Audited Consolidated Financial Statements and Other Financial Information

Connecticut Children's Medical Center and Subsidiaries
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

Connecticut Children's Medical Center and Subsidiaries

Audited Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2011 and 2010

Contents

Ernst & Young LLP
Goodwin Square
225 Asylum Street
Hartford, CT 06103-1506

Tel: +1 860 247 3100
Fax: +1 860 725 6040
www.ey.com

Report of Independent Auditors

Board of Directors
Connecticut Children's Medical Center

We have audited the accompanying consolidated balance sheets of Connecticut Children's Medical Center and Subsidiaries (the Medical Center) as of September 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of The Children's Fund of Connecticut, Inc., a wholly owned subsidiary, whose statements reflect total assets of $29,130,818 and $32,107,112 as of September 30, 2011 and 2010, respectively, and total revenues of $5,004,631 and $4,612,609, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for The Children's Fund of Connecticut, Inc., is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Medical Center's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Connecticut Children's Medical Center and Subsidiaries at September 30, 2011 and 2010, and the consolidated results of its operations and changes in net assets, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

January 27, 2012

Connecticut Children's Medical Center and Subsidiaries

Consolidated Balance Sheets

	September 30 2011	September 30 2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 4,688,831**	$ 4,761,684
Funds held by trustee under revenue bond agreement	**1,710,681**	10,424,098
Patient accounts receivable, less allowance of approximately $7,339,475 in 2011 and $7,831,000 in 2010	**26,304,731**	21,201,681
Due from affiliated entities	**2,268,115**	3,731,723
Inventories	**600,832**	618,412
Other current assets	**7,174,720**	6,146,871
Total current assets	**42,747,910**	46,884,469
Assets whose use is limited:		
Investments	**27,352,655**	29,175,015
Funds held in trust by others	**67,820,517**	70,154,812
Interest in Foundation	**75,658,862**	75,558,434
	170,832,034	174,888,261
Property, plant and equipment:		
Buildings	**114,990,645**	113,254,487
Furniture and equipment	**59,579,096**	53,942,438
Construction in progress	**10,912,602**	2,272,562
	185,482,343	169,469,487
Less accumulated depreciation	**(85,992,089)**	(76,296,443)
	99,490,254	93,173,044
Other assets:		
Bond issuance costs	**681,696**	1,459,360
Ground lease	**2,445,974**	2,475,266
Other	**23,897,319**	17,851,034
	27,024,989	21,785,660
Total assets	**$ 340,095,187**	$ 336,731,434

	September 30	
	2011	**2010**
Liabilities and net assets		
Current liabilities:		
Current portion of bonds payable	**$ 1,050,000**	$ 2,375,000
Current portion of notes payable	**2,164,028**	4,246,490
Accounts payable and accrued expenses	**26,934,488**	27,245,932
Accrued wages	**12,195,131**	11,929,850
Due to third parties	**2,645,943**	1,654,459
Due to affiliated entities	**3,086,844**	1,026,261
Accrued interest payable and other current liabilities	**478,089**	623,163
Total current liabilities	**48,374,523**	49,101,155
Bonds payable, less current portion	**40,530,000**	30,531,457
Notes payable, less current portion	**1,959,918**	9,171,356
Accrued pension liability	**18,776,699**	15,664,920
Other long term liabilities	**21,040,979**	20,391,373
Total liabilities	**130,682,119**	124,860,261
Net assets:		
Unrestricted	**104,023,361**	106,859,691
Temporarily restricted	**21,240,609**	18,989,363
Permanently restricted	**84,149,098**	86,022,119
Total net assets	**209,413,068**	211,871,173
Total liabilities and net assets	**$ 340,095,187**	$ 336,731,434

See accompanying notes.

Connecticut Children's Medical Center and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2011	**2010**
Revenues:		
Net patient service revenue	**$ 244,512,368**	$ 223,198,671
Provision for bad debts	**2,365,830**	4,031,541
Net patient service revenue less provision for bad debts	**242,146,538**	219,167,130
Other revenues	**11,416,875**	10,177,472
Net assets released from restrictions for operations	**14,188,497**	12,539,812
	267,751,910	241,884,414
Expenses:		
Salaries	**133,935,648**	126,865,396
Benefits	**34,659,527**	31,018,031
Supplies and other	**89,535,493**	83,762,464
Bad debts (non-patient)	**101,818**	–
Depreciation and amortization	**11,000,584**	10,219,855
Interest	**1,231,424**	1,396,384
Loss on extinguishment of debt	**2,576,263**	–
	273,040,757	253,262,130
Loss from operations	**(5,288,847)**	(11,377,716)
Other income:		
Gain from investments, net	**6,288,744**	10,430,439
Income from trusts held by others	**2,624,198**	2,647,011
Change in equity interest in net assets of the Foundation	**2,798,727**	5,052,670
Other	**(2,323)**	(137,814)
	11,709,346	17,992,306
Excess of revenues over expenses	**6,420,499**	6,614,590

Continued on next page.

Connecticut Children's Medical Center and Subsidiaries

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

	Year Ended September 30	
	2011	**2010**
Unrestricted net assets:		
Excess of revenues over expenses	**$ 6,420,499**	$ 6,614,590
Unrealized (loss) gain on investments	**(2,562,749)**	1,514,585
Net assets released from restrictions for capital	**1,064,801**	351,001
Change in funded status of pension and post-retirement plans	**(4,399,884)**	(2,058,550)
Transfer to temporarily restricted net assets	**(250,000)**	–
Change in equity interest in the net assets of the Foundation	**(3,108,995)**	3,935,905
(Decrease) increase in unrestricted net assets	**(2,836,328)**	10,357,531
Temporarily restricted net assets:		
Transfer from affiliated organization	**5,728,363**	4,244,404
Net assets released from restrictions for operations	**(14,055,113)**	(12,539,812)
Net assets released from restrictions for capital	**(1,064,801)**	(351,001)
Bequests, gifts and grants	**11,443,373**	10,878,262
Transfer from unrestricted net assets	**250,000**	–
Change in equity interest in the net assets of the Foundation	**(50,578)**	476,771
Increase in temporarily restricted net assets	**2,251,244**	2,708,624
Permanently restricted net assets:		
Change in funds held in trust by others	**(2,200,911)**	15,516,264
Assets released from restrictions by trustees	**(133,384)**	
Change in equity interest in the net assets of the Foundation	**461,274**	1,157,062
(Decrease) increase in permanently restricted net assets	**(1,873,021)**	16,673,326
(Decrease) increase in net assets	**(2,458,105)**	29,739,481
Net assets at beginning of year	**211,871,173**	182,131,692
Net assets at end of year	**$ 209,413,068**	$ 211,871,173

See accompanying notes.

Connecticut Children's Medical Center and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2011	**2010**
Operating activities		
(Decrease) increase in net assets	**$ (2,458,105)**	$ 29,739,481
Adjustments to reconcile change in net assets to net cash used in operating activities and other income:		
Noncash items:		
Provision for bad debt	**2,467,648**	4,379,254
Provision for depreciation and amortization	**11,000,584**	10,219,855
Unrealized loss (gain) on investments	**2,562,749**	(1,514,585)
Change in funds held in trust by others	**2,334,295**	(15,516,264)
Change in funded status of pension and post-retirement plans	**4,399,884**	2,058,550
Change in interest in Foundation	**(100,428)**	(10,622,407)
Other changes in net assets:		
Restricted contributions and investment income	**(11,443,373)**	(10,878,262)
Transfer from affiliated organizations, net	**(5,728,363)**	(4,244,404)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(7,570,698)**	(2,432,055)
Due from affiliated entities, net	**3,524,191**	(1,634,738)
Inventories	**17,580**	(33,273)
Other current assets	**(1,027,849)**	1,693,955
Accounts payable and accrued expenses	**(311,444)**	5,207,734
Accrued wages	**265,281**	(602,551)
Accrued interest payable	**(390,293)**	(157,828)
Due to third parties	**811,484**	1,240,637
Pension liability	**(1,288,105)**	(901,264)
Other long term liabilities	**649,606**	618,657
Net cash (used in) provided by operating activities and other income	**(2,285,356)**	6,620,492
Investing activities		
Purchases of property, plant and equipment, net	**(16,602,075)**	(6,722,903)
Increase in other assets	**(6,658,838)**	(11,357,480)
Decrease (increase) in funds held by trustee under revenue bond agreement	**8,713,417**	(5,239,060)
Increase in investments, net	**(740,389)**	(1,433)
Net cash used in investing activities	**(15,287,885)**	(23,320,876)
Financing activities		
Restricted contributions and investment income	**11,443,373**	10,878,262
Transfer from affiliates	**5,728,363**	4,244,404
Principal payments on bonds and notes payable	**(41,251,348)**	(5,777,048)
Proceeds from new debt issued	**41,580,000**	8,243,450
Net cash provided by financing activities	**17,500,388**	17,589,068
(Decrease) increase in cash and cash equivalents	**(72,853)**	888,684
Cash and cash equivalents at beginning of year	**4,761,684**	3,873,000
Cash and cash equivalents at end of year	**$ 4,688,831**	$ 4,761,684

See accompanying notes.

