Lawrence & Memorial Hospital

Consolidated Financial Statements and
Supplemental Information
September 30, 2012 and 2011

Lawrence & Memorial Hospital
Index
September 30, 2012 and 2011

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Report of Independent Auditors

To the Board of Trustees of
Lawrence & Memorial Hospital

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in net assets, and cash flows present fairly, in all material respects, the financial position of Lawrence & Memorial Hospital (a subsidiary of Lawrence & Memorial Corporation, the "Hospital") at September 30, 2012 and 2011, and the results of their operations, their changes in net assets, and of their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated 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 of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information, on pages 23 through 28, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations. Accordingly, we do not express an opinion on the financial position, results of operations, and changes in net assets, of the individual organizations. However, the consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, based on our audits is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

December 14, 2012

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Lawrence & Memorial Hospital
Consolidated Balance Sheets
September 30, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 13,709,499	$ 41,797,328
Investments	138,433,638	105,904,042
Patient accounts receivable, net of allowance for doubtful accounts of $6,514,265 and $7,135,219, respectively	28,946,593	30,483,331
Other receivables	17,488,730	3,998,458
Inventories	4,469,470	4,528,017
Due from affiliates	639,799	578,161
Prepaid expenses and other current assets	2,004,576	1,739,804
Debt service fund	1,307,110	1,109,892
Total current assets	206,999,415	190,139,033
Assets limited as to use		
Cash	180,789	179,900
Construction fund	-	8,427,695
Investments held in trust	971,261	11,241,951
Endowment investments	16,251,376	14,398,888
Funds held in trust by others	6,451,420	5,607,933
Contributions receivable	20,366	20,328
Funds held in escrow by agreement with State of Connecticut Health and Educational Facilities Authority and trustees	2,247,125	2,247,370
Total assets limited as to use	26,122,337	42,124,065
Deferred financing costs and other assets, net	1,857,504	1,938,833
Property, plant and equipment, net	134,926,548	120,976,861
	$ 369,905,804	$ 355,178,792
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 25,447,380	$ 22,690,113
Accrued vacation and sick pay	12,283,930	11,705,811
Salaries, wages, payroll taxes and amounts withheld from employees	3,887,888	3,125,898
Due to affiliates	2,421,244	1,913,991
Due to third party payors	5,409,556	7,838,088
Current portion of long-term debt	2,762,007	2,976,493
Total current liabilities	52,212,005	50,250,394
Accrued pension and other postretirement benefits	51,185,800	43,423,221
Other liabilities	17,998,408	14,213,720
Long-term debt, less current portion	79,507,217	82,249,920
Total liabilities	200,903,430	190,137,255
Net assets		
Unrestricted	143,045,328	141,738,900
Temporarily restricted	20,092,239	17,792,779
Permanently restricted	5,864,807	5,509,858
Total net assets	169,002,374	165,041,537
	$ 369,905,804	$ 355,178,792

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

Lawrence & Memorial Hospital
Consolidated Statements of Operations
Years Ended September 30, 2012 and 2011

	2012	2011
Unrestricted revenues, gains and other support		
Net revenues from services to patients	$ 329,278,379	$ 325,275,690
Other operating revenues	11,277,917	11,091,202
Net assets released from restriction used for operations	449,575	394,829
Total unrestricted revenues, gains and other support	341,005,871	336,761,721
Expenses		
Salaries and wages	152,912,737	149,953,412
Employee benefits	42,122,837	41,985,784
Supplies	46,248,498	45,904,757
Purchased services	24,623,743	23,474,674
Other	28,877,147	29,046,249
Interest	2,315,992	2,212,181
Depreciation and amortization	18,825,589	17,199,566
Bad debts	12,114,319	14,356,474
Total expenses	328,040,862	324,133,097
Income from operations	12,965,009	12,628,624
Nonoperating gains		
Unrestricted investment income	160,370	171,387
Income from investments	4,424,194	5,993,369
Loss on refinancing of debt	-	(2,026,984)
Total nonoperating gains	4,584,564	4,137,772
Excess of revenues over expenses	17,549,573	16,766,396
Transfers to affiliated entity	(16,931,534)	(12,670,075)
Net unrealized gains/(losses) on investments	11,303,455	(6,282,024)
Net assets released from restriction used for purchase of property, plant and equipment	136,178	176,082
Pension - related changes other than periodic pension costs	(10,751,244)	5,839,963
Increase in unrestricted net assets	$ 1,306,428	$ 3,830,342

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

Lawrence & Memorial Hospital
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Unrestricted net assets		
Excess of revenues over expenses	$ 17,549,573	$ 16,766,396
Transfer (to)/from affiliated entities	(16,931,534)	(12,670,075)
Net unrealized gains/(losses) on investments	11,303,455	(6,282,024)
Net assets released from restrictions used for purchase of property, plant and equipment	136,178	176,082
Pension – related changes other than periodic pension costs	(10,751,244)	5,839,963
Increase in unrestricted net assets	1,306,428	3,830,342
Unrestricted net assets		
Beginning of year	141,738,900	137,908,558
End of year	$ 143,045,328	$ 141,738,900
Temporarily restricted net assets		
Income from investments	$ 357,100	$ 321,776
Net assets released from restrictions	(585,753)	(570,911)
Contributions received	161,666	229,693
Change in value of irrevocable trust	488,575	(152,473)
Net realized and unrealized gains/(losses) on investments	1,877,872	(286,646)
Increase/(decrease) in temporarily restricted net assets	2,299,460	(458,561)
Temporarily restricted net assets		
Beginning of year	17,792,779	18,251,340
End of year	$ 20,092,239	$ 17,792,779
Permanently restricted net assets		
Change in value of funds held in trust by others	$ 354,949	$ (140,467)
Increase/(Decrease) in permanently restricted net assets	354,949	(140,467)
Permanently restricted net assets		
Beginning of year	5,509,858	5,650,325
End of year	$ 5,864,807	$ 5,509,858
Increase in net assets	$ 3,960,837	$ 3,231,314

