

AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

CCMC Corporation and Subsidiaries
Years Ended September 30, 2009 and 2008
With Report of Independent Auditors

CCMC Corporation and Subsidiaries
Audited Consolidated Financial Statements and
Other Financial Information

Years Ended September 30, 2009 and 2008

Contents

Audited Consolidated Financial Statements

Report of Independent Auditors.....	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Changes in Net Assets	4
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7

Other Financial Information

Report of Independent Auditors on Other Financial Information	35
Consolidating Balance Sheets.....	36
Consolidating Statement of Operations and Changes in Net Assets	40

Report of Independent Auditors

Board of Directors
CCMC Corporation

We have audited the accompanying consolidated balance sheets of CCMC Corporation and Subsidiaries (the Corporation) as of September 30, 2009 and 2008, 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 Corporation'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 \$31,583,013 and \$28,730,643 as of September 30, 2009 and 2008 and total revenues of \$170,876 and \$1,524,229, 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 Corporation'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 Corporation'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 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 CCMC Corporation and Subsidiaries at September 30, 2009 and 2008, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.



January 28, 2010

CCMC Corporation and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,836,967	\$ 10,205,859
Short-term investments	5,286,908	1,572,105
Funds held by trustee under revenue bond agreement	5,185,038	5,305,005
Accounts receivable, less allowance of approximately \$7,862,000 in 2009 and \$6,793,000 in 2008	26,094,375	26,041,623
Inventories	585,139	530,240
Other current assets	7,937,704	5,445,264
Total current assets	49,926,131	49,100,096
Assets whose use is limited:		
Investments	85,444,221	84,431,034
Funds held in trust by others	54,638,548	57,226,133
	140,082,769	141,657,167
Property, plant and equipment:		
Leaseholds improvements	1,770,539	1,795,530
Buildings	110,890,454	106,086,470
Furniture and equipment	52,587,846	49,031,127
Construction in progress	1,846,645	2,676,043
	167,095,484	159,589,170
Less accumulated depreciation	(69,251,951)	(60,004,133)
	97,843,533	99,585,037
Other assets:		
Bond issuance costs	1,647,664	1,835,969
Ground lease	2,504,558	2,533,850
Pledges receivables, long term	536,117	879,277
Other	6,743,522	4,976,835
	11,431,861	10,225,931
Total assets	\$ 299,284,294	\$ 300,568,231

	September 30	
	2009	2008
Liabilities and net assets		
Current liabilities:		
Current portion of bonds payable	\$ 2,260,000	\$ 2,175,000
Current portion of notes payable	3,222,230	2,873,116
Accounts payable and accrued liabilities	22,137,072	33,068,558
Accrued wages	13,132,660	11,246,868
Due to third parties	413,822	2,435,053
Accrued interest payable and other current liabilities	743,628	357,542
Total current liabilities	<u>41,909,412</u>	<u>52,156,137</u>
Bonds payable, less current portion	32,943,820	35,278,616
Notes payable, less current portion	5,469,214	6,678,085
Accrued pension liability	14,507,634	8,193,458
Other long term liabilities	19,846,945	10,097,836
Total liabilities	<u>114,677,025</u>	<u>112,404,132</u>
Net assets:		
Unrestricted	98,946,091	103,126,462
Temporarily restricted	16,312,385	13,218,474
Permanently restricted	69,348,793	71,819,163
Total net assets	<u>184,607,269</u>	<u>188,164,099</u>
Total liabilities and net assets	<u><u>\$ 299,284,294</u></u>	<u><u>\$ 300,568,231</u></u>

See accompanying notes.

CCMC Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2009	2008
Revenues:		
Net patient service revenue	\$ 211,707,121	\$ 202,956,214
Other revenues	17,984,474	18,782,545
Contributions and donations, net	2,958,651	3,296,027
Investment income, net	1,875,836	5,961,511
Net assets released from restrictions	12,119,958	10,729,185
	246,646,040	241,725,482
Expenses:		
Salaries and wages	125,134,807	122,430,497
Benefits	25,579,146	28,170,646
Supplies and miscellaneous	76,988,541	70,721,605
Bad debts	5,094,187	6,080,155
Interest	1,922,272	2,613,102
Depreciation and amortization	9,942,819	8,714,022
	244,661,772	238,730,027
Excess of revenues over expenses	1,984,268	2,995,455

Continued on next page.

CCMC Corporation and Subsidiaries

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

	Year Ended September 30	
	2009	2008
Unrestricted net assets:		
Excess of revenues over expenses	1,984,268	2,995,455
Unrealized gain (loss) on investments	2,814,385	(17,692,339)
Change in funded status of pension and post-retirement plans	(8,428,727)	(2,721,005)
Adoption of new accounting principle	(1,484,825)	–
Net assets released from restrictions for capital	934,528	1,060,071
Decrease in unrestricted net assets	(4,180,371)	(16,357,818)
Temporarily restricted net assets:		
Unrealized gain (loss) on investments	43,254	(1,166,883)
Income from investments	151,140	334,647
Net assets released from restrictions for operations	(12,119,958)	(10,729,185)
Net assets released from restrictions for capital	(934,528)	(1,060,071)
Bequests, gifts and grants	15,954,003	13,187,238
Increase in temporarily restricted net assets	3,093,911	565,746
Permanently restricted net assets:		
Bequests, gifts and grants	117,215	171,408
Change in funds held by others	(2,587,585)	(10,177,580)
Decrease in permanently restricted net assets	(2,470,370)	(10,006,172)
Decrease in net assets	(3,556,830)	(25,798,244)
Net assets at beginning of year	188,164,099	213,962,343
Net assets at end of year	\$ 184,607,269	\$ 188,164,099

See accompanying notes.

