

AUDITED COMBINED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Windham Community Memorial Hospital, Inc., and Affiliates Years Ended September 30, 2011 and 2010

Ernst & Young LLP



Audited Combined Financial Statements and Other Financial Information

Years Ended September 30, 2011 and 2010

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Report of Independent Auditors

Board of Trustees Windham Community Memorial Hospital, Inc. and Affiliates

We have audited the accompanying combined balance sheets of Windham Community Memorial Hospital, Inc., and Affiliates (the Hospital) as of September 30, 2011 and 2010, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of The Hatch Hospital Corporation which statements reflect total assets of \$846,394 and \$873,735 as of September 30, 2011 and 2010, respectively, and total revenues of \$2,314,010 and \$2,378,405 for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Hatch Hospital Corporation, is based solely on the report of the other auditors.

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 Hospital'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 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Windham Community Memorial Hospital, Inc. and Affiliates as of September 30, 2011 and 2010, and the combined 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.

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Combined Balance Sheets

	September 30	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,502,682	\$ 3,314,081
Current portion of assets whose use is limited	771,378	684,559
Accounts receivable, less allowances of approximately		
\$2,312,000 in 2011 and \$1,494,000 in 2010	14,881,466	14,090,656
Other receivables	1,462,066	1,032,229
Inventories of supplies	1,113,332	1,175,285
Prepaid expenses	839,664	280,392
Pledges receivable	205,369	165,043
Funds designated for debt service	_	424,886
Due from third-party reimbursement agencies	_	1,585,717
Total current assets	21,775,957	22,752,848
Other assets:		
Investments	325,966	347,049
Assets whose use is limited:		
Donor restricted investments	1,477,742	1,885,179
Beneficial interest in perpetual trusts	2,505,394	2,607,805
Investments in real estate, net of accumulated depreciation		
of approximately \$712,000 in 2011 and \$656,000 in 2010	824,378	880,317
Unamortized bond discount and issuance expense	282,429	432,208
Debt service reserve fund	1,439,934	1,673,374
Due from related party	_	32,000
Deposits and other assets	929,932	995,386
Total other assets	7,785,775	8,853,318
Property, plant and equipment, net of accumulated		
depreciation	36,807,762	36,227,411
Total assets	\$ 66,369,494	\$ 67,833,577

	September 30	
	2011	2010
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	\$ 5,823,590	\$ 3,465,207
Salaries, wages, payroll taxes and amounts withheld from		
employees	813,367	· · · · · · · · · · · · · · · · · · ·
Accrued vacation and holiday pay	986,188	, ,
Other accrued expenses	499,932	· · · · · · · · · · · · · · · · · · ·
Accrued pension	4,648,892	, ,
Due to third-party reimbursement agencies	71,283	_
Current portion of long-term debt and capital lease		
obligations	3,773,980	
Total current liabilities	16,617,232	10,810,042
Long-term liabilities:		
Accrued pension and other liabilities	56,931,181	, ,
Long-term debt, less current portion	19,388,119	
Interest rate swap obligation	4,248,129	
Capital lease obligations, less current portion	234,406	
Total liabilities	97,419,067	87,769,300
Net assets:		
Unrestricted	(35,978,450)	(25,203,815)
Temporarily restricted	1,318,536	
Permanently restricted	3,610,341	
Total net assets	(31,049,573)	
Total liabilities and net assets	\$ 66,369,494	\$ 67,833,577

See accompanying notes.

Combined Statements of Operations and Changes in Net Assets

	Year Ended September 30		
		2011	2010
Unrestricted operating revenues:			
Net patient revenue	\$	85,855,448	\$ 86,942,706
Other operating revenue		3,044,239	2,622,664
Total operating revenues		88,899,687	89,565,370
Operating expenses:			
Salaries		41,345,796	39,301,133
Employee benefits		16,084,939	14,575,223
Physician fees		693,799	932,425
Consulting, legal and auditing fees		871,661	657,860
Supplies		9,296,970	9,437,343
Insurance		885,340	1,043,977
Purchased services		6,605,187	6,445,484
Other nonsalary expenses		6,996,478	7,568,921
Provision for uncollectible accounts		3,365,182	5,459,445
Depreciation and amortization		4,545,850	4,522,902
Interest		1,476,666	1,557,105
Total operating expenses		92,167,868	91,501,818
Loss from operations before loss on early extinguishment			
of debt		(3,268,181)	(1,936,448)
Loss on early extinguishment of debt		(471,621)	
Loss from operations		(3,739,802)	(1,936,448)
Nonoperating (loss) income:			
Interest (loss) income, net		(16,806)	96,303
Gifts and bequests		265,347	252,482
Net realized and unrealized (loss) gain on investments		(10,172)	20,260
Net gain (loss) from investment in real estate		14,300	(10,352)
Other nonoperating activities		(575,677)	(85,065)
Net nonoperating (loss) income		(323,008)	273,628
Deficiency of revenues over expenses		(4,062,810)	(1,662,820)

Continued on next page.

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

	Year Ended September 30	
	2011	2010
Unrestricted net assets:		
Deficiency of revenues over expenses	\$ (4,062,810)	\$ (1,662,820)
Change in pension funding and post retirement obligations	(6,778,013)	1,624,421
Net assets released from restriction for capital	66,188	239,353
Other	· —	24,894
Transfer from other entity	_	73,242
(Decrease) increase in unrestricted net assets	(10,774,635)	299,090
Temporarily restricted net assets:		
Gifts and bequests	199,308	350,312
Investment income, net	37,801	45,236
Realized gain on investments	26,775	20,492
Unrealized (loss) gain on investments	(70,221)	91,812
Transfer to permanently restricted net assets		(394,647)
Net assets released from restrictions for operations	(347,228)	(439,767)
Net assets released from restriction for capital	(66,188)	(239,353)
Decrease in temporarily restricted net assets	(219,753)	(565,915)
Permanently restricted net assets:		
Gifts and bequests	_	691
Investment loss income, net	(207)	(1,387)
Realized gain on investments	4,011	6,210
Unrealized (loss) gain on investments	(6,404)	6,058
Transfer (to) from unrestricted and temporarily restricted net assets	(14,451)	394,647
Change in fair value of perpetual trust	(102,411)	96,205
(Decrease) increase in permanently restricted net assets	(119,462)	502,424
(Decrease) increase in net assets	(11,113,850)	235,599
Net assets, beginning of year	(19,935,723)	(20,171,322)
Net assets, end of year	\$ (31,049,573)	\$ (19,935,723)

See accompanying notes.

