Audited Consolidated Financial Statements and Other Financial Information

Connecticut Children's Medical Center and Subsidiaries
Years Ended September 30, 2009 and 2008
With Report of Independent Auditors

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and Other Financial Information

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Contents

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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, 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 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 $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 Untied 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 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, 2009 and 2008, 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 28, 2010

Connecticut Children's Medical Center and Subsidiaries

Consolidated Balance Sheets

	September 30 2009	September 30 2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 3,873,000**	$ 9,670,263
Funds held by trustee under revenue bond agreement	**5,185,038**	5,305,005
Patient accounts receivable, less allowance of approximately $7,862,000 in 2009 and $6,793,000 in 2008	**23,148,880**	23,083,929
Due from affiliated entities	**1,634,513**	16,797
Inventories	**585,139**	530,240
Other current assets	**7,840,826**	5,383,019
Total current assets	**42,267,396**	43,989,253
Assets whose use is limited:		
Investments	**27,658,997**	27,164,015
Funds held in trust by others	**54,638,548**	57,226,133
Interest in Foundation	**64,936,027**	63,397,452
	147,233,572	147,787,600
Property, plant and equipment:		
Buildings	**110,890,454**	106,086,470
Furniture and equipment	**50,989,717**	47,541,785
Construction in progress	**1,846,645**	2,676,043
	163,726,816	156,304,298
Less accumulated depreciation	**(67,524,384)**	(58,380,074)
	96,202,432	97,924,224
Other assets:		
Bond issuance costs	**1,647,664**	1,835,969
Ground lease	**2,504,558**	2,533,850
Other	**6,743,522**	4,976,835
	10,895,744	9,346,654
Total assets	**$ 296,599,144**	$ 299,047,731

	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 expenses	**22,038,198**	32,862,476
Accrued wages	**12,532,401**	10,702,557
Due to third parties	**413,822**	2,435,053
Due to affiliated entities	**563,789**	1,078,903
Accrued interest payable and other current liabilities	**743,628**	357,542
Total current liabilities	**41,774,068**	52,484,647
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	**19,772,716**	10,005,164
Total liabilities	**114,467,452**	112,639,970
Net assets:		
Unrestricted	**96,502,160**	101,398,312
Temporarily restricted	**16,280,739**	13,190,286
Permanently restricted	**69,348,793**	71,819,163
Total net assets	**182,131,692**	186,407,761
Total liabilities and net assets	**$ 296,599,144**	$ 299,047,731

See accompanying notes.

Connecticut Children’s Medical Center 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	**9,456,682**	10,648,924
Net assets released from restrictions for operations	**12,097,035**	10,708,341
	233,260,838	224,313,479
Expenses:		
Salaries	**117,534,724**	115,034,739
Benefits	**23,907,245**	26,375,856
Supplies and other	**75,516,874**	69,061,451
Bad debts	**5,094,187**	6,080,155
Depreciation and amortization	**9,767,330**	8,549,473
Interest	**1,922,272**	2,613,102
	233,742,632	227,714,776
Loss from operations	**(481,794)**	(3,401,297)
Other income:		
Loss from investments, net	**(2,060,101)**	(309,803)
Income from trusts held by others	**2,327,691**	2,578,384
Change in equity interest in net assets of the Foundation	**976,627**	3,722,009
Other	**531,228**	–
	1,775,445	5,990,590
Excess of revenues over expenses	**1,293,651**	2,589,293