CCMC Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Year Ended September 30	
	2009	2008
Operating activities		
Decrease in net assets	\$ (3,556,830)	\$ (25,798,244)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Bad debt expense	5,094,187	6,080,155
Provision for depreciation and amortization	9,942,819	8,714,022
Unrealized loss on funds held in trust by others	2,587,585	10,177,580
Unrealized (gain) loss on investments	(2,857,639)	18,859,222
Change in funded status of pension and post-retirement plans	8,428,727	2,721,005
Adoption of new accounting principle	1,484,825	-
Other changes in net assets:		
Restricted contributions and investment income	(16,222,358)	(13,693,293)
Changes in operating assets and liabilities:		
Accounts receivable	(4,803,779)	(9,733,200)
Inventories	(54,899)	(12,253)
Other current assets	(2,492,440)	(1,363,404)
Accounts payable and accrued liabilities	(10,931,486)	2,166,617
Accrued wages and interest payable	2,271,878	530,741
Due to third parties	(2,096,027)	2,166,874
Accrued pension liability	(3,599,376)	3,251,595
Other long term liabilities	9,749,109	(365,695)
Net cash (used) provided by operating activities	(7,055,705)	3,701,722
Investing activities		
Purchases of property, plant and equipment, net	(7,816,298)	(12,888,835)
Increase in other assets	(1,934,107)	(68,509)
Increase in investments	(1,870,350)	(811,540)
Decrease in funds held by trustee under revenue bond	119,967	6,451
Net cash used in investing activities	(11,500,788)	(13,762,433)
Financing activities		
Restricted contributions and investment income	16,222,358	13,693,293
Principal payment on bonds and notes payable	(5,261,077)	(4,104,660)
Proceeds from new debt issued	2,226,320	6,071,893
Net cash provided by financing activities	13,187,601	15,660,526
(Decrease) increase in cash and cash equivalents	(5,368,892)	5,599,815
Cash and cash equivalents at beginning of year	10,205,859	4,606,044
Cash and cash equivalents at end of year	\$ 4,836,967	\$ 10,205,859

See accompanying notes.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

1. Significant Accounting Policies and Organization

CCMC Corporation (the Corporation) was incorporated on June 1, 1985 as a not-for-profit organization under the Non-Stock Corporation Act of the State of Connecticut. The Corporation is organized for the purpose of benefiting, carrying out the purposes of, and upholding, promoting and furthering the welfare, programs and activities of its subsidiary Connecticut Children's Medical Center (the Medical Center). The Medical Center is the sole member of CCMC Faculty Practice Plan, Inc. (FPP) and The Children's Fund of Connecticut, Inc. (the Children's Fund). The Corporation is also the sole member of Connecticut Children's Medical Center Foundation, Inc. (the Foundation) and CCMC Affiliates, Inc. CCMC Ventures, Inc. (presently inactive) will conduct the related for-profit activities of the Corporation, its sole shareholder.

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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

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.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Significant Accounting Policies and Organization (continued)

The Medical Center has a certificate of deposit in connection with its workers compensation with Bank of America and issued irrevocable direct pay letters of credit to the Aetna Casualty and Surety Company, the primary insurer, for an amount not to exceed \$125,000. During 2009, this requirement was no longer required and the certificate of deposit liquidated.

Investments

Investments, including funds held by trustee under revenue bond agreements are measured at fair value at the balance sheet date. Investment income includes realized gains and losses on investments, interest and dividends and is included in the excess of revenues over expenses 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 investment income which is a component of excess of revenues over expenses. Based on recently improving market conditions, as well as the companies 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.

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 are included in investment income. 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.

Bond Issuance Costs

Bond issuance costs incurred to obtain financing for construction and renovation programs are being amortized by the straight-line method.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are recorded on the basis of cost. The Corporation 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.

During the year ended September 30, 2009, the Medical Center froze the pension plan and adopted the measurement date provisions of Financial Accounting Standards Board (FASB) ASC 715, *Compensation-Retirement Benefits (ASC 715)*. ASC 715 required the Medical Center to measure plan assets and benefit obligations as of the date of the fiscal year-end consolidated statement of financial position. The effects of these two changes on the Medical Center's financial position are discussed further in Notes 7 and 8.

Contributions and Donor Restricted Gifts

For financial statement purposes, the Corporation distinguishes between contributions of unrestricted assets, temporarily restricted assets, and permanently restricted assets.

Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions, but which are met within the same reporting period, are reported as unrestricted support. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities 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.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

Interest Rate Swap Agreements

The Medical Center utilizes an interest rate swap agreement 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 Corporation 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, program support, medical education and research. 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 \$35,000,000 in the aggregate. The excess indemnity coverage is layered with three different insurance companies at \$10,000,000 per claim and \$30,000,000 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 22% ownership interest.

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 and changes in the funded status of the pension and post-retirement plans.

Advertising

The Corporation's policy is to expense advertising costs as incurred. Total advertising expense was \$1,045,703 and \$761,195 at September 30, 2009 and 2008, respectively.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

Auxiliary

The assets, liabilities and operations of Connecticut Children's Medical Center Friends have not been reflected in the Corporation's financial statements.

Income Taxes

The Corporation and its subsidiaries, with the exception of CCMC Ventures, Inc., 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. CCMC Ventures, Inc. has no federal tax liability because it has been inactive since its incorporation.

New Accounting Standards

Adoption of New Accounting Standards

In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles* (ASC 105), which establishes the FASB Accounting Standards Codification as the sole source of authoritative GAAP. Pursuant to the provisions of ASC 105, the Corporation has updated references to GAAP in its consolidated financial statements issued for the year ended September 30, 2009. The adoption of ASC 105 did not have an impact on the Corporation's financial positions or results of operations.

On October 1, 2008, the Corporation adopted ASC 820-10, *Fair Value Measurements* (ASC 820-10), which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The Corporation's adoption of ASC 820-10 did not significantly affect its consolidated financial statements (see Note 15).

On October 1, 2008, the Corporation adopted ASC 825-10, *The Fair Value Option for Financial Assets and Financial Liabilities* (ASC 825-10) which, among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. As a result of adopting ASC 825-10, the Corporation did not elect fair value accounting for any asset or liability not currently required to be measured at fair value. Consequently, the adoption of ASC 825-10 did not have an impact on its consolidated financial statements.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Accounting Policies (continued)

On October 1, 2008, the Corporation adopted ASC 958-205: *Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (ASC 958-205), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The adoption of ASC 958-205 did not have a material effect on the Corporation's consolidated balance sheet at September 30, 2009. See Note 6 for disclosures related to the Corporation's endowment funds.

