The Hospital of Central Connecticut

Independent Auditors' Report,
Consolidated Financial Statements
and Supplemental Information

As of and for the Years Ended
September 30, 2009 and 2008

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Saslow
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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Independent Auditors' Report

To the Board of Directors of
The Hospital of Central Connecticut:

We have audited the accompanying consolidated balance sheets of The Hospital of Central Connecticut (the Hospital), as of September 30, 2009 and 2008, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Grand Indemnity Company, LTD., a wholly owned subsidiary, whose statements reflect total assets of $29,080,626 as of September 30, 2009, and total revenues of $18,217,976 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Grand Indemnity Company, LTD., 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of The Hospital of Central Connecticut as of September 30, 2009 and 2008, and the results of its consolidated operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating information listed within the Table of Contents has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. However, in our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Saslow Lufkin & Buggy, LLP

December 15, 2009

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The Hospital of Central Connecticut
Consolidated Balance Sheets
September 30, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 22,241,282**	$ 24,658,830
Accounts receivable, less allowance for bad debts of $12,056,056 in 2009 and $13,115,000 in 2008	**36,493,910**	35,762,801
Premiums receivable	**317,861**	-
Reinsurance recoverable	**5,551,841**	-
Other receivables	**1,523,761**	2,500,358
Current portion of pledges receivable, net	**16,773**	231,411
Due from affiliates	**103,936**	47,085
Inventories	**4,999,628**	5,275,340
Prepaid expenses	**2,161,189**	2,106,212
Assets whose use is limited - cash and cash equivalents related to GIC	**3,228,000**	-
Assets whose use is limited - required for current liabilities	**69,761**	105,761
Total current assets	**76,707,942**	70,687,798
Assets whose use is limited:		
Cash and cash equivalents related to GIC	**19,352,734**	-
Assets held in trust under bond indenture	**-**	3,077
Assets held in trust under lease agreement	**-**	4,107,542
Assets held in trust by others	**13,240,758**	13,679,684
Board restricted endowment	**80,516,608**	75,844,041
Temporarily and permanently donor restricted investments	**21,726,622**	21,005,777
	134,836,722	114,640,121
Pledges receivable, net	**57,320**	69,161
Investments in affiliates	**4,035,350**	10,023,658
Other assets	**2,993,162**	2,753,012
Due from affiliates	**1,427,271**	7,242,405
Property, plant and equipment, net	**124,178,254**	130,418,300
Total assets	**$ 344,236,021**	$ 335,834,455
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 21,403,282**	$ 26,962,340
Accrued compensation	**13,045,926**	12,171,585
Unearned premiums	**224,227**	-
Reserve for losses and loss adjustment expenses	**3,228,000**	-
Deferred revenue	**760,583**	597,560
Due to third-party agencies	**14,739,235**	13,083,032
Current portion of long-term debt	**3,514,668**	3,818,623
Current portion of pension, self-insurance and other long-term liabilities	**18,550,000**	3,072,000
Total current liabilities	**75,465,921**	59,705,140
Reserve for losses and loss adjustment expenses	**18,869,933**	-
Long-term debt	**36,811,837**	40,533,043
Pension, self-insurance and other long-term liabilities	**89,660,009**	40,591,333
Total liabilities	**220,807,700**	140,829,516
Net assets:		
Unrestricted	**88,386,848**	159,990,495
Temporarily restricted	**15,200,271**	14,732,969
Permanently restricted	**19,841,202**	20,281,475
Total net assets	**123,428,321**	195,004,939
Total liabilities and net assets	**$ 344,236,021**	$ 335,834,455

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

The Hospital of Central Connecticut
Consolidated Statements of Operations
For the Years Ended September 30, 2009 and 2008

