

The Charlotte Hungerford Hospital

Independent Auditors' Report and
Financial Statements

As of and for the Years Ended
September 30, 2012 and 2011



Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Balance Sheets	2
Statements of Operations and Changes in Net Assets	3
Statements of Cash Flows	5
Notes to the Financial Statements	6



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Independent Auditors' Report

To the Board of Governors of
The Charlotte Hungerford Hospital:

We have audited the accompanying balance sheets of The Charlotte Hungerford Hospital (the Hospital) a Connecticut not-for-profit, non-stock corporation, as of September 30, 2012 and 2011, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 2012 and 2011 financial statements referred to above present fairly, in all material respects, the financial position of The Charlotte Hungerford Hospital as of September 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Saslow Lufkin & Buggy, LLP

December 13, 2012

The Charlotte Hungerford Hospital
Balance Sheets
September 30, 2012 and 2011

Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 9,871,014	\$ 8,455,576
Accounts receivable (less allowance for doubtful accounts of \$2,077,997 in 2012 and \$1,519,710 in 2011)	13,441,101	11,144,540
Inventories	2,025,113	1,994,112
Estimated amounts due from third-party reimbursement agencies	971,585	1,516,187
Other current assets	1,717,026	2,360,864
Total current assets	<u>28,025,839</u>	<u>25,471,279</u>
Assets whose use is limited:		
Investments held in trust for estimated self-insurance liabilities	4,248,076	3,726,581
Under bond indenture agreement - held by others	400,278	288,839
Donor restricted assets	6,989,321	6,563,036
Beneficial interest in assets held in trust by others	13,868,151	12,360,649
Total assets whose use is limited	<u>25,505,826</u>	<u>22,939,105</u>
Long-term investments	33,807,880	28,762,329
Property, plant and equipment:		
Land	155,467	155,467
Land improvements	4,800,017	4,555,336
Buildings	78,733,907	77,970,871
Fixed equipment	16,771,147	16,505,932
Moveable equipment	43,066,932	42,244,214
	<u>143,527,470</u>	<u>141,431,820</u>
Less: accumulated depreciation	<u>(106,694,984)</u>	<u>(102,493,235)</u>
	36,832,486	38,938,585
Construction in progress	1,020,301	1,037,834
Total property, plant and equipment	<u>37,852,787</u>	<u>39,976,419</u>
Other assets	<u>1,334,720</u>	<u>1,677,378</u>
Total assets	<u><u>\$ 126,527,052</u></u>	<u><u>\$ 118,826,510</u></u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of bonds payable	\$ 1,200,000	\$ 1,155,000
Current portion of loans payable	198,100	186,190
Accounts payable	5,029,676	5,509,809
Estimated amounts due to third-party reimbursement agencies	1,917,192	1,693,818
Accrued salaries, wages and fees	4,027,215	3,433,272
Other current liabilities	7,726,163	7,183,569
Total current liabilities	<u>20,098,346</u>	<u>19,161,658</u>
Bonds payable, less current portion	-	1,200,000
Loans payable, less current portion	3,223,366	3,424,338
Estimated self-insurance liabilities	3,125,672	2,631,693
Accrued pension liability, less current portion	38,287,989	26,422,971
Total liabilities	<u>64,735,373</u>	<u>52,840,660</u>
Net assets:		
Unrestricted (\$32,307,573 in 2012 and \$28,006,131 in 2011 designated by the Board of Governors)	40,934,207	47,062,165
Temporarily restricted	3,236,940	2,810,655
Permanently restricted	17,620,532	16,113,030
Total net assets	<u>61,791,679</u>	<u>65,985,850</u>
Total liabilities and net assets	<u><u>\$ 126,527,052</u></u>	<u><u>\$ 118,826,510</u></u>

The accompanying notes are an integral part of these financial statements.

The Charlotte Hungerford Hospital
Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted revenues		
Net patient service revenues	\$ 116,313,832	\$ 109,579,717
Other revenues	<u>5,735,128</u>	<u>4,949,386</u>
Total revenues	122,048,960	114,529,103
Expenses		
Salaries and wages	56,036,921	53,287,674
Physician fees	3,306,463	1,479,732
Employee benefits	16,546,435	15,812,664
Services	15,744,038	13,731,155
Supplies	16,888,965	16,654,926
Repairs and maintenance	1,891,280	1,923,004
Provision for bad debts	3,125,364	2,129,955
Depreciation and amortization	6,060,455	6,178,082
Interest and bond expenses	264,153	308,286
Insurance	<u>2,018,607</u>	<u>2,375,289</u>
Total expenses	<u>121,882,681</u>	<u>113,880,767</u>
Operating income	166,279	648,336
Other income		
Investment and other income, net	2,102,513	1,496,290
Gifts and bequests	27,952	405,765
Gain from equity method investments	<u>118,880</u>	<u>109,058</u>
Total other income	<u>2,249,345</u>	<u>2,011,113</u>
Excess of revenues over expenses	<u><u>\$ 2,415,624</u></u>	<u><u>\$ 2,659,449</u></u>

The accompanying notes are an integral part of these financial statements.

The Charlotte Hungerford Hospital
Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted net assets		
Excess of revenues over expenses	\$ 2,415,624	\$ 2,659,449
Change in unrealized gains (losses) on investments	4,272,594	(1,866,495)
Pension related changes other than net periodic pension costs	(12,816,176)	6,880,330
Net assets released from restrictions used for purchase of property and equipment	<u>-</u>	<u>200,000</u>
Change in unrestricted net assets	(6,127,958)	7,873,284
Temporarily restricted net assets		
Investment income (loss)	54,565	(11,740)
Contributions	239,485	186,977
Change in unrealized gains (losses) on investments	240,388	(78,255)
Net assets released from restrictions	<u>(108,153)</u>	<u>(266,780)</u>
Change in temporarily restricted net assets	426,285	(169,798)
Permanently restricted net assets		
Change in beneficial interest in assets held in trust by others	<u>1,507,502</u>	<u>(259,220)</u>
Change in permanently restricted net assets	<u>1,507,502</u>	<u>(259,220)</u>
Change in net assets	(4,194,171)	7,444,266
Net assets, beginning of year	<u>65,985,850</u>	<u>58,541,584</u>
Net assets, end of year	<u><u>\$ 61,791,679</u></u>	<u><u>\$ 65,985,850</u></u>

The accompanying notes are an integral part of these financial statements.