1. Organization and Accounting Policies

The Connecticut Children's Medical Center (the Medical Center) is a wholly-owned, tax-exempt subsidiary of CCMC Corporation. The Board of the Medical Center, appointed by CCMC Corporation, controls the operations of the Medical Center.

The Medical Center is the sole member of Connecticut Children's Specialty Group, Inc. (CCSG) and The Children's Fund of Connecticut, Inc. CCSG was formed to provide and promote children's health care and to support the Medical Center. The Children's Fund of Connecticut Inc. was formed to further the charitable mission of the Medical Center and to improve pediatric care in the Hartford Region. All material intercompany accounts and transactions have been eliminated in the accompanying financial statements.

Regulatory Matters

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash, money market funds, and certificates of deposit. Restricted cash has been restricted by the donor to a specific time frame or purpose.

1. Organization and Accounting Policies (continued)

Investments

Investments, including funds held by trustee under revenue bond agreements, are measured at fair value at the balance sheet dates. Investment income (including realized gains and losses on investments, interest and dividends) is included in other income unless the income or loss is restricted by donor or law. The cost of securities sold is based on the specific identification method. Unrealized gains and losses on investments are excluded from excess of revenues over expenses unless the loss is considered to be other than temporary. Other than temporary losses are included in other income which is a component of excess of revenues over expenses. Based on recently improving market conditions, as well as the Medical Center's ability and intent to hold impaired assets to recovery, no other than temporary losses were recorded.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market value.

Funds Held in Trust by Others

The Medical Center has an irrevocable right to receive income earned on certain trust assets established for its benefit. Distributions received by the Medical Center are unrestricted and included in income from trusts held by others in the statement of operations. The Medical Center's interest in the fair value of the trust assets is included in assets whose use is limited. Changes in the market value of beneficial trust assets are reported as increases or decreases to permanently restricted net assets.

Interest in Foundation

The Interest in Foundation represents the Medical Center's interest in the net assets of Connecticut Children's Medical Center Foundation, Inc (the Foundation). This investment is accounted for in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-20 "*Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*". In 2011 and 2010, the Medical Center did not require, and did not receive any unrestricted financial support from the Foundation. The Foundation will provide support in future fiscal years as necessary.

1. Organization and Accounting Policies (continued)

Bond Issuance Costs

Bond issuance costs incurred to obtain financing for construction and renovation programs are being amortized using the straight-line method. The difference between straight-line method and effective interest method is immaterial.

Property, Plant and Equipment

Property, plant and equipment are recorded on the basis of cost. The Medical Center provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives.

Pension Plan

The Medical Center has a noncontributory pension plan in effect covering all eligible employees. The Medical Center's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

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 of restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are unrestricted contributions in the accompanying financial statements.

1. Organization and Accounting Policies (continued)

Interest Rate Swap Agreements

The Medical Center utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. The Medical Center is exposed to credit loss in the event of non-performance by the counterparties to its interest rate swap agreements. The Medical Center is also exposed to the risk that the swap receipts may not offset its variable rate debt service. To the extent these variable interest swap receipts do not equal variable interest payments on the bonds, there will be a net loss or net benefit to the Medical Center.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those where use by the Medical Center has been limited by donors to a specific time frame or purpose. Temporarily restricted net assets consist primarily of contributions restricted for certain health care and children's services. Permanently restricted net assets, which are primarily assets held in trusts by others and endowment gifts, have been restricted by donors and are to be maintained in perpetuity.

Medical Malpractice Insurance

Coverage for medical malpractice insurance is provided on a claims-made basis. The primary level of coverage is $10,000,000 per claim and $39,000,000 in the aggregate. The excess indemnity coverage is layered with four different insurance companies at $15,000,000 per claim and $60,000,000 in the aggregate. There are no deductibles. A portion of the primary coverage is reinsured by the carrier with CHS Insurance Limited a captive insurance company in which the Medical Center has a 26% ownership interest. The investment in CHS Insurance Limited is included in other assets in the consolidated balance sheets.

Excess of Revenues over Expenses

The statement of operations includes excess of revenues over expenses as the performance indicator. 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, permanent transfers of assets to and from affiliates, net assets released from restrictions for capital expenditures, change in the equity interest in the net assets of the Foundation and changes in the funded status of the pension and post-retirement plans.

1. Organization and Accounting Policies (continued)

Other Income

Activities, other than in connection with providing health care services, are considered to be nonoperating and are included in other income. Other income consists primarily of income on invested funds, unrestricted gifts and bequests, realized gains (losses) on sales of securities and income from funds held in trust by others.

Advertising

The Medical Center's policy is to expense advertising costs as incurred. Total expense was $845,694 and $1,091,458 for the years ended September 30, 2011 and 2010, respectively.

Income Taxes

The Medical Center and its subsidiaries are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Subsequent Events

The Medical Center evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued for potential recognition in the financial statements as of the balance sheet date. For the year ended September 30, 2011, the Medical Center evaluated subsequent events through January 27, 2012, which is the date the financial statements were issued. No events occurred that require disclosure or adjustment to the consolidated financial statements except for those in Note 17.

Adoption of New Accounting Standards

Recently Issued Accounting Standards

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements*, (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each "class" of assets and liabilities measured at fair value and provided guidance on how to

1. Organization and Accounting Policies (continued)

determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until fiscal 2012, the guidance in ASU 2010-06 became effective for reporting periods beginning after December 15, 2009. The adoption of the provisions of ASU 2010-06 did not impact the Medical Center's consolidated financial statements.

In August 2010, the FASB issued Accounting Standards Codification ("ASC") 954-605, *Measuring Charity Care for Disclosure*. ASC 954-605 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASC 954-605 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASC 954-605 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Hospital is evaluating the effect of ASC 954-605 on its consolidated financial statements.

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

In January 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, (ASU 2010-07), which establishes accounting and disclosure requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition, how to account for each, and the required disclosures. In addition, ASU 2010-07 included amendments to FASB's Accounting Standards Codification (the Codification, or ASC) Topic 350, *Intangibles – Goodwill and Other*, (ASC Topic 350), and Topic 810, *Consolidation*, (ASC Topic 810) to make both applicable to not-for-profit entities. ASC Topic 350 clarifies the accounting for goodwill

1. Organization and Accounting Policies (continued)

and indefinite-lived identifiable intangible assets recognized in a not-for-profit entity's acquisition of a business or nonprofit activity. Such assets are not amortized and are tested for impairment at least annually. The Hospital adopted the guidance relative to ASU 2010-07 as of October 1, 2010, which had no material impact on the Medical Center's consolidated financial statements

In July 2011, FASB issued new guidance, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*. The guidance requires certain health care entities to present the bad debt expense associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than as an operating expense. The guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The Medical Center has chosen to adopt those provisions this fiscal year, which had no material impact on the Medical Center's consolidated financial statements aside from the required changes in presentation.

Reclassification

Certain 2010 amounts have been reclassified to conform with the 2011 presentation.

2. Net Revenues from Services to Patients and Charity Care

The Medical Center provides health care services primarily to residents of the region. Revenues from the Medicaid program accounted for approximately 41% of the Medical Center's net patient service revenues for the years ended September 30, 2011 and 2010. Laws and regulations governing the Medicaid programs are complex and subject to interpretation. The Medical Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries 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 Medicaid program. Changes in the Medicaid program and the reduction of funding levels could have an adverse impact on the Medical Center.

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

The following table summarizes net revenues from services to patients:

	Year Ended September 30	
	2011	**2010**
Total gross revenues from patients	**$ 522,099,003**	$ 448,026,177
Less total contractual allowances	**268,258,541**	215,758,711
Less charity care and other allowances	**8,632,763**	9,068,795
Total allowances	**276,891,304**	224,827,506
Net patient service revenue	**245,207,699**	223,198,671
Less provision for doubtful accounts	**3,061,161**	4,031,541
Net patient service revenue less provision for bad debts	**$ 242,146,538**	$ 219,167,130

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from certain payors are different from established billing rates of the Medical Center, and the difference is accounted for as allowances. The Medical Center records its provision for bad debt based upon a review of all of its outstanding receivables. Write-offs of receivable balances are related to its population of underinsured patients. An underinsured patient is one that has commercial insurance which leaves a significant portion of the Medical Center's reimbursement to be paid by the patient, either through large deductibles or co-pay requirements. Self-pay patients are rare in the pediatric environment, as Medicaid is readily available to children. Self-pay net revenue approximated $500,000 in the fiscal year.