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	
	2009	**2008**
Unrestricted net assets:		
Excess of revenues over expenses	**1,293,651**	2,589,293
Transfer from affiliated organizations, net	**184,752**	2,949,933
Unrealized gain (loss) on investments	**2,354,130**	(4,815,431)
Net assets released from restrictions for capital	**934,528**	1,060,071
Change in funded status of pension and post-retirement plans	**(8,428,727)**	(2,721,005)
Adoption of new accounting principle	**(1,484,825)**	–
Change in equity interest in the net assets of the Foundation	**250,339**	(14,560,208)
Decrease in unrestricted net assets	**(4,896,152)**	(15,497,347)
Temporarily restricted net assets:		
Transfer from affiliated organization	**3,413,391**	3,761,625
Net assets released from restrictions for operations	**(12,097,035)**	(10,708,341)
Net assets released from restrictions for capital	**(934,528)**	(1,060,071)
Bequests, gifts and grants	**12,514,231**	9,405,078
Change in equity interest in the net assets of the Foundation	**194,394**	(832,236)
Increase in temporarily restricted net assets	**3,090,453**	566,055
Permanently restricted net assets:		
Change in funds held by others	**(2,587,585)**	(10,177,580)
Change in equity interest in the net assets of the Foundation	**117,215**	171,408
Decrease in permanently restricted net assets	**(2,470,370)**	(10,006,172)
Decrease in net assets	**(4,276,069)**	(24,937,464)
Net assets at beginning of year	**186,407,761**	211,345,225
Net assets at end of year	**$ 182,131,692**	$ 186,407,761

See accompanying notes.

Connecticut Children's Medical Center and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2009	**2008**
Operating activities		
Decrease in net assets	**$ (4,276,069)**	$ (24,937,464)
Adjustments to reconcile change in net assets to net cash used in operating activities and other income:		
Noncash items:		
Bad debt expense	**5,094,187**	6,080,155
Provision for depreciation and amortization	**9,767,330**	8,549,473
Unrealized (gain) loss on investments	**(2,354,130)**	4,815,431
Unrealized loss on funds held in trust by others	**2,587,585**	10,177,580
Change in funded status of pension and post-retirement plans	**8,428,727**	2,721,005
Adoption of new accounting principle	**1,484,825**	–
Change in interest in Foundation	**(1,538,575)**	11,499,027
Other changes in net assets:		
Restricted contributions and investment income	**(12,514,231)**	(9,405,078)
Transfer from affiliated organizations, net	**(3,598,143)**	(6,711,558)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(5,159,138)**	(9,916,770)
Due from affiliated entities, net	**(2,132,830)**	31,422
Inventories	**(54,899)**	(12,253)
Other current assets	**(2,457,807)**	(1,403,059)
Accounts payable and accrued expenses	**(10,824,278)**	2,055,679
Accrued wages	**1,829,844**	322,502
Accrued interest payable	**311,290**	138,529
Due to third parties	**(2,021,231)**	2,166,874
Pension liability	**(3,599,376)**	3,251,595
Other long term liabilities	**9,767,552**	338,203
Net cash used in operating activities and other income	**(11,259,367)**	(915,113)
Investing activities		
Purchases of property, plant and equipment, net	**(7,660,521)**	(12,687,342)
Increase in other assets	**(1,934,107)**	(305,363)
Decrease in funds held by trustee under revenue bond agreement	**119,967**	6,451
Decrease in investments	**1,859,148**	1,172,421
Net cash used in investing activities	**(7,615,513)**	(11,813,833)
Financing activities		
Restricted contributions and investment income	**12,514,231**	9,405,078
Transfer from affiliates	**3,598,143**	6,711,558
Principal payments 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	**13,077,617**	18,083,869
(Decrease) increase in cash and cash equivalents	**(5,797,263)**	5,354,923
Cash and cash equivalents at beginning of year	**9,670,263**	4,315,340
Cash and cash equivalents at end of year	**$ 3,873,000**	$ 9,670,263

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 CCMC Faculty Practice Plan, Inc. (FPP) and The Children's Fund of Connecticut, Inc. FPP was formed to provide and promote children's health care and to support Connecticut Children's Medical Center, Inc. The Children's Fund of Connecticut 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.

The Medical Center had 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.

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 date. 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 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 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. 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*". During 2009, the Foundation transferred a donated medical office condominium to the Medical Center at a value of $209,916. In 2008, the Medical Center received unrestricted financial support of $1,092,224 from the Foundation. The Foundation will continue to provide support through the next fiscal year 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 by the straight-line method.