The Charlotte Hungerford Hospital
Statements of Cash Flows
For the Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ (4,194,171)	\$ 7,444,266
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,060,455	6,178,082
Net realized gains on investments	(754,615)	(576,937)
Net unrealized gains on investments	(4,512,982)	1,944,750
(Increase) decrease in beneficial interest in assets held in trust by others	(1,507,502)	259,220
Provision for bad debts, net	3,125,364	2,129,955
Changes in:		
Accounts receivable, net	(5,421,925)	(3,701,172)
Inventories	(31,001)	(107,962)
Estimated amounts due from third-party reimbursement agencies	544,602	(436,750)
Other current assets	643,838	59,023
Other assets, net	273,428	(388,348)
Accounts payable	(480,133)	1,070,156
Estimated amounts due to third-party reimbursement agencies	223,374	(340,182)
Accrued salaries, wages and fees	593,943	414,669
Other current liabilities	542,594	1,465,133
Estimated self-insurance liabilities	493,979	77,288
Accrued pension liability	<u>11,865,018</u>	<u>(7,572,562)</u>
Net cash provided by operating activities	7,464,266	7,918,629
Cash flows from investing activities		
Proceeds from sales of investments	3,294,904	6,727,788
Purchases of investments	(4,132,077)	(5,693,677)
Purchases of property, plant and equipment, net	<u>(3,867,593)</u>	<u>(4,541,952)</u>
Net cash used in investing activities	(4,704,766)	(3,507,841)
Cash flows from financing activities		
Principal payments on Series C bonds	(1,155,000)	(1,120,000)
Principal payments on long-term debt agreements	-	(91,965)
Payments on KDA long-term debt	(189,062)	(178,148)
Principal payments on capital lease obligations	<u>-</u>	<u>(21,204)</u>
Net cash used in financing activities	(1,344,062)	(1,411,317)
Net change in cash and cash equivalents	1,415,438	2,999,471
Cash and cash equivalents, beginning of year	<u>8,455,576</u>	<u>5,456,105</u>
Cash and cash equivalents, end of year	<u>\$ 9,871,014</u>	<u>\$ 8,455,576</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 229,453</u>	<u>\$ 255,720</u>

The accompanying notes are an integral part of these financial statements.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 1 - General

Organization - The Charlotte Hungerford Hospital (the Hospital), located in Torrington, Connecticut, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient and emergency care services for the residents of northwestern Connecticut.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates relate to contractual allowances and the allowance for doubtful accounts on patient accounts receivable, self-insurance liabilities, valuation of investments, estimated settlements due to third-party reimbursement agencies and pension plan assumptions. Actual results could differ from those estimates.

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 Governors (the Board) for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

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 the income earned thereon be available for operations and beneficial interest in assets held in trust by others.

Assets Held in Trust by Others - The Hospital has been named sole or participating beneficiary in several perpetual trusts. Under the terms of these trusts, the Hospital has the irrevocable right to receive the income earned on the trust assets in perpetuity. The estimated present value of the future payments to the Hospital is recorded at the fair value of the assets held in the trust. Fluctuations in the value of such assets are recognized as changes in permanently restricted net assets.

Recognition of Grant Revenue - Grants are generally considered to be exchange transactions in which the grantor requires the performance of specified activities. Entitlement to cost reimbursement grants is conditioned on the expenditure of funds in accordance with grant restrictions and, therefore, revenue is recognized to the extent of grant expenditures. Entitlement to performance based grants is conditioned on the attainment of specific performance goals and, therefore, revenue is recognized to the extent of performance achieved. The Hospital recognized \$2,556,139 and \$2,419,371 of grant revenue, included in other revenues, for the years ended September 30, 2012 and 2011, respectively. Grant receipts in excess of revenues recognized are presented as deferred grant support. Deferred grant support of \$178,453 and \$153,249 is included in other current liabilities in the accompanying balance sheets as of September 30, 2012 and 2011, respectively.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

Pledges Receivable - Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those contributions are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in other revenues. Conditional promises to give are not included as support until such time as the conditions are substantially met. Pledges receivable are included within other assets on the balance sheets.

The Hospital's policy is to present restricted contributions received during the year whose restrictions are also met during the current year as unrestricted net asset activity. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is actually received.

The Hospital's policy is to recognize the expiration of donor restrictions for contributions of property and equipment or the use of contributions restricted for property and equipment in the year the property and equipment is placed in service.

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments with maturities of three months or less when purchased. In general, the Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000 per depositor, per bank. The FDIC also provides separate unlimited coverage for deposit accounts that meet the definition of non-interest bearing accounts. It is the Hospital's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Hospital maintains cash balances in excess of the FDIC insurance limit.

Money market funds are not insured by the FDIC and are not a risk-free investment. Money market funds invest in a variety of instruments including mortgage-backed and asset-backed securities. Although a money market fund seeks to preserve its one dollar per share value, it is possible that a money market fund's value can decrease below one dollar per share.

Inventories - Inventories, used in general operations of the Hospital, are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Investments - The Hospital accounts for its investments in accordance with FASB ASC 320, "*Investments - Debt and Equity Securities*." Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying balance sheets. Management determines the appropriate classification of its investments in invested securities at the time of the purchase and reevaluates such determination at each balance sheet date. Investment income (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenues over expenses.

All of the Hospital's investments, as of September 30, 2012 and 2011, were classified as available for sale. Available for sale securities may be sold prior to maturity and are carried at fair value.