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors, and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payor settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Medical Center has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Medical Center receives per diem and fee-for-service payments for certain covered services based upon discounted fee schedules.

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

The Medical Center accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Medical Center. Essentially, those policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Medical Center utilizes the generally recognized poverty income levels for the state of Connecticut, but also includes certain cases where incurred charges are significant when compared to incomes.

3. Related Party Transactions

Certain Medical Center employees render management and other services to affiliated entities for which the Medical Center is reimbursed. The amount of such reimbursement was $211,500 and $197,769 for the years ended September 30, 2011 and 2010, respectively.

4. Contributions Receivable

Contributions receivable are expected to be realized in the following periods:

	September 30	
	2011	**2010**
Contributions receivable in one year or less	**$ 813,732**	$ 1,448,121
Contributions receivable in one to five years	**263,000**	336,809
Less discount	**–**	(2,000)
Net contributions receivable	**$ 1,076,732**	$ 1,782,930

The discount recognizes the estimated uncollectible portion of the contributions receivable and the discount of contributions receivable to net present value.

5. Concentrations of Credit Risk

The Medical Center's financial instruments that are exposed to concentrations of credit risk primarily consist of cash and cash equivalent, short-term investments and patient accounts receivable.

5. Concentrations of Credit Risk (continued)

The Medical Center's cash and cash equivalents are placed with high credit quality financial institutions. The Medical Center's investment policy limits its exposure to concentrations of credit risk. In the normal course of business, the Medical Center maintains cash balances in excess of the Federal Deposit Insurance Corporation's (FDIC) insurance limit. Cash balances exceeded FDIC limits by approximately $5.1 million and $4.6 million at September 30, 2011 and 2010, respectively.

The Medical Center provides health care services and grants credit without collateral to its patients, most of whom are Connecticut residents and are insured under third-party payor agreements. An estimated allowance for doubtful accounts as well as contractual allowances is maintained at levels considered adequate to reduce the account balances to net realizable value. The mix of receivables from patients and third-party payors at September 30, 2011 and 2010, was as follows:

	2011	**2010**
Medicaid	**6%**	8%
Medicaid Managed Care	**39**	39
Commercial/Managed Care – Contracted	**44**	38
Commercial/Managed – Non-Contracted	**2**	3
Patients and other	**9**	12
	100%	100%

6. Investments

The composition of investments is set forth in the following table. Investments are stated at fair value:

	September 30			
	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	**$ 25,253**	**$ 25,253**	$ 30,091	$ 30,091
Marketable equity securities	**294,259**	**324,694**	467,758	545,020
Fixed income securities	**159,948**	**169,908**	238,115	253,451
Institutional managed equity funds	**16,988,161**	**16,217,845**	16,755,277	17,759,816
Institutional managed bond fund	**10,009,517**	**10,244,003**	9,301,397	10,256,463
Other	**305,237**	**370,952**	249,351	330,174
	$ 27,782,375	**$ 27,352,655**	$ 27,041,989	$ 29,175,015

Investments consisted of mutual funds and individual securities that comprised approximately 62% equity securities and 38% fixed income investments at September 30, 2011, and 63% equity securities and 37% fixed income investments at September 30, 2010.

The following table summarizes the unrealized losses on investments held at September 30, 2011:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Marketable equity securities	**$ 70,208**	**$ 22,244**	**$ 18,278**	**$ 10,552**	**$ 88,486**	**$ 32,796**
Institutional managed equity funds	**4,031,378**	**1,046,818**	**1,119,911**	**274,328**	**5,151,289**	**1,321,146**
Mutual funds	**104,009**	**3,216**	**38,124**	**5,171**	**142,133**	**8,387**
Fixed income securities	**12,568**	**374**	**–**	**–**	**12,568**	**374**
Total investments	**$ 4,218,163**	**$ 1,072,652**	**$ 1,176,313**	**$ 290,051**	**$ 5,394,476**	**$ 1,362,703**

6. Investments (continued)

The following table summarizes the unrealized losses on investments held at September 30, 2010:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Marketable equity securities	$ 43,706	$ 6,043	$ 31,128	$ 6,308	$ 74,834	$ 12,351
Institutional managed equity funds	4,667,237	807,738	2,177,095	436,743	6,844,332	1,244,481
Mutual funds	–	–	53,631	1,514	53,631	1,514
Fixed income securities	–	–	11,495	19,098	11,495	19,098
Total investments	$ 4,701,943	$ 813,781	$ 2,273,349	$ 463,663	$ 6,984,292	$ 1,277,444

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the market value has been less than cost along with the Medical Center's intent and ability to hold the investments. During the years ended September 30, 2011 and 2010, the Medical Center has not recorded any other-than-temporary declines in the fair value of investments, as the Corporation has the ability and intent to hold the securities to recovery.

Investment returns for the years ended September 30, 2011 and 2010 are as follows:

	2011	2010
Interest and dividend income	**$ 1,307,896**	$ 945,619
Realized gain	**762,177**	773,415
Gain on CHS Insurance Limited	**6,653,659**	10,212,038
Net swap activity	**(2,196,842)**	(1,365,313)
Investment fees and other	**(238,146)**	(135,320)
	$ 6,288,744	$10,430,439

7. Restricted Net Assets

Endowments

The Medical Center's endowment consists of approximately seven individual donor-restricted funds established for a variety of purposes which are held and controlled by the Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. At September 30, 2011 and 2010, the Medical Center had approximately $17,602,539 and $16,552,294 in endowments held at the Foundation, respectively.

Interpretation of Relevant Law

The Medical Center's Board and senior management has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard for expenditure prescribed by UPMIFA. In accordance with UPMIFA, the Foundation 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 organization 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 organization.

(7) The investment policies of the organization.

7. Restricted Net Assets (continued)

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 UPMIFA requires the Foundation 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, 2011. Deficiencies at September 30, 2011 and 2010 were immaterial.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that equal or exceed relevant benchmarks. The Foundation expects its endowment funds, over time, to provide an average rate of return of at least 5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation 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 Foundation targets a diversified asset allocation strategy that places a greater emphasis on equity-based investments to achieve its long-term return objectives within the guidelines of its investment policy and prudent risk constraints.

Endowment Net Asset Composition by Type of Fund

All endowment net assets are donor-restricted endowment funds.

7. Restricted Net Assets (continued)

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2011

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	**$ 684,987**	**$ 15,867,307**	**$ 16,552,294**
Contributions	**–**	**461,274**	**461,274**
Investment return	**442,531**	**–**	**442,531**
Net appreciation (realized and unrealized)	**338,168**	**–**	**338,168**
Appropriation of endowment assets for expenditure	**(191,728)**	**–**	**(191,728)**
Endowment net assets, ending balance	**$ 1,273,958**	**$ 16,328,581**	**$ 17,602,539**

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2010

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	$ 449,760	$ 14,710,245	$ 15,160,005
Contributions	–	1,157,062	1,157,062
Investment return	412,738	–	412,738
Net appreciation (realized and unrealized)	–	–	–
Appropriation of endowment assets for expenditure	(177,511)	–	(177,511)
Endowment net assets, ending balance	$ 684,987	$ 15,867,307	$ 16,552,294

Income from endowment funds is considered temporarily restricted until it meets the original donor's time or purpose restriction of the donation. These funds are commingled with other temporarily restricted contributions for the same purposes (see tables below for discussion of purpose restrictions) and invested until such time that the funds are utilized. The Medical Center's spending policy is that any expenditure associated with the endowment is appropriated based on the donor's intention.

7. Restricted Net Assets (continued)

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes as of September 30, 2011 and 2010:

	2011	**2010**
Equipment purchases	**2%**	3%
Education	**7**	6
Other health care services	**91**	91
	100%	100%

Permanently Restricted

Permanently restricted net assets at September 30, 2011 and 2010 are restricted to:

	2011	**2010**
Health care and children's services	**81%**	82%
Other health care services	**14**	13
Education	**5**	5
	100%	100%

8. Pension Plan

Effective January 1, 1993, the State of Connecticut mandated that individuals hired by the Medical Center were no longer eligible to participate in the State of Connecticut pension plan (State Plan). Employees who were participants in the State Plan as of December 31, 1992 can remain participants in the State Plan so long as they continue to remain employed by the Medical Center.

Effective January 1, 1994, the Medical Center adopted a defined benefit pension plan covering substantially all of its employees. Benefits for employees who are participants in the State Plan are reduced to reflect vested benefits provided under the State Plan.

8. Pension Plan (continued)

Effective January 1, 1999, the Medical Center converted its pension plan to a Cash Balance Retirement Plan (the Plan). Plan benefits are based on years of service and the employee's compensation. Contributions to the Plan are intended to provide for benefits attributed to services rendered to date and benefits expected to be earned in the future. Future benefits are earned and credited by participant based on a percentage of compensation (ranging from 2.5% to 12.5%) associated with years of service. Plan participants earn a return based on an interest rate established annually at the beginning of the pay year. Plan participants vest in their benefits after three years of service.

