October 1, 2010	$	122	14,378	14,500
Investment return:				
Investment income		74	1,016	1,090
Net appreciation		(88)	(1,066)	(1,154)
Total investment return		(14)	(50)	(64)
Appropriation of endowment assets for expenditure		—	(653)	(653)
Endowment net assets, September 30, 2011	$	108	13,675	13,783

Changes in endowment funds for the year ended September 30, 2010 are as follows (in thousands):

		Temporarily restricted	Permanently restricted	Total
Endowment net assets, October 1, 2009	$	112	13,781	13,893
Investment return:				
Investment income		26	541	567
Net appreciation		61	658	719
Total investment return		87	1,199	1,286
Appropriation of endowment assets for expenditure		(77)	(602)	(679)
Endowment net assets, September 30, 2010	$	122	14,378	14,500

(Continued)

The Hospital 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 the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Hospital must hold in perpetuity or for a donor-specified period. Funds held in trust by others represents a donor established perpetual trust held and administered by an outside trustee and are not within the Hospital's control as to spending and investment policies.

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 emphasis on investments in equities and fixed income investments to achieve its long-term return objectives with prudent risk constraints.

The Hospital follows a policy of spending an amount that approximates the investment income earned, in addition to specific purchases of capital equipment. Accordingly, the Hospital expects its spending policy will allow its endowment funds to be maintained in perpetuity by growing at a rate at least equal to the planned payouts. Additional real endowment growth will be provided through new gifts and any excess investment return.

(12) Professional and General Liability

Prior to July 1, 2009, the Hospital purchased limits of professional and general liability from Partners Interinsurance Exchange ("PIE") to cover risks up to specified limits. Within PIE the Hospital maintained retentions net to its own account by type of coverage. A claims made reinsurance contract was purchased each fiscal year that provided coverage above these retentions. Beginning January 1, 2002, the professional liability coverage provided for total limits, with respect to professional liability, of $18 million per claim and $27 million in the aggregate, with a retention inside that limit of $3,000,000 per incident applying as net to the Hospital's account within PIE. The general liability coverage provided limits of $16 million per claim and $19 million in the aggregate with a retention of $1,000,000 per incident and $4,000,000 in the annual aggregate retained as net to the Hospital's account within PIE. The Hospital paid an actuarially determined premium to PIE for the purpose of setting aside assets to cover the reasonable value of ultimate expected loss retained as net within PIE.

During June 2009, the Hospital established the Indemnity Company as a successor to the Hospital's financial interest in PIE. On July 1, 2009 the Hospital's account in PIE was transferred to the Indemnity Company. The Hospital and certain affiliates continue to purchase limits of professional and general liability from the Indemnity Company at levels previously purchased from PIE. Actuarially determined premiums are paid in order to set aside assets to cover the reasonable value of ultimate expected losses. Hospital management, along with its consulting actuaries, accrued its best estimate of professional and general liabilities.

Malpractice claims that fall within the Hospital's adopted policy of self-insurance have been asserted against the Hospital by various claimants. The claims are in various stages of assessment and resolution. There are also known and unknown incidents that have occurred through September 30, 2011 that may result in the assertion of additional claims. Hospital management believes that the ultimate settlement of these claims will not have a material impact on the Hospital's consolidated financial position or results of

(Continued)

their operations, as adequate self-insurance reserves, Indemnity Company assets and reinsurance are in place.

The Indemnity Company entered into a loss portfolio transfer (LPT) on July 1, 2009 with PIE. The losses associated with this transaction did not transfer insurance risk to the Indemnity Company. As such, this LPT is accounted for using deposit accounting, which requires offsetting assets and liabilities.

Activity in the reserves for premiums held on deposit included in self-insurance liability is summarized as follows (in thousands):

		2011	2010
Reserves for premiums held on deposit at beginning of year	$	12,833	15,585
Add current period reserves for premiums held on deposit		(930)	(1,453)
Add additional reserve for premiums held on deposit for loss portfolio transfer		816	—
Deduct current period payments from reserves for premiums held on deposit		2,678	1,299
Reserves for premium held on deposit at end of year	$	10,041	12,833

Activity in the self-insurance liability for unpaid losses and loss adjustment expenses for prospective losses is summarized as follows (in thousands):

		2011	2010
Balance at beginning of period	$	6,486	787
Less reinsurance recoverable		(900)	(202)
Net balance at beginning of period		5,586	585
Incurred related to:			
Current year		3,739	4,364
Prior years		3,000	747
Total incurred		6,739	5,111
Paid related to:			
Current year		32	16
Prior years		2,616	94
Total paid		2,648	110
Net balance at end of period		9,677	5,586
Add reinsurance recoverable		1,545	900
Balance at end of period	$	11,222	6,486

(Continued)

The provision for incurred losses related to prior years totaled $3,000 and $747 for 2011 and 2010, respectively, the result of negative development on outstanding claims.