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

Lawrence & Memorial Hospital
Consolidated Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	$ 3,960,837	$ 3,231,314
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	18,825,589	17,199,566
Receipt of contributed securities	(845,675)	(169,303)
Net unrealized and realized (gain)losses/ on investments	(12,785,921)	7,312,953
Provision for bad debts	12,114,319	14,356,474
(Increase)/decrease in funds held in trust by others	(843,487)	268,116
(Increase)/decrease in contributions receivable	(38)	25,764
Changes in other operating accounts		
Patient accounts receivable, net	(10,577,581)	(13,897,544)
Other receivables, net	(13,490,272)	1,766,753
Inventories	58,547	(731,931)
Due from affiliates	(61,638)	5,665,315
Prepaid expenses and other current assets	(264,772)	(115,191)
Deferred financing costs and other assets	81,329	(608,468)
Accounts payable	4,239,453	3,283,709
Accrued vacation and sick pay	578,119	485,356
Salaries, wages, payroll taxes and amounts withheld from employees	761,990	(1,897,321)
Due to affiliates	507,253	(2,850,156)
Due to third party payors	(2,428,532)	(721,022)
Pension, postretirement and other liabilities	11,547,267	(6,773,827)
Net cash provided by operating activities	11,376,787	25,830,557
Cash flows from investing activities		
Purchase of property, plant and equipment, net	(34,257,462)	(29,122,958)
Purchase of investments	(66,467,708)	(81,028,014)
Sales of investments	63,569,041	67,264,473
(Increase)Decrease in debt service fund	(197,218)	138,140
Income from temporarily and permanently restricted investments	845,675	169,303
Decrease in funds held in escrow	245	4,908,797
Net cash (used in) investing activities	(36,507,427)	(37,670,259)
Cash flows from financing activities		
Principal payments of long term debt	(2,957,189)	(2,926,158)
Proceeds of long term debt	-	23,402,948
Net cash provided by/(used in) financing activities	(2,957,189)	20,476,790
Net increase in cash and cash equivalents	(28,087,829)	8,637,088
Cash and cash equivalents		
Beginning of year	41,797,328	33,160,240
End of year	$ 13,709,499	$ 41,797,328
Supplemental disclosure of noncash activities		
Construction in process included in accounts payable	$ 3,126,751	$ 1,644,565
Contributed securities	$ 845,675	$ 169,303

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

1. Significant Accounting Policies and Organization

Organization
Lawrence & Memorial Hospital (the "Hospital"), a nonprofit organization incorporated under the General Statutes of the State of Connecticut, is a wholly-owned subsidiary of Lawrence & Memorial Corporation (the "Corporation"). The Board of the Corporation elects a Board of Directors who manages the property and affairs of the Hospital.

Principles of Consolidation
The consolidated financial statements include the accounts of the Hospital and its wholly owned subsidiary, Associated Specialists of Southeastern Connecticut, Inc. ("Associated Specialists"). All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. Actual results could differ from those estimates and there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital's significant estimates include the collectibility of patient accounts receivable, useful lives of fixed assets, estimated settlements due to third party payors, estimated reserves for self-insurance liabilities, and benefit plan assumptions.

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

Temporarily and Permanently Restricted Net Assets
Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital and its subsidiary in perpetuity or in funds held in trust by others whose purpose is for the funds to be maintained in perpetuity.

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 to unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions in the accompanying consolidated statements of operations.

Cash and Cash Equivalents
The Hospital and its subsidiary consider all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Investments

Investments in equity and debt securities are recorded at fair value in the balance sheet. Fair value is generally determined based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in the change in net assets.

Realized and unrealized gains and losses on donor restricted endowment funds are included in temporarily restricted net assets under State law which allows the Board to appropriate as much of the net appreciation of investments as is prudent considering the Hospital's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions.

Investments in limited liability companies are accounted for using the equity method in instances where the limited partner's interest is more than minor (3-5%).

Fair Value Measurements

Fair value guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Hospital for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 – Quoted prices in active markets for identical assets.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets in active markets, quoted prices in markets that are not active, or can be corroborated by observable market data for substantially the same term of the assets.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

Assets Held in Trust by Others

The Hospital has been named sole or participating beneficiary in several perpetual and charitable remainder trusts. Under the terms of these trusts, the Hospital has the irrevocable right to receive the income earned on the trust assets in perpetuity from the perpetual trusts and to receive the remainder of the trust assets for the charitable remainder trusts. For perpetual trusts, the estimated present value of the future payments to the Hospital is recorded at the fair value of the assets held in the trust. The charitable remainder trusts are recorded at the present value of the estimated future distributions expected to be received over the expected term of the trust agreement. The Hospital uses appropriate credit adjusted rates.

Assets Limited as to Use
Assets limited as to use include assets set aside by the Board of Directors to fund the deductible portion of malpractice insurance coverage (maintained in an irrevocable trust), contribution receivables and for the established purpose of providing for future improvement, expansion and replacement of plant and equipment. In addition, funds held in trust by others, unexpended bond proceeds for construction purposes, and assets held by trustees under indenture agreements relating to financing activities with the State of Connecticut Health and Education Facilities Authority ("CHEFA") are also included therein.

Property, Plant and Equipment
Property, plant and equipment are recorded at cost, or, if received as a donation, at the fair value on the date received. The Hospital provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to amortize the cost of its assets over their useful lives. American Hospital Association lives are generally used and provide for a 2-25 year life for land improvements, 5-50 year life for buildings and 2-25 year life for equipment. Lease improvements are amortized over the life of the lease.

Nonoperating Gains and Losses
Activities other than in connection with providing health care services are considered to be nonoperating.

Excess of Revenues Over Expenses
The consolidated statements of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from the excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and pension-related charges other than periodic pension costs and other postretirement benefits liabilities.

Fair Value of Financial Instruments
Certain investments and other assets and liabilities are carried at amounts that approximate fair value based on current market conditions. The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues or on current rates offered to the Hospital for debt of the same remaining maturities.