The amortized costs of fixed maturities are adjusted using the interest method for amortization of premiums and accretions of discounts. Such amortization and accretion are included in net investment income.

Assets Whose Use is Limited - Assets whose use is limited include assets set aside for self-insurance trust arrangements, assets held by trustees under bond indenture agreements, donor restricted endowments and assets held in trust by others.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

Other Than Temporary Impairments on Investments - The Hospital accounts for other than temporary impairments in accordance with certain provisions of FASB ASC 320 "*Investments - Debt and Equity Securities*" and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairments recorded in 2012 or 2011.

Federal Income Taxes - The Hospital is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Hospital accounts for uncertain tax positions with provisions of FASB ASC 740, "*Income Taxes*" which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Hospital does not have any uncertain tax positions as of September 30, 2012 or 2011. As of September 30, 2012 or 2011, the Hospital did not record any penalties or interest associated with uncertain tax positions. The Hospital's prior three tax years are open and subject to examination.

Property, Plant and Equipment - Property, plant and equipment purchased by the Hospital is recorded at cost, or if received as a donation, at fair value on the date received. The Hospital provides for depreciation of property, plant and equipment for financial reporting purposes using the straight-line method over the estimated useful lives of the various assets. American Hospital Association lives are generally used and provide for a 25-50 year life for buildings and a 3-20 year life for building fixtures and equipment. Leased equipment is amortized on a straight-line basis over the shorter of the life of the applicable lease or life of the leased asset.

Depreciation expense was \$5,991,225 and \$6,117,180 for the years ended September 30, 2012 and 2011, respectively.

Investments in Joint Ventures - The Hospital has invested in certain joint ventures which are accounted for under the equity method of accounting and included within other assets on the balance sheets. The Hospital's investment in these joint ventures is as follows:

	Ownership Percentage
Advanced Medical Imaging of Northwest CT, LLC (AMI)	
(Except for the Fixed MRI segment, in which the ownership is 67%)	50%
MedConn Collection Agency, LLC	25%
Urology Center of Northwest CT, LLC (Urology)	62.5%

The Hospital has recorded its share of AMI's net income of \$559,857 and \$595,957 within other revenues as of September 30, 2012 and 2011, respectively, as these services are a component of the Hospital operations. In addition, the 62.5% investment in Urology is immaterial to present in a consolidated presentation.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred Financing Costs - Deferred financing costs are amortized over the period the obligation is outstanding using the effective interest method. The unamortized portion is included within other assets on the balance sheets.

Other Income - Activities other than in connection with providing health care services are considered to be non-operating. Non-operating income consist primarily of income on investment funds, unrestricted gifts and bequests and gains from equity method investments.

Statements of Operations and Changes in Net Assets - For purposes of display, transactions deemed by management to be ongoing, major or central to the providing of healthcare services are reported as operating revenues and expenses. Investment income and realized gains and losses on securities are considered non-operating activity. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, except for losses that are deemed to be other than temporary, 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).

Accounting Pronouncements Adopted - In August 2010, the FASB issued ASU No. 2010-23, "*Health Care Entities (Topic 954): Measuring Charity Care for Disclosure.*" ASU No. 2010-23 is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU No. 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct or indirect cost of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for fiscal years beginning after December 15, 2010, with retrospective application required. The Hospital's adoption of ASU 2010-23 did not have a material impact on its overall financial statements.

In August 2010, the FASB issued ASU No. 2010-24, "*Health Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries.*" ASU No. 2010-24 clarifies that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for fiscal years beginning after December 15, 2010. The Hospital's adoption of ASU 2010-24 did not have an impact on its financial statements as no claims liabilities have pierced the Hospital's self insurance deductible.

Pending Accounting Pronouncements - In May 2011, the FASB issued ASU No. 2011-04, "*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS.*" ASU No. 2011-04 amends certain guidance in ASC 820, "*Fair Value Measurement.*" ASU 2011-04 expands ASC 820's existing disclosure requirements for fair value measurements and makes other amendments. ASU 2011-04 is effective for interim and annual reporting periods beginning after December 15, 2011 and will be applied on a prospective basis. The Hospital is currently evaluating the effect that the provisions of ASU 2011-04 will have on the Hospital's financial statements.

In July 2011, the FASB issued ASU No. 2011-07, "*Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities.*" ASU 2011-07 requires a health care entity to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenues from an operating expense to a deduction from patient service revenues (net of contractual allowances and discounts). Additionally, enhanced disclosures about an entity's policies for recognizing revenue, assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts are required. ASU 2011-07 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2012. The Hospital does not believe adoption of ASU 2011-07 will have a material impact on its overall financial statements.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 2 - Summary of Significant Accounting Policies (continued)

Reclassifications - Certain reclassifications to the 2011 financial statements have been made in order to conform to the 2012 presentation. Such reclassifications did not have a material effect on the financial statements.

Subsequent Events - Subsequent events have been evaluated through December 13, 2012, the date through which procedures were performed to prepare the financial statements for issuance. Management believes there are no subsequent events having a material impact on the financial statements.

Note 3 - Revenues from Services to Patients and Charity Care

The following table reconciles gross revenues to net revenues from services to patients:

	<u>2012</u>	<u>2011</u>
Gross revenues from services to patients	\$ 235,302,435	\$ 206,920,675
Deductions and allowances	<u>(118,988,603)</u>	<u>(97,340,958)</u>
Net revenues from services to patients	<u>\$ 116,313,832</u>	<u>\$ 109,579,717</u>

Net Patient Service Revenue and Net Accounts Receivable - Net patient service revenue is reported at the established net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Net patient service revenue and accounts receivable are recorded when patient services are performed. Adjustments and settlements under reimbursement agreements with third-party payers are accrued on an estimated basis in the period the related services are provided and adjusted in future periods as final settlements are determined.

At September 30, 2012 and 2011, 50% of net patient accounts receivable were from governmental payers (Medicare and Medicaid) and 50% were from nongovernmental payers, respectively. Nongovernmental payers are primarily insurance companies and self-pay payers. Management has recorded an allowance for doubtful accounts, which, in its opinion, is sufficient to provide for risk of nonpayment.