Combined Statements of Cash Flows

	Year Ended September 30 2011 2010	
Cash flows from operating activities		
Change in net assets	\$ (11,113,850)	\$ 235,599
Adjustments to reconcile change in net assets to net cash		
provided by operating activities:		
Noncash items:		
Depreciation and amortization	4,545,850	4,522,902
Change in unrealized gains and losses on investments	(76,625)	(97,870)
Change in unrealized gains and losses on investments		
on funds held in trust by others	102,411	(96,205)
Provision for uncollectible accounts	3,365,182	5,459,445
Change in net assets related to post retirement and		
pension plans	6,778,013	(1,624,421)
Loss on early extinguishment of debt	471,621	_
Change in fair value of interest rate swap agreements	1,062,660	599,624
Restricted contributions, realized gains and losses, and		
investment income	(267,688)	(421,554)
Other changes in net assets:		
Changes in assets and liabilities, net (See Note 12)	(4,126,980)	(5,173,474)
Net cash provided by operating activities	740,594	3,404,046
Cash flows from investing activities		
Net purchase of property, plant and equipment	(5,126,201)	(3,841,374)
Investment in real estate	55,939	66,182
Sale of investments, net	418,326	291,698
Net cash used in investing activities	(4,651,936)	(3,483,494)
Cash flows from financing activities	(10 066 947)	(000 002)
Payments on debt	(19,966,847)	(880,893)
Proceeds of debt service funds	658,326 18,740,776	495,360
Proceeds from refinancing	3,400,000	_
Proceeds from line of credit	3,400,000	_
Restricted contribution, realized gains and losses, and	267,688	421,554
investment income	3,099,943	36,021
Net degrees in each and each equivalents	(811,399)	(43,427)
Net decrease in cash and cash equivalents	(011,377)	(43,441)
Cash and cash equivalents at beginning of year	3,314,081	3,357,508
Cash and cash equivalents at end of year	\$ 2,502,682	\$ 3,314,081

Notes to Combined Financial Statements

September 30, 2011

1. Significant Accounting Policies

The accounting policies that affect significant elements of Windham Community Memorial Hospital, Inc. and Affiliate's financial statements are summarized below and in Note 2.

Organization and Basis of Combination

Windham Community Memorial Hospital, Inc. (Windham or the Hospital) is a voluntary association incorporated under the General Statutes of the State of Connecticut, and as of March 2009, is an affiliate of Hartford HealthCare Corporation (HHC). The Board of Trustees of Windham, appointed by HHC, controls the operations of Windham. The accompanying combined financial statements include Windham Community Memorial Hospital, Inc., The Hatch Hospital Corporation, and the Windham Hospital Foundation, Inc. (together, the Hospital). All material intercompany accounts and transactions have been eliminated in the accompanying combined financial statements.

Windham, located in Willimantic, Connecticut, is a nonprofit acute care hospital. Windham provides inpatient, outpatient and emergency care services for residents of Northeastern Connecticut.

The Hatch Hospital Corporation (Hatch) is a nonprofit organization incorporated under the General Statutes of the State of Connecticut. Its purpose is to promote, foster, aid, carry out and fulfill the aims, objectives and purposes of the trust created under the Tenth Clause of the will of George Hatch. Periodically, amounts are transferred from the trust to Hatch for expenses as the need arises.

Windham Hospital Foundation, Inc. (Foundation) is a nonprofit organization incorporated under the General Statutes of the State of Connecticut. Its purpose is to promote and solicit charitable support for the purposes of Windham.

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.

Notes to Combined Financial Statements (continued)

1. Significant Accounting Policies (continued)

Regulatory Matters

The Hospital is required to file annual operating information with the State of Connecticut Office of Health Care Access (OHCA).

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of other financial instruments are disclosed in the respective notes and/or in Note 5.

Cash and Cash Equivalents

Cash and cash equivalents are defined as highly liquid investments with maturities of 90 days or less. The Hospital maintains its cash and cash equivalents in bank deposit or brokerage accounts that, at times, may exceed federally insured limits. In addition, cash and cash equivalents may, at times, be invested in instruments not covered by federal insurance. The Hospital's deposits exceeded federal depository insurance limits as of September 30, 2011 and 2010. However, the Hospital has not experienced any losses in such accounts or instruments, and management believes the Hospital is not exposed to any significant credit risk on cash and cash equivalents.

Investments

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

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the balance sheet date. Valuations of those investments and, therefore, the Hospital's holdings may be determined by the investment manager and are primarily based on the underlying securities.

Assets Whose Use is Limited

Assets whose use is limited includes assets that are set aside internally for nursing support and other health care services. Investments for restricted purposes are those restricted based on donors' intents.

Notes to Combined Financial Statements (continued)

1. Significant Accounting Policies (continued)

Patient Accounts Receivable

Patient accounts receivable result from the health care services provided by the Hospital. 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.

The Hospital's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies and private patients. The Hospital manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of net patient accounts receivable are comprised of 41% Medicare, 15% Medicaid and 24% Commercial Insurance for the year ended September 30, 2011 and 36% Medicare, 16% Medicaid and 26% Commercial Insurance for the year ended September 30, 2010.

Inventories

Inventory consists of medical supplies and instruments and is valued at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Unamortized Bond Issuance Costs

Bond issuance costs associated with long-term debt for capital projects are amortized over a period consistent with the life of the debt.

Property, Plant and Equipment

Land, buildings and equipment acquisitions that individually exceed \$500 (\$250 for technology) are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives. Estimated useful lives are as follows:

Land and improvements	10-20 years
Building and leasehold improvements	5-75 years
Equipment	2-25 years

Notes to Combined Financial Statements (continued)

1. Significant Accounting Policies (continued)

Amortization of equipment held under capital leases is included in depreciation expense.