Benefit Plans
The Hospital has a defined benefit plan and a defined contribution plan (see Note 8).

Medical Malpractice Self-Insurance
The Hospital purchases claims made-based professional and general liability insurance to cover medical malpractice claims from L & M Indemnity, Ltd. The Hospital has adopted the policy of self-insuring the tail coverage portion of its malpractice insurance coverage. Management has accrued the estimate of losses anticipated to be incurred.

Income Taxes
The Hospital and its wholly owned subsidiary, Associated Specialists are not-for-profit organizations and are exempt from federal income taxes on related income under Section 501(c) (3) of the Internal Revenue Code.

Inventories
Inventory consists of supplies, both medical and general pharmaceuticals and food products needed to sustain daily operation of patient care. Inventories are carried at the lower of cost or market under the first-in-first-out (FIFO) method.

Impairment of Long-Lived Assets
Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to dispose.

Accrued Vacation and Sick Pay
Accrued vacation is recorded as a liability as time is earned. As the time is used, the time is relieved from the liability. Accrued sick time is recorded as a percent for employees who have a balance greater than or equal to 800 hours. This payout is only upon termination of employment.

Subsequent Events
The Hospital has performed an evaluation of subsequent events through December 14, 2012, which is the date the financial statements were issued.

2. Revenues from Services to Patients and Charity Care

The following summarizes net revenues from services to patients:

	2012	2011
Gross charges from services to patients	$ 704,064,528	$ 666,081,059
Less: Charity care	5,735,971	6,368,501
Charges from services to patients, net of charity care	698,328,557	659,712,558
Deductions		
Allowances	371,629,305	336,363,800
State of Connecticut uncompensated care system (receipts)	(2,579,127)	(1,926,932)
Total deductions	369,050,178	334,436,868
Net revenues from services to patients	$ 329,278,379	$ 325,275,690

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from most payors are different from established billing rates of the Hospital, and these differences are accounted for as allowances. The Hospital receives cash from the State of Connecticut Uncompensated Care Pool. The Hospital records this as an increase to their net revenues from services to patients.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments related to prior year settlements increased the Hospital's revenues by approximately $4,271,085 and $3,852,000 in 2012 and 2011, respectively.

During 2012 and 2011, approximately 33% and 32%, respectively, of net patient service revenue was received under the Medicare program, and 11% and 12%, respectively, under the state Medicaid program. 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 regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and reductions of funding levels could have an adverse impact on the Hospital.

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

3. Investments

Investments at September 30 consist of:

	2012	2011
Pooled endowment funds		
Cash and cash equivalents	$ 311,567	$ 249,730
Bonds	3,160,572	2,593,730
Hedge funds	4,181,924	3,885,010
Private equities	39,230	-
Marketable equities	7,550,356	7,670,418
Other investments	1,007,727	-
Total pooled endowment funds	16,251,376	14,398,888
Investments held in trust by others		
Cash and cash equivalents	1,280,176	140,077
Bonds	1,838,337	2,814,055
Marketable equities	2,901,652	2,389,834
Other investments	431,255	263,967
Total investments held in trust by others	6,451,420	5,607,933
Other investments		
Cash and cash equivalents	1,195,140	1,225,923
Bonds	42,457,428	23,780,506
Hedge funds	41,256,677	38,360,365
Private equities	375,256	80,000
Other investments	14,306	14,117
Marketable equities	53,134,831	42,443,131
Total other investments	138,433,638	105,904,042
	$ 161,136,434	$ 125,910,863

The Hospital's financial instrument categorization is based upon the lowest level of input that is significant to the fair value measurement within the valuation hierarchy. The following table presents the financial instruments carried at fair value using the valuation hierarchy:

	2012			
	Level 1	Level 2	Level 3	Total Fair Value
Pooled endowment funds				
Cash and cash equivalents	$ 311,567	$ -	$ -	$ 311,567
Bonds	3,160,572	-	-	3,160,572
Hedge funds	-	-	4,181,924	4,181,924
Private equities	-	-	39,230	39,230
Marketable equities	7,550,356	-	-	7,550,356
Other investments	1,007,727	-	-	1,007,727
Total pooled endowment funds	12,030,222	-	4,221,154	16,251,376
Held in trust by others				
Cash and cash equivalents	-	-	1,280,176	1,280,176
Bonds	-	-	1,838,337	1,838,337
Marketable equities	-	-	-	-
Other investments	-	-	3,332,907	3,332,907
Total held in trust by others	-	-	6,451,420	6,451,420
Other investments				
Cash and cash equivalents	1,195,140	-	-	1,195,140
Bonds	42,457,428	-	-	42,457,428
Hedge funds	-	-	41,256,677	41,256,677
Private equities	-	-	375,256	375,256
Marketable equities	53,134,831	-	-	53,134,831
Other investments	-	-	14,306	14,306
Total other investments	96,787,399	-	41,646,239	138,433,638
	$ 108,817,621	$ -	$ 52,318,813	$ 161,136,434

	2011			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Pooled endowment funds				
Cash and cash equivalents	$ 249,730	$ -	$ -	$ 249,730
Bonds	2,593,731	-	-	2,593,731
Hedge funds	-	-	3,805,010	3,805,010
Private equities	-	-	80,000	80,000
Marketable equities	7,670,418	-	-	7,670,418
Total pooled endowment funds	10,513,879	-	3,885,010	14,398,889
Held in trust by others				
Cash and cash equivalents	-	-	140,077	140,077
Bonds	-	-	2,814,054	2,814,054
Marketable equities	-	-	2,653,801	2,653,801
Total held in trust by others	-	-	5,607,932	5,607,932
Other investments				
Cash and cash equivalents	1,225,923	-	-	1,225,923
Bonds	23,780,506	-	-	23,780,506
Hedge funds	-	-	38,440,365	38,440,365
Marketable equities	42,443,929	-	-	42,443,929
Other investments	-	-	13,319	13,319
Total other investments	67,450,358	-	38,453,684	105,904,042
	$ 77,964,237	$ -	$ 47,946,626	$ 125,910,863

Fair value for Level 1 is based upon quoted prices in active markets that the Hospital has the ability to access at the measurement date. Market price data is generally obtained from exchange or dealer markets. The Hospital does not adjust the quoted price for such assets.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all and reflect assumptions based on the best information available in the circumstances.