(13) Retirement Plans

Defined Benefit Plan

The Hospital has a noncontributory, defined benefit pension plan (the Plan) for most employees, which is funded with available cash flow. The Plan is qualified as a "Church Plan" and is therefore exempt from a majority of ERISA regulations. Plan benefits are not guaranteed by the Pension Benefit Guaranty Corporation. The Plan was frozen to new entrants in 1997. In 2004, the Plan's benefits were curtailed to eliminate participants' earnings of additional benefits for future services.

The following table sets forth the Plan's funded status at September 30, 2011 and 2010, the Plan measurement date, (in thousands):

		2011	2010
Change in benefit obligation:			
Benefit obligation, beginning of year	$	119,779	119,194
Interest cost		6,129	6,393
Actuarial loss (gain)		4,737	(197)
Benefits paid		(5,865)	(5,611)
Benefit obligation, end of year		124,780	119,779
Change in plan assets:			
Fair value of plan assets, beginning of year		53,218	48,514
Actual return on plan assets		(1,194)	4,484
Contributions		4,443	5,831
Benefits paid		(5,865)	(5,611)
Fair value of plan assets, end of year		50,602	53,218
Funded status at year end	$	(74,178)	(66,561)
Amounts recognized in consolidated balance sheets consist of:			
Noncurrent liabilities	$	(74,178)	(66,561)
Accumulated charges to unrestricted net assets		59,032	51,393
Net amount recognized	$	(15,146)	(15,168)

Amounts recognized as accumulated charges to unrestricted net assets consists of (in thousands):

	Pension benefits	
	2011	**2010**
Net actuarial loss	$ (59,032)	(51,393)
	$ (59,032)	(51,393)

The accumulated benefit obligation for the pension plan was $124,780,000 and $119,779,000 at September 30, 2011 and 2010, respectively. Net periodic benefit cost recognized in 2011 and 2010 was (in thousands):

	2011	**2010**
Components of net periodic benefit cost:		
Interest cost	$ 6,129	6,393
Expected return on plan assets	(4,748)	(4,664)
Net amortization and deferral	3,039	2,990
Net periodic benefit cost	$ 4,420	4,719

Other changes in plan assets and benefit obligation recognized as charges to unrestricted net assets in 2011 and 2010 are as follows (in thousands):

	2011	**2010**
Net (loss) gain	(4,600)	5,997
Net amortization and deferral	(3,039)	(2,990)
(Reduction) increase recognized in changes to unrestricted net assets	$ (7,639)	3,007
Decrease to unrestricted net assets associated with recognized net periodic benefit cost	$ 12,059	1,712

Weighted average assumptions used to determine benefit obligations and net periodic benefit cost as of and for the years end September 30, 2011 and 2010 were as follows:

	2011	**2010**
Weighted-average assumptions at September 30:		
Discount rate for benefit obligations	5.00%	5.25%
Discount rate for net periodic benefit cost	5.25%	5.50%
Expected return on plan assets	8.00%	8.00%

(Continued)

The Hospital revised its approach to selecting the discount rate assumption in 2011. The discount rate is based on high-grade bond yield curve under which benefits were projected and discounted at spot rates along the curve. The discount rate was then determined as a single rate yielding the same present values.

The following table sets forth by level, within the fair value hierarchy, the pension plan's financial instruments at fair value as of September 30, 2011 (in thousands):

	(Level 1)	(Level 2)	(Level 3)	Total
Money market funds	$ 1,466	—	—	1,466
Domestic corporate bonds	—	10,251	—	10,251
Foreign corporate bonds	—	935	—	935
U.S. government and agency obligations	—	2,753	—	2,753
Mutual funds	33,839	—	—	33,839
Preferred equity securities	—	1,358	—	1,358
Total	$ 35,305	15,297	—	50,602

The following table sets forth by level, within the fair value hierarchy, the pension plan's financial instruments at fair value as of September 30, 2010 (in thousands):

	(Level 1)	(Level 2)	(Level 3)	Total
Money market funds	$ 2,697	—	—	2,697
Domestic corporate bonds	—	8,572	—	8,572
Foreign corporate bonds	—	741	—	741
U.S. government and				—
agency obligations	—	3,873	—	3,873
Mutual funds	37,222	—	—	37,222
Preferred equity securities	—	113	—	113
Total	$ 39,919	13,299	—	53,218

The redemption period for the Plan's financial instruments ranges from daily to monthly and require notification of one to five days.