Conditional asset retirement obligations recorded under the provisions of Accounting Standards Codification (ASC) 410-20, *Asset Retirement Obligations*, amounted to \$99,077 and \$97,738 as of September 30, 2011 and 2010, respectively. These obligations are recorded in other noncurrent liabilities in the accompanying combined balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2011 and 2010, retirement obligations incurred and settled were minimal.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those where use by the Hospital has been limited by donors, to a specific time frame or purpose. Temporarily restricted net assets are available to provide for the support of the new emergency room renovations, purchase of equipment, free care, nursing support, scholarships and various other special purposes. Permanently restricted net assets have been restricted by donors and are maintained by the Hospital in perpetuity. The Hospital is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value. The investment income generated from these funds is expendable to support healthcare services and the assets are classified as permanently restricted.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Unrestricted contributions are recorded, net of expenses, within other operating revenue.

Pledges receivable to be received beyond one year are discounted utilizing a discount rate commensurate with the related risks involved. Amortization of the discount is recognized as revenue and is reflected in accordance with donor-imposed restrictions, if any, on the contributions.

Notes to Combined Financial Statements (continued)

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 combined statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are unrestricted contributions in the accompanying financial statements, except those relating to donations of long-lived assets.

Nonoperating Revenues

Activities, other than in connection with providing healthcare services, are considered to be nonoperating. Nonoperating gains consist primarily of income earned on invested funds, realized and unrealized gains and losses on unrestricted funds, change in fair value of interest rate swap agreements, and gifts and bequests.

Deficiency of Revenues over Expenses

The combined statements of operations and changes in net assets include deficiency of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from deficiency of revenues over expenses include 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), changes in pension funding and postretirement obligations, and net asset transfers.

Professional Liability Insurance

Coverage for professional liability insurance is provided on a claims-made basis. The primary level of coverage is \$10,000,000 per medical incident and \$39,000,000 in the aggregate. The excess coverage limits are \$60,000,000 per medical incident/occurrence and in the aggregate. The primary and excess coverage is with CHS Insurance Limited, a captive insurance company.

Notes to Combined Financial Statements (continued)

1. Significant Accounting Policies (continued)

The Hospital establishes reserves for unpaid losses with the assistance of consulting actuaries based on a combination of industry and hospital specific data. Future adjustments to the amounts recorded resulting from continual review processes, as well as differences between estimates and ultimate payments, will be reflected in the consolidated statement of operations of future years when such adjustments, if any, become known.

Interest Rate Swap Agreements

The Hospital utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. The Hospital does not hold or issue derivative financial instruments for trading purposes. The Hospital 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.

Income Taxes

Windham, Hatch and the Foundation are nonprofit corporations 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.

Notes to Combined Financial Statements (continued)

1. Significant Accounting Policies (continued)

New Accounting Standards

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-06, Improving Disclosures about Fair Value Measurements, (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each "class" of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2012, the guidance in ASU 2010-06 becomes effective for reporting periods beginning after December 15, 2009. Management is currently evaluating the effect that the provisions of ASU 2010-06 will have on the combined financial statements.

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

Notes to Combined Financial Statements (continued)

1. Significant Accounting Policies (continued)

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 Hospital is evaluating the effect of ASU 2010-24 on its combined financial statements.

Subsequent Events

The Hospital evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date for the year ended September 30, 2011. The Hospital evaluated subsequent events through January 27, 2012, which is the date the financial statements were issued. No events occurred that require disclosure or adjustment to the combined financial statements.

2. Revenues from Services to Patients and Charity Care

Significant concentrations of net patient revenues are comprised of 41% Medicare, 8% Medicaid and 20% Blue Cross for the years ended September 20, 2011 and 2010.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital 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 Hospital.

Notes to Combined Financial Statements (continued)

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

The following table summarizes the combined gross and net revenues from services to patients:

	Year Ended September 30		
	2011	2010	
Gross revenues from patients:			
Inpatient:			
Routine services	\$ 17,117,272	\$ 16,998,211	
Special services	55,105,246	56,486,569	
	72,222,518	73,484,780	
Outpatient	127,160,607	120,470,784	
Gross revenues from patients	199,383,125	193,955,564	
Deductions:			
Allowances	110,493,786	104,466,765	
Charity care	3,033,891	2,546,093	
	113,527,677	107,012,858	
Net patient revenue	\$ 85,855,448	\$ 86,942,706	

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. During fiscal 2011 and 2010 the Hospital recorded net changes in estimate of approximately (\$404,000) and \$473,000, respectively, which primarily relates to previously estimated third party payor settlements.

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

Notes to Combined Financial Statements (continued)

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

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

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

3. Net Assets

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

	2011	2010
Purchase of equipment	\$ 155,010	\$ 119,261
Free care	62,553	51,269
Nursing support	446,773	745,578
Other purpose restrictions	654,200	622,181
Total temporarily restricted net assets	\$ 1,318,536	\$ 1,538,289

Permanently restricted net assets at September 30 are restricted for:

	2011	2010
Investments to be held in perpetuity, the income from which is expendable to support health care services	\$ 1,104,947	\$ 1,121,998
Restricted funds held in trust by others, the income from which is expendable to support health care services	2,505,394	2,607,805
	\$ 3,610,341	\$ 3,729,803

2011

The Hospital's endowment consists of various finds established for a variety of purposes. The endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

Notes to Combined Financial Statements (continued)

3. Net Assets (continued)

The Board of Trustees of 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. As a result of this interpretation, the Hospital 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 Hospital 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 Hospital and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Hospital
- 7) The investment policies of the Hospital

The primary objective of the endowment fund is to provide long-term support for the Hospital's capital and operating programs. The Hospital's investment goals are to maximize total return (capital appreciation, dividends and interest) while also protecting the Hospital's inflation-adjusted value over time. The Hospital's assets are diversified across multiple assets classes (e.g., common stocks, bonds and cash) to achieve an optimal balance between risk and return between current income and capital appreciation. The investment program is structured to offer reasonably high probability of generating real return to protect the real inflation-adjusted value of assets and to meet the spending requirements. The investment committee reviews investment policies annually to determine if changes need to be made to changing market conditions or other factors.

Management evaluates endowment spending in light of capital replacement and expansion plans. The spending policy does not apply a prescribed rate of spending in a given year, but does consider expenditures based on need and current market conditions as well as long-term invest goals.