During 2009, the Corporation adopted ASC 855-10, *Subsequent Events* (ASC 855-10). ASC 855-10 establishes general standards of accounting and disclosure requirements for subsequent events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date under the requirements of ASC 855-10. The Corporation adopted the provisions of ASC 855-10 as of September 30, 2009, and evaluated the impact of subsequent events through January 28, 2010, representing the date at which the consolidated financial statements were issued.

Reclassification

Certain 2008 amounts have been reclassified to conform with the 2009 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 40% of the Medical Center's net patient service revenues for the years ended September 30, 2009 and 2008. 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 affect on the Medical Center.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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	
	2009	2008
Total gross revenues from patients	\$ 415,668,643	\$ 380,452,745
Less total contractual allowances	198,691,457	174,893,985
Less charity care and other allowances	5,270,065	2,602,546
	203,961,522	177,496,531
Net patient service revenue	\$ 211,707,121	\$ 202,956,214

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.

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.

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, these 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.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Contributions Receivable

Pledges receivable, shown in other receivables, include the following unconditional promises to give:

	September 30	
	2009	2008
Contributions receivable in one year or less	\$ 2,856,445	\$ 2,075,815
Contributions receivable in one to five years	2,110,065	1,189,547
Less discount and provision for bad debts	(252,608)	(310,270)
Net pledges receivable	<u>\$ 4,713,902</u>	<u>\$ 2,955,092</u>

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

4. Concentrations of Credit Risk

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

The Corporation's cash and cash equivalent are placed with high credit quality financial institutions. The Corporation's investment policy limits its exposure to concentrations of credit risk. In the normal course of business, the Corporation maintains cash balances in excess of the Federal Deposit Insurance Corporation's (FDIC) insurance limit. Cash balances exceeded FDIC limits by approximately \$3.8 million and \$8.6 million at September 30, 2009 and 2008, respectively.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Concentrations of Credit Risk (continued)

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, 2009 and 2008, was as follows:

	2009	2008
Medicaid	11%	14%
Medicaid Managed Care	32	28
Commercial/Managed Care – Contracted	42	45
Commercial/Managed – Non-Contracted	4	4
Patients and other	11	9
	100%	100%

5. Investments

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

	September 30			
	2009		2008	
	Cost	Market	Cost	Market
Short-term investment	\$ 5,366,535	\$ 5,366,535	\$ 1,596,426	\$ 1,596,426
Marketable equity securities	941,387	1,028,511	4,508,877	4,532,617
Fixed income securities	234,646	244,519	224,743	204,287
Mutual Funds and other securities	78,016,997	74,258,344	75,560,618	69,813,954
Institutional Managed Bond Fund	9,371,938	9,833,220	10,170,489	9,855,855
	\$ 93,931,503	\$ 90,731,129	\$ 92,061,153	\$ 86,003,139

Investments consisted of mutual funds and individual securities that were comprised of approximately 58% equity securities and 42% fixed income investments at September 30, 2009, and 65% equity securities and 35% fixed income investments at September 30, 2008.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Investments (continued)

The following table summarizes the unrealized losses on investments held at September 30, 2009:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Marketable equity securities	\$ 69,898	\$ 6,705	\$ 93,311	\$ 11,257	\$ 163,209	\$ 17,962
Mutual funds and other securities	1,121,293	185,740	40,033,760	6,984,788	41,155,053	7,170,528
Total investments	<u>\$ 1,191,191</u>	<u>\$ 192,445</u>	<u>\$ 40,127,071</u>	<u>\$ 6,996,045</u>	<u>\$ 41,318,262</u>	<u>\$ 7,188,490</u>

The following table summarizes the unrealized losses on investments held at September 30, 2008:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Marketable equity securities	\$ 1,125,535	\$ 202,244	\$ 995,986	\$ 276,345	\$ 2,121,521	\$ 478,589
Fixed income securities	84,039	15,439	9,890,134	322,129	9,974,173	337,568
Mutual funds and other securities	18,985,166	2,738,913	31,787,113	4,487,423	50,772,279	7,226,336
Total investments	<u>\$ 20,194,740</u>	<u>\$ 2,956,596</u>	<u>\$ 42,673,233</u>	<u>\$ 5,085,897</u>	<u>\$ 62,867,973</u>	<u>\$ 8,042,493</u>

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 Corporation's intent and ability to hold the investments. During the years ended September 30, 2009 and 2008, the Corporation 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.

At September 30, 2009, management's investments are diverse and spread amongst all industries. No specific industry represents a large portion of the unrealized losses. Management's policy is to spread risk among all types of investments for maximum return.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Investments (continued)

Included in investment income, net on the statement of operations is realized (losses) gains of (\$2,307,289) and \$1,536,611 for the years ended September 30, 2009 and 2008, respectively, and interest and dividend income of \$3,019,153 and \$3,080,485 for the years ended September 30, 2009 and 2008, respectively.

6. Restricted Net Assets

Endowments

The Corporation'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, 2009, the Corporation had approximately \$15,160,005 in endowments held at the Foundation.

Interpretation of Relevant Law

The Corporation'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.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. 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, 2009. Deficiencies at September 30, 2009 and 2008 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 as of September 30, 2009

All endowment net assets are donor-restricted endowment funds.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Restricted Net Assets (continued)

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2009

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ —	\$ 14,593,030	\$ 14,593,030
Contributions	—	117,215	117,215
Investment return	513,466	—	513,466
Net appreciation (realized and unrealized)	25,075	—	25,075
Appropriation of endowment assets for expenditure	88,781	—	88,781
Endowment net assets, ending balance	<u>\$ 449,760</u>	<u>\$ 14,710,245</u>	<u>\$ 15,160,005</u>

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 purposes 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.