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of traditional charity care provided, determined on the basis of cost, was \$912,385 and \$937,760 for the years ended September 30, 2012 and 2011, respectively. Previously, the Hospital reported its estimates of services provided under its charity care programs based on gross charges. In connection with the Hospital's adoption of ASU 2010-23, "*Health Care Entities (Topic 954): Measuring Charity Care for Disclosure*," amounts previously reported for care provided under its charity care programs have been restated to reflect the Hospital's estimates of its direct and indirect cost of providing these services. This change had no impact on the Hospital's results of operations.

In addition, the Hospital released assets whose use was restricted to fund free-care of \$24,896 and \$17,176, for the years ending September 30, 2012 and 2011, respectively.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 3 - Revenues from Services to Patients and Charity Care (continued)

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.

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. Recently, 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 known regulatory inquiries are pending, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

Note 4 - Investments

Cost and fair values of investments, as of September 30, 2012 and 2011, are summarized as follows:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Long-term investments:				
(including Board and donor restricted)				
Money market funds	\$ 3,537,269	\$ 3,537,269	\$ 3,658,381	\$ 3,658,381
Certificates of deposit	880,211	887,457	10,020	10,057
Equity securities	18,966,510	24,807,803	19,345,509	21,266,076
Corporate bonds	3,999,144	4,263,382	6,445,904	6,671,199
Municipal bonds	261,302	287,065	261,302	280,782
Mutual and exchange traded funds	6,661,740	6,432,588	3,177,448	2,479,068
U.S. treasury and government agencies	564,133	581,637	914,522	959,802
Total	<u>\$ 34,870,309</u>	<u>\$ 40,797,201</u>	<u>\$ 33,813,086</u>	<u>\$ 35,325,365</u>
Investments held in trust for estimated self-insurance liabilities:				
Money market funds	\$ 1,852,555	\$ 1,852,555	\$ 1,667,268	\$ 1,667,268
Mutual funds	2,237,883	2,395,521	2,000,013	2,059,313
Total	<u>\$ 4,090,438</u>	<u>\$ 4,248,076</u>	<u>\$ 3,667,281</u>	<u>\$ 3,726,581</u>
Under bond indenture agreement - held by others:				
Money market funds	\$ 100,552	\$ 100,552	\$ 399	\$ 399
U.S. treasury and government agencies	299,932	299,726	288,677	288,440
Total	<u>\$ 400,484</u>	<u>\$ 400,278</u>	<u>\$ 289,076</u>	<u>\$ 288,839</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 4 - Investments (continued)

Beneficial interest assets held in trust of \$13,868,151 and \$12,360,649, as of September 30, 2012 and 2011, respectively, are held by bank trustees and are not under the Hospital's investment control. These assets are invested within diversified portfolios.

The following table shows fair values and gross unrealized losses for all investment categories that are in an unrealized loss position as of September 30, 2012 and 2011, and the length of time that the securities have been in an unrealized loss position as of September 30, 2012 and 2011:

	Less than 12 months		12 months and greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2012						
Equity securities	\$ 2,770,513	\$ (181,013)	\$ 2,354,118	\$ (725,686)	\$ 5,124,631	\$ (906,699)
Certificates of deposit	199,454	(586)	-	-	199,454	(586)
Corporate bonds	184,398	(1,485)	289,110	(16,169)	473,508	(17,654)
Mutual and exchange traded funds	67,695	(2,165)	266,395	(22,953)	334,090	(25,118)
Total	\$ 3,222,060	\$ (185,249)	\$ 2,909,623	\$ (764,808)	\$ 6,131,683	\$ (950,057)
2011						
Equity securities	\$ 5,174,602	\$ (976,453)	\$ 2,999,472	\$ (928,026)	\$ 8,174,074	\$ (1,904,479)
Corporate bonds	1,352,762	(38,999)	-	-	1,352,762	(38,999)
Mutual and exchange traded funds	874,694	(150,055)	1,292,302	(590,821)	2,166,996	(740,876)
Total	\$ 7,402,058	\$ (1,165,507)	\$ 4,291,774	\$ (1,518,847)	\$ 11,693,832	\$ (2,684,354)

The unrealized losses for securities in a position of loss for less than 12 months relate to 69 and 79 individual holdings of debt and equity securities as of September 30, 2012 and 2011, respectively. The unrealized losses for securities in a position of loss for 12 months and greater relate to 35 and 140 individual holdings of debt and equity securities as of September 30, 2012 and 2011, respectively. These unrealized losses were determined not to be other than temporary impaired based on the guidance provided in FASB ASC 320 and consultation with various investment advisors.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 4 - Investments (continued)

Investment and other income net, which is unrestricted, is comprised of the following for the years ended September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Income, gains and (expenses):		
Interest and dividend income	\$ 1,547,027	\$ 1,116,090
Net realized gains on securities	754,615	576,937
Expenses	<u>(199,129)</u>	<u>(196,737)</u>
Total	<u>\$ 2,102,513</u>	<u>\$ 1,496,290</u>

Note 5 - Fair Value Measurements

FASB ASC 820-10, “Fair Value Measurements and Disclosures,” provides a framework for measuring fair value. That framework 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 FASB ASC 820-10 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has specified (contractual) terms, the level 2 input must be observable for substantially the full term of the asset.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 5 - Fair Value Measurements (continued)