Investments included in Level 3 primarily consist of the Hospital's ownership in alternative investments (principally limited partnership interests in hedge funds). The value of these alternative investments represents the ownership interest in the net asset value ("NAV") of the respective partnership. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Also included in Level 3 investments are charitable remainder trusts held by third parties which are recorded at the present value of the future distributions expected to be received over the term of the agreement.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table is a roll forward of the amounts by investment type for financial instruments classified by the Hospital within Level 3 of the fair value hierarchy defined above:

	Beginning October 1, 2011	Investment Income	Realized Gains	Unrealized Gains	Investment Fees	Purchases	Sales	Ending September 30, 2012
Investment pool								
Hedge funds	$ 42,245,375	$ 315,117	$ 1,706,475	$ 1,268,206	$ (146,707)	$ 9,810,217	$ (9,760,082)	$ 45,438,601
Private equities	$ 80,000	$ -	$ -	$ -	$ -	$ 334,486	$ -	$ 414,486
Funds held in trust	5,607,932	-	-	843,488	-	-	-	6,451,420
Total	$ 47,933,307	$ 315,117	$ 1,706,475	$ 2,111,694	$ (146,707)	$ 10,144,703	$ (9,760,082)	$ 52,304,507

	Beginning October 1, 2010	Investment Income	Realized Gains	Unrealized (Losses)	Investment Fees	Purchases	Sales	Ending September 30, 2011
Investment pool								
Hedge funds	$ 39,948,468	$ 274,823	$ 290,825	$ (158,547)	$ (99,615)	$ 1,989,421	$ -	$ 42,245,375
Private equities	$ -	$ -	$ -	$ -	$ -	$ 80,000	$ -	$ 80,000
Funds held in trust	5,876,049	-	-	(268,117)	-	-	-	5,607,932
Total	$ 45,824,517	$ 274,823	$ 290,825	$ (426,664)	$ (99,615)	$ 2,069,421	$ -	$ 47,933,307

A summary of the pooled endowment investment return is presented below:

	2012	2011
Investment income	$ 268,586	$ 304,147
Realized and unrealized gains/(losses)	1,877,871	(286,648)
Management fees and other costs	(27,226)	(35,237)
Total return on pooled endowment investments	$ 2,119,231	$ (17,738)

Following is additional information related to funds whose fair value is not readily determinable as of September 30, 2012.

	Strategy	Fair Value	# of Investments	Remaining Life	$ Amount of Unfunded Commitments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions	Restrictions in Place at Year End
Equity securities	Global developed and emerging market equity	$ 9,875,245	1	N/A	$ -	No remaining commitments	Monthly with 10 day's notice	None	None
Absolute return	Long/short and long-biased equity and credit hedge funds	12,606,973	1	N/A	-	No remaining commitments	Annual with 90 day's notice	lock up provision of 12 months from the purchase date	None
Directional hedge	Long/short and long-biased equity and credit hedge funds	18,417,344	1	N/A	-	No remaining commitments	Quarterly with 60 day's notice	lock up provision of 25 months from the purchase date	None
Commodities	Commodity index	4,539,039	1	N/A	-	No remaining commitments	Monthly with 5 day's notice	None	None
Private equity	Private equity	414,486	2	N/A	1,736,155	Illiquid long term 5 years	None	None	None
		$ 45,853,087							

4. Endowments

The Hospital's endowment consists of donor restricted endowment funds for a variety of purposes. The net assets associated with endowment funds including funds designated by the Board of Directors to function as endowments are classified and reported based on the existence or absence of donor imposed restrictions.

The Hospital understands net asset classification guidance requires that donor restricted endowment gifts be maintained in perpetuity. Consistent with net asset classification guidance, the Hospital classified as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. The Hospital considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund.
- The purposes of the Hospital and donor-restricted endowment fund.
- General economic conditions.
- The possible effect of inflation and deflation.
- The expected total return from income and the appreciation of investments.
- Other resources of the Hospital.
- The investment policies of the Hospital.

Changes in endowment net assets for year ended September 30:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ -	$ 11,788,979	$ 2,839,683	$ 14,628,662
Investment return				
Investment income	-	91,840	-	91,840
Net realized and unrealized gain/(losses)	-	1,877,872	-	1,877,872
Total investment return	-	1,969,712	-	1,969,712
Income distribution	-	(125,255)	-	(125,255)
Endowment net assets at end of year	$ -	$ 13,633,436	$ 2,839,683	$ 16,473,119

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ -	$ 12,134,604	$ 2,839,683	$ 14,974,287
Investment return				
Investment income	-	114,203	-	114,203
Net realized and unrealized (losses)/gains	-	(286,646)	-	(286,646)
Total investment return	-	(172,443)	-	(172,443)
Income distribution	-	(173,182)	-	(173,182)
Endowment net assets at end of year	$ -	$ 11,788,979	$ 2,839,683	$ 14,628,662

The portion of perpetual endowment funds retained permanently either by explicit donor stipulation or by net asset classification guidance is summarized as follows:

	2012	2011
Temporarily restricted net assets		
Unspent income and appreciation on permanently restricted endowments for purchase of equipment and healthcare services	$ 13,633,436	$ 11,788,979
Total endowment funds classified as temporarily restricted net assets	$ 13,633,436	$ 11,788,979
Permanently restricted net assets		
Corpus of permanently restricted contributions for purchase of equipment and healthcare services	$ 2,839,683	$ 2,839,683
Total endowment funds classified as permanently restricted net assets	$ 2,839,683	$ 2,839,683

Endowment Funds With Deficits
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist they are classified as a reduction of unrestricted net assets.