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes as of September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Equipment purchases	3%	6%
Education	6	7
Other health care services	91	87
	<u>100%</u>	<u>100%</u>

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Restricted Net Assets (continued)

Permanently restricted net assets at September 30, 2009 and 2008 are restricted to:

	<u>2009</u>	<u>2008</u>
Health care and children's services	79%	80%
Other health care services	16	16
Education	5	4
	<u>100%</u>	<u>100%</u>

7. 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.

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.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension Plan (continued)

As required under ASC 715 the Medical Center has eliminated the early measurement date for the retirement plan (formerly June 30) and has valued the plan assets and benefit obligations as of the date of the Medical Center's fiscal year-end consolidated statement of financial position (September 30). The Medical Center chose the 15 month alternative provided for under ASC 715-20 for transitioning to the fiscal year-end measurement date for the retirement plan. The effects of adopting this provision of ASC 715 on the Medical Center's balance sheet at September 30, 2009 are presented in the following tables and resulted in a reduction of net assets of \$1,484,825, which is included in the accompanying consolidated statement of changes in net assets.

On February 26, 2009, the Board of Directors of the Medical Center adopted a resolution to freeze the Plan effective May 1, 2009. On March 1, as a result of this resolution to freeze the Plan, the Plan liabilities were remeasured. All outstanding prior service cost was amortized as of the date of the remeasurement. Unamortized losses as of the remeasurement date were offset by the resulting decrease in plan liabilities of \$4,574,000 resulting from the curtailment gain associated with the Plan freeze. This gain was included in benefits expense in the accompanying statements of operations.

Included in unrestricted net assets at September 30, 2009 are unrecognized actuarial losses of \$18,577,336. Included in unrestricted net assets at September 30, 2008, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credit of \$1,599,576 and unrecognized actuarial losses of \$12,091,682. The actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2010 is \$1,171,014.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension 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 pension expense included in the consolidated balance sheets:

	Year Ended September 30	
	2009	2008
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 60,598,898	\$ 54,311,212
Effect of eliminating early measurement date	1,946,806	-
Service cost	2,432,317	5,141,589
Interest cost	4,016,129	3,570,116
Actuarial loss (gain), including the effects of any assumption changes	5,637,741	(591,056)
Benefits paid	(2,872,162)	(1,832,963)
Plan amendments	(972,927)	-
Curtailments	(4,573,986)	-
Benefit obligation at end of year	<u>\$ 66,212,816</u>	<u>\$ 60,598,898</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 52,405,440	\$ 50,928,643
Effect of eliminating early measurement date	499,248	-
Contributions	3,176,000	4,397,703
Actual return on plan assets	(1,503,344)	(1,087,943)
Benefits paid	(2,872,162)	(1,832,963)
Fair value of plan assets at end of year	<u>\$ 51,705,182</u>	<u>\$ 52,405,440</u>
Funded status of the plan	<u>\$ (14,507,634)</u>	<u>\$ (8,193,458)</u>

The weighted-average assumptions used to develop the projected benefit obligation as of September 30, 2009 and 2008:

	2009	2008
Measurement date	September 30, 2009	June 30, 2008
Discount rate	5.50%	6.50%
Rate of compensation	N/A	4.00
Cash balance interest credit	5.50	5.50
Return on plan assets	8.00	8.00

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension Plan (continued)

	2009	2008
Components of net periodic (benefit) cost		
Service cost	\$ 2,432,317	\$ 5,141,589
Interest cost	4,016,129	3,570,116
Expected return on plan assets	(4,227,725)	(3,792,263)
Curtailment gain	(1,496,083)	–
Net amortization:		
Prior service cost	(1,037,610)	(155,240)
Net actuarial loss	233,100	430,504
(Benefit) cost	\$ (79,872)	\$ 5,194,706

The weighted-average assumptions used to determine net periodic benefit costs are as follows for September 30, 2009 and 2008:

	2009	2008
Discount rate	6.50%	6.25%
Cash balance interest credit	5.50	5.50
Expected long-term rate of return on plan assets	8.00	8.00
Rate of compensation	4.00	4.00

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, 2009 and 2008 was \$66,212,816 and \$55,297,460, respectively.

Plan Assets

The Medical Center's Retirement Plan assets are managed by outside investment managers. The Medical Center'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. Total return will exceed 8.0% annually.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Pension Plan (continued)

The asset allocation for the Plan at September 30, 2009 and 2008, by asset category, are as follows:

Asset Category	Percentage of Plan Assets at Year-End	
	2009	2008
Domestic Equities	45%	50%
International Equities	11	11
Debt securities	41	35
Other	3	4
Total	100%	100%

The Medical Center expects to contribute \$100,000 to its pension plan in 2010.

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

Fiscal Year	Pension Benefits
2010	\$ 9,844,365
2011	3,546,703
2012	4,492,074
2013	3,498,188
2014	3,637,357
Years 2015 – 2019	18,947,116

8. 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.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Postretirement Benefit Plan (continued)

As required under ASC 715 the Medical Center has eliminated the early measurement date for the PRW Plan (formerly June 30) and has valued the plan assets and benefit obligations as of the date of the Medical Center's fiscal year-end consolidated statement of financial position (September 30). The Medical Center chose the 15 month alternative provided for under ASC 715 for transitioning to the fiscal year-end measurement date for the retirement plan. There was no material effect of adopting this provision of ASC 715 on the Medical Center's balance sheet at September 30, 2009 related to the PRW Plan.

Included in unrestricted net assets at September 30, 2009 and 2008, respectively are \$55,844 and \$1,032,952 of net unrecognized actuarial gains that have not yet been recognized in net periodic benefit cost. There are no actuarial gains included in unrestricted net assets that are expected to be recognized in net periodic benefit cost during the year ended September 30, 2010.