The following table presents the financial instruments, carried at fair value as of September 30, 2012, by the valuation hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 9,871,014	\$ -	\$ -	\$ 9,871,014
Money market funds	3,537,269	-	-	3,537,269
Certificates of deposit	887,457	-	-	887,457
Equity securities:				
Industrials	5,987,338	-	-	5,987,338
Consumer staples	2,351,383	-	-	2,351,383
Consumer discretionary	2,232,155	-	-	2,232,155
Health care	3,182,150	-	-	3,182,150
Energy	2,855,303	-	-	2,855,303
Financials	2,268,479	-	-	2,268,479
Technology	5,072,830	-	-	5,072,830
Utilities	214,714	-	-	214,714
Real estate	643,451	-	-	643,451
Corporate bonds	-	4,263,382	-	4,263,382
Municipal bonds	-	287,065	-	287,065
Mutual and				
exchange traded funds:				
Materials	216,995	-	-	216,995
Index funds	1,151,849	-	-	1,151,849
Industry funds	141,863	-	-	141,863
International	2,197,038	-	-	2,197,038
U.S. large cap	82,130	-	-	82,130
U.S. mid and small cap	46,782	-	-	46,782
Fixed income	2,595,931	-	-	2,595,931
U.S. treasury and				
government agencies	-	581,637	-	581,637
Funds held under				
bond indenture	-	400,278	-	400,278
Self-insurance trust	-	4,248,076	-	4,248,076
Funds held in trust by others	-	-	13,868,151	13,868,151
Total	<u>\$ 45,536,131</u>	<u>\$ 9,780,438</u>	<u>\$ 13,868,151</u>	<u>\$ 69,184,720</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 5 - Fair Value Measurements (continued)

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 8,455,576	\$ -	\$ -	\$ 8,455,576
Money market funds	3,658,381	-	-	3,658,381
Certificates of deposit	10,057	-	-	10,057
Equity securities:				
Industrials	4,866,755	-	-	4,866,755
Consumer staples	2,178,036	-	-	2,178,036
Consumer discretionary	1,804,001	-	-	1,804,001
Health care	2,365,879	-	-	2,365,879
Energy	2,540,455	-	-	2,540,455
Financials	1,861,698	-	-	1,861,698
Technology	3,711,908	-	-	3,711,908
Utilities	1,472,419	-	-	1,472,419
Real estate	464,925	-	-	464,925
Corporate bonds	-	6,671,199	-	6,671,199
Municipal bonds	-	280,782	-	280,782
Mutual and				
exchange traded funds:				
Materials	272,047	-	-	272,047
Index funds	242,077	-	-	242,077
Industry funds	130,327	-	-	130,327
International	1,393,755	-	-	1,393,755
U.S. large cap	100,313	-	-	100,313
U.S. mid and small cap	25,643	-	-	25,643
Fixed income	314,906	-	-	314,906
U.S. treasury and				
government agencies	-	959,802	-	959,802
Funds held under				
bond indenture	-	288,839	-	288,839
Self-insurance trust	-	3,726,581	-	3,726,581
Funds held in trust by others	-	-	12,360,649	12,360,649
Total	<u>\$ 35,869,158</u>	<u>\$ 11,927,203</u>	<u>\$ 12,360,649</u>	<u>\$ 60,157,010</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 5 - Fair Value Measurements (continued)

A rollforward as of September 30, 2012 and 2011, of the amounts classified as Level 3 investments, within the fair value hierarchy is as follows:

	<u>Funds Held in Trust by Others</u>
Balance as of October 1, 2010	\$ 12,619,869
Transfers out	(472,675)
Fees	(71,019)
Unrealized gains	<u>284,474</u>
Balance as of September 30, 2011	12,360,649
Transfers out	(61,919)
Fees	(70,066)
Unrealized gains	<u>1,639,487</u>
Balance as of September 30, 2012	<u><u>\$ 13,868,151</u></u>

There were no transfers between fair value hierarchy Level 1, Level 2 and Level 3 for any invested assets recorded at fair value during 2012 and 2011. The valuation techniques used by the Hospital maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair values of the Hospital's Level 2 and Level 3 investments are determined by management after considering prices received from third party pricing services.

A description of certain inputs used in the Hospital's Level 2 and Level 3 measurements are listed below:

United States treasury and government agencies: Primary inputs also include observations of credit default swap curves related to the issuer and political events.

Corporate bonds: Primary inputs also include observations of credit default swap curves related to the issuer.

Municipal bonds: Primary inputs also include Municipal Securities Rulemaking Board reported trades and material event notices, and issuer financial statements.

Funds held in trust by others: Represent beneficial interest in certain assets held by third parties. These interests are classified as Level 3 investments as the reported fair values are based on a combination of Level 1 and Level 2 inputs and significant unobservable inputs as determined by the trustees who exercise control over the investments.

As of September 30, 2012 and 2011, the Hospital's other financial instruments include cash and cash equivalents, accounts payable, accrued expenses, estimated settlements due from third-party payers and long-term debt. The carrying amounts reported in the balance sheets for these financial instruments approximate their fair value.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 6 - Endowment

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

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

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

The net asset composition of the Hospital's endowment funds as of September 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board restricted	\$ 32,307,573	\$ -	\$ -	\$ 32,307,573
Beneficial trusts	-	-	13,868,151	13,868,151
Donor restricted	-	3,236,940	3,752,381	6,989,321
Total	\$ 32,307,573	\$ 3,236,940	\$ 17,620,532	\$ 53,165,045

The net asset composition of the Hospital's endowment funds as of September 30, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board restricted	\$ 28,006,131	\$ -	\$ -	\$ 28,006,131
Beneficial trusts	-	-	12,360,649	12,360,649
Donor restricted	-	2,810,655	3,752,381	6,563,036
Total	\$ 28,006,131	\$ 2,810,655	\$ 16,113,030	\$ 46,929,816

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 6 - Endowment (continued)

Changes in endowment net assets for the year ended September 30, 2012 and 2011, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, October 1, 2010	\$ 29,921,043	\$ 2,980,453	\$ 16,372,250	\$ 49,273,746
Investment return:				
Investment loss	(191,117)	(11,740)	-	(202,857)
Net change in market value	(1,723,795)	(78,255)	(259,220)	(2,061,270)
Contributions	-	186,977	-	186,977
Expenditures	-	(266,780)	-	(266,780)
Balance, September 30, 2011	28,006,131	2,810,655	16,113,030	46,929,816
Investment return:				
Investment gain	459,347	54,565	-	513,912
Net change in market value	3,842,095	240,388	1,507,502	5,589,985
Contributions	-	239,485	-	239,485
Expenditures	-	(108,153)	-	(108,153)
Balance, September 30, 2012	<u>\$ 32,307,573</u>	<u>\$ 3,236,940</u>	<u>\$ 17,620,532</u>	<u>\$ 53,165,045</u>

The expenditures that were released for operations of \$108,153 and \$66,780 for the years ended September 30, 2012 and 2011, respectively, are included within investment and other income, net within the statements of operations and changes in net assets.