Endowment Investment Return Objectives and Risk Parameters
The Hospital has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the permanent nature of endowment funds. Under this policy, the return objective for the endowment assets measured over a full market cycle shall be to maximize the return against a blended index, based on the endowment's target asset allocation applied to the appropriate individual benchmarks.

Strategies Employed for Achieving Endowment Investment Objectives
To achieve 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 gains) and current yield (interest and dividends). The Hospital targets a diversified asset allocation to achieve its long-term objectives within prudent Hospital risk constraints.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

Spending is guided by several factors most important is the value of the portfolio. Generally, the Board will approve a spending policy limiting annual expenditures for grants and operating expenses up to 4.5% of the value of the Funds' assets based on a 12 quarter rolling average for the endowment, Kitchings and operating funds. The Hospital will designate the spending amount on an as-needed basis for the special account.

Investment managers are given ample notice of the required withdrawal schedule. Appropriate liquidity is maintained to fund these withdrawals without impairing the investment process.

5. Temporarily and Permanently Restricted Net Assets

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

	2012	2011
Funds held in trust by others	$ 3,448,102	$ 2,959,565
Contributions receivable	20,366	20,328
Free beds and plant replacement and expansion	13,633,436	11,788,979
Specific purpose reserves	2,990,335	3,023,907
	$ 20,092,239	$ 17,792,779

Permanently restricted net assets at September 30 are restricted to:

	2012	2011
Funds held in trust by others	$ 3,025,124	$ 2,670,175
Donor restricted endowment funds	2,839,683	2,839,683
	$ 5,864,807	$ 5,509,858

6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	2012	2011
Land and land improvements	$ 6,573,393	$ 6,506,216
Buildings	114,978,768	111,446,370
Equipment	215,747,098	203,329,727
	337,299,259	321,282,313
Less: Accumulated depreciation	(224,709,996)	(210,414,909)
	112,589,263	110,867,404
Construction in progress (estimated cost to complete at September 30, 2012 is $53,058,174)	22,337,285	10,109,457
	$ 134,926,548	$ 120,976,861

7. Long-Term Debt

	2012	2011
CHEFA Series F Revenue Bonds		
Various rate bonds, due 2012 to 2026	$ 36,250,000	$ 39,135,000
5.0% Term Bonds, due 2027 to 2031	8,705,000	8,705,000
5.0% Term Bonds, due 2032 to 2036	11,100,000	11,100,000
CHEFA Series E revenue bonds		
Variable rate bonds, due 2023-2034	22,990,000	22,990,000
Capital lease obligation	448,826	405,373
Total long-term debt outstanding	79,493,826	82,335,373
Less: Amounts classified as current	2,762,007	2,976,493
Add: Bond premium	2,775,398	2,891,040
Total long-term portion of long-term debt	$ 79,507,217	$ 82,249,920

On September 15, 2011 CHEFA issued $58,940,000 of Series F Bonds (the "Series F Bonds") on behalf of the Hospital and the Corporation (collectively referred to as the "Obligated Group" under the Series F Bond agreements). The Series F Bonds are structured with a term bond due July 1, 2036, with annual sinking fund payments due each July 1st commencing July 1, 2012. Interest on the Series F Bonds is payable semiannually on the first business day of January 1 and July 1 beginning January 1, 2012.

The proceeds of the Series F Bonds will be used to refund the outstanding Authority Revenue Bonds, Lawrence & Memorial Hospital Issue, Series D (the "Series D Bonds") and to fund all or a portion of the following capital projects: (i) replacement of a linear accelerator on the main campus of the Hospital; (ii) capital improvements for infrastructure renovation and improvement on the main campus, including heating, ventilation, and air conditioning project; (iii) replacement of a catheterization lab and equipment on the main campus; (iv) acquisition of approximately 100 acres of land in Waterford, Connecticut for development of a new cancer center ; and (v) acquisition and installation of Magnetic Resonance Imaging ("MRI") and CT equipment at the Crossroads facility

On June 24, 2004 CHEFA issued $22,990,000 of Series E Bonds (the "Series E Bonds") on behalf of the Hospital and Lawrence & Memorial Corporation (collectively referred to as the "Obligated Group" under the Series E Bond agreement). The Series E Bonds are structured with a term bond due July 1, 2034, with annual sinking fund payments due each July 1st commencing July 1, 2023. Interest on the Series E Bonds accrues at the weekly rate and is payable on the first business day of each month commencing July 1, 2004.

The proceeds of the Series E Bonds were used to finance the acquisition, construction, capital improvements, renovation, and/or equipping of the expansion of the Hospital's Pequot Health Center, including a new 37,000 square foot building addition to house an ambulatory surgery unit, MRI series, and mobile medical technologies. The proceeds were also used to fund the debt service reserve fund and costs related to the issuance and interest related to the Series E Bonds. Under the terms of the trust indenture for the Series E Bonds, the Obligated Group is required to meet certain financial covenants including a debt service coverage ratio and days cash on hand ratio. Members of the Obligated Group are jointly and severally obligated to provide amounts sufficient to enable the Authority to pay principal and interest on the Series E Bonds. The Bonds and bond proceeds have been allocated to the Hospital and as such, the Hospital will make future debt service payments as required under the terms of the bonds.

The bonds may be retired at an earlier date pursuant to terms of the master indenture. Payment of the bonds is collateralized by a pledge of the gross receipts, as defined and certain real property of the Hospital.

Effective January 16, 2008, the Hospital refinanced its CHEFA Series E bonds with JPMorgan Chase Bank, N.A. This reoffering does not update information contained in the original official statement but provides a new letter of credit, which expires in January 2013.

The Series E Bonds are considered variable rate demand bonds and are remarketed on a weekly basis. If the bonds are unable to be remarketed, the letter of credit could be utilized to purchase the bonds. The Obligated Group would then be subject to the payment terms of the letter of credit, which are equal quarterly installments beginning in the first quarter that is at least 367 days after the initial draw down on the letter of credit. The Series E Bonds have been successfully remarketed and there have been no draws on the letter of credit.

In accordance with the long-term loan agreement with CHEFA, certain trusteed funds are required to be maintained. These funds provide for debt service and other related payments. The income derived from these funds is required to be reinvested in the trusteed funds and is not available for current operating purposes.