Notes to Combined Financial Statements (continued)

3. Net Assets (continued)

Changes in endowment funds for the fiscal year ended September 30, 2011 and 2010 consisted of the following:

of the following.		2011	
	Temporarily	Permanently	
	Restricted	Restricted	Total
Endowment net assets at beginning of year Net asset reclassification	\$ 934,457 -	\$ 1,121,998 -	\$ 2,056,455 -
Endowment net assets after reclassification	934,457	1,121,998	2,056,455
Investment return:			
Investment income	37,801	(207)	37,594
Net (realized and unrealized)	(43,446)	(2,393)	(45,839)
Total investment return	(5,645)	(2,600)	(8,245)
Contributions	350	_	350
Appropriation of endowment assets for expenditure	(282,066)	(14,451)	(296,517)
Endowment net assets at end of year	\$ 647,096	\$ 1,104,947	\$ 1,752,043
Lindo Willellt liet assets at ella of year	Ψ 017,020	Ψ 1910-192-17	ψ 1,752,048
,			
		2010	
	Temporarily	Permanently	
	Temporarily Restricted		Total
	Restricted	Permanently Restricted	
Endowment net assets at beginning of year	Restricted \$ 1,448,238	Permanently Restricted \$ 1,475,230	\$ 2,923,468
	Restricted	Permanently Restricted	
Endowment net assets at beginning of year Net asset reclassification Endowment net assets after reclassification	Restricted \$ 1,448,238 (394,647)	Permanently Restricted \$ 1,475,230 (364,804)	\$ 2,923,468 (759,451)
Endowment net assets at beginning of year Net asset reclassification Endowment net assets after reclassification Investment return:	Restricted \$ 1,448,238	Permanently Restricted \$ 1,475,230 (364,804) 1,110,426	\$ 2,923,468 (759,451) 2,164,017
Endowment net assets at beginning of year Net asset reclassification Endowment net assets after reclassification Investment return: Investment income	Restricted \$ 1,448,238	Permanently Restricted \$ 1,475,230 (364,804) 1,110,426 (1,387)	\$ 2,923,468 (759,451) 2,164,017
Endowment net assets at beginning of year Net asset reclassification Endowment net assets after reclassification Investment return: Investment income Net (realized and unrealized)	Restricted \$ 1,448,238 (394,647) 1,053,591 45,236 112,304	Permanently Restricted \$ 1,475,230 (364,804) 1,110,426 (1,387) 12,268	\$ 2,923,468 (759,451) 2,164,017 43,849 124,572
Endowment net assets at beginning of year Net asset reclassification Endowment net assets after reclassification Investment return: Investment income	Restricted \$ 1,448,238	Permanently Restricted \$ 1,475,230 (364,804) 1,110,426 (1,387)	\$ 2,923,468 (759,451) 2,164,017
Endowment net assets at beginning of year Net asset reclassification Endowment net assets after reclassification Investment return: Investment income Net (realized and unrealized) Total investment return	Restricted \$ 1,448,238	Permanently Restricted \$ 1,475,230 (364,804) 1,110,426 (1,387) 12,268	\$ 2,923,468 (759,451) 2,164,017 43,849 124,572 168,421
Endowment net assets at beginning of year Net asset reclassification Endowment net assets after reclassification Investment return: Investment income Net (realized and unrealized)	Restricted \$ 1,448,238 (394,647) 1,053,591 45,236 112,304	Permanently Restricted \$ 1,475,230 (364,804) 1,110,426 (1,387) 12,268 10,881	\$ 2,923,468 (759,451) 2,164,017 43,849 124,572
Endowment net assets at beginning of year Net asset reclassification Endowment net assets after reclassification Investment return: Investment income Net (realized and unrealized) Total investment return Contributions	Restricted \$ 1,448,238	Permanently Restricted \$ 1,475,230 (364,804) 1,110,426 (1,387) 12,268 10,881	\$ 2,923,468 (759,451) 2,164,017 43,849 124,572 168,421

Notes to Combined Financial Statements (continued)

3. Net Assets (continued)

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 Hospital to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. There were no significant deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2011 or 2010.

4. Assets Whose Use is Limited and Investments

Investments and assets whose use is limited are stated at fair value at September 30 are as follows:

	2011	2010
Cash and cash equivalents	\$ 771,378	\$ 684,559
Marketable equity securities	337,050	492,375
Corporate and government obligations	162,773	266,034
Mutual funds	1,303,885	1,473,819
	\$ 2,575,086	\$ 2,916,787

The Hospital is the income beneficiary of certain perpetual trusts. The market value of the Hospital's share of these trusts were \$2,505,394 and \$2,607,805 as of September 30, 2011 and 2010, respectively.

The composition and presentation of unrestricted investment (loss) income which is included in nonoperating income are comprised of the following for the years ended September 30:

	 2011	2010
Nonoperating income:		
Interest (loss) income, net	\$ (16,806)	\$ 96,303
Net realized and unrealized (loss) gain on		
investments	 (10,172)	20,260
	\$ (26,978)	\$ 116,563

Notes to Combined Financial Statements (continued)

4. Assets Whose Use is Limited and Investments (continued)

Investment in real estate at September 30 is as follows:

	2011	2010
Professional building Coventry Medical Building	\$ 885,444 650,869	\$ 885,445 650,624
	1,536,313	1,536,069
Less accumulated depreciation Net investment in real estate	711,935 \$ 824,378	655,752 \$ 880,317

5. Fair Values of Financial Instruments

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

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

Notes to Combined Financial Statements (continued)

5. 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:

	September 30, 2011						
		Level 1		Level 2	Level 3		Total
Assets							
Cash and cash equivalents	\$	2,502,682	\$	_	_	\$	2,502,682
Assets whose use is limited:							
Cash and cash equivalents		1,106,956		_	_		1,106,956
Domestic equity securities		263,145		_	_		263,145
Domestic fixed income securities		_		162,773	_		162,773
Mutual funds:							
U.S.		977,117		_	_		977,117
International		65,094		_	_		65,094
Beneficial interest in perpetual trusts:							
Cash and cash equivalents		72,845		_	_		72,845
Equity securities:							
U.S.		1,317,302		_	_		1,317,302
International		133,724		_	_		133,724
Fixed income securities:							
U.S.		_		905,370	_		905,370
International		_		28,034	_		28,034
Other		_		47,748	_		47,748
Debt service reserve fund:							
Money market funds		1,439,934		_	_		1,439,934
Pension fund assets:							
Cash and cash equivalents		495,917		_	_		495,917
Mutual funds:							
U.S.		54,363,099		_	_		54,363,099
International		6,750,546		_	_		6,750,546
Domestic common collective funds:		_		4,460,743	_		4,460,743
Liabilities							
Interest rate swap agreements		_		4,248,129	_		4,248,129