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	
	2009	2008
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 4,116,076	\$ 4,906,739
Service cost	288,970	287,147
Interest cost	309,050	268,600
Actuarial loss (gain), including the effects of any assumption changes	956,947	(1,312,138)
Benefits paid	(40,902)	(34,272)
Benefit obligation at end of year	\$ 5,630,141	\$ 4,116,076
Change in plan assets		
Fair value of plan assets at beginning of year	\$ —	\$ —
Contributions	40,902	34,272
Benefits paid	(40,902)	(34,272)
Fair value of plan assets at end of year	\$ —	\$ —
Accrued postretirement obligation included in other long-term liabilities	\$ 5,630,141	\$ 4,116,076

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Postretirement Benefit Plan (continued)

The weighted-average assumptions used to develop the postretirement benefit obligation as of September 30, 2009 and 2008:

	2009	2008
Measurement date	September 30, 2009	June 30, 2008
Discount rate	5.50%	6.50%
Healthcare cost trend rate:		
Current year	8.00	9.00
Ultimate	5.00	5.00
Number of years to reach ultimate	6	8

The Medical Center expects to contribute \$76,039 to its postretirement benefit plan in 2010.

	2009	2008
Components of net periodic benefit cost		
Service cost	\$ 288,970	\$ 287,147
Interest cost	309,050	268,600
Net amortization:		
Net actuarial loss	(20,161)	(19,257)
Benefit cost	\$ 577,859	\$ 536,490

The weighted-average assumptions used to determine net periodic benefit costs are as follows for September 30, 2009 and 2008:

	2009	2008
Discount rate	6.50%	6.25%
Health care cost trend rate		
Initial rate	8.50	9.00
Ultimate rate	5.00	5.00
Years to ultimate	7	8

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. 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	298,455	(257,993)
Effect on total of service and interest cost	36,369	(31,573)

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

Fiscal Year	Postretirement Benefits
2010	\$ 76,039
2011	129,742
2012	185,234
2013	223,107
2014	256,473
Years 2015 – 2019	1,769,865

9. Bonds Payable

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 \$168,820 and \$243,616 at September 30, 2009 and 2008, respectively. The bonds 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 is \$35,115,633 at September 30, 2009.

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 and other property pledged, assigned or transferred.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Bonds Payable (continued)

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 2009 and 2008, the Obligated Group's auctions failed to clear, resulting in interest rates ranging from 0.68% to 8.94% in 2009 and 2.97% to 5.50% in 2008.

Under the terms of the Indenture, the Obligated Group is required to meet certain covenants including a days cash on hand and a debt service coverage ratio requirement.

Under the terms of the indenture, funds deposited to the debt service reserve fund are released back to the Obligated Group if the Obligated Group is in compliance with certain covenants. At September 30, 2008, the Obligated Group was not in compliance with the days cash on hand covenant. Therefore, at September 30, 2008, the funds have not been released to the Obligated Group and remain in the debt service reserve fund. The Obligated Group obtained a waiver from the bond trustee, the bond insurer and the interest rate swap counterparty waiving the days cash on hand and timely filing of financial statements compliance requirements through October 1, 2009. In addition, the Obligated Group has obtained a modification of the days cash hand and debt service coverage ratio covenants beginning in fiscal year ended September 30, 2009. At September 30, 2009, the Obligated Group was in compliance with the modified covenants.

The Obligated Group is required to make quarterly principal and interest repayments equal to one-quarter of the principal of the Bonds becoming due on the following July 1 of each Bond year for the Series B Bonds. Additionally, in all events the payment made on June 30 of each Bond year shall provide sufficient funds necessary to make payment in full of the principal becoming due on the following July 1 of each Bond year.

The Obligated Group is required to make monthly interest payments equal to the Auction rate determined on the Auction Date for the Series C Bonds. The Series C Bonds are subject to mandatory sinking fund redemption prior to maturity beginning on July 1, 2011 and annually on each July 1 thereafter by operation of the Sinking Fund Account as provided in the Indenture at the principal amount thereof plus accrued interest. The annual sinking fund payments range from \$2,375,000 in 2011 to \$3,325,000 in 2018.

Interest paid for 2009 and 2008 was \$1,230,354 and \$1,572,784, respectively.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Bonds Payable (continued)

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

Years Ended September 30:	
2010	\$ 2,260,000
2011	2,375,000
2012	2,775,000
2013	2,875,000
2014	2,950,000
Aggregate thereafter	<u>21,800,000</u>
	<u>\$35,035,000</u>

In November 2005, the Medical Center entered into an interest rate swap agreement effectively converting \$23,700,000 of its variable-rate debt to a fixed-rate basis of 3.704% through June, 2018. The fair value of the swap (a liability of \$2,187,942 and \$1,109,734 at September 30, 2009 and 2008, respectively) is reported in other long term liabilities as of September 30, 2009 and September 30, 2008, respectively. The decline in value of \$1,078,208 is reported as an offset to income from investments. The swap, while serving as an economic hedge, does not qualify as an accounting hedge.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Notes Payable

Notes payable at September 30, 2009 and 2008 consists of the following:

	2009	2008
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.	\$ 677,939	\$ 975,582
Notes payable to a bank in monthly installments of \$86,105 through October 2012 at 6.52% interest. Secured by certain equipment.	2,623,198	3,535,648
Notes payable to a bank in bi-annual installments of \$947,956 through October 2012 at 4.09% interest. Secured by certain equipment.	4,322,948	4,959,717
Notes payable to a facilities management company payable in monthly installments of \$18,319 in principal and interest at 8% through July 2013. Unsecured.	897,646	–
Note payable to landlord for leasehold improvements payable in monthly installments of \$1,431 through August 2019 at 6%. Unsecured.	128,093	–
Other notes	41,620	80,254
	8,691,444	9,551,201
Less current portion	3,222,230	2,873,116
	\$ 5,469,214	\$ 6,678,085

Interest paid on the notes was \$596,685 and \$341,729 for September 30, 2009 and 2008, respectively.

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

2010	\$ 3,222,230
2011	3,343,221
2012	1,802,753
2013	237,897
2014	12,387
Aggregate thereafter	72,956
	\$ 8,691,444

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. 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, 2009 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 believes that the lawsuits will not have a material adverse effect on the Medical Center's financial position.