Temporarily restricted net assets are available for the following purposes as of September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Healthcare related services	\$ 366,488	\$ 296,058
Facility improvement	1,051,865	911,960
Purchases of equipment	513,000	513,000
Clinical educator	<u>1,305,587</u>	<u>1,089,637</u>
Total	<u>\$ 3,236,940</u>	<u>\$ 2,810,655</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 6 - Endowment (continued)

Endowment funds that are permanently restricted as of September 30, 2012 and 2011, consist of the following:

	<u>2012</u>	<u>2011</u>
Beneficial trusts	\$ 13,868,151	\$ 12,360,649
Held in perpetuity, income restricted for operations	<u>3,752,381</u>	<u>3,752,381</u>
Total	<u>\$ 17,620,532</u>	<u>\$ 16,113,030</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2012 and 2011, there were no funds that were below the level required by donor or law.

Return Objectives and Risk Parameters - The Hospital's investment and spending policies for endowment assets attempts 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 are invested in a manner that is intended to produce results that approximate the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

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

Spending Policy - During its annual budgeting process, the Hospital appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The Hospital has not appropriated funds for expenditure from its board restricted endowment funds for the years ending September 30, 2012 and 2011. The Hospital has appropriated \$108,153 and \$266,780 from its temporary restricted funds for the years ended September 30, 2012 and 2011, respectively. The board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Hospital.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 7 - Professional and General Liability Insurance

The Hospital's insurance limits are as follows:

Policy Year	Deductible Amounts Per Claim/ Aggregate	Excess Coverage Limits	Type Coverage
Fiscal 1982-1984	\$100,00/500,000	\$ 10,000,000	Occurrence
Fiscal 1985	\$250,000/750,000	\$ 15,000,000	Occurrence
Fiscal 1986	\$500,000/1,500,000	\$ 15,000,000	Occurrence
Fiscal 1987-1988	\$1,000,000/3,000,000	\$ 20,000,000	Claims-made
Fiscal 1989-1990	\$1,000,000/3,000,000	\$ 25,000,000	Claims-made
Fiscal 1991-2002	\$1,000,000/3,000,000	\$ 30,000,000	Claims-made
Fiscal 2003-2012	\$1,000,000/3,000,000	\$ 20,000,000	Claims-made

The Hospital self-insures the deductible amounts of the above coverages and all excess limits are covered by insurance policies purchased from commercial carriers.

Professional and general liability claims that fall within the Hospital's self-insurance levels have been asserted against the Hospital by various claimants. The claims are in various stages of activity and resolution. There are also known incidents that have occurred through September 30, 2012, that may result in the assertion of additional claims. Other claims may be asserted arising from services provided to patients or for other matters, for which no estimate of exposure can be determined at this time. The Hospital's estimated self-insurance liability reflects management's accrual of its best estimate of these self-insured losses under the policies described above, for occurrences through September 30, 2012.

The Hospital has established a trust for the purpose of setting aside assets for self-insurance purposes. Under the trust agreement, the trust assets can only be used for payment of professional and general liability losses, related expenses and the cost of administering the trust. The assets of, and contributions to the trust are reported in the accompanying financial statements. Income from trust assets and administrative costs are reported in the accompanying statements of operations and changes in net assets as other income.

The Hospital self-insures for workers' compensation. Estimated self-insurance liabilities include estimates for claim obligations related to professional liability, general liability and workers' compensation claims. As of September 30, 2012 and 2011, the Hospital maintains a commercial policy for its employees medical coverage. In fiscal year 2012 and 2011, management discounted accrued medical malpractice and workers compensation losses at 3.00% and 4.00%, respectively, and it is management's opinion that this provides for adequate loss contingencies.

Note 8 - Leases

The Hospital has entered into non-cancellable operating and building rentals that expire in various years through fiscal year 2017. Certain leases may be renewed at the end of their term.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 8 - Leases (continued)

The following is a schedule of future minimum lease payments under non-cancellable operating leases and building rentals as of September 30, 2012:

	Operating Leases	Building Rentals
For the year ended September 30:		
2013	\$ 1,291,126	\$ 982,253
2014	1,297,893	892,863
2015	574,725	636,511
2016	504,445	403,383
2017	242,590	152,743
Thereafter	<u>-</u>	<u>166,444</u>
 Total minimum lease payments	 <u><u>\$ 3,910,779</u></u>	 <u><u>\$ 3,234,197</u></u>

Rental expense was \$2,281,477 and \$1,876,097 for the years ended September 30, 2012 and 2011, respectively.

Note 9 - Pension Plan

The Hospital has a noncontributory defined benefit pension plan (the Plan) that covers all eligible employees and provides for retirement, disability and optional survivor benefits. To participate in the Plan, an employee must meet certain eligibility requirements including attainment of age 21 and one-year of continuous service (defined as 1,000 hours of service in a 12-month period). The time period for employee benefits to become fully vested is five years of continuous service. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Effective January 1, 2011, the Hospital executed a “soft freeze” of the Plan allowing no new employees to participate. All employees currently enrolled in the Plan will continue to vest and accrue benefits in line with Plan policies.