Notes to Combined Financial Statements (continued)

5. 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:

	September 30, 2010						
		Level 1		Level 2	Level 3		Total
Assets							
Cash and cash equivalents	\$	3,314,081	\$	_	_	\$	3,314,081
Assets whose use is limited:							
Cash and cash equivalents		1,253,844		_	_		1,253,844
Domestic equity securities		298,063		_	_		298,063
Domestic fixed income securities		_		184,372	_		184,372
Mutual funds:							
U.S.		1,106,776		_	_		1,106,776
International		73,732		_	_		73,732
Beneficial interest in perpetual trusts:							
Cash and cash equivalents		75,823		_	_		75,823
Equity securities:							
U.S.		1,371,149		_	_		1,371,149
International		139,190		_	_		139,190
Fixed income securities:							
U.S.		_		942,378	_		942,378
International		_		29,566	_		29,566
Other		_		49,700	_		49,700
Debt service reserve fund:							
Money market funds		1,673,374		_	_		1,673,374
Pension fund assets:							
Cash and cash equivalents		469,729		_	_		469,729
Mutual funds:							
U.S.		51,492,330		_	_		51,492,330
International		6,394,068		_	_		6,394,068
Domestic common collective funds		4,225,184		_	_		4,225,184
Liabilities							
Interest rate swap agreements		_		3,185,469	_		3,185,469

Fair value for Level 1 is based upon quoted market prices while fair value for Level 2 securities were determined primarily through prices obtained from third party pricing sources.

Notes to Combined Financial Statements (continued)

6. Property, Plant and Equipment

A summary of property, plant and equipment at September 30, is as follows:

	2011	2010
Land and improvements	\$ 5,223,872	\$ 5,215,610
Buildings and leasehold improvements	47,246,557	46,654,278
Equipment	48,399,667	46,575,979
Construction in progress	2,014,711	270,392
	102,884,807	98,716,259
Less accumulated depreciation	66,077,045	62,488,848
Net property, plant and equipment	\$ 36,807,762	\$ 36,227,411

The Hospital capitalized interest expense of \$146,951 and \$91,923 for the years ended September 30, 2011 and 2010.

7. Debt Arrangements

Debt arrangements at September 30, include the following:

	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%	\$ 18,740,776	\$ -
Commercial Revolving loan with a bank bearing interest at a rate per annum equal to the Prime Rate; aggregate amount of loan plus all interest due April 1,		
2012	3,400,000	_
CHEFA 2007 Series D bonds repayable over a 29-year period ending July 1, 2037, bearing 7.5% interest, secured by the Hospital's real property	_	19,350,000
Promissory mortgage note with a bank bearing interest at 6%, payments are due in equal installments through November 1, 2032, secured by a mortgage on the		
related real property	282,558	288,550
Connecticut Hospital Association energy note due November 2010, noninterest bearing, monthly payments of \$7,900	_	15,800
Promissory mortgage note with a bank bearing interest at 5.9%, payments are due in equal installments through October 1, 2012, secured by a mortgage on the		,
related real property	_	44,154
Premium on long term debt	371,390	_
	22,794,724	19,698,504
Less current portion	3,406,605	263,466
Total long-term debt	\$ 19,388,119	\$ 19,435,038

Notes to Combined Financial Statements (continued)

7. Debt Arrangements (continued)

The future minimum principal payments of long-term debt are as follows:

Year Ending September 30:	
2012	\$ 3,406,605
2013	7,012
2014	215,276
2015	243,120
2016	289,750
Thereafter	18,632,961
	\$ 22,794,724

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

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.

Notes to Combined Financial Statements (continued)

7. Debt Arrangements (continued)

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.

In conjunction with the issuance of the Series D CHEFA Bonds, the Hospital entered into two interest rate swap agreements with a financial institution, with an original notional amount of \$19,745,000, to fix the debt at a rate of 4.15%. The Total Return Swap Transaction was terminated on September 29, 2011 in conjunction with the extinguishment of the Windham Series D Bonds. On September 29, 2011, HHC modified certain terms of the Schedule to the ISDA Master Agreement between Merrill Lynch Capital Services, Inc. and the Hospital in connection with the fixed payer interest rate swap agreement entered into on November 30, 2007. No financial terms of the swap agreement were modified. The fair value of the swap agreements were \$4,248,129 and \$3,185,469 at September 30, 2011 and 2010, respectively, and are recorded in the accompanying balance sheets. Although the swap agreements represent economic hedges of the interest rate on the bonds, they do not qualify for hedge accounting. The changes in fair value of these agreements are reported in the accompanying statements of operations and changes in net assets as a component of other nonoperating activities along with the net cash receipts on the swap agreements.

The Hospital has an outstanding line of credit with a financial institution for \$5,000,000 which expires on April 1, 2012. Interest is set at prime. As of September 30, 2011, the Hospital drew \$3,400,000 under this line of credit.

8. Capital Leases

The Hospital has entered into numerous agreements to lease equipment that meet the requirements of a capital lease.

Notes to Combined Financial Statements (continued)

8. Capital Leases (continued)

Capital lease obligations as of September 30 include the following:

	2011	2010
Capital lease obligations	\$ 601,782	\$ 1,052,451
Less current portion	367,376	440,019
Long-term capital lease obligations	\$ 234,406	\$ 612,432

The following is a schedule of future minimum lease payments under capital leases:

Year Ending September 30:	
2012	\$ 346,723
2013	241,224
2014	58,380
2015	_
Total minimum lease payments	 646,327
Less amount representing interest	 44,545
Present value of net minimum lease payments	\$ 601,782

9. Pension and Other Postretirement Benefits

The Hospital has a pension plan that provides for both a contributory and noncontributory defined benefit plan for eligible employees providing for retirement and certain death benefits. The benefits are based on years of service and the employee's compensation during the last five years of employment. The Hospital makes contributions in amounts sufficient to fund the pension plan's minimum funding requirements under the Employee Retirement Income Security Act.