12. 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 as \$2,504,558 and \$2,533,850 as of September 30 2009 and 2008 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 entered into a Parking Agreement with the 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.

13. Operating Leases

Rental and lease expense amounted to \$5,976,064 and \$4,675,057 for the years ended September 30, 2009 and 2008, respectively.

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Operating Leases (continued)

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:	
2010	\$ 4,242,392
2011	4,083,465
2012	3,555,377
2013	3,520,083
2014	3,506,622
	<u>\$ 18,907,937</u>

14. Functional Expenses

The Medical Center provides health care services to residents within its geographic location including pediatric care, and outpatient surgery. The Foundation performs fundraising services to provide support to the Medical Center and its other related 501(c)(3) companies. Expenses related to providing these services are as follows:

	Year Ended September 30	
	2009	2008
Health care services	\$ 218,044,697	\$ 208,866,602
Fundraising	2,581,327	2,692,285
General and administrative	24,035,748	27,171,140
	<u>\$ 244,661,772</u>	<u>\$ 238,730,027</u>

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Fair Value of Financial Instruments

As described in Note 1, on October 1, 2008, the Medical Center adopted the methods of calculating fair value as described in ASC 820-10 to value its financial assets and liabilities, where applicable. 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.

Financial assets and liabilities carried at fair value as of September 30, 2009 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	\$ 4,836,967	\$ —	\$ —	\$ 4,836,967
Short-term investments	5,286,908	—	—	5,286,908
Fixed income securities	581,819	—	—	581,819
Marketable equity securities	1,028,511	—	—	1,028,511
Mutual Funds	70,456,697	13,377,194	—	83,833,891
Funds held by trustee under revenue bond agreement	5,185,038	—	—	5,185,035
Funds held in trust by others	54,638,548	—	—	54,638,584

CCMC Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Fair Value of Financial Instruments (continued)

	Level 1	Level 2	Level 3	Total
Liabilities				
Interest rate swap agreement	\$ –	\$ 2,187,942	\$ –	\$ 2,187,942
Long-term annuities	74,229	–	–	74,229

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 7).

Report of Independent Auditors on Other Financial Information

Board of Directors
CCMC Corporation

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 Corporation. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

January 28, 2010

CCMC Corporation and Subsidiaries

Consolidating Balance Sheets

September 30, 2009

	Hospital & Subsidiaries	Foundation	Affiliates	Corporation	Ventures	Eliminations	Consolidated
Assets							
Current assets:							
Cash and cash equivalents	\$ 3,873,000	\$ 656,165	\$ 230,237	\$ 77,565			\$ 4,836,967
Short-term investments		5,286,908					5,286,908
Funds held by trustee under revenue bond agreement	5,185,038						5,185,038
Accounts receivable, less allowance	23,148,880	1,582,606	1,362,889				26,094,375
Due from affiliated entities	1,634,513	380,335	370,549	500		\$ (2,385,897)	–
Inventories	585,139						585,139
Other current assets	7,840,826	77,191	19,687				7,937,704
Total current assets	42,267,396	7,983,205	1,983,362	78,065	–	(2,385,897)	49,926,131
Assets whose use is limited:							
Investments	27,658,997	57,785,224					85,444,221
Funds held in trust by others	54,638,548						54,638,548
Investment in Foundation	64,936,027					(64,936,027)	–
	147,233,572	57,785,224	–	–	–	(64,936,027)	140,082,769
Property, plant and equipment:							
Leasehold improvements			1,770,539				1,770,539
Buildings	110,890,454						110,890,454
Furniture and equipment	50,989,717	829,398	768,731				52,587,846
Construction in progress	1,846,645						1,846,645
	163,726,816	829,398	2,539,270	–	–	–	167,095,484
Less accumulated depreciation	(67,524,384)	(350,538)	(1,377,029)				(69,251,951)
	96,202,432	478,860	1,162,241	–	–	–	97,843,533
Other assets:							
Bond issuance costs	1,647,664						1,647,664
Ground lease	2,504,558						2,504,558
Pledges receivable, long term		536,117					536,117
Other	6,743,522			1,000		(1,000)	6,743,522
	10,895,744	536,117	–	1,000	–	(1,000)	11,431,861
	\$ 296,599,144	\$ 66,783,406	\$ 3,145,603	\$ 79,065	\$ –	\$ (67,322,924)	\$ 299,284,294

CCMC Corporation and Subsidiaries

Consolidating Balance Sheets (continued)

September 30, 2009

	Hospital & Subsidiaries	Foundation	Affiliates	Corporation	Ventures	Eliminations	Consolidated
Liabilities and net assets							
Current liabilities:							
Current portion of bonds payable	\$ 2,260,000						\$ 2,260,000
Current portion of notes payable	3,222,230						3,222,230
Accounts payable and accrued liabilities	22,038,198	\$ 3,540	\$ 95,334				22,137,072
Accrued wages	12,532,401	140,582	459,677				13,132,660
Due to third parties	413,822						413,822
Accrued interest payable and other current liabilities	743,628						743,628
Due to affiliated entities	563,789	1,629,028		\$ 175,505	\$ 17,575	\$ (2,385,897)	–
Total current liabilities	41,774,068	1,773,150	555,011	175,505	17,575	(2,385,897)	41,909,412
Bonds payable, less current portion	32,943,820						32,943,820
Notes payable, less current portion	5,469,214						5,469,214
Accrued pension liability	14,507,634						14,507,634
Other long term liabilities	19,772,716	74,229					19,846,945
Total liabilities	114,467,452	1,847,379	555,011	175,505	17,575	(2,385,897)	114,677,025
Net assets:							
Unrestricted	96,502,160		2,558,946	(96,440)	(17,575)	(1,000)	98,946,091
Temporarily restricted	16,280,739	50,225,783	31,646			(50,225,783)	16,312,385
Permanently restricted	69,348,793	14,710,244				(14,710,244)	69,348,793
	182,131,692	64,936,027	2,590,592	(96,440)	(17,575)	(64,937,027)	184,607,269
	\$ 296,599,144	\$ 66,783,406	\$ 3,145,603	\$ 79,065	\$ –	\$ (67,322,924)	\$ 299,284,294