On February 26, 2009, the Board of Directors of the Medical Center adopted a resolution to freeze the Plan effective May 1, 2009.

Included in unrestricted net assets at September 30, 2011 and 2010 are unrecognized actuarial losses of $25,964,020 and $21,965,854, respectively. The actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2012 is $1,655,222.

The following table presents a reconciliation of the beginning and ending balances of the Plans' projected benefit obligation and the fair value of plan assets, as well as the funded status of the plan and accrued pension expense included in the consolidated balance sheets:

	Year Ended September 30	
Change in benefit obligation:	**2011**	**2010**
Benefit obligation at beginning of year	**$ 72,044,652**	$ 66,212,816
Interest cost	**3,318,337**	3,494,299
Actuarial loss, including the effects of any assumption changes	**2,064,570**	4,860,027
Benefits paid	**(2,295,871)**	(2,522,490)
Benefit obligation at end of year	**$ 75,131,688**	$ 72,044,652

8. Pension Plan (continued)

Change in plan assets:	Year Ended September 30 2011	2010
Fair value of plan assets at beginning of year	**$ 56,379,732**	$ 51,705,182
Contributions	**1,516,000**	2,125,000
Actual return on plan assets	**755,128**	5,072,040
Benefits paid	**(2,295,871)**	(2,522,490)
Fair value of plan assets at end of year	**$ 56,354,989**	$ 56,379,732
Funded status of the plan	**$ (18,776,699)**	$ (15,664,920)

The weighted-average assumptions used to develop the projected benefit obligation as of September 30:

	2011	2010
Measurement date	**September 30, 2011**	September 30, 2010
Discount rate	**4.60%**	4.85%
Rate of compensation	**N/A**	N/A
Cash balance interest credit	**5.50**	5.50
Return on plan assets	**6.75**	6.75

	2011	2010
Components of net periodic benefit costs		
Interest cost	**$ 3,318,337**	$ 3,494,299
Expected return on plan assets	**(3,858,278)**	(4,072,545)
Net amortization:		
Net actuarial loss	**1,169,554**	472,014
Net periodic benefit costs	**$ 629,613**	$ (106,232)

8. Pension Plan (continued)

The weighted-average assumptions used to determine net periodic benefit costs are as follows for September 30:

	2011	**2010**
Discount rate	**4.85%**	5.50%
Cash balance interest credit	**5.50**	5.50
Expected long-term rate of return on plan assets	**6.75**	7.25
Rate of compensation	**N/A**	N/A

The expected long-term rate of return on plan assets was developed through analysis of historical market returns, current market conditions and the fund's past experience. Estimates of future market returns by asset category are lower than actual long-term historical returns in order to reflect current market conditions.

The accumulated benefit obligation at September 30, 2011 and 2010 was $75,131,688 and $72,044,652, respectively.

Plan Assets

The Medical Center's Retirement Plan assets are managed by outside investment managers. The company's investment strategy with respect to pension assets is to maximize return while protecting principal. The investment manager will have the flexibility to adjust the asset allocation and move funds to the asset class that offers the most opportunity. The Medical Center's investment objective for plan assets over a full market cycle time period is to generate a return in excess of the passive portfolio benchmark for each asset class.

8. Pension Plan (continued)

The asset allocation for the Plan at September 30, by asset category, are as follows:

Asset Category	Percentage of Plan Assets at Year-End 2011	2010
Domestic equities	**32%**	33%
International equities	**16**	14
Debt securities	**51**	50
Other	**1**	3
Total	**100%**	100%

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

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	**$ 66,231**	**$ –**	**$ –**	**$ 66,231**
Money market mutual funds [a]	**144,284**	**–**	**–**	**144,284**
Fixed income securities				
U.S. Government bonds [b]	**836,213**	**–**	**–**	**836,213**
Municipal bonds [c]	**578,747**	**–**	**–**	**578,747**
Corporate bonds [d]	**5,595,661**	**–**	**–**	**5,595,661**
Foreign bonds [e]	**374,895**	**–**	**–**	**374,895**
Fixed income mutual funds [f]	**44,457**	**15,254,335**	**–**	**15,298,792**
Equity mutual funds [g]	**24,725,060**	**–**	**–**	**24,725,060**
Multi-asset balanced mutual funds [h]	**4,442,062**	**4,293,044**	**–**	**8,735,106**
Total	**$ 36,807,610**	**$ 19,547,379**	**$ –**	**$ 56,354,989**

8. Pension Plan (continued)

The fair values of Connecticut Children's pension plan assets at September 30, 2010, by asset category are as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 31,395	$ –	$ –	$ 31,395
Money market mutual funds [(a)]	974,487	–	–	974,487
Fixed income securities				
U.S. Government bonds [(b)]	808,294	–	–	808,294
Municipal bonds [(c)]	499,959	–	–	499,959
Corporate bonds [(d)]	4,970,885	–	–	4,970,885
Foreign bonds [(e)]	299,018	–	–	299,018
Fixed income mutual funds [(f)]	843,371	15,935,373	–	16,778,744
Equity mutual funds [(g)]	25,211,611	–	–	25,211,611
Multi-asset balanced mutual funds [(h)]	3,572,729	3,232,610	–	6,805,339
Total	$ 37,211,749	$ 19,167,983	$ –	$ 56,379,732

(a) Includes investments in mutual funds that invest primarily in short-term debt securities including U.S. Treasury bills, commercial paper and certificates of deposits.

(b) Includes investments in publicly traded U.S. Government and U.S. Agency bonds.

(c) Includes investments in publicly traded municipal bonds offered by U.S. states and cities.

(d) Includes investments in publicly offered and traded domestic corporate bonds, including both unsecured and asset backed securities.

(e) Includes investments in publicly offered and traded unsecured foreign corporate bonds.

(f) Investment in a fixed income mutual fund that maintains a diverse portfolio of short-term high quality bonds, actively managed across the mortgage backed security, U.S. Treasury, corporate and international fixed income sectors.

(g) Includes investments in domestic and international equity mutual funds and exchange traded funds.

(h) Investments in mutual funds that allocate assets among both fixed and equity investments, as well as other forms of investments with the intent of providing returns while diversifying assets and spreading risk over multiple asset classes.

The Medical Center expects to contribute $2,277,000 to its pension plan in 2012.

8. Pension Plan (continued)

The following benefit payments are expected to be paid:

	Pension Benefits
Fiscal year:	
2012	$ 8,619,028
2013	13,711,913
2014	3,172,223
2015	3,691,089
2016	2,863,707
Years 2017 – 2021	20,879,473

9. Postretirement Benefit Plan

The Medical Center sponsors the Connecticut Children's Medical Center Postretirement Welfare Plan ("the PRW Plan"), an unfunded plan which provides postretirement medical benefits to retired employees who meet the specific criteria identified in the PRW Plan document. The Medical Center shares the coverage obligation for transferred employees with Hartford Hospital. The Medical Center's contribution toward cost of medical coverage varies by years of pension credited service at retirement, ranging from 25% for employees with 10 years of credited service to 100% for those employees with 25 plus years of credited service. The Medical Center's maximum fixed dollar commitment is $2,280 per year per retiree.

Included in unrestricted net assets at September 30, 2011 and 2010, respectively are $984,094 and $1,385,812 of net unrecognized actuarial gains that have not yet been recognized in net periodic benefit cost. The actuarial gain included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2012 is $43,181.