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.

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 8 and 9.

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 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.

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 to 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 $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, 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 trusts held by others.

Advertising

The Medical Center's policy is to expense advertising costs as incurred. Total expense was $1,045,703 and $761,195 for the years ended September 30, 2009 and 2008, respectively.

Auxiliary

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

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.

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 Medical Center 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 Medical Center's financial positions or results of operations.

On October 1, 2008, the Medical Center 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 Medical Center's adoption of ASC 820-10 did not significantly affect its consolidated financial statements (see Note 16).

1. Organization and Accounting Policies (continued)

On October 1, 2008, the Medical Center 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 Medical Center 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.

On October 1, 2008, the Medical Center 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 Medical Center's consolidated balance sheet at September 30, 2009. See Note 7 for disclosures related to the Medical Center's endowment funds.

During 2009, the Medical Center 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 Medical Center 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 impact on the Medical Center.

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.

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, 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.

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 $272,891 and $228,117 for the years ended September 30, 2009 and 2008, respectively.

4. Contributions Receivable

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

	September 30	
	2009	**2008**
Contributions receivable in one year or less	**$ 1,273,839**	$ 188,000
Contributions receivable in one to five years	**1,345,640**	–
Less discount	**(24,300)**	–
Net contributions receivable	**$ 2,595,179**	$ 188,000

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 consist primarily 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 $3.5 million and $8.3 million at September 30, 2009 and 2008, 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, 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%

6. Investments

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

	September 30			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	**$ 79,627**	**$ 79,627**	$ 24,321	$ 24,321
Marketable equity securities	**444,996**	**508,228**	410,876	381,462
Fixed income securities	**234,646**	**244,519**	224,743	204,287
Institutional managed equity funds	**16,670,937**	**16,735,730**	17,737,089	16,449,032
Institutional managed bond fund	**9,371,938**	**9,833,220**	10,170,489	9,855,855
Mutual funds	**–**	**–**	132,830	84,290
Other	**238,412**	**257,673**	199,356	164,768
	$ 27,040,556	**$ 27,658,997**	$ 28,899,704	$ 27,164,015

Investments consisted of mutual funds and individual securities that were comprised of approximately 62% equity securities and 38% fixed income investments at September 30, 2009, and 62% equity securities and 38% fixed income investments at September 30, 2008.

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	**$ 40,530**	**$ 4,778**	**$ 34,172**	**$ 5,046**	**$ 74,702**	**$ 9,824**
Institutional managed equity funds	**1,065,569**	**153,955**	**5,978,564**	**1,506,007**	**7,044,133**	**1,659,962**
Mutual Funds	**–**	**–**	**70,931**	**8,380**	**70,931**	**8,380**
Other	**55,724**	**31,785**	**–**	**–**	**55,724**	**31,785**
Total investments	**$ 1,161,823**	**$ 190,518**	**$ 6,083,667**	**$ 1,519,433**	**$ 7,245,490**	**$ 1,709,951**

6. Investments (continued)

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	$ 110,372	$ 34,417	$ –	$ –	$ 110,372	$ 34,417
Fixed income securities	84,039	15,439	9,890,134	322,129	9,974,173	337,568
Institutional managed equity funds	9,776,159	1,758,991	1,421,530	372,337	11,197,689	2,131,328
Mutual Funds	64,563	21,665	84,290	48,540	148,853	70,205
Other	3,138	1,159	63,137	58,674	66,275	59,833
Total investments	$ 10,038,271	$ 1,831,671	$ 11,459,091	$ 801,680	$ 21,497,362	$ 2,633,351

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, 2009 and 2008, 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.

Included in loss from investments, net on the statement of operations is realized losses of $2,339,000 and $356,350 for the years ended September 30, 2009 and 2008, respectively, and interest and dividend income of $1,442,618 and $1,280,516 for the years ended September 30, 2009 and 2008, respectively.

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, 2009, the Medical Center had approximately $15,160,005 in endowments held at the Foundation.