CCMC Corporation and Subsidiaries

Consolidating Balance Sheets

September 30, 2008

	Hospital & Subsidiaries	Foundation	Affiliates	Corporation	Ventures	Eliminations	Consolidated
Assets							
Current assets:							
Cash and cash equivalents	\$ 9,670,263	\$ 488,269	\$ 9,714	\$ 37,613			\$ 10,205,859
Short-term investments		1,572,105					1,572,105
Funds held by trustee under revenue bond agreement	5,305,005						5,305,005
Accounts receivable, less allowance	23,083,929	1,887,815	1,069,879				26,041,623
Due from affiliated entities	16,797	1,192,377		22,580		\$ (1,231,754)	–
Inventories	530,240						530,240
Other current assets	5,383,019	45,608	16,637				5,445,264
Total current assets	43,989,253	5,186,174	1,096,230	60,193	–	(1,231,754)	49,100,096
Assets whose use is limited:							
Investments	27,164,015	57,267,019					84,431,034
Funds held in trust by others	57,226,133						57,226,133
Investment in Foundation	63,397,452					(63,397,452)	–
	147,787,600	57,267,019	–	–	–	(63,397,452)	141,657,167
Property, plant and equipment:							
Leasehold improvements			1,795,530				1,795,530
Buildings	106,086,470						106,086,470
Furniture and equipment	47,541,785	717,127	772,215				49,031,127
Construction in progress	2,676,043						2,676,043
	156,304,298	717,127	2,567,745	–	–	–	159,589,170
Less accumulated depreciation	(58,380,074)	(328,564)	(1,295,495)				(60,004,133)
	97,924,224	388,563	1,272,250	–	–	–	99,585,037
Other assets:							
Bond issuance costs	1,835,969						1,835,969
Ground lease	2,533,850						2,533,850
Pledges receivable, long term		879,277					879,277
Other	4,976,835			1,000		(1,000)	4,976,835
	9,346,654	879,277	–	1,000	–	(1,000)	10,225,931
	\$ 299,047,731	\$ 63,721,033	\$ 2,368,480	\$ 61,193	\$ –	\$ (64,630,206)	\$ 300,568,231

CCMC Corporation and Subsidiaries
Consolidating Balance Sheets (continued)

September 30, 2008

	Hospital & Subsidiaries	Foundation	Affiliates	Corporation	Ventures	Eliminations	Consolidated
Liabilities and net assets							
Current liabilities:							
Current portion of bonds payable	\$ 2,175,000						\$ 2,175,000
Current portion of notes payable	2,873,116						2,873,116
Accounts payable and accrued liabilities	32,862,476	\$ 83,677	\$ 122,405				33,068,558
Accrued wages	10,702,557	147,232	397,079				11,246,868
Due to third parties	2,435,053						2,435,053
Accrued interest payable	357,542						357,542
Due to affiliated entities	1,078,903			\$ 135,554	\$ 17,297	\$ (1,231,754)	-
Total current liabilities	52,484,647	230,909	519,484	135,554	17,297	(1,231,754)	52,156,137
Bonds payable, less current portion	35,278,616						35,278,616
Notes payable, less current portion	6,678,085						6,678,085
Accrued pension liability	8,193,458						8,193,458
Other long term liabilities	10,005,164	92,672					10,097,836
Total liabilities	112,639,970	323,581	519,484	135,554	17,297	(1,231,754)	112,404,132
Net assets:							
Unrestricted	101,398,312		1,820,808	(74,361)	(17,297)	(1,000)	103,126,462
Temporarily restricted	13,190,286	48,804,422	28,188			(48,804,422)	13,218,474
Permanently restricted	71,819,163	14,593,030				(14,593,030)	71,819,163
	186,407,761	63,397,452	1,848,996	(74,361)	(17,297)	(63,398,452)	188,164,099
	\$ 299,047,731	\$ 63,721,033	\$ 2,368,480	\$ 61,193	\$ -	\$ (64,630,206)	\$ 300,568,231

CCMC Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

For the Year Ended September 30, 2009

	Hospital & Subsidiaries	Foundation	Affiliates	Corporation	Ventures	Eliminations	Consolidated
Revenues:							
Net patient service revenue	\$ 211,707,121						\$ 211,707,121
Other revenues	9,456,682		\$ 8,527,792				17,984,474
Contributions and donations, net	531,228	\$ 2,427,423					2,958,651
Investment income	267,590	1,608,246					1,875,836
Net assets released from restrictions	12,097,035		22,923				12,119,958
	<u>234,059,656</u>	<u>4,035,669</u>	<u>8,550,715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>246,646,040</u>
Expenses:							
Salaries and wages	117,534,724	1,784,162	5,777,275	\$ 38,646			125,134,807
Benefits	23,907,245	394,568	1,268,736	8,597			25,579,146
Supplies and miscellaneous	75,516,874	847,166	624,223		\$ 278		76,988,541
Bad debts	5,094,187						5,094,187
Interest	1,922,272						1,922,272
Depreciation and amortization	9,767,330	33,146	142,343				9,942,819
	<u>233,742,632</u>	<u>3,059,042</u>	<u>7,812,577</u>	<u>47,243</u>	<u>278</u>	<u>-</u>	<u>244,661,772</u>
Operating income (loss)	317,024	976,627	738,138	(47,243)	(278)	-	1,984,268
Change in equity interest in net assets of the Foundation	976,627					\$ (976,627)	-
(Deficiency) excess of revenues over expenses	<u>1,293,651</u>	<u>976,627</u>	<u>738,138</u>	<u>(47,243)</u>	<u>(278)</u>	<u>(976,627)</u>	<u>1,984,268</u>

Continued on next page.