The Hospital’s funding policy for the Plan is to contribute each year the amount as required by the Employee Retirement Income Security Act of 1974, as determined by actuarial valuations developed by the Plan’s actuary. Such funding requirements have been met for fiscal 2012 and 2011.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 9 - Pension Plan (continued)

Significant disclosures relating to the Plan as of September 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 85,626,857	\$ 90,050,322
Service cost	2,947,753	2,921,134
Interest cost	5,008,917	4,570,809
Actuarial loss (gain)	20,560,209	(9,310,519)
Benefits paid	<u>(2,922,810)</u>	<u>(2,604,889)</u>
Benefit obligations at end of year	<u>\$ 111,220,926</u>	<u>\$ 85,626,857</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 52,240,610	\$ 50,654,789
Actual return on plan assets	9,795,008	(627,294)
Employer contributions	6,963,276	5,342,703
Expenses paid	(552,966)	(524,699)
Benefits paid	<u>(2,922,810)</u>	<u>(2,604,889)</u>
Fair value of plan assets at end of year	<u>\$ 65,523,118</u>	<u>\$ 52,240,610</u>
Accrued pension liability:		
Unfunded status and accrued pension liability (\$7,409,819 and \$6,963,276 is included in other current liabilities for 2012 and 2011, respectively)	<u>\$ (45,697,808)</u>	<u>\$ (33,386,247)</u>
Components of net periodic benefit cost:		
Service cost	\$ 3,347,753	\$ 3,221,134
Interest cost	5,008,917	4,570,809
Expected return on plan assets	(4,519,272)	(4,295,372)
Net amortization and deferral	4,400	4,400
Recognized net loss	<u>2,616,863</u>	<u>2,712,776</u>
Net periodic benefit cost	<u>\$ 6,458,661</u>	<u>\$ 6,213,747</u>

The accumulated benefit obligation at September 30, 2012 and 2011, under the Hospital's Plan was \$102,908,287 and \$77,487,912, respectively.

The Hospital expects to contribute \$7,409,819 to its pension plan for the fiscal year beginning October 1, 2012.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 9 - Pension Plan (continued)

Weighted-average assumptions used to determine benefit obligations:	2012	2011
Discount rate	4.40%	5.95%
Rate of compensation increase	2.00%	3.00%
 Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	5.95%	5.55%
Rate of compensation increase	3.00%	3.00%
Expected long-term return on plan assets	8.00%	8.00%

Amounts recorded in unrestricted net assets as of September 30, 2012 not yet amortized as a component of net periodic benefit cost are as follows:

	2012	2011
Unamortized prior service costs	\$ 2,856	\$ 7,256
Unamortized actuarial loss	46,055,448	33,234,872
 Total	 \$ 46,058,304	 \$ 33,242,128

The amortization of the above items expected to be recognized in net periodic benefit costs for the year ended September 30, 2013 is \$4,369,192.

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 the correlation between the returns of various asset classes.

The Hospital's target and pension plan weighted average asset allocations at September 30, 2012 by asset category was as follows:

Asset Category	Target Allocations	Actual Allocations
Equity securities	62%	64%
Debt securities	31%	25%
Short-term investments and other	7%	11%
 Total	 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 reasonable range. The investment policy describes which securities are allowed in the portfolios and the financial objectives of the Plan with which the Investment Committee of the Board of Governors oversees. The Investment Committee monitors the investment performance quarterly to determine the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 9 - Pension Plan (continued)

The fair values of the Hospital's pension plan assets by asset category, are as follows, as of September 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. treasury and government agencies	\$ -	\$ 741,335	\$ -	\$ 741,335
Municipal bonds	-	270,947	-	270,947
Common collective trusts	-	5,440,720	-	5,440,720
Corporate and foreign bonds	-	7,466,747	-	7,466,747
Asset-backed and mortgage-backed securities	-	952,542	-	952,542
Equity securities:				
Consumer discretionary	2,984,273	-	-	2,984,273
Consumer staples	3,160,372	-	-	3,160,372
Energy	3,270,630	-	-	3,270,630
Financials	2,688,364	-	-	2,688,364
Health care	3,719,168	-	-	3,719,168
Industrials	3,507,891	-	-	3,507,891
Information technology	5,165,029	-	-	5,165,029
Other	1,920,384	-	-	1,920,384
Exchange traded funds	11,890,085	-	-	11,890,085
Mutual funds	3,392,154	-	-	3,392,154
Certificates of deposit	2,285,578	-	-	2,285,578
Money market funds	6,449,664	-	-	6,449,664
Other	-	217,235	-	217,235
Total	<u>\$ 50,433,592</u>	<u>\$ 15,089,526</u>	<u>\$ -</u>	<u>\$ 65,523,118</u>

The fair values of the Hospital's pension plan assets by asset category, are as follows, as of September 30, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. treasury and government agencies	\$ -	\$ 847,733	\$ -	\$ 847,733
Municipal bonds	-	269,674	-	269,674
Common collective trusts	-	4,504,448	-	4,504,448
Corporate and foreign bonds	-	7,199,542	-	7,199,542
Asset-backed and mortgage-backed securities	-	104,311	-	104,311
Common stock:				
Consumer discretionary	2,161,298	-	-	2,161,298
Consumer staples	2,390,062	-	-	2,390,062
Energy	2,895,563	-	-	2,895,563
Financials	2,039,341	-	-	2,039,341
Health care	2,424,187	-	-	2,424,187
Industrials	3,850,574	-	-	3,850,574
Information technology	3,550,159	-	-	3,550,159
Other	1,769,913	-	-	1,769,913
Exchange traded funds	9,402,399	-	-	9,402,399
Mutual funds	2,484,572	-	-	2,484,572
Certificates of deposit	1,679,827	-	-	1,679,827
Money market funds	4,326,611	-	-	4,326,611
Other	-	340,396	-	340,396
Total	<u>\$ 38,974,506</u>	<u>\$ 13,266,104</u>	<u>\$ -</u>	<u>\$ 52,240,610</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 9 - Pension Plan (continued)

The following are the benefit payments, including expected future service, which are expected to be paid:

2013	\$ 3,413,227
2014	\$ 3,809,133
2015	\$ 4,138,915
2016	\$ 4,375,451
2017	\$ 4,631,702
Years 2018-2022	\$ 27,941,577

The Hospital also has established a 403(b) plan covering all full-time and part-time employees of the Hospital. Participants may elect to contribute a specific percentage of their compensation in pre-tax deferrals subject to established Internal Revenue Code limitations. For the years ending September 30, 2012 and 2011, the Hospital contributed \$308,256 and \$73,087, respectively, to the 403(b) plan.