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, 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.

7. 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	$ 449,760	$ 14,710,245	$ 15,160,005

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:

	2009	2008
Equipment purchases	**4%**	6%
Education	**5**	7
Other health care services	**91**	87
	100%	100%

7. Restricted Net Assets (continued)

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

	2009	2008
Health care and children's services	**79%**	80%
Other health care services	**16**	16
Education	**5**	4
	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.

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.

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.

8. Pension Plan (continued)

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.

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 elimination of 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)**	–
Curtailment	**(4,573,986)**	–
Benefit obligation at end of year	**$ 66,212,816**	$ 60,598,898
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 52,405,440**	$ 50,928,643
Effect of elimination of 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	**$ 51,705,182**	$ 52,405,440
Funded status of the plan	**$ (14,507,634)**	$ (8,193,458)

8. Pension Plan (continued)

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

	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.

8. Pension Plan (continued)

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. Total return will exceed 8.0% annually.

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

	Percentage of Plan Assets at Year-End	
Asset Category	**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

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.

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

9. Postretirement Benefit Plan (continued)

	Year Ended September 30	
	2009	**2008**
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

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

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

9. Postretirement Benefit Plan (continued)

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

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	One-percentage Point Decrease
Effect on postretirement benefit obligation	298,455	(257,993)
Effect on total of service and interest cost	36,369	(31,573)

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

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

10. 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.

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 on hand and debt service coverage ratio covenants beginning in fiscal year ended September 30, 2009. At September 30, 2009, the Medical Center was in compliance with the modified covenants.

10. Bonds Payable (continued)

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.

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	21,800,000
	$ 35,035,000

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.

11. 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

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, 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 does not believe that the lawsuits will have a material adverse effect on the Medical Center's financial position.

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 $2,504,558 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 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 $5,976,064 and $4,675,057 for the years ended September 30, 2009 and 2008, respectively.

14. 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
	$ 18,907,937

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	
	2009	**2008**
Health care services	**$ 210,641,175**	$ 201,564,295
General and administrative	**23,101,457**	26,150,481
	$ 233,742,632	$ 227,714,776

16. 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 date.

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	$ 3,873,000	$ –	$ –	$ 3,873,000
Fixed income securities	581,819	–	–	581,819
Marketable equity securities	508,228	–	–	508,228
Mutual Funds	13,191,756	13,377,194	–	26,568,950
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

16. 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 date 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).

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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, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

January 28, 2010

Connecticut Children’s Medical Center and Subsidiaries

Consolidating Balance Sheets

September 30, 2009

	Connecticut Children's Medical Center	Effect of Adoption of FAS 136	Total	Connecticut Children's Medical Center Faculty Practice Plan	Children's Fund	Eliminations	Total Consolidated
Assets							
Current assets:							
Cash and cash equivalents	$ 2,105,761		$ 2,105,761	$ 29,362	$ 1,737,877		$ 3,873,000
Funds held by trustee under revenue bond agreement	5,185,038		5,185,038				5,185,038
Patient accounts receivable, less allowance of $7,500,964 for the Medical Center and $360,647 for Faculty Practice Plan	20,178,554		20,178,554	2,970,326			23,148,880
Due from affiliated entities	1,634,513		1,634,513				1,634,513
Inventories	572,964		572,964	12,175			585,139
Other current assets	3,823,496		3,823,496	1,047,578	2,969,752		7,840,826
Total current assets	33,500,326		33,500,326	4,059,441	4,707,629	–	42,267,396
Assets whose use is limited:							
Investments				832,374	26,826,623		27,658,997
Funds held in trust by others	54,638,548		54,638,548				54,638,548
Interest in Foundation		$ 64,936,027	64,936,027				64,936,027
	54,638,548	64,936,027	119,574,575	832,374	26,826,623	–	147,233,572
Property, plant and equipment:							
Buildings	108,782,059		108,782,059	2,108,395			110,890,454
Furniture and equipment	50,004,934		50,004,934	875,549	109,234		50,989,717
Construction in progress	1,810,345		1,810,345	36,300			1,846,645
	160,597,338		160,597,338	3,020,244	109,234	–	163,726,816
Less accumulated depreciation	(66,634,489)		(66,634,489)	(823,929)	(65,966)		(67,524,384)
	93,962,849		93,962,849	2,196,315	43,268	–	96,202,432
Other assets:							
Bond issuance costs	1,647,664		1,647,664				1,647,664
Ground lease	2,504,558		2,504,558				2,504,558
Other	6,738,029		6,738,029		5,493		6,743,522
	10,890,251		10,890,251		5,493	–	10,895,744
	$ 192,991,974	$ 64,936,027	$ 257,928,001	$ 7,088,130	$ 31,583,013	$ –	$ 296,599,144