CCMC Corporation and Subsidiaries

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

For the Year Ended September 30, 2009

	Hospital & Subsidiaries	Foundation	Affiliates	Corporation	Ventures	Eliminations	Consolidated
Unrestricted net assets:							
(Deficiency) excess of revenues over expenses	1,293,651	976,627	738,138	(47,243)	(278)	(976,627)	1,984,268
Net unrealized loss on investments	2,354,130	460,255					2,814,385
Change in funded status of pension and post-retirement plans	(8,428,727)						(8,428,727)
Adoption of new accounting principle	(1,484,825)						(1,484,825)
Net assets released from restrictions for purchase of equipment	934,528						934,528
Change in equity interest in the net asset of the Foundation	250,339					(250,339)	–
Transfers to affiliates	184,752	(209,916)		25,164			–
Decrease in unrestricted net assets	(4,896,152)	1,226,966	738,138	(22,079)	(278)	(1,226,966)	(4,180,371)
Temporarily restricted net assets:							
Net unrealized losses on investments		43,254					43,254
Income from investments		151,140					151,140
Transfer from (to) affiliates	3,413,391	(3,427,067)	13,676				–
Net assets released from restrictions for operations	(12,097,035)		(22,923)				(12,119,958)
Net assets released from restrictions for capital	(934,528)						(934,528)
Change in equity interest in the net asset of the Foundation	194,394					(194,394)	–
Bequests, gift, and grants	12,514,231	3,427,067	12,705				15,954,003
Increase (decrease) in temporarily restricted net assets	3,090,453	194,394	3,458	–	–	(194,394)	3,093,911
Permanently restricted net assets:							
Bequests, gifts, and grants		117,215					117,215
Change in equity interest in the net asset of the Foundation	117,215					(117,215)	–
Change in funds held by others	(2,587,585)						(2,587,585)
Decrease in permanently restricted net assets	(2,470,370)	117,215	–	–	–	(117,215)	(2,470,370)
Net assets at beginning of year	186,407,761	63,397,452	1,848,996	(74,361)	(17,297)	(63,398,452)	188,164,099
Net assets at end of year	\$ 182,131,692	\$ 64,936,027	\$ 2,590,592	\$ (96,440)	\$ (17,575)	\$ (64,937,027)	\$ 184,607,269

CCMC Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

For the Year Ended September 30, 2008

	Hospital & Subsidiaries	Foundation	Affiliates	Corporation	Ventures	Eliminations	Consolidated
Revenues:							
Net patient service revenue	\$ 202,956,214						\$ 202,956,214
Other revenues	10,648,924		\$ 8,133,621				18,782,545
Contributions and donations, net		\$ 3,296,027					3,296,027
Investment income	2,268,581	3,692,930					5,961,511
Net assets released from restrictions	10,708,341		20,844				10,729,185
	<u>226,582,060</u>	<u>6,988,957</u>	<u>8,154,465</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>241,725,482</u>
Expenses:							
Salaries and wages	115,034,739	1,773,619	5,577,209	\$ 44,930			122,430,497
Benefits	26,375,856	430,419	1,353,467	10,904			28,170,646
Supplies and miscellaneous	69,061,451	1,032,026	627,878		\$ 250		70,721,605
Bad debts	6,080,155						6,080,155
Interest	2,613,102						2,613,102
Depreciation and amortization	8,549,473	30,884	133,665				8,714,022
	<u>227,714,776</u>	<u>3,266,948</u>	<u>7,692,219</u>	<u>55,834</u>	<u>250</u>	<u>-</u>	<u>238,730,027</u>
Operating income (loss)	(1,132,716)	3,722,009	462,246	(55,834)	(250)	-	2,995,455
Change in equity interest in net assets of the Foundation	3,722,009					\$ (3,722,009)	-
(Deficiency) excess of revenues over expenses	<u>2,589,293</u>	<u>3,722,009</u>	<u>462,246</u>	<u>(55,834)</u>	<u>(250)</u>	<u>(3,722,009)</u>	<u>2,995,455</u>

Continued on next page.

CCMC Corporation and Subsidiaries

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

For the Year Ended September 30, 2008

	Hospital & Subsidiaries	Foundation	Affiliates	Corporation	Ventures	Eliminations	Consolidated
Unrestricted net assets:							
(Deficiency) excess of revenues over expenses	2,589,293	3,722,009	462,246	(55,834)	(250)	(3,722,009)	2,995,455
Net unrealized loss on investments	(4,815,431)	(12,876,908)					(17,692,339)
Change in funded status of pension and post-retirement plans	(2,721,005)						(2,721,005)
Net assets released from restrictions for purchase of equipment	1,060,071						1,060,071
Change in equity interest in the net asset of the Foundation	(14,560,208)					14,560,208	–
Transfers to affiliates	2,949,933	(1,683,300)	(1,266,633)				–
Decrease in unrestricted net assets	(15,497,347)	(10,838,199)	(804,387)	(55,834)	(250)	10,838,199	(16,357,818)
Proof							
Temporarily restricted net assets:							
Net unrealized losses on investments		(1,166,883)					(1,166,883)
Income from investments		334,647					334,647
Transfer from (to) affiliates	3,761,625	(3,767,348)	5,723				–
Net assets released from restrictions for operations	(10,708,341)		(20,844)				(10,729,185)
Net assets released from restrictions for capital	(1,060,071)						(1,060,071)
Change in equity interest in the net asset of the Foundation	(832,236)					832,236	–
Bequests, gift, and grants	9,405,078	3,767,348	14,812				13,187,238
Increase (decrease) in temporarily restricted net assets	566,055	(832,236)	(309)	–	–	832,236	565,746
Permanently restricted net assets:							
Bequests, gifts, and grants		171,408					171,408
Change in equity interest in the net asset of the Foundation	171,408					(171,408)	–
Change in funds held by others	(10,177,580)						(10,177,580)
Decrease in permanently restricted net assets	(10,006,172)	171,408	–	–	–	(171,408)	(10,006,172)
Net assets at beginning of year	211,345,225	74,896,479	2,653,692	(18,527)	(17,047)	(74,897,479)	213,962,343
Net assets at end of year	\$ 186,407,761	\$ 63,397,452	\$ 1,848,996	\$ (74,361)	\$ (17,297)	\$ (63,398,452)	\$ 188,164,099