Notes to Combined Financial Statements (continued)

9. Pension and Other Postretirement Benefits (continued)

Effective January 1, 2004, Windham began sponsoring the Windham Community Memorial Hospital 401(k) Plan. Under the terms of the plan, eligible employees receive a basic contribution of 2%, and the Hospital matches 50% of the employee's salary contribution up to an additional 3% of the employee's compensation. Effective April 1, 2006, all nonunion employees hired prior to April 1, 2004 have ceased their participation in the defined benefit plan, and their pension accruals have been frozen as of that date. A second defined contribution plan known as the Windham Hospital Defined Contribution Plan was established for nonunion employees hired prior to April 1, 2004. Under the terms of the plan, eligible employees receive a basic contribution of 5% with no matching contribution. Effective January 1, 2010, all non-union employees in the 401(k) plan were transferred into the Defined Contribution Plan.

Expense for employer contributions was approximately \$1,728,000 and \$1,409,000 in 2011 and 2010, respectively.

The Hospital provides health care and life insurance benefits to its retired employees who meet certain eligibility requirements. The Hospital's policy is to fund the cost of postretirement benefits other than the pension costs as incurred.

The measurement date for determining the pension plan's assets and obligations and the other postretirement benefit plan's obligations is September 30.

The following table sets forth the funded status and amounts recognized in the combined balance sheets for the pension and postretirement benefits:

	Pension Benefits			Other Postretirement Benef			
		2011		2010	2011		2010
Change in benefit obligation:							
Benefit obligation at beginning of year	\$	(94,607,331)	\$	(89,794,378)	\$ (25,562,300)	\$	(26,094,217)
Service cost		(275,000)		(533,849)	(91,367)		(128,936)
Interest cost		(4,743,159)		(4,857,481)	(1,222,531)		(1,320,267)
Participant contributions		_		(23,367)	_		(108,532)
Benefits paid		3,458,662		3,058,943	1,105,780		1,162,456
Plan amendments		_		_	_		2,363,881
Actuarial losses		(1,497,569)		(2,457,199)	(4,107,563)		(1,436,685)
Benefit obligation at end of year		(97,664,397)		(94,607,331)	(29,877,981)		(25,562,300)
Change in plan assets:							
Fair value of plan assets at beginning of year		62,581,311		57,446,683			
Actual return on plan assets		250,588		5,493,803			
Employer contributions		6,697,068		2,676,401	1,105,780		1,053,924
Participant contributions		_		23,367	_		108,532
Benefits paid		(3,458,662)		(3,058,943)	(1,105,780)		(1,162,456)
Fair value of plan assets at end of year		66,070,305		62,581,311	-		_
Unfunded status	\$	(31,594,092)	\$	(32,026,020)	\$ (29,877,981)	\$	(25,562,300)

Notes to Combined Financial Statements (continued)

9. Pension and Other Postretirement Benefits (continued)

The accumulated benefit obligations for the defined benefit pension plan and other postretirement benefit plan at September 30, 2011 and 2010 are \$97,664,397 and \$94,607,331, respectively.

The following table sets forth the unrecognized items impacting the pension and the postretirement plans as of September 30:

	Pension	n Benefits	Other Postretirement Benefits		
	2011	2010	2011	2010	
Unrecognized net loss from past experience different from that assumed					
and effects of changes in assumptions	\$ 45,451,056	\$ 42,268,275	\$ 12,724,910	\$ 9,566,713	
Unrecognized prior service cost	_	_	(882,812)	(1,319,847)	

Amounts included in unrestricted net assets at September 30, 2011 and expected to be recognized in net periodic benefit cost during the year ended September 30, 2012 are as follows:

Amortization of prior service cost	\$ (437,035)
Amortization of net loss	4,882,487
	\$ 4,445,452

	Pension	Be	nefits			-	
2011 2010				2011		2010	
\$	275,000	\$	533,849	\$	91,367	\$	128,936
	4,743,159		4,857,481		1,222,531		1,320,267
	(4,977,532)		(5,315,175)		_		_
	3,229,089		2,563,430		324,974		252,894
	_		4,432		_		_
\$	3,269,716	\$	2,644,017	\$	1,638,872	\$	1,702,097
	\$ \$	2011 \$ 275,000 4,743,159 (4,977,532) 3,229,089	2011 \$ 275,000 \$ 4,743,159 (4,977,532) 3,229,089	\$ 275,000 \$ 533,849 4,743,159 4,857,481 (4,977,532) (5,315,175) 3,229,089 2,563,430 - 4,432	2011 2010 \$ 275,000 \$ 533,849 \$ 4,743,159 4,857,481 (4,977,532) (5,315,175) 3,229,089 2,563,430 - 4,432	Pension Benefits Ber 2011 2010 2011 \$ 275,000 \$ 533,849 \$ 91,367 4,743,159 4,857,481 1,222,531 (4,977,532) (5,315,175) - 3,229,089 2,563,430 324,974 - 4,432 -	2011 2010 2011 \$ 275,000 \$ 533,849 \$ 91,367 \$ 4,743,159 4,857,481 1,222,531 (4,977,532) (5,315,175) - - 3,229,089 2,563,430 324,974 - 4,432 -

The weighted-average discount rates used in determining the actuarial present value of the projected benefit obligation of the defined benefit plan was 5.25% and 5.08% in 2011 and 2010, respectively. The weighted-average discount rates used in determining net periodic benefit cost of the defined benefit plan was 5.08% and 5.58% in 2011 and 2010, respectively. The expected long-term rate of return on plan assets was 8.25% in 2011 and 9% in 2010. The rate of return for fiscal year 2012 will be 8%. The expected long-term rate of return assumption is determined by adding expected inflation to expected long-term real returns of various asset classes, taking into account expected volatility and correlation between the returns of various asset classes.

Notes to Combined Financial Statements (continued)

9. Pension and Other Postretirement Benefits (continued)

The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to grade from 8.5% per year in fiscal year 2011 to 5% in fiscal year 2018. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a 1% point increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation by \$3,654,689, at September 30, 2011. A 1% point decrease in the assumed health care cost trend rate would decrease the accumulated postretirement benefit obligation \$3,078,014 at September 30, 2011.

The Hospital's pension plan weighted-average asset allocations by asset category are as follows:

	2011	2010
Mutual funds (equities)	64%	66%
Mutual funds (fixed income)	28	26
Immediate participation guarantee contract	8	8
	100%	100%

The asset mix was determined by evaluating the expected return against the plan's long-term objectives. Performance is monitored on a monthly basis, and the portfolio is rebalanced back to target levels to ensure the targets are within range. The investment policy describes which securities are allowed in the portfolios and the financed objectives of the plan which the Investment Committee of the Hospital Board oversees. The Investment Committee monitors the investment performance annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy.