Connecticut Children's Medical Center and Subsidiaries

Consolidating Balance Sheets (continued)

September 30, 2009

	Connecticut Children's Medical Center	**Effect of Adoption of FAS 136**	**Total**	**Connecticut Children's Medical Center Faculty Practice Plan**	**Children's Fund**	**Eliminations**	**Total Consolidated**
Liabilities and net assets							
Current liabilities:							
Current portion of bonds payable	$ 2,260,000		$ 2,260,000				$ 2,260,000
Current portion of notes payable	3,212,480		3,212,480	$ 9,750			3,222,230
Accounts payable and accrued expenses	19,772,680		19,772,680	1,850,536	$ 414,982		22,038,198
Accrued wages	9,550,755		9,550,755	2,981,646			12,532,401
Due to third parties	413,822		413,822				413,822
Due to affiliated entities	286,435		286,435	277,354			563,789
Accrued interest payable and other current liabilities	672,037		672,037	71,591			743,628
Total current liabilities	36,168,209		36,168,209	5,190,877	414,982	–	41,774,068
Bonds payable, less current portion	32,943,820		32,943,820				32,943,820
Notes payable, less current portion	5,350,871		5,350,871	118,343			5,469,214
Accrued pension liability	14,507,634		14,507,634				14,507,634
Other long term liabilities	16,980,215		16,980,215	2,792,501			19,772,716
Total liabilities	105,950,749		105,950,749	8,101,721	414,982	–	114,467,452
Net assets:							
Unrestricted	23,769,583	$ 45,838,838	69,608,421	(1,013,591)	27,907,330		96,502,160
Temporarily restricted	8,633,094	4,386,944	13,020,038		3,260,701		16,280,739
Permanently restricted	54,638,548	14,710,245	69,348,793				69,348,793
	87,041,225	64,936,027	151,977,252	(1,013,591)	31,168,031	–	182,131,692
	$ 192,991,974	$ 64,936,027	$ 257,928,001	$ 7,088,130	$ 31,583,013	$ –	$ 296,599,144

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Connecticut Children’s Medical Center and Subsidiaries