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

	2011	2010
Mutual funds	67%	70%
Money market funds	3	5
Debt securities:		
U.S. obligations	5	7
Corporate	22	17
Equity securities	3	1
	100%	100%

The expected long-term rate of return for the plan's total assets and fixed income mutual funds is based on the expected return of each of the above categories, weighted based on the target allocation of each class. Equity securities are expected to return 9% to 10% over the long-term, while debt securities are expected to return between 4% and 7%. Money market funds are held to pursue market opportunities.

The investment policy, as established by the Investment Committee, is to earn a total return in any five-year period that will have exceeded the interest assumption in the actuarial plan valuation for that five-year period. For performance evaluation purposes, all rates of return will be examined on a net-of-fee basis. The pension assets are to be broadly diversified so as to limit the impact of large losses in individual investments on the total portfolio. The asset allocation is reviewed on a quarterly basis.

In the aggregate, contributions to the pension plan are expected to be $5,970,000 in 2012.

The following benefit payments are expected to be paid (in thousands):

2012	$	6,250
2013		6,400
2014		6,750
2015		6,900
2016		7,100
2017 through 2020		40,200
	$	73,600

Defined Contribution Plan

The Hospital established a defined contribution plan when it reduced the benefits of the Plan via amendment in 1997. The defined contribution plan provides for a Hospital match up to a certain percentage of employee contributions. Expenses related to the defined contribution plan amounted to $3,677,000 and $3,552,000 in 2011 and 2010, respectively, and are included in employee benefits in the accompanying consolidated statements of operations.

Supplemental Pension Plan

In addition, the Hospital has an unfunded supplemental pension plan for the benefit of three retired long term employees. The Hospital recorded a liability of $873,000 and $953,000 at September 30, 2011 and 2010, respectively. Expenses related to the plan amounted to $80,000 and $80,000 in 2011 and 2010, respectively, and are included in employee benefits in the accompanying consolidated statements of operations.

(14) Leases and Rental Expenses

Rental expense aggregated approximately $6,204,000 and $5,137,000 for the years ended September 30, 2011 and 2010, respectively. Minimum future rental commitments on all noncancelable operating leases with initial or remaining terms of more than one year are as follows (in thousands):

Fiscal year:		
2012	$	3,559
2013		3,170
2014		2,399
2015		2,205
2016		1,600
2017 and thereafter		8,782
	$	21,715

The Hospital rents space from SMHS in a medical office building for approximately $11,500 per month.

(15) Cancer Center

During 1997, the Hospital entered into an agreement with Waterbury Hospital to develop a joint Cancer Care Center, known as the Harold Leever Regional Cancer Center (HLRCC) that provides treatment services to cancer patients in the greater Waterbury area. The Hospital's initial investment in HLRCC was converted into a $1,386,298 promissory note. The note accrued interest at 4% per year with principal and interest payable in quarterly installments. The note was paid off during 2010. The Hospital is entitled to distributions at the discretion of HLRCC's Board of Directors, which is selected by Waterbury Hospital and the Hospital on a 50/50 basis. The Hospital's investment in HLRCC is carried on the equity basis, and the carrying value is approximately $9,192,000 and $8,513,000 at September 30, 2011 and 2010, respectively. Equity in earnings was approximately $830,000 and $644,000 in 2011 and 2010, respectively.

(16) Heart Center of Greater Waterbury

In December 2003, the Hospital and Waterbury Hospital were granted permission to establish a three-year demonstration project for an advanced cardiac care program known as the Heart Center of Greater Waterbury, Inc. (HCGW). During 2009, the program was granted permanent program status. Through the program, patients at the Hospital and Waterbury Hospital are provided access to services such as angioplasty and open heart surgery. Procedures are performed at both hospitals, each recording related revenues and expenses. The HCGW, a MSO that provides administrative support and management functions to the program, has a Board of Directors selected by Waterbury Hospital and the Hospital on a

50/50 basis. HCGW incurs costs, which are funded by the hospitals, to market the program and derives no net assets from its activities. The Hospital expensed $257,000 and $393,000 of funding, in 2011 and 2010, respectively.

(17) Investments in Joint Venture Arrangements

Naugatuck Valley MRI Limited Partnership

The Hospital is a 1% general partner and a 47% limited partner in the Naugatuck Valley MRI Limited Partnership, which provides diagnostic imaging services in Waterbury. The investment is carried on the equity basis, and the carrying value is approximately $330,000 and $628,000 at September 30, 2011 and 2010, respectively. Equity in earnings was approximately $731,000 and $676,000 in 2011 and 2010, respectively.