Contributions

The Hospital expects to contribute approximately \$4,100,000 to its pension plan beginning October 1, 2011. The Hospital funds its other postretirement plan for actual expenses incurred.

Notes to Combined Financial Statements (continued)

9. Pension and Other Postretirement Benefits (continued)

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid as follows:

		Other
	Pension	Postretirement
	Benefits	Benefits
2012	\$ 3,308,407	\$ 1,340,485
2013	3,466,711	1,473,889
2014	3,728,316	1,611,520
2015	4,049,410	1,732,011
2016	4,339,029	1,852,651
2017-2021	27,333,398	10,560,816

10. Pledges Receivable

Pledges receivable as of September 30, are expected to be collected as follows:

	2011	2010
Within one year	\$ 230,619	\$ 292,155
Less reserve for uncollectible pledges	(25,250)	(127,112)
Net pledges receivable	\$ 205,369	\$ 165,043

11. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance as explained in Note 1 or are deemed to be immaterial. While the outcomes of the lawsuits cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the financial position or changes in net assets of the Hospital.

Notes to Combined Financial Statements (continued)

11. Commitments and Contingencies (continued)

Operating Leases

The Hospital rents certain equipment under terms of leases that qualify as operating leases. Rental and lease expense amounted to \$857,867 and \$862,383 for the years ended September 30, 2011 and 2010, respectively.

The minimum lease commitments under all noncancelable operating leases with initial or remaining terms of more than one year are as follows:

Year Ending September 30:		
2012	\$	405,473
2013		409,744
2014		412,869
2015		312,549
2016		228,592
Thereafter		713,270
	\$ 2	2,482,497

12. Supplemental Cash Flow Information

The changes in assets and liabilities are as follows:

	September 30					
		2011		2010		
		(in tho	usa	nds)		
Increase in accounts receivable	\$	(4,155,992)	\$	(6,434,064)		
(Increase) decrease in other receivables		(429,837)		1,302,177		
(Increase) decrease in pledge receivables		(40,326)		207,841		
(Increase) decrease in inventories of supplies and prepaid						
expenses		(497,319)		390,961		
Change in estimated third-party payor settlements		1,657,000		(327,194)		
Decrease (increase) in deposits and other assets		247,233		(108,478)		
Increase in accounts payable		2,358,383		95,160		
Decrease in salaries, wages, payroll taxes and amounts withheld						
from employees, and accrued vacation and holiday pay		(130,243)		(805,701)		
Decrease in other accrued expenses		(246,620)		(287,004)		
(Decrease) increase in accrued pension and other liabilities		(2,889,259)		792,828		
	\$	(4,126,980)	\$	(5,173,474)		

Notes to Combined Financial Statements (continued)

13. Functional Expenses

Windham provides short-term general health care services to acute-care patients. Hatch provides care, treatment and rehabilitation to patients convalescing from acute or chronic illness or injury. Expenses related to providing these services for the years ended September 30, 2011 and 2010, are as follows:

	2011	2010
Health care services	\$ 49,388,094	\$ 48,457,157
General and administrative	43,251,395	43,044,661
	\$ 92,639,489	\$ 91,501,818



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Report of Independent Auditors on Other Financial Information

Board of Trustees Windham Community Memorial Hospital, Inc. and Affiliates

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining details appearing in conjunction with the combined financial statements are presented for purposes of additional analysis and are not a required part of the combined financial statements of the Hospital. Such information has been subjected to the auditing procedures applied in our audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole. We did not audit the financial statements of The Hatch Hospital Corporation which statements reflect total assets of \$846,394 and \$873,735 as of September 30, 2011 and 2010, respectively, and total revenues of \$2,314,010 and \$2,378,405 for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Hatch Hospital Corporation, is based solely on the report of the other auditors.

Ernst + Young LLP

January 27, 2012

Combining Balance Sheets

		September 30 Windham						-		
		nam Community	Н	e Hatch ospital	Hos Found	pital lation,				September 30,
Assets	Memor	ial Hospital, Inc.	Cor	poration	lı	ıc.	Elimi	nations	Combined	2010 Combined
Current assets:										
Cash and cash equivalents	\$	2 225 766		25,935		240.001	6		\$ 2 502 682	¢ 2.214.001
Current portion of assets whose use is limited	2	2,235,766	2	-	3	240,981	\$	_	-,,	
Accounts receivable, less allowances of approximately \$ 2,312,000		762,364		9,014					771,378	684,559
Other receivables		14,881,466							14,881,466	14,090,656
Inventories of supplies		1,462,066							1,462,066	1,032,229
Prepaid expenses		1,113,332				1.460			1,113,332	1,175,285
Pledges receivable		838,204				1,460			839,664	280,392
Funds designated for debt service		154,409				50,960			205,369	165,043
Due from third-party reimbursement agencies		_							=	424,886
Total current assets		-		24.040		202 401			-	1,585,717
Other assets:		21,447,607		34,949		293,401		-	21,775,957	22,752,848
Investments										
Assets whose use is limited:		49,953		276,013					325,966	347,049
Donor restricted investments										
		1,448,028		29,714					1,477,742	1,885,179
Beneficial interest in perpetual trusts		1,999,680		505,714					2,505,394	2,607,805
Investments in real estate, net of accumulated depreciation of										
approximately \$712,000		824,378							824,378	880,317
Unamortized bond discount and issuance expense		282,429							282,429	432,208
Debt service reserve fund		1,439,934							1,439,934	1,673,374
Due from related party		=							-	32,000
Deposits and other assets		913,932				16,000			929,932	995,386
Total other assets		6,958,334		811,441		16,000		-	7,785,775	8,506,269
Property, plant and equipment, net of accumulated depreciation										
Total assets		36,807,758		4					36,807,762	36,227,411
	\$	65,213,699	\$	846,394	\$	309,401	\$	_	\$ 66,369,494	\$ 67,486,528
Liabilities and net assets										
Current liabilities:										
Trade accounts payable	\$	5,812,816	\$	-	\$	10,774	\$	-	\$ 5,823,590	\$ 3,465,207
Salaries, wages, payroll taxes and amounts withheld from employees		813,367							813,367	840,849
Accrued vacation and holiday pay		986,188							986,188	1,088,949
Other accrued expenses		489,732		10,200					499,932	746,552
Accrued pension		4,648,892							4,648,892	3,965,000
Due to third-party reimbursement agencies		71,283							71,283	
Current portion of long-term debt and capital lease obligation		3,773,980							3,773,980	703,485
Total current liabilities		16,596,258		10,200		10,774		-	16,617,232	10,810,042
Accrued pension and other liabilities		56,931,181							56,931,181	53,726,319
Long-term debt, less current portion		19,388,119							19,388,119	19,435,038
Interest rate swap obligation		4,248,129							4,248,129	3,185,469
Capital lease obligations, less current portion		234,406							234,406	612,432
Total liabilities		97,398,093		10,200		10,774		-	97,419,067	87,769,300
Net assets:										
Unrestricted		(36,373,909)		301,952		93,507			(35,978,450)	(25,203,815)
Temporarily restricted		1,084,888		28,528		205,120			1,318,536	1,538,289
Permanently restricted		3,104,627		505,714		,.==			3,610,341	3,729,803
Total net assets		(32,184,394)		836,194		298,627			(31,049,573)	(19,935,723)
Total liabilities and net assets	\$	65,213,699	\$			309,401	S		\$ 66,369,494	
	-	,2.0,0//	-	J,J / T		,	Ψ		,,.,.,	,000,011