The agreements will remain in force until principal and interest on the bonds and any other costs of the Authority with respect to the project have been fully paid or provided for. Annual payments due under the loan agreements include interest on the outstanding bonds.

The fair value of the Series E Bonds, using discounted cash flow analyses approximates carrying value at September 30, 2012 and 2011. The fair value of the Series 2011F Bonds using discounted cash flows was $62,036,108.50 and $58,940,000.00 for years ending September 30, 2012 and September 30, 2011 respectively

Principal repayments on the CHEFA bonds are as follows:

Years	**Annual Principal Repayment**
2013	$ 2,625,000
2014	2,725,000
2015	2,835,000
2016	2,975,000
2017 and thereafter	67,885,000
	$ 79,045,000

The Hospital made cash interest payments of $2,118,293 and $2,178,800 in fiscal year 2012 and 2011, respectively. No interest was capitalized during 2012 or 2011.

8. Pension and Other Postretirement Benefits

The Hospital has a defined benefit plan covering all employees who elected to stay in the Plan. The Plan is frozen to new participants as of June 30, 1999. The benefits are based on years of service and the employee's compensation during the last five years of employment. Assets of the Plan include mutual funds, marketable equity securities, corporate and government bonds, notes and hedge funds. The investments have been selected to generate a return on the investments and protect the principal.

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 pension as incurred. This plan was frozen to include only those employees who retired prior to May 1, 1994.

The following table sets forth the Plans' funded status and amounts recognized in the consolidated statements of financial position at September 30, 2012 and 2011 (measurement date of September 30):

	Pension Benefits		Other Postretirement Benefits	
	2012	**2011**	**2012**	**2011**
Change in benefit obligation				
Benefit obligation at beginning of year	$ 126,663,537	$ 131,200,922	$ 1,167,001	$ 1,277,520
Service cost	1,555,388	1,941,270	-	-
Interest cost	6,610,881	6,505,871	59,302	59,018
Employee contributions	118,336	163,401	-	-
Benefits paid	(6,214,539)	(5,255,985)	(124,024)	(120,183)
Actuarial loss/(gain)	18,467,849	(7,891,942)	186,929	(49,354)
Benefit obligation at end of year	147,201,452	126,663,537	1,289,208	1,167,001
Change in plan assets				
Fair value of plan assets at beginning of year	85,487,585	81,387,819	-	-
Actual return on plan assets	11,886,927	2,092,350	-	-
Employee contributions	118,336	163,401	-	-
Employer contributions	7,020,000	7,100,000	124,024	120,183
Benefits paid	(6,214,539)	(5,255,985)	(124,024)	(120,183)
Fair value of plan assets at end of year	98,298,309	85,487,585	-	-
Funded status of the plan	(48,903,143)	(41,175,952)	(1,289,208)	(1,167,001)

The cumlative amount of these adjustments reported as net assets in the consolidated statements of financial position at September 30th, 2012 and 2011 include:

	Pension Benefits 2012	Pension Benefits 2011	Other Postretirement Benefits 2012	Other Postretirement Benefits 2011
Unrecognized net loss/(gain) from past experience different from that assumed and effects of changes in assumptions	42,795,831	31,903,948	(289,506)	(526,034)
Unrecognized prior service cost	330,949	471,588	-	-
Accrued benefit costs recognized in the statements of financial position	$ (5,776,363)	$ (8,800,416)	$ (1,578,714)	$ (1,693,035)
Components of net periodic benefit costs				
Service cost	$ 1,555,388	$ 1,941,270	$ -	$ -
Interest cost	6,610,881	6,505,871	59,302	59,018
Expected return on plan assets	(6,465,227)	(6,850,835)	-	-
Amortization of net loss/(gain)	2,154,266	2,581,545	(49,599)	(55,084)
Net amortization and deferral	140,639	124,961	-	-
Benefit cost	$ 3,995,947	$ 4,302,812	$ 9,703	$ 3,934

The weighted average assumptions used to determine the net benefit cost at the beginning of the year are as follows:

	2012	2011
Discount rate	5.34 %	5.07 %
Average rate of compensation increases	3.50 %	4.25 %
Expected return on assets	7.50 %	8.50 %

The weighted average assumptions used to determine the benefit obligation at the end of the year are as follows:

	2012	2011
Discount rate	3.95 %	5.34 %
Average rate of compensation increases	2.50 %	3.50 %

The Plan's asset allocations as of September 30, 2012 and 2011 are as follows:

Asset Category	2012	2011
Cash	5 %	5 %
Bonds	29	30
Hedge funds	29	31
Marketable equities	37	34
Total	100 %	100 %

The expected rate of return on assets is calculated based on past experience.

Expected benefits to be paid under the Plans are as follows:

Fiscal Years Beginning October 1,	**Expected Benefits**
2012	$ 6,507,731
2013	6,713,876
2014	6,982,706
2015	7,173,109
2016	7,566,083
Expected aggregate for 5 fiscal years beginning 2017	41,508,308

Annual contributions are determined by the Hospital based upon calculations prepared by the Plan's actuary. Expected contributions to the Pension and Retiree Health Plan for 2013 are approximately:

Pension	$ 4,800,000
Retiree health	125,931

The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) for participants is assumed to be 9.0% in 2011 reducing to 5.0% by the year 2016 and remaining at that level thereafter. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the accumulated post-retirement benefit obligation and service cost plus interest cost by approximately $97,000 and $84,000, respectively, at September 30, 2012 and 2011. A one percentage point decrease in the assumed health care cost trend rate would decrease the accumulated postretirement benefit obligation and service cost plus interest cost by approximately $88,000 and $77,000, respectively, at September 30, 2012 and 2011.

Plan Assets

The defined benefit plan assets are valued utilizing the same fair value hierarchy as the Hospital's investments as described in Note 1.