9. Postretirement Benefit Plan (continued)

The following table presents a reconciliation of the beginning and ending balances of the Plans' projected benefit obligation and the fair value of plan assets, as well as the funded status of the plan and accrued postretirement obligation included in the consolidated balance sheets:

	Year Ended September 30	
	2011	**2010**
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 4,923,050**	$ 5,630,141
Service cost	**279,616**	342,470
Interest cost	**269,407**	334,257
Actuarial loss (gain), including the effects of any assumption changes	**308,486**	(1,329,968)
Benefits paid	**(27,934)**	(53,850)
Benefit obligation at end of year	**$ 5,752,625**	$ 4,923,050

	Year Ended September 30	
	2011	**2010**
Change in plan assets		
Fair value of plan assets at beginning of year	**$ –**	$ –
Contributions	**27,934**	53,850
Benefits paid	**(27,934)**	(53,850)
Fair value of plan assets at end of year	**$ –**	$ –
Accrued postretirement obligation included in other long-term liabilities	**$ (5,752,625)**	$ (4,923,050)

9. Postretirement Benefit Plan (continued)

The weighted-average assumptions used to develop the postretirement benefit obligation as of September 30:

	2011	2010
Measurement date	**September 30**	September 30
Discount rate	**4.90%**	5.20%
Healthcare cost trend rate:		
Current year	**8.50**	9.00
Ultimate	**5.00**	5.00
Number of years to reach ultimate	**7**	8

	2011	2010
Components of net periodic benefit cost		
Service cost	**$ 279,616**	$ 342,470
Interest cost	**269,407**	334,257
Net amortization:		
Net actuarial gain	**(93,232)**	–
Net periodic benefit cost	**$ 455,791**	$ 676,727

The weighted-average assumptions used to determine net periodic benefit costs are as follows for September 30:

	2011	2010
Discount rate	**5.20%**	5.50%
Health care cost trend rate		
Initial rate	**9.00**	8.00
Ultimate rate	**5.00**	5.00
Years to ultimate	**8**	6

9. Postretirement Benefit Plan (continued)

A one percent point change in assumed health care cost trend rates would have the following effect on the postretirement benefit plan:

	One-percentage Point	
	Increase	**Decrease**
Effect on postretirement benefit obligation	321,484	(279,226)
Effect on total of service and interest cost	34,764	(30,268)

The Medical Center expects to contribute $64,897 to its postretirement benefit plan in 2012.

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

	Postretirement Benefits
Fiscal year:	
2012	$ 64,897
2013	118,181
2014	160,255
2015	202,856
2016	244,241
Years 2017 – 2021	2,026,500

10. Bonds Payable

A summary of long-term debt is as follows (in thousands):

	September 30	
	2011	**2010**
Hospital revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA)		
Series D (4.13% effective interest rate)	**$ 41,580**	$ –
Series B (effective fixed interest rate of 5.00%)	**–**	9,075
Series C (3.70% effective interest rate)	**–**	23,700
	41,580	
Add premium	**–**	131
Less current portion	**(1,050)**	(2,375)
	$ 40,530	$ 30,531

In May 2004, the Medical Center and the Foundation (the Obligated Group) refinanced their existing Series A State of Connecticut Health and Educational Facilities Authority (CHEFA) bonds with fixed interest rate bonds (Series B Bonds) with a principal amount of $21,285,000 and with variable interest rate bonds (Series C Bonds) with a principle amount of $23,700,000, net of original issue premium of $131,457 at September 30, 2010. The bonds were set to mature in varying amounts through 2021, with interest rates varying from 4.00% to 5.00%. The fair value of the Series B Bonds and Series C Bonds was $32,988,989 at September 30, 2010. The Series B and Series C Bonds were refunded during the year by the issuance of the Series D Bonds. The carrying value of the Series D bonds approximates fair value.

The Series C bonds are auction rate securities, in the event that the weekly auctions fail to clear, the interest rate associated with these securities defaults to a formula, as described in the bond documents. The formula used to calculate the interest rate for the auctions that fail is a percentage of one month-LIBOR based on the current ratings of the Series C Bonds, which ranges from 125% to 275% in the event any rating falls below investment grade. During 2011 and 2010, the Obligated Group's auctions failed to clear, resulting in incremental interest rates ranging from 0.47% to 0.66% in 2011 and 0.57% to 0.89% in 2010.

10. Bonds Payable (continued)

In June of 2011, the Obligated Group issued hospital revenue bonds (Series D Bonds) with a principal amount of $41,580,000, issued at par and directly placed with one investor. The investor has committed to holding the bonds for a ten year period, at the end of which, the investor may put the bonds back to the Medical Center or extend their holding period at their discretion. The bonds mature in varying amounts through 2032, with interest rates based on 65% of LIBOR plus a spread of 1.52%, ranging from 1.64% to 1.66% in the current year.

The Agreement and Indenture provide, among other things, that the Bonds and any additional bonds will be payable from payments to be made by the Obligated Group and that it will be obligated to make such payments so long as the Bonds and any additional bonds are outstanding. The underlying collateral of the Indenture is an interest in revenues of the Medical Center and a mortgage on the facilities, ground lease, easements and other certain leases that comprise the overall hospital premises owned by the Medical Center.

Under the terms of the Indenture, the Obligated Group is required to meet certain covenants including a days cash on hand, debt to capitalization and a debt service coverage ratio requirement. At September 30, 2011 and 2010, the Medical Center was in compliance with the covenants.

The Obligated Group is required to make monthly interest and semi-annual principal repayments of the Bonds for the Series D Bonds. The next principal payment due for the Series D bonds is due on January 1, 2012. Interest paid for 2011 and 2010 was $642,885 and $724,283, respectively.

Principal payments for the next five years under the CHEFA obligations are as follows:

Years Ended September 30:	
2012	$ 1,050
2013	1,215
2014	1,280
2015	1,350
2016	1,415
Aggregate thereafter	35,270
	$ 41,580

10. Bonds Payable (continued)

The outstanding principal balance of Series B revenue bonds, approximately $9.1 million at September 30, 2011, was defeased and retired from the accompanying balance sheet in 2011. Funds in an amount necessary to satisfy the obligation were placed in an irrevocable trust.

In November 2005, the Medical Center entered into an interest rate swap agreement (the 2005 swap) effectively converting $23,700,000 of its variable-rate debt (Series C) to a fixed-rate basis of 3.704% through June, 2018. The fair value of the swap (a liability of $2,271,626 and $2,721,995 at September 30, 2011 and 2010, respectively) is reported in other long term liabilities. The increase (decline) in value of $450,369 and ($534,053) is reported as a component of income from investments in the years ended September 30, 2011 and 2010, respectively. The swap, while serving as an economic hedge, does not qualify for hedge accounting.

Upon the refunding of the Series C debt, the Medical Center applied the 2005 swap against the newly issued Series D debt, and entered into a new swap agreement (the 2011 swap), which along with the existing swap, effectively converts all of its outstanding Series D debt to a fixed-rate basis. The interest rate on the new swap is 4.6138%. The fair value of the 2011 swap (a liability of $1,641,066 as of September 30, 2011) is reported in other long term liabilities. The decline in value of $1,641,066 is reported as a component of income from investments in the year ended September 30, 2011. The swap, while serving as an economic hedge, does not qualify for hedge accounting.

The 2011 swap has an embedded option that gives the Medical Center the right to terminate the 2011 swap beginning July 1, 2016 and on the first business day of each month thereafter. If the option is exercised by the Medical Center, the transaction will terminate and neither party will owe a termination payment amount. There is no exercise premium.

The following table summarizes the Hospital's interest rate swap agreements (in thousands):

Swap Type	Expiration Date	Medical Center Receives	Medical Center Pays	Notional Amount at September 30 2011	2010
Series C – Fixed to Floating	July 1, 2018	70% of LIBOR	3.704%	$ 21,325	$ 23,700
Series D – Fixed to Floating	July 1, 2032	65% LIBOR + 1.52%	4.6138%	18,929	–
				$ 40,254	$ 23,700

10. Bonds Payable (continued)

The total notional amount differs from the amount outstanding on the debt as a result of the different amounts that the Medical Center receives. The notional amount of the 2011 swap is modified to adjust for the differing percentage of LIBOR received under the 2005 swap.

11. Notes Payable

Notes payable at September 30, 2011 and 2010 consists of the following:

	2011	2010
Notes payable to a healthcare financing company payable in monthly installments of $28,846 through October 2011, at 5.77% interest. Secured by certain equipment.	**$ 28,708**	$ 362,666
Notes payable to a healthcare equipment manufacturing company in monthly installments of $18,392 through December 2015, at 4.15% interest. Secured by certain equipment.	**858,094**	–
Notes payable to a bank in monthly installments of $86,105 through October 2012 at 6.52% interest. Secured by certain equipment.	**–**	1,652,591
Notes payable to a bank in bi-annual installments of $947,956 through October 2012 at 4.09% interest. Secured by certain equipment.	**2,732,006**	4,393,776
Notes payable to a bank in monthly installments of $82,317 through April 2017 at 4.11% interest. Secured by certain equipment.	**–**	5,689,042
Notes payable to a facilities management company payable in monthly installments of $18,319 in principal and interest at 8% through July 2013. Unsecured.	**–**	677,818
Note payable to landlord for leasehold improvements payable in monthly installments of $1,431 through August 2019 at 6%. Unsecured.	**107,992**	118,343
Note payable to a hospital association payable in monthly installments of $6,529, interest free.	**326,450**	391,740
Other notes	**70,696**	131,870
	4,123,946	13,417,846
Less current portion	**2,164,028**	4,246,490
	$ 1,959,918	$ 9,171,356

The carrying value of the notes payable approximates fair value.

11. Notes Payable (continued)

Interest paid on the notes was $494,759 and $535,978 for September 30, 2011 and 2010, respectively.