Combining Statements of Operations and Changes in Net Assets

		am Community al Hospital, Inc.	The Hatch Hospital Corporation	Windham Hospital Foundation, Inc.	Eliminations		Combined	Septe	ear Ended mber 30, 2010 Combined
Unrestricted operating revenues:									
Net patient revenue	\$	83,720,029 \$	2,135,419	\$ -	\$ -	- \$	85,855,448	\$	86,942,706
Other operating revenue		2,865,648	178,591				3,044,239		2,622,664
Total operating revenues		86,585,677	2,314,010	-	-	-	88,899,687		89,565,370
Operating expenses:									
Salaries		40,214,961	1,026,923	103,912			41,345,796		39,301,133
Employee benefits		15,645,921	399,532	39,486			16,084,939		14,575,223
Physician fees		676,523	17,276				693,799		932,425
Consulting, legal and auditing fees		849,957	21,704				871,661		657,860
Supplies		9,065,316	231,490	164			9,296,970		9,437,343
Insurance		863,295	22,045				885,340		1,043,977
Purchased services		6,424,320	164,050	16,817			6,605,187		6,445,484
Other nonsalary expenses		6,804,066	173,748	18,664			6,996,478		7,568,921
Provision for uncollectible accounts		3,279,665	83,749	1,768			3,365,182		5,459,445
Depreciation and amortization		4,422,259	123,591				4,545,850		4,522,902
Interest		1,438,552	38,114				1,476,666		1,557,105
Total operating expenses		89,684,835	2,302,222	180,811	_		92,167,868		91,501,818
Loss from operations before loss on early extinguishment of debt and gain transferred to Windham									
		(3,099,158)	11,788	(180,811)			(3,268,181)		(1,936,448)
Gain transferred to Windham		11,788	(11,788)						
Loss on early extinguishment of debt		(471,621)					(471,621)		
Loss from operations		(3,558,991)		(180,811)			(3,739,802)		(1,936,448)
Nonoperating (loss) income:									
Investment (loss) income, net		(17,933)		1,127			(16,806)		96,303
Gifts and bequests		24,451	7,511	233,385			265,347		252,482
Net realized and unrealized (loss) gain on investments		(814)	(9,358)				(10,172)		20,260
Net gains (loss) from investment in real estate		14,300					14,300		(10,352)
Other nonoperating activities		(561,443)	(14,234)				(575,677)		(85,065)
Total nonoperating (loss) income		(541,439)	(16,081)			_	(323,008)		273,628
(Deficiency) excess of revenues over expenses		(4,100,430)	(16,081)	53,701		-	(4,062,810)	1	(1,662,820)

Continued on next page.

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

		Year Ended S	September 30, 20	011			
	nam Community norial Hospital, Inc.	The Hatch Hospital Corporation	Windham Hospital Foundation, Inc.	Elim	inations	Combined	Year Ended September 30, 2010 Combined
Unrestricted net assets:							
(Deficiency) excess of revenues over expenses	\$ (4,100,430)	\$ (16,081)	\$ 53,701	\$	- \$	(4,062,810)	\$ (1,662,820)
Change in pension funding and post retirement							
obligations	(6,778,013)					(6,778,013)	1,624,421
Net assets released from restriction for capital		10,591	55,597			66,188	239,353
Other							24,894
Transfer from other entity							73,242
Transfer from temporarily restricted net assets							-
Transfer from (to) Foundation	19,853		(19,853)				_
(Decrease) increase in unrestricted net assets	(10,858,590)	(5,490)	89,445		-	(10,774,635)	299,090
Temporarily restricted net assets:							
Gifts and bequests	350		198,958			199,308	350,312
Investment income, net	24,951	12,850				37,801	45,236
Realized gain on investments	26,775					26,775	20,492
Unrealized (loss) gain on investments	(70,221)					(70,221)	91,812
Transfer to permanently restricted net assets						_	(394,647)
Net assets released from restriction for operations	(282,066)		(65,162)			(347,228)	(439,767)
Net assets released from restriction for capital		(10,591)	(55,597)			(66,188)	(239,353)
(Decrease) increase in temporarily restricted net assets	(300,211)	2,259	78,199		-	(219,753)	(565,915)
Permanently restricted net assets:							
Gifts and bequests	_					_	691
Investment loss, net	(207)					(207)	(1,387)
Realized gain on investments	4,011					4,011	6,210
Unrealized (loss) gain on investments	(6,404)					(6,404)	6,058
Transfer (to) from unrestricted and temporarily restricted net assets	(14,451)					(14,451)	394,647
Change in fair value of perpetual trust	(77,901)	(24,510)				(102,411)	96,205
(Decrease) increase in permanently restricted net assets	 (94,952)	(24,510)	_		-	(119,462)	502,424
(Decrease) increase in net assets	(11,253,753)	(27,741)	167,644		-	(11,113,850)	235,599
Net assets, beginning of year	(20,930,650)	863,935	130,992			(19,935,723)	(20,171,322)
Net assets, end of year	\$ (32,184,403	\$ 836,194	\$ 298,636	\$	-	(31,049,573	\$ (19,935,723

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