(18) Other Operating Revenues

Components of other operating revenues for the years ended September 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Investment income related to short-term investments and investments for self-insurance	$ 626	510
Cafeteria	1,147	1,032
Outside services	796	975
State grants	450	446
Parking fees	509	651
Day care	681	651
Rentals	1,707	1,625
Other	784	1,094
Total	$ 6,700	6,984

(19) Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2011 and 2010 are as follows (in thousands):

	2011	2010
Health care services	$ 224,489	212,412
General and administrative	35,500	34,049
	$ 259,989	246,461

(Continued)

(20) Activities Between Affiliates

During 2011 and 2010, the Foundation distributed $478,000 and $524,000, respectively, to the Hospital to support programs and services.

In addition to the lease activity with affiliates described in note 14, all employees of SMHS and the Foundation are paid through the Hospital's payroll system, and the amounts paid are charged directly to the related affiliate. In addition, time spent by certain Hospital employees on affiliate activities is charged to the related affiliate.

(21) Subsequent Events

The Hospital has evaluated events through January 27, 2012, which represents the date the financial statements were available to be issued and noted no subsequent events that would have impacted the Hospital's financial statements.

Exhibit 1

SAINT MARY'S HOSPITAL, INC.

Consolidating Balance Sheet

September 30, 2011

(In thousands)

	Saint Mary's Hospital	Franklin Medical Group, P.C.	Scovill Medical Group, P.C.	Primary Care Partners, P.C.	Saint Mary's Indemnity Company, LLC	Naugatuck Valley Surgical Center, Inc.	Diagnostic Imaging of Southbury, LLC	Eliminations	2011 Consolidated
Current assets:									
Cash and cash equivalents	$ 23,202	61	635	31	—	—	488	—	24,417
Short-term investments	497	—	—	—	—	—	—	—	497
Current portion of assets whose use is limited	1,967	—	—	—	4,461	—	—	—	6,428
Accounts receivable, net	25,441	2,047	293	194	422	—	446	(167)	28,676
Other current assets	8,736	447	5	12	25	—	24	(3,567)	5,682
Total current assets	59,843	2,555	933	237	4,908	—	958	(3,734)	65,700
Marketable securities	13,217	—	—	—	—	—	—	—	13,217
Assets whose use is limited:									
By donor and held in trust by others	12,673	—	—	—	—	—	—	—	12,673
For estimated self-insurance liability	—	—	—	—	27,114	—	—	—	27,114
By bond indenture	5,143	—	—	—	—	—	—	—	5,143
Net interest in Foundation	4,209	—	—	—	—	—	—	—	4,209
Other	5	—	—	—	—	—	—	—	5
Total assets whose use is limited	22,030	—	—	—	27,114	—	—	—	49,144
Less current portion of assets whose use is limited	1,967	—	—	—	4,461	—	—	—	6,428
Noncurrent assets whose use is limited	20,063	—	—	—	22,653	—	—	—	42,716
Property and equipment, net	53,066	1,183	47	199	—		2,076	—	56,571
Other assets:									
Investments in joint venture arrangements	16,746	—	—	—	—	—	—	(6,879)	9,867
Deferred financing costs, net	181	—	—	—	—	—	—	—	181
Other noncurrent assets	—	42	90	—	—	—	—	—	132
Total other assets	16,927	42	90	—	—	—	—	(6,879)	10,180
Total assets	$ 163,116	3,780	1,070	436	27,561	—	3,034	(10,613)	188,384

Exhibit 1, cont.

SAINT MARY'S HOSPITAL, INC.

Consolidating Balance Sheet

September 30, 2011

(In thousands)