Principal payments on the notes for the next five years are as follows:

2012	$ 2,164,028
2013	1,229,870
2014	296,372
2015	305,834
2016	82,006
Aggregate thereafter	45,836
	$ 4,054,816

12. Contingencies

There have been malpractice claims that fall within the Medical Center's malpractice insurance which have been asserted against the Medical Center. In addition, there are known incidents that have occurred through September 30, 2011 that may result in the assertion of claims. Refer to Note 1.

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

The Medical Center and CCSG, in consultation with its actuary, records as a liability an estimate of incurred but not reported claims. Such liability, discounted at 2.49%, totaled $5,726,000 and $5,216,000 at September 30, 2011 and 2010, respectively.

The Medical Center, in consultation with its actuary, records as a liability an estimate of workers compensation claims. Such liability, discounted at 3.00%, totaled $1,927,000 and $1,759,000 at September 30, 2011 and 2010, respectively.

13. Commitments

Ground Lease

The Medical Center has a ground lease with Hartford Hospital to lease the site on which the Medical Center stands. The lease term is ninety-nine years beginning November 1, 1993 with an optional extension for an additional ninety-nine-year term.

The Ground Lease was recorded as a prepaid asset in the original amount of $2,900,000 and is amortized over the term of the lease. The net asset is recorded at $2,445,974 and $2,475,266 as of September 30, 2011 and 2010, respectively. The lease includes certain covenants which restrict, among other things, the Medical Center's ability to be a party to mergers.

Parking Agreement

The Medical Center has a Parking Agreement with Hartford Hospital Real Estate Corporation ("HHREC") for the use of 450 parking spaces on the Hartford Hospital campus. The agreement continues in full force and effect until the earlier of a written termination of the agreement by the Medical Center and HHREC or the termination of the ground lease.

14. Operating Leases

Rental and lease expense amounted to $7,450,295 and $6,743,376 for the years ended September 30, 2011 and 2010, respectively.

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

Fiscal years ending September 30:	
2012	$ 8,616,631
2013	8,222,224
2014	8,561,767
2015	8,579,207
2016	7,364,921
	$ 41,344,750

15. Functional Expenses

The Medical Center provides health care services to residents within its geographic location including pediatric care, and outpatient surgery. Expenses related to providing these services are as follows:

	Year Ended September 30	
	2011	**2010**
Health care services	**$ 229,380,066**	$ 217,448,185
General and administrative	**43,660,691**	39,845,486
	$ 273,040,757	$ 257,293,671

16. Fair Value of Financial Instruments

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

Level 1 **–** Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 **–** Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3 **–** Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

16. Fair Value of Financial Instruments (continued)

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

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 4,688,831	$ –	$ –	$ 4,688,831
Fixed income securities [(a)]	169,908	–	–	169,908
Domestic fixed	19,084,559	–	–	19,084,559
International fixed	1,462,167	–	–	1,462,167
Marketable equity securities [(b)]	324,694	–	–	324,694
Domestic equity				
	19,105,519	–	–	19,105,519
International equity	1,614,551	–	–	1,614,551
Mutual Funds		–	–	
Domestic	3,615,485	–	–	3,615,485
International	3,087,088	–	–	3,087,088
Equity:				
Domestic growth [(c)]	7,335,771	–	–	7,335,771
Domestic value [(c)]	865,907	15,618	–	881,525
International [(c)]	5,183,233	–	–	5,183,233
Real estate, small cap and other [(c)]	400,553	–	–	400,553
International equity common trust fund	–	2,368,313	–	2,368,313
Domestic equity common trust fund	–	6,982,032	–	6,982,032
Fixed income:				
International	378,251	–	–	378,251
Domestic	2,033,785	–	–	2,033,785
Intermediate term [(c)]	7,581,663	–	–	7,581,663
Global [(c)]	1,451,760	–	–	1,451,760
Inflation protected [(c)]	1,273,810	–	–	1,273,810
Common Trust Fund [(d)]	–	2,724,485	–	2,724,485
Domestic fixed Common Trust Fund	–	4,831,926	–	4,831,926
Funds held by trustee under revenue bond agreement [(e)]	1,710,681	–	–	1,710,681
Fund of funds	611,586	–	–	611,586
Real estate investments	427,246	–	–	427,246
Foundation held funds and miscellaneous other investments	2,218,009	–	–	2,218,009
Total	84,625,057	16,922,374		101,547,431
Liabilities				
Interest rate swap agreement [(l)]	–	3,912,692	–	3,912,692

16. Fair Value of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of September 30, 2010 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 4,761,684	$ –	$ –	$ 4,761,684
Fixed income securities [(a)]	253,451	–	–	253,451
Domestic fixed	19,741,425	–	–	19,741,425
International fixed	1,512,493	–	–	1,512,493
Marketable equity securities [(b)]	380,090	–	–	380,090
Domestic equity	19,763,106	–	–	19,763,106
International equity	1,670,122	–	–	1,670,122
Mutual Funds				
Domestic	3,739,925	–	–	3,739,925
International	3,193,342	–	–	3,193,342
Equity:				
Domestic growth [(c)]	5,130,500	–	–	5,130,500
Domestic value [(c)]	4,470,617	19,845	–	4,490,462
International [(c)]	4,383,541	–	–	4,383,541
Real estate, small cap and other [(c)]	351,084	–	–	351,084
International equity common trust fund	–	2,449,827	–	2,449,827
Domestic equity common trust fund	–	7,222,345	–	7,222,345
Fixed income:				
International	391,270	–	–	391,270
Domestic	2,103,785	–	–	2,103,785
Long term [(c)]	15,015	–	–	15,015
Intermediate term [(c)]	8,130,336	–	–	8,130,336
Global [(c)]	1,482,914	–	–	1,482,914
Inflation protected [(c)]	643,213	–	–	643,213
Common Trust Fund [(d)]	–	3,884,318	–	3,884,318
Domestic fixed Common Trust Fund		4,998,235	–	4,998,235
Funds held by trustee under revenue bond agreement [(e)]	10,424,098	–	–	10,424,098
Fund of funds	632,636	–	–	632,636
Real estate investments	441,951	–	–	441,951
Foundation held funds and miscellaneous other investments	2,249,350	–	–	2,249,350
Total	95,865,948	18,547,570		114,44,518

16. Fair Value of Financial Instruments (continued)

	Level 1	Level 2	Level 3	Total
Liabilities				
Interest rate swap agreement [g]	–	2,721,995	–	2,721,995

(a) Includes investments in publicly traded fixed income invests, which may include government, municipal or corporate bonds of varied duration.

(b) Includes investments in publicly traded stock of domestic corporations.

(c) Includes investments in domestic and international equity mutual funds and exchange traded funds. Investments are broken out into the underlying funds' asset type and investment goals.

(d) The common trust fund seeks to gain exposure to large cap U.S. companies by replicating the S&P 500 Tobacco Free Index, which excludes any company for which tobacco is one of its top five revenue producing industries. There are no liquidity restrictions as the redemption frequency and notice period is daily.

(e) These funds reflect proceeds from borrowings that are held in trust for the Medical Center's use. Funds are generally invested in money market mutual funds and may be drawn on by the Medical Center to purchase capital assets.

(f) These funds reflect the value of the Medical Center's interest in funds held in trust for the Medical Center's benefit. The Medical Center receives statements and records its portion of the trusts' statement value.

(g) The value of the Medical Center's swaps is determined by examining the present value of the future cash flows among other factors. The Medical Center utilizes an independent third party to calculate the value of the swaps based on all of the relevant factors.

The following is a description of the Medical Center's valuation methodologies for assets measured at fair value:

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted market 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. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Medical Center 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 amounts reported in the table above exclude assets invested in the Medical Center's defined benefit pension plan (Note 8).

17. Subsequent Event

On October 18, 2011 the Medical Center entered into a new financing arrangement for $11.2 million. The proceeds will be used to fund the implementation of an electronic medical record system. Interest on the loan is at a rate of 2.91%. Monthly payments of approximately $147,000 will be paid over eighty four months. This did not impact the September 30, 2011 financial statements.

Other Financial Information

Ernst & Young LLP
Goodwin Square
225 Asylum Street
Hartford, CT 06103-1506

Tel: +1 860 247 3100
Fax: +1 860 725 6040
www.ey.com

Report of Independent Auditors on Other Financial Information

Board of Directors
Connecticut Children's Medical Center

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating details appearing in conjunction with the consolidated financial statements are presented for purposes of additional analysis and is not a required part of the consolidated financial statements of the Medical Center. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, based on our audits and the report of other auditors is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. We did not audit the financial statements of The Children's Fund of Connecticut, Inc., a wholly owned subsidiary, whose statements reflect total assets of $29,130,818 and $32,107,112 as of September 30, 2011 and 2010, respectively, and total revenues of $5,004,631 and $4,612,609, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for The Children's Fund of Connecticut, Inc., is based solely on the report of the other auditors.