The following table summarizes the fair values of investments by major type held by the staff pension plan at September 30, 2012:

	Level 1	Level 2	Level 3	2012
Investments, at fair value				
Cash	$ 4,711,241	$ -	$ -	$ 4,711,241
Bonds	28,278,732	-	-	28,278,732
Hedge funds	-	-	28,795,536	28,795,536
Marketable equities	32,342,939	4,169,861	-	36,512,800
Total investments, at fair value	$ 65,332,912	$ 4,169,861	$ 28,795,536	$ 98,298,309

The following table summarizes the fair values of investments by major type held by the staff pension health plan at September 30, 2011:

	Level 1	Level 2	Level 3	2011
Investments, at fair value				
Cash	$ 3,847,979	$ -	$ -	$ 3,847,979
Bonds	25,779,769	-	-	25,779,769
Hedge funds	-	-	26,524,387	26,524,387
Marketable equities	26,050,106	3,285,344	-	29,335,450
Total investments, at fair value	$ 55,677,854	$ 3,285,344	$ 26,524,387	$ 85,487,585

There were no transfers between levels comparing last to this year for assets that are in the portfolio.

The table below represents the change in fair value measurements for Level 3 investments held by the staff pension plans' years ended September 30, 2012 and 2011, respectively:

	2012	2011
Beginning balances	$ 26,524,387	$ 24,333,144
Realized gains	144,819	25,446
Fees	(54,861)	(57,862)
Unrealized gains	2,181,191	223,659
Purchases	5,475,369	2,000,000
Sales	(5,475,369)	-
Ending balances	$ 28,795,536	$ 26,524,387

The investment objective for the pension and post retirement plans seeks a positive long-term total return after inflation to meet the Hospital's current and future plan obligations.

Asset allocations for both plans combine tested theory and informed market judgment to balance investment risks with the need for high returns.

The Hospital's 401(k) plan covers eligible employees who elect to participate in the Plan. Eligible employees may contribute a percentage of their salary to the Plan. The Hospital matches 100% of the first 4% of gross pay deferred by employees for those employees who do not participate in the defined benefit plan. Plan contributions charged to operations were approximately $3,911,714 and $3,677,042 for 2012 and 2011, respectively.

9. Functional Expenses

The Hospital provides general health care services to residents within its geographic location including pediatric care, cardiac catheterization, and outpatient surgery. Expenses by function are as follows:

	2012	2011
Health care services	$ 249,658,098	$ 246,193,019
General and administrative	78,382,764	77,940,078
	$ 328,040,862	$ 324,133,097

10. Contingencies

The Hospital is a party to various lawsuits incidental to its business. Management believes that the lawsuits will not have a material adverse effect on the Hospital's financial position, results of operations, changes in net assets or cash flows.

Lawrence & Memorial Hospital
Consolidating Balance Sheet
September 30, 2012

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Assets				
Current assets				
Cash and cash equivalents	$ 13,568,654	$ 140,845	$ -	$ 13,709,499
Investments	138,433,638	-	-	138,433,638
Patient accounts receivable, net	28,719,548	227,045	-	28,946,593
Other receivables	17,392,589	96,141	-	17,488,730
Inventories	4,469,470	-	-	4,469,470
Due from affiliates	808,442	-	(168,643)	639,799
Prepaid expenses and other current assets	2,004,576	-	-	2,004,576
Debt service fund	1,307,110	-	-	1,307,110
Total current assets	206,704,027	464,031	(168,643)	206,999,415
Assets limited as to use				
Cash	180,789	-	-	180,789
Construction funds	-	-	-	-
Investments held in trust	971,261	-	-	971,261
Endowment investments	16,251,376	-	-	16,251,376
Funds held in trust by others	6,451,420	-	-	6,451,420
Contributions receivable	20,366	-	-	20,366
Funds held in escrow by agreement with State of Connecticut Health and Educational Facilities Authority and trustees	2,247,125	-	-	2,247,125
Total assets limited as to use	26,122,337	-	-	26,122,337
Other assets				
Deferred financing costs	1,857,504	-	-	1,857,504
Property, plant and equipment	134,926,548	-	-	134,926,548
Total assets	$ 369,610,416	$ 464,031	$ (168,643)	$ 369,905,804

Lawrence & Memorial Hospital
Consolidating Balance Sheet
September 30, 2012

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Liabilities				
Current liabilities				
Accounts payable	$ 25,447,380	$ -	$ -	$ 25,447,380
Accrued vacation and sick pay	11,282,391	1,001,539	-	12,283,930
Salaries, wages,payroll taxes and amounts withheld from employees	3,600,791	287,097	-	3,887,888
Due to affiliates	2,421,244	168,643	(168,643)	2,421,244
Due to third party payors	5,409,556	-	-	5,409,556
Current portion of long-term debt	2,762,007	-	-	2,762,007
Total current liabilities	50,923,369	1,457,279	(168,643)	52,212,005
Accrued pension and other postretirement benefits	51,185,800	-	-	51,185,800
Other liabilities	17,998,408	-	-	17,998,408
Long-term debt, less current portion	79,507,217	-	-	79,507,217
Total liabilities	199,614,794	1,457,279	(168,643)	200,903,430
Net assets				
Unrestricted	144,038,576	(993,248)	-	143,045,328
Temporarily restricted	20,092,239	-	-	20,092,239
Permanently restricted	5,864,807	-	-	5,864,807
Total net assets	169,995,622	(993,248)	-	169,002,374
	$ 369,610,416	$ 464,031	$ (168,643)	$ 369,905,804