Consolidating Balance Sheets

September 30, 2008

	Connecticut Children's Medical Center	Effect of Adoption of FAS 136	Total	Connecticut Children's Medical Center Faculty Practice Plan	Children's Fund	Eliminations	Total Consolidated
Assets							
Current assets:							
Cash and cash equivalents	$ 7,951,448		$ 7,951,448		$ 1,718,815		$ 9,670,263
Funds held by trustee under revenue bond agreement	5,305,005		5,305,005				5,305,005
Patient accounts receivable, less allowance of $6,481,095 for the Medical Center and $311,871 for Faculty Practice Plan	20,749,592		20,749,592	$ 2,334,337			23,083,929
Due from affiliated entities	16,797		16,797				16,797
Inventories	512,910		512,910	17,330			530,240
Other current assets	3,327,413		3,327,413	1,655,900	399,706		5,383,019
Total current assets	37,863,165		37,863,165	4,007,567	2,118,521	–	43,989,253
Assets whose use is limited:							
Investments				610,070	26,553,945		27,164,015
Funds held in trust by others	57,226,133		57,226,133				57,226,133
Interest in Foundation		$ 63,397,452	63,397,452				63,397,452
	57,226,133	63,397,452	120,623,585	610,070	26,553,945	–	147,787,600
Property, plant and equipment:							
Buildings	104,161,367		104,161,367	1,925,103			106,086,470
Furniture and equipment	46,688,270		46,688,270	740,906	112,609		47,541,785
Construction in progress	2,661,702		2,661,702	14,341			2,676,043
	153,511,339		153,511,339	2,680,350	112,609	–	156,304,298
Less accumulated depreciation	(57,825,555)		(57,825,555)	(494,594)	(59,925)		(58,380,074)
	95,685,784		95,685,784	2,185,756	52,684	–	97,924,224
Other assets:							
Bond issuance costs	1,835,969		1,835,969				1,835,969
Ground lease	2,533,850		2,533,850				2,533,850
Other	4,971,342		4,971,342		5,493		4,976,835
	9,341,161		9,341,161	–	5,493	–	9,346,654
	$ 200,116,243	$ 63,397,452	$ 263,513,695	$ 6,803,393	$ 28,730,643	$ –	$ 299,047,731

Connecticut Children’s Medical Center and Subsidiaries

Consolidating Balance Sheets (continued)

September 30, 2008

	Connecticut Children's Medical Center	Effect of Adoption of FAS 136	Total	Connecticut Children's Medical Center Faculty Practice Plan	Children's Fund	Eliminations	Total Consolidated
Liabilities and net assets							
Current liabilities:							
Current portion of bonds payable	$ 2,175,000		$ 2,175,000				$ 2,175,000
Current portion of notes payable	2,873,116		2,873,116				2,873,116
Accounts payable and accrued expenses	29,700,646		29,700,646	$ 2,837,611	$ 324,219		32,862,476
Accrued wages	8,252,411		8,252,411	2,450,146			10,702,557
Due to third parties	2,425,929		2,425,929	9,124			2,435,053
Due to affiliated entities	1,022,080		1,022,080	56,823			1,078,903
Accrued interest payable	357,542		357,542				357,542
Total current liabilities	46,806,724		46,806,724	5,353,704	324,219	–	52,484,647
Bonds payable, less current portion	35,278,616		35,278,616				35,278,616
Notes payable, less current portion	6,678,085		6,678,085				6,678,085
Accrued pension liability	8,193,458		8,193,458				8,193,458
Other long term liabilities	7,348,199		7,348,199	2,656,965			10,005,164
Total liabilities	104,305,082		104,305,082	8,010,669	324,219	–	112,639,970
Net assets:							
Unrestricted	29,852,808	$ 44,611,872	74,464,680	(1,207,276)	28,140,908		101,398,312
Temporarily restricted	8,732,220	4,192,550	12,924,770		265,516		13,190,286
Permanently restricted	57,226,133	14,593,030	71,819,163				71,819,163
	95,811,161	63,397,452	159,208,613	(1,207,276)	28,406,424	–	186,407,761
	$ 200,116,243	$ 63,397,452	$ 263,513,695	$ 6,803,393	$ 28,730,643	$ –	$ 299,047,731