Ernst & Young LLP

January 27, 2012

Connecticut Children's Medical Center and Subsidiaries

Consolidating Balance Sheets

September 30, 2011

	Connecticut Children's Medical	Effect of Adoption of FAS 136	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Assets							
Current assets:							
Cash and cash equivalents	$ 3,472,044		$ 3,472,044		$ 1,216,787		$ 4,688,831
Funds held by trustee under revenue bond agreement	1,710,681		1,710,681				1,710,681
Patient accounts receivable, less allowance of 5,753,427 for the Medical Center and $890,717 for Specialty Group	23,133,138		23,133,138	$ 3,171,593			26,304,731
Due from affiliated entities	2,268,115		2,268,115	769,150		$ (769,150)	2,268,115
Inventories	574,503		574,503	26,329			600,832
Other current assets	4,722,243		4,722,243	1,192,236	1,260,241		7,174,720
Total current assets	35,880,724		35,880,724	5,159,308	2,477,028	(769,150)	42,747,910
Assets whose use is limited:							
Investments				728,805	26,623,850		27,352,655
Funds held in trust by others	67,820,517		67,820,517				67,820,517
Interest in Foundation		$ 75,658,862	75,658,862				75,658,862
	67,820,517	75,658,862	143,479,379	728,805	26,623,850		170,832,034
Property, plant and equipment:							
Buildings	112,786,497		112,786,497	2,204,148			114,990,645
Furniture and equipment	58,343,672		58,343,672	1,130,155	105,269		59,579,096
Construction in progress	10,845,652		10,845,652	66,950			10,912,602
	181,975,821		181,975,821	3,401,253	105,269		185,482,343
Less accumulated depreciation	(84,352,993)		(84,352,993)	(1,558,274)	(80,822)		(85,992,089)
	97,622,828		97,622,828	1,842,979	24,447		99,490,254
Other assets:							
Bond issuance costs	681,696		681,696				681,696
Ground lease	2,445,974		2,445,974				2,445,974
Other	23,040,653		23,040,653	851,173	5,493		23,897,319
	26,168,323		26,168,323	851,173	5,493		27,024,989
Total assets	$ 227,492,392	$ 75,658,862	$ 303,151,254	$ 8,582,265	$ 29,130,818	$ (769,150)	$ 340,095,187

Connecticut Children's Medical Center and Subsidiaries

Consolidating Balance Sheets (continued)

September 30, 2011

	Connecticut Children's Medical	Effect of Adoption of FAS 136	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Liabilities and net assets							
Current liabilities:							
Current portion of bonds payable	$ 1,050,000		$ 1,050,000				$ 1,050,000
Current portion of notes payable	2,137,718		2,137,718	$ 26,310			2,164,028
Accounts payable and accrued expenses	23,190,193		23,190,193	3,504,149	$ 240,146		26,934,488
Accrued wages	8,583,461		8,583,461	3,611,670			12,195,131
Due to third parties	1,261,943		1,261,943	1,204,000			2,465,943
Due to affiliated entities	987,542		987,542	2,868,452		$ (769,150)	3,086,844
Accrued interest payable and other current liabilities	217,358		217,358	260,731			478,089
Total current liabilities	37,428,215		37,428,215	11,475,312	240,146	(769,150)	48,374,523
Bonds payable, less current portion	40,530,000		40,530,000				40,530,000
Notes payable, less current portion	1,845,978		1,845,978	113,940			1,959,918
Accrued pension liability	18,776,699		18,776,699				18,776,699
Other long term liabilities	17,559,945		17,559,945	3,481,034			21,040,979
Total liabilities	116,140,837		116,140,837	15,070,286	240,146	(769,150)	130,682,119
Net assets:							
Unrestricted	28,400,854	$ 54,517,145	82,917,999	(6,488,021)	27,593,383		104,023,361
Temporarily restricted	15,130,184	4,813,136	19,943,320		1,297,289		21,240,609
Permanently restricted	67,820,517	16,328,581	84,149,098				84,149,098
Total net assets	111,351,555	75,658,862	187,010,417	(6,488,021)	28,890,672		209,413,068
Total net assets and liabilities	$ 227,492,392	$ 75,658,862	$ 303,151,254	$ 8,582,265	$ 29,130,818	$ (769,150)	$ 340,095,187

Connecticut Children’s Medical Center and Subsidiaries

Consolidating Balance Sheets

September 30, 2010

	Connecticut Children's Medical	**Effect of Adoption of FAS 136**	**Total**	**Connecticut Children's Specialty Group**	**Children's Fund**	**Eliminations**	**Total Consolidated**
Assets							
Current assets:							
Cash and cash equivalents	$ 3,100,022		$ 3,100,022		$ 1,661,662		$ 4,761,684
Funds held by trustee under revenue bond agreement	10,424,098		10,424,098				10,424,098
Patient accounts receivable, less allowance of $7,304,540 for the Medical Center and $526,269 for Specialty Group	18,519,560		18,519,560	$ 2,682,121			21,201,681
Due from affiliated entities	3,731,723		3,731,723				3,731,723
Inventories	593,080		593,080	25,332			618,412
Other current assets	3,061,188		3,061,188	1,027,241	2,058,442		6,146,871
Total current assets	39,429,671		39,429,671	3,734,694	3,720,104	–	46,884,469
Assets whose use is limited:							
Investments				828,562	28,346,453		29,175,015
Funds held in trust by others	70,154,812		70,154,812				70,154,812
Interest in Foundation		$ 75,558,434	75,558,434				75,558,434
	70,154,812	75,558,434	145,713,246	828,562	28,346,453	–	174,888,261
Property, plant and equipment:							
Buildings	111,094,902		111,094,902	2,159,585			113,254,487
Furniture and equipment	52,819,691		52,819,691	1,016,153	106,594		53,942,438
Construction in progress	2,238,237		2,238,237	34,325			2,272,562
	166,152,830		166,152,830	3,210,063	106,594	–	169,469,487
Less accumulated depreciation	(75,036,631)		(75,036,631)	(1,188,280)	(71,532)		(76,296,443)
	91,116,199		91,116,199	2,021,783	35,062	–	93,173,044
Other assets:							
Bond issuance costs	1,459,360		1,459,360				1,459,360
Ground lease	2,475,266		2,475,266				2,475,266
Other	16,772,323		16,772,323	1,073,218	5,493		17,851,034
	20,706,949		20,706,949	1,073,218	5,493	–	21,785,660
Total assets	$ 221,407,631	$ 75,558,434	$ 296,966,065	$ 7,658,257	$ 32,107,112	$	$ 336,731,434

Connecticut Children’s Medical Center and Subsidiaries

Consolidating Balance Sheets (continued)

September 30, 2010

	Connecticut Children's Medical	Effect of Adoption of FAS 136	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Liabilities and net assets							
Current liabilities:							
Current portion of bonds payable	$ 2,375,000		$ 2,375,000				$ 2,375,000
Current portion of notes payable	4,222,279		4,222,279	$ 24,211			4,246,490
Accounts payable and accrued expenses	23,010,263		23,010,263	3,371,090	$ 864,579		27,245,932
Accrued wages	8,491,932		8,491,932	3,437,918			11,929,850
Due to third parties	1,654,459		1,654,459				1,654,459
Due to affiliated entities	642,915		642,915	383,346			1,026,261
Accrued interest payable and other current liabilities	613,519		613,519	9,644			623,163
Total current liabilities	41,010,367		41,010,367	7,226,209	864,579	–	49,101,155
Bonds payable, less current portion	30,531,457		30,531,457				30,531,457
Notes payable, less current portion	9,031,106		9,031,106	140,250			9,171,356
Accrued pension liability	15,664,920		15,664,920				15,664,920
Other long term liabilities	16,506,227		16,506,227	3,885,146			20,391,373
Total liabilities	112,744,077		112,744,077	11,251,605	864,579	–	124,860,261
Net assets:							
Unrestricted	26,088,957	$ 54,827,413	80,916,370	(3,593,348)	29,536,669		106,859,691
Temporarily restricted	12,419,785	4,863,714	17,283,499		1,705,864		18,989,363
Permanently restricted	70,154,812	15,867,307	86,022,119				86,022,119
Total net assets	108,663,554	75,558,434	184,221,988	(3,593,348)	31,242,533	–	211,871,173
Total net assets and liabilities	$ 221,407,631	$ 75,558,434	$ 296,966,065	$ 7,658,257	$ 32,107,112	–	$ 336,731,434