Lawrence & Memorial Hospital
Consolidating Balance Sheet
September 30, 2011

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Assets				
Current assets				
Cash and cash equivalents	$ 39,933,225	$ 1,864,103	$ -	$ 41,797,328
Investments	105,904,042	-	-	105,904,042
Patient accounts receivable, net	29,920,862	562,469	-	30,483,331
Other receivables	3,881,712	116,746	-	3,998,458
Inventories	4,528,017	-	-	4,528,017
Due from affiliates	2,441,664	-	(1,863,503)	578,161
Prepaid expenses and other current assets	1,739,804	-	-	1,739,804
Debt service fund	1,109,892	-	-	1,109,892
Total current assets	189,459,218	2,543,318	(1,863,503)	190,139,033
Assets limited as to use				
Cash	179,900	-	-	179,900
Construction funds	8,427,695	-	-	8,427,695
Investments held in trust	11,241,951	-	-	11,241,951
Endowment investments	14,398,888	-	-	14,398,888
Funds held in trust by others	5,607,933	-	-	5,607,933
Contributions receivable	20,328	-	-	20,328
Funds held in escrow by agreement with State of Connecticut Health and Educational Facilities Authority and trustees	2,247,370	-	-	2,247,370
Total assets limited as to use	42,124,065	-	-	42,124,065
Other assets				
Deferred financing costs	1,938,833	-	-	1,938,833
Property, plant and equipment	120,976,861	-	-	120,976,861
Total assets	$ 354,498,977	$ 2,543,318	$ (1,863,503)	$ 355,178,792

Lawrence & Memorial Hospital
Consolidating Balance Sheet
September 30, 2011

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Liabilities				
Current liabilities				
Accounts payable	$ 22,689,860	$ 253	$ -	$ 22,690,113
Salaries, wages,payroll taxes and amounts withheld from employees	10,661,313	1,044,498	-	11,705,811
Due to third party payors	2,751,697	374,201	-	3,125,898
Due to affiliates	1,913,991	1,863,503	(1,863,503)	1,913,991
Due to third party payors	7,838,088	-	-	7,838,088
Current portion of long-term debt	2,976,493	-	-	2,976,493
Total current liabilities	48,831,442	3,282,455	(1,863,503)	50,250,394
Accrued pension and other postretirement benefits	43,423,221	-	-	43,423,221
Other liabilities	14,213,720	-	-	14,213,720
Long-term debt, less current portion	82,249,920	-	-	82,249,920
Total liabilities	188,718,303	3,282,455	(1,863,503)	190,137,255
Net assets				
Unrestricted	142,478,037	(739,137)	-	141,738,900
Temporarily restricted	17,792,779	-	-	17,792,779
Permanently restricted	5,509,858	-	-	5,509,858
Total net assets	165,780,674	(739,137)	-	165,041,537
	$ 354,498,977	$ 2,543,318	$ (1,863,503)	$ 355,178,792

Lawrence & Memorial Hospital
Consolidating Statement of Operations
September 30, 2012

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Net revenues	$ 323,643,197	$ 5,635,182	$ -	$ 329,278,379
Other operating revenues	15,433,709	463,708	(4,619,500)	11,277,917
Net assets released from restriction	449,575	-	-	449,575
	339,526,481	6,098,890	(4,619,500)	341,005,871
Operating expenses				
Salaries and wages	145,714,028	7,343,347	(144,638)	152,912,737
Employee benefits	41,915,487	1,443,717	(1,236,367)	42,122,837
Supplies	46,209,962	38,536	-	46,248,498
Purchased services	23,582,645	3,652,113	(2,611,015)	24,623,743
Other	27,700,394	1,804,233	(627,480)	28,877,147
Interest	2,315,992	-	-	2,315,992
Depreciation and amortization	18,825,589	-	-	18,825,589
Bad debts	11,930,619	183,700	-	12,114,319
	318,194,716	14,465,646	(4,619,500)	328,040,862
Income from operations	21,331,765	(8,366,756)	-	12,965,009
Nonoperating gains and losses				
Unrestricted income	160,370	-	-	160,370
Income/(loss) from investments	4,424,194	-	-	4,424,194
Loss on refinancing of debt				-
	4,584,564	-	-	4,584,564
Excess of revenues over expenses	25,916,329	(8,366,756)	-	17,549,573
Transfer to affiliate	(25,044,177)	8,112,643	-	(16,931,534)
Net unrealized (losses)/gains on investments	11,303,455	-	-	11,303,455
Net assets released from restriction used for the purchase of property, plant and equipment	136,178	-	-	136,178
Minimum pension liability adjustment	(10,751,244)	-	-	(10,751,244)
Decrease in unrestricted net assets	$ 1,560,541	$ (254,113)	$ -	$ 1,306,428

Lawrence & Memorial Hospital
Consolidating Statement of Operations
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	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Net revenues	$ 318,813,210	$ 6,462,480	$ -	$ 325,275,690
Other operating revenues	15,662,907	33,290	(4,604,995)	11,091,202
Net assets released from restriction	394,829	-	-	394,829
	334,870,946	6,495,770	(4,604,995)	336,761,721
Operating expenses				
Salaries and wages	141,165,650	8,910,864	(123,102)	149,953,412
Employee benefits	41,723,413	1,535,471	(1,273,100)	41,985,784
Supplies	45,855,424	49,333	-	45,904,757
Purchased services	22,304,506	3,688,219	(2,518,051)	23,474,674
Other	28,005,159	1,731,832	(690,742)	29,046,249
Interest	2,212,181	-	-	2,212,181
Depreciation and amortization	17,199,566	-	-	17,199,566
Bad debts	13,865,210	491,264	-	14,356,474
	312,331,109	16,406,983	(4,604,995)	324,133,097
Income from operations	22,539,837	(9,911,213)	-	12,628,624
Nonoperating gains and losses				
Unrestricted income	171,387	-	-	171,387
Income/(loss) from investments	5,993,369	-	-	5,993,369
Loss on refinancing of debt	(2,026,984)	-	-	(2,026,984)
	4,137,772	-	-	4,137,772
Excess of revenues over expenses	26,677,609	(9,911,213)	-	16,766,396
Transfer to affiliate	(21,650,647)	8,980,572	-	(12,670,075)
Net unrealized (losses)/gains on investments	(6,282,024)	-	-	(6,282,024)
Net assets released from restriction used for the purchase of property, plant and equipment	176,082	-	-	176,082
Minimum pension liability adjustment	5,839,963	-	-	5,839,963
Decrease in unrestricted net assets	$ 4,760,983	$ (930,641)	$ -	$ 3,830,342