Connecticut Children’s Medical Center and Subsidiaries

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2009

	Connecticut Children's Medical Center	Effect of Adoption of FAS 136	Total	Connecticut Children's Medical Center Faculty Practice Plan	Children's Fund	Eliminations	Total Consolidated
Revenues:							
Net patient service revenue	$ 178,476,453		$ 178,476,453	$ 33,230,668			$ 211,707,121
Other revenues	3,049,588		3,049,588	6,863,321	$ 1,064,258	$ (1,520,485)	9,456,682
Net assets released from restrictions	11,889,220		11,889,220		207,815		12,097,035
	193,415,261		193,415,261	40,093,989	1,272,073	(1,520,485)	233,260,838
Expenses:							
Salaries	83,825,162		83,825,162	30,765,541	839,648	2,104,373	117,534,724
Benefits	18,156,816		18,156,816	4,993,903	272,519	484,007	23,907,245
Supplies and other	68,401,227		68,401,227	9,714,401	1,510,111	(4,108,865)	75,516,874
Bad debts	3,808,276		3,808,276	1,285,911			5,094,187
Depreciation and amortization	9,422,221		9,422,221	331,778	13,331		9,767,330
Interest	1,921,628		1,921,628	644			1,922,272
	185,535,330		185,535,330	47,092,178	2,635,609	(1,520,485)	233,742,632
Gain (loss) from operations	7,879,931		7,879,931	(6,998,189)	(1,363,536)	–	(481,794)
Other income:							
Income (loss) from investments	(915,716)		(915,716)	(43,188)	(1,101,197)		(2,060,101)
Income from trusts held by others	2,327,691		2,327,691				2,327,691
Other	531,228		531,228				531,228
Change in equity interest in net assets of the Foundation		$ 976,627	976,627				976,627
	1,943,203	976,627	2,919,830	(43,188)	(1,101,197)	–	1,775,445
Excess (deficiency) of revenues over expenses	9,823,134	976,627	10,799,761	(7,041,377)	(2,464,733)	–	1,293,651

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, 2009

	Connecticut Children's Medical Center	Effect of Adoption of FAS 136	Total	Connecticut Children's Medical Center Faculty Practice Plan	Children's Fund	Total Consolidated
Unrestricted net assets:						
Excess (deficiency) of revenues over expenses	9,823,134	976,627	10,799,761	(7,041,377)	(2,464,733)	1,293,651
Transfer from affiliated organizations, net	(6,927,335)		(6,927,335)	7,112,087		184,752
Unrealized loss on investments				122,975	2,231,155	2,354,130
Net assets released from restrictions for capital	934,528		934,528			934,528
Change in funded status of pension and post-retirement plans	(8,428,727)		(8,428,727)			(8,428,727)
Adoption of new accounting principle	(1,484,825)		(1,484,825)			(1,484,825)
Change in equity interest in the net assets of the Foundation		250,339	250,339			250,339
Increase (decrease) in unrestricted net assets	(6,083,225)	1,226,966	(4,856,259)	193,685	(233,578)	(4,896,152)
Temporarily restricted net assets:						
Transfer from affiliated organization	3,413,391		3,413,391			3,413,391
Net assets released from restrictions for operations	(11,889,220)		(11,889,220)		(207,815)	(12,097,035)
Net assets released from restrictions for capital	(934,528)		(934,528)			(934,528)
Bequests, gifts and grants	9,311,231		9,311,231		3,203,000	12,514,231
Change in equity interest in the net assets of the Foundation		194,394	194,394			194,394
Increase (decrease) in temporarily restricted net assets	(99,126)	194,394	95,268		2,995,185	3,090,453
Permanently restricted net assets:						
Change in funds held by others	(2,587,585)		(2,587,585)			(2,587,585)
Change in equity interest in the net assets of the Foundation		117,215	117,215			117,215
Increase in permanently restricted net assets	(2,587,585)	117,215	(2,470,370)	–	–	(2,470,370)
Increase (decrease) in net assets	(8,769,936)	1,538,575	(7,231,361)	193,685	2,761,607	(4,276,069)
Net assets at beginning of year	95,811,161	63,397,452	159,208,613	(1,207,276)	28,406,424	186,407,761
Net assets at end of year	$ 87,041,225	$ 64,936,027	$ 151,977,252	$ (1,013,591)	$ 31,168,031	$ 182,131,692