Connecticut Children’s Medical Center and Subsidiaries

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2011

	Connecticut Children's Medical Center	**Effect of Adoption of FAS 136**	**Total**	**Connecticut Children's Specialty Group**	**Children's Fund**	**Eliminations**	**Total Consolidated**
Revenues:							
Net patient service revenue	$ 202,447,507		$ 202,447,507	$ 42,064,861			$ 244,512,368
Provision for bad debt	(1,147,790)		(1,147,790)	(1,218,040)			(2,365,830)
Net patient service revenue less provision for bad debts	201,299,717		201,299,717	40,846,821			242,146,538
Other revenues	3,247,061		3,247,061	7,960,562	$ 1,690,861	$ (1,481,609)	11,416,875
Net assets released from restrictions	12,747,922		12,747,922		1,440,575		14,188,497
	217,294,700		217,294,700	48,807,383	3,131,436	(1,481,609)	267,751,910
Expenses:							
Salaries	89,812,090		89,812,090	38,637,666	1,074,296	4,411,596	133,935,648
Benefits	25,506,983		25,506,983	7,776,019	361,859	1,014,666	34,659,527
Supplies and other	81,830,350		81,830,350	11,622,168	2,990,846	(6,907,871)	89,535,493
Bad debts (non-patient)				101,818			101,818
Depreciation and amortization	10,397,231		10,397,231	592,738	10,615		11,000,584
Interest	1,187,248		1,187,248	44,176			1,231,424
Loss on retirement of debt	2,576,263		2,576,263				2,576,263
	211,310,165		211,310,165	58,774,585	4,437,616	(1,481,609)	273,040,757
Gain (loss) from operations	5,984,535		5,984,535	(9,967,202)	(1,306,180)	–	(5,288,847)
Other income:							
Gain from investments	4,377,851		4,377,851	37,698	1,873,195		6,288,744
Income from trusts held by others	2,624,198		2,624,198				2,624,198
Change in equity interest in net assets of the Foundation		$ 2,798,727	2,798,727				2,798,727
Other	(1,857)		(1,857)	(466)			(2,323)
	7,000,192	2,798,727	9,798,919	37,232	1,873,195	–	11,709,346
Excess (deficiency) of revenues over expenses	12,984,727	2,798,727	15,783,454	(9,929,970)	567,015	–	6,420,499

Continued on next page.

Connecticut Children’s Medical Center and Subsidiaries

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

Year Ended September 30, 2011

	Connecticut Children's Medical	Effect of Adoption of FAS 136	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Unrestricted net assets:							
Excess of revenues over expenses	12,984,727	2,798,727	15,783,454	(9,929,970)	567,015		6,420,499
Transfer from affiliated organizations, net	(7,087,745)		(7,087,745)	7,087,745			–
Unrealized gain on investments				(52,448)	(2,510,301)		(2,562,749)
Net assets released from restrictions for capital	1,064,801		1,064,801				1,064,801
Change in funded status of pension and post-retirement plans	(4,399,884)		(4,399,884)				(4,399,884)
Transfer to temp restricted funds	(250,000)		(250,000)				(250,000)
Change in market value of swap							–
Change in equity interest in the net assets of the Foundation		(3,108,995)	(3,108,995)				(3,108,995)
Increase in unrestricted net assets	2,311,899	(310,268)	2,001,631	(2,894,673)	(1,943,286)		(2,836,328)
Temporarily restricted net assets:							
Transfer from affiliated organization	5,728,363		5,728,363				5,728,363
Net assets released from restrictions for operations	(12,614,538)		(12,614,538)		(1,440,575)		(14,055,113)
Net assets released from restrictions for capital	(1,064,801)		(1,064,801)				(1,064,801)
Bequests, gifts and grants	10,411,373		10,411,373		1,032,000		11,443,373
Transfers from unrestricted funds	250,000		250,000				250,000
Change in equity interest in the net assets of the Foundation		(50,578)	(50,578)				(50,578)
Increase in temporarily restricted net assets	2,710,397	(50,578)	2,659,819		(408,575)		2,251,244
Permanently restricted net assets:							
Change in funds held by others	(2,200,911)		(2,200,911)				(2,200,911)
Assets released from restrictions by trustees	(133,384)		(133,384)				(133,384)
Change in equity interest in the net assets of the Foundation		461,274	461,274				461,274
Increase in permanently restricted net assets	(2,334,295)	461,274	(1,873,021)	–	–		(1,873,021)
Increase in net assets	2,688,001	100,428	2,788,429	(2,894,673)	(2,351,861)		(2,458,105)
Net assets at beginning of year	108,663,554	75,558,434	184,221,988	(3,593,348)	31,242,533		211,871,173
Net assets at end of year	$ 111,351,555	$ 75,658,862	$ 187,010,417	$ (6,488,021)	$ 28,890,672		$ 209,413,068

Connecticut Children’s Medical Center and Subsidiaries

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2010

	Connecticut Children's Medical	Effect of Adoption of FAS 136	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Revenues:							
Net patient service revenue	$ 185,228,029		$ 185,228,029	$ 37,970,642			$ 223,198,671
Provision for bad debt	(2,954,639)		(2,954,639)	(1,076,902)			(4,031,541)
Net patient service revenue less provision for bad debts	182,273,390		182,273,390	36,893,740			219,167,130
Other revenues	2,901,151		2,901,151	7,529,488	$ 1,389,952	$ (1,643,119)	10,177,472
Net assets released from restrictions	10,727,674		10,727,674		1,812,138		12,539,812
	195,902,215		195,902,215	44,423,228	3,202,090	(1,643,119)	241,884,414
Expenses:							
Salaries	87,562,032		87,562,032	34,729,270	1,072,117	3,501,977	126,865,396
Benefits	22,943,046		22,943,046	6,892,116	377,414	805,455	31,018,031
Supplies and other	75,462,710		75,462,710	11,236,374	3,013,931	(5,950,551)	83,762,464
Bad debts (non-patient)							-
Depreciation and amortization	9,805,033		9,805,033	399,923	14,899		10,219,855
Interest	1,388,163		1,388,163	8,221			1,396,384
	197,160,984		197,160,984	53,265,904	4,478,361	(1,643,119)	253,262,130
Loss from operations	(1,258,769)		(1,258,769)	(8,842,676)	(1,276,271)	–	(11,377,716)
Other income:							
Gain from investments	8,973,743		8,973,743	46,177	1,410,519		10,430,439
Income from trusts held by others	2,647,011		2,647,011				2,647,011
Change in equity interest in net assets of the Foundation		$ 5,052,670	5,052,670				5,052,670
Other	(137,555)		(137,555)	(259)			(137,814)
	11,483,199	5,052,670	16,535,869	45,918	1,410,519	–	17,992,306
Excess (deficiency) of revenues over expenses	10,224,430	5,052,670	15,277,100	(8,796,758)	134,248	–	6,614,590

Continued on next page.

Connecticut Children’s Medical Center and Subsidiaries

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

Year Ended September 30, 2010

	Connecticut Children's Medical	**Effect of Adoption of FAS 136**	**Total**	**Connecticut Children's Specialty Group**	**Children's Fund**	**Eliminations**	**Total Consolidated**
Unrestricted net assets:							
Excess of revenues over expenses	10,224,430	5,052,670	15,277,100	(8,796,758)	134,248		6,614,590
Transfer from affiliated organizations, net	(6,197,507)		(6,197,507)	6,197,507			–
Unrealized gain on investments				19,494	1,495,091		1,514,585
Net assets released from restrictions for capital	351,001		351,001				351,001
Change in funded status of pension and post-retirement plans	(2,058,550)		(2,058,550)				(2,058,550)
Adoption of new accounting principle							–
Change in equity interest in the net assets of the Foundation		3,935,905	3,935,905				3,935,905
Increase in unrestricted net assets	2,319,374	8,988,575	11,307,949	(2,579,757)	1,629,339		10,357,531
Temporarily restricted net assets:							
Transfer from affiliated organization	4,244,404		4,244,404				4,244,404
Net assets released from restrictions for operations	(10,727,674)		(10,727,674)		(1,812,138)		(12,539,812)
Net assets released from restrictions for capital	(351,001)		(351,001)				(351,001)
Bequests, gifts and grants	10,620,962		10,620,962		257,301		10,878,263
Change in equity interest in the net assets of the Foundation		476,770	476,770				476,770
Increase in temporarily restricted net assets	3,786,691	476,770	4,263,461		(1,554,837)		2,708,624
Permanently restricted net assets:							
Change in funds held by others	15,516,264		15,516,264				15,516,264
Change in equity interest in the net assets of the Foundation		1,157,062	1,157,062				1,157,062
Increase in permanently restricted net assets	15,516,264	1,157,062	16,673,326	–	–		16,673,326
Increase in net assets	21,622,329	10,622,407	32,244,736	(2,579,757)	74,502		29,739,481
Net assets at beginning of year	87,041,225	64,936,027	151,977,252	(1,013,591)	31,168,031		182,131,692
Net assets at end of year	$ 108,663,554	$ 75,558,434	$ 184,221,988	$ (3,593,348)	$ 31,242,533		$ 211,871,173

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.