Note 10 - Long-Term Debt

As of September 30, 2012 and 2011, the Hospital's long-term debt consists of:

	<u>2012</u>	<u>2011</u>
The Charlotte Hungerford Hospital:		
Series C variable rate revenue bonds (a)	<u>\$ 1,200,000</u>	<u>\$ 2,355,000</u>
	1,200,000	2,355,000
Kennedy Drive Mortgages:		
Mortgage (b)	1,518,218	1,611,396
Construction loan (b)	<u>1,903,248</u>	<u>1,999,132</u>
	4,621,466	5,965,528
Less: current portion	<u>(1,398,100)</u>	<u>(1,341,190)</u>
Total	<u><u>\$ 3,223,366</u></u>	<u><u>\$ 4,624,338</u></u>

- (a) In August 1998, the Hospital, in conjunction with the State of Connecticut Health and Educational Facilities Authority (the Authority), issued \$14,340,000 of Charlotte Hungerford Hospital Series C variable rate demand revenue bonds (the Bonds). The Series C bonds bear interest at a variable rate as determined by re-marketing agent (approximately 0.23% and 0.26% as of September 30, 2012 and 2011, respectively), which is adjusted weekly, and mature on July 1, 2013.

For as long as the Bonds are in a variable rate mode, the bond holders have the option to tender their bonds for repayment. The Hospital has letter of credit from Sovereign Bank, which is available to support its obligations under the Bonds during this period. The letter of credit expires on July 13, 2013, subject to extension or earlier termination upon the occurrence of certain events set forth in the letter of credit agreement. Tenders made by bond holders will be remarketed or, if necessary, paid by the drawdowns on the letter of credit. Any tender drawings made under the letter of credit are to be repaid by the Hospital on the expiration date of the letter of credit. There have been no drawdowns on the letter of credit during the years ended September 30, 2012 and 2011.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 10 - Long-Term Debt (continued)

The Hospital funds monthly interest payments on the Bonds. In addition, the Hospital is required to make mandatory sinking fund payments through maturity as follows:

2013	<u>\$ 1,200,000</u>
Total	<u><u>\$ 1,200,000</u></u>

Various funds have been established and maintained by the trustee for debt service. The bond indenture, letter of credit and related agreements contain certain restrictive covenants, the most restrictive of which are the limitation of additional indebtedness the Hospital may incur and the maintenance of certain financial ratios. As of September 30, 2012 and 2011, the Hospital was in compliance with its debt covenants.

- (b) In December 1997, the now dissolved Kennedy Drive Associates, LLC (KDA) obtained a \$2,300,000 construction loan. Under the term of this loan, which was assumed by the Hospital, principal payments of \$25,865 are due quarterly. The loan bore interest at a fixed rate of 8.17%.

On October 2003, KDA refinanced the outstanding construction loan into a mortgage loan for \$2,210,000. The amount outstanding on the refinanced debt is \$1,518,218 and \$1,611,396 as of September 30, 2012 and 2011, respectively. This loan bears interest at a fixed rate of 6.01%. The loan matures on October 29, 2013 and is secured by the Hospital's assets. With the dissolution of KDA in 2006, the Hospital assumed this loan.

KDA also obtained a construction loan in the amount of \$2,080,000 during the year ended September 30, 2004. During 2005, KDA made additional drawdowns on the construction loan in the amount of \$1,750,000. The amount outstanding on the debt is \$1,903,248 and \$1,999,132, as of September 30, 2012 and 2011, respectively. This loan bears interest at a fixed rate of 6.44% as of September 30, 2012 and 2011. The loan matures on October 29, 2013 and is secured by the Hospital's assets. With the dissolution of KDA in 2006, the Hospital assumed this loan.

- (c) The Hospital has a \$3,000,000 operating line of credit agreement with Sovereign Bank, which bears interest at a rate of 4% as of September 30, 2012 and 2011. There were no outstanding borrowings against the line of credit as of September 30, 2012 and 2011.

Debt related to the above have financial covenants. As of September 30, 2012 and 2011, the Hospital was in compliance with those financial covenants.

Maturities of long-term debt are as follows:

2013	\$ 1,398,100
2014	<u>3,223,366</u>
Total	<u><u>\$ 4,621,466</u></u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2012 and 2011

Note 11 - 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, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Patient care services	\$ 96,639,074	\$ 90,294,534
General and administrative	<u>25,243,607</u>	<u>23,586,233</u>
Total	<u>\$ 121,882,681</u>	<u>\$ 113,880,767</u>

Note 12 - Commitments and Contingencies

The Hospital is party to various lawsuits incidental to its business. After consultation with legal counsel, management believes that the lawsuits and inquiries will not have a material adverse effect on the Hospital's financial position, results of operation or cash flows.

FASB ASC 410 "*Asset Retirement and Environmental Obligations*" addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as asbestos-containing facilities, when the amount of the liability can be reasonably estimated. Management currently believes that two facilities under their control could require a fair market value assessment of their Asset Retirement Obligation (ARO). As of September 30, 2012 and 2011, no ARO has been established, as no plans to renovate or sell any facility, or area within, with significant asbestos material have been identified and therefore no settlement date has been determined. Management will continue to monitor its exposure for asbestos removal and establish an ARO for the fair market value of the associated costs once sufficient information has been obtained or a settlement date has been determined.

Note 13 - Risks and Uncertainties

Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

In addition, the Plan invests in various investments securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.