Connecticut Children’s Medical Center and Subsidiaries

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2008

	Connecticut Children's Medical Center	Effect of Adoption of FAS 136	Total	Connecticut Children's Medical Center Faculty Practice Plan	Children's Fund	Eliminations	Total Consolidated
Revenues:							
Net patient service revenue	$ 173,156,229		$ 173,156,229	$ 29,799,985			$ 202,956,214
Other revenues	2,745,428		2,745,428	8,741,854	$ 762,670	$ (1,601,028)	10,648,924
Net assets released from restrictions	10,436,117		10,436,117		272,224		10,708,341
	186,337,774		186,337,774	38,541,839	1,034,894	(1,601,028)	224,313,479
Expenses:							
Salaries	80,044,757		80,044,757	27,077,512	738,806	3,654,664	111,515,739
Benefits	19,418,518		19,418,518	5,980,570	199,601	777,167	26,375,856
Supplies and other	67,293,777		67,293,777	9,866,632	1,452,901	(6,032,859)	72,580,451
Bad debts	4,145,704		4,145,704	1,934,451			6,080,155
Depreciation and amortization	8,242,099		8,242,099	281,513	25,861		8,549,473
Interest	2,613,102		2,613,102				2,613,102
	181,757,957		181,757,957	45,140,678	2,417,169	(1,601,028)	227,714,776
Gain (loss) from operations	4,579,817		4,579,817	(6,598,839)	(1,382,275)	–	(3,401,297)
Other income:							
Income (loss) from investments	(835,775)		(835,775)	36,637	489,335		(309,803)
Income from trusts held by others	2,578,384		2,578,384				2,578,384
Change in equity interest in net assets of the Foundation		$ 3,722,009	3,722,009				3,722,009
	1,742,609	3,722,009	5,464,618	36,637	489,335	–	5,990,590
Excess (deficiency) of revenues over expenses	6,322,426	3,722,009	10,044,435	(6,562,202)	(892,940)	–	2,589,293

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, 2008

	Connecticut Children's Medical Center	Effect of Adoption of FAS 136	Total	Connecticut Children's Medical Center Faculty Practice Plan	Children's Fund	Total Consolidated
Unrestricted net assets:						
Excess (deficiency) of revenues over expenses	6,322,426	3,722,009	10,044,435	(6,562,202)	(892,940)	2,589,293
Transfer from affiliated organization	(3,590,329)		(3,590,329)	6,540,262		2,949,933
Unrealized loss on investments				(141,497)	(4,673,934)	(4,815,431)
Net assets released from restrictions for capital	1,060,071		1,060,071			1,060,071
Change in funded status of pension and post-retirement plans	(2,721,005)		(2,721,005)			(2,721,005)
Change in equity interest in the net assets of the Foundation		(14,560,208)	(14,560,208)			(14,560,208)
Increase (decrease) in unrestricted net assets	1,071,163	(10,838,199)	(9,767,036)	(163,437)	(5,566,874)	(15,497,347)
Temporarily restricted net assets:						
Transfer from affiliated organization	3,761,625		3,761,625			3,761,625
Net assets released from restrictions for operations	(10,436,117)		(10,436,117)		(272,224)	(10,708,341)
Net assets released from restrictions for capital	(1,060,071)		(1,060,071)			(1,060,071)
Bequests, gifts and grants	9,276,078		9,276,078		129,000	9,405,078
Change in equity interest in the net assets of the Foundation		(832,236)	(832,236)			(832,236)
Increase (decrease) in temporarily restricted net assets	1,541,515	(832,236)	709,279		(143,224)	566,055
Permanently restricted net assets:						
Change in funds held by others	(10,177,580)		(10,177,580)			(10,177,580)
Change in equity interest in the net assets of the Foundation		171,408	171,408			171,408
Increase in permanently restricted net assets	(10,177,580)	171,408	(10,006,172)	–	–	(10,006,172)
Increase (decrease) in net assets	(7,564,902)	(11,499,027)	(19,063,929)	(163,437)	(5,710,098)	(24,937,464)
Net assets at beginning of year	103,376,063	74,896,479	178,272,542	(1,043,839)	34,116,522	211,345,225
Net assets at end of year	$ 95,811,161	$ 63,397,452	$ 159,208,613	$ (1,207,276)	$ 28,406,424	$ 186,407,761