	Saint Mary's Hospital	Franklin Medical Group, P.C.	Scovill Medical Group, P.C.	Primary Care Partners, P.C.	Saint Mary's Indemnity Company, LLC	Naugatuck Valley Surgical Center, Inc.	Diagnostic Imaging of Southbury, LLC	Eliminations	2011 Consolidated
Current liabilities:									
Current portion of long-term obligations	$ 2,320	—	—	—	—	—	335	—	2,655
Accounts payable	17,379	481	—	38	—	—	22	—	17,920
Salaries, wages, and payroll withholdings	3,350	1,390	215	104	—	—	201	—	5,260
Due to third-party payors, net	7,100	—	—	—	—	—	—	—	7,100
Accrued expenses and other current liabilities	8,719	481	560	2,321	5,598	—	232	(3,734)	14,177
Total current liabilities	38,868	2,352	775	2,463	5,598	—	790	(3,734)	47,112
Long-term liabilities:									
Long-term obligations, net of current portion	23,117	—	1,000	—	—	—	1,048	(1,000)	24,165
Estimated self-insurance liability	3,262	—	—	—	16,802	—	—	—	20,064
Pension and deferred compensation	75,051	—	—	—	—	—	—	—	75,051
Other long-term liabilities	9,191	69	—	—	—	—	—	—	9,260
Total long-term liabilities	110,621	69	1,000	—	16,802	—	1,048	(1,000)	128,540
Net assets (deficit):									
Unrestricted	(2,602)	1,359	(705)	(2,027)	5,161	—	1,196	(6,357)	(3,975)
Noncontrolling interest in subsidiaries	—	—	—	—	—	—	—	478	478
Total unrestricted	(2,602)	1,359	(705)	(2,027)	5,161	—	1,196	(5,879)	(3,497)
Temporarily restricted	2,554	—	—	—	—	—	—	—	2,554
Permanently restricted	13,675	—	—	—	—	—	—	—	13,675
Total net assets (deficit)	13,627	1,359	(705)	(2,027)	5,161	—	1,196	(5,879)	12,732
Total liabilities and net assets	$ 163,116	3,780	1,070	436	27,561	—	3,034	(10,613)	188,384

See accompanying independent auditors' report.

Exhibit 2

SAINT MARY'S HOSPITAL, INC.

Consolidating Statement of Operations

Year ended September 30, 2011

(In thousands)

	Saint Mary's Hospital	Franklin Medical Group, P.C.	Scovill Medical Group, P.C.	Primary Care Partners, P.C.	Saint Mary's Indemnity Company, LLC	Naugatuck Valley Surgical Center, Inc.	Diagnostic Imaging of Southbury, LLC	Eliminations	2011 Consolidated
Revenues:									
Net revenue from patient services	$ 207,355	21,212	3,143	2,353	—	10,309	6,907	—	251,279
Other operating revenues	5,226	11,446	8	98	4,878	190	(18)	(15,128)	6,700
Total revenues	212,581	32,658	3,151	2,451	4,878	10,499	6,889	(15,128)	257,979
Expenses:									
Salaries and wages	77,458	24,727	2,238	2,047	—	3,691	1,155	(83)	111,233
Employee benefits	23,348	3,884	293	283	—	897	288	—	28,993
Supplies and other expenses	88,622	9,010	530	1,047	7,296	4,764	3,378	(14,805)	99,842
Provision for uncollectible accounts	7,590	1,702	14	—	—	293	—	—	9,599
Depreciation and amortization	7,401	221	137	106	—	566	546	—	8,977
Interest	1,267	—	—	—	—	—	78	—	1,345
Total expenses	205,686	39,544	3,212	3,483	7,296	10,211	5,445	(14,888)	259,989
Operating (loss) income	6,895	(6,886)	(61)	(1,032)	(2,418)	288	1,444	(240)	(2,010)
Nonoperating gains (losses):									
Investment gains, net	766	—	—	—	213	—	—	—	979
Equity in earnings of joint ventures	480	—	—	—	—	—	—	1,093	1,573
Change in net assets of Foundation	(164)	—	—	—	—	—	—	—	(164)
Net loss on disposal of assets	(481)	(21)	—	—	—	—	—	—	(502)
Other	(1,737)	—	—	—	—	—	—	240	(1,497)
Total nonoperating (losses) gains, net	(1,136)	(21)	—	—	213	—	—	1,333	389
Excess (Deficiency) of revenues over expenses	5,759	(6,907)	(61)	(1,032)	(2,205)	288	1,444	1,093	(1,621)
Reclassification of beginning of year minority interest	—	—	—	—	—	—	—	1,663	1,663
Net assets released from restriction	293	—	—	—	—	—	—	—	293
Capital transactions, net	(7,109)	7,534	—	—	—	(7,013)	(1,915)	7,843	(660)
Change in unrealized losses on marketable securities and other assets whose use is limited	(660)	—	—	—	(18)	(52)	—	70	(660)
Purchase of NVSC from noncontrolling partners	—	—	—	—	—	—	—	(720)	(720)
Change in accumulated pension charges to unrestricted net assets	(7,639)	—	—	—	—	—	—	—	(7,639)
(Decrease) increase in unrestricted net assets	$ (9,356)	627	(61)	(1,032)	(2,223)	(6,777)	(471)	9,949	(9,344)

See accompanying independent auditors' report.