	2009	2008
Revenues:		
Net revenues from services to patients	**$ 372,308,377**	$ 348,969,000
Other operating revenues	**10,228,558**	9,091,294
Net premiums earned	**18,217,976**	-
Net assets released from restrictions		
used for operations	**777,708**	625,150
Total revenues	**401,532,619**	358,685,444
Expenses:		
Salaries and benefits	**206,493,495**	204,189,095
Supplies and other expenses	**127,489,113**	114,631,261
Provision for bad debts, net of recoveries of		
$3,129,789 in 2009 and $3,152,715 in 2008	**18,902,943**	16,934,910
Depreciation and amortization	**17,479,711**	15,420,700
Losses and loss adjustment expenses	**16,874,515**	-
Interest	**1,943,343**	2,624,221
Total expenses	**389,183,120**	353,800,187
Income from operations	**12,349,499**	4,885,257
Non-operating gains (losses):		
Investment income	**5,148,142**	3,693,387
Unrestricted gifts and bequests	**1,054,227**	1,732,372
(Losses) gains on sales of securities	**(904,524)**	692,347
Change in fair value of interest rate swap	**(1,971,035)**	(505,537)
Cost of debt defeasance	**-**	(1,562,310)
Total non-operating gains	**3,326,810**	4,050,259
Excess of revenues over expenses	**$ 15,676,309**	$ 8,935,516

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

The Hospital of Central Connecticut
Consolidated Statements of Changes in Net Assets
For the Years Ended September 30, 2009 and 2008

	2009	2008
Unrestricted net assets:		
Excess of revenues over expenses	**$ 15,676,309**	$ 8,935,516
Pension changes other than net periodic benefit costs	**(80,300,781)**	(2,253,175)
Debt forgiveness granted to CCHA	**(5,967,242)**	-
Net unrealized losses on investments	**(2,009,331)**	(15,739,381)
Net assets released from restrictions used for capital	**968,983**	2,002,216
Other changes	**28,415**	-
Change in unrestricted net assets	**(71,603,647)**	(7,054,824)
Temporarily restricted net assets:		
Net realized and unrealized gains (losses) on investments	**100,101**	(2,034,548)
Income from investments	**718,175**	490,434
Contributions	**1,395,717**	1,897,359
Net assets released from restrictions used for operations	**(777,708)**	(654,490)
Net assets released from restrictions used for capital	**(968,983)**	(2,002,216)
Change in temporarily restricted net assets	**467,302**	(2,303,461)
Permanently restricted net assets:		
Contributions	**27,069**	28,412
Other changes	**(28,415)**	-
Change in assets held in trust by others	**(438,927)**	(2,820,396)
Change in permanently restricted net assets	**(440,273)**	(2,791,984)
Change in net assets	**(71,576,618)**	(12,150,269)
Net assets at beginning of year	**195,004,939**	207,155,208
Net assets at end of year	**$ 123,428,321**	$ 195,004,939

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

The Hospital of Central Connecticut
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2009 and 2008

	2009	2008
Operating activities:		
Change in net assets	**$ (71,576,618)**	$ (12,150,269)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**17,479,711**	15,420,700
Provision for bad debts	**18,902,943**	16,934,910
Net realized and unrealized losses (gains) on assets whose use is limited	**2,448,258**	20,122,087
Restricted contributions and investment income	**(2,241,062)**	(381,657)
Debt forgiveness granted to CCHA	**5,967,242**	-
Changes in assets and liabilities:		
Accounts receivable	**(19,634,052)**	(16,114,819)
Premiums receivable	**(317,861)**	-
Reinsurance recoverable	**(5,551,841)**	-
Other receivables	**976,597**	(511,439)
Due from affiliates	**5,758,283**	(3,382,504)
Inventories	**275,712**	356,159
Prepaid expenses	**(54,977)**	(256,569)
Pledges receivable	**226,479**	343,593
Other assets	**(240,150)**	509,135
Accounts payable and accrued expenses	**(5,559,058)**	3,531,417
Accrued compensation	**874,341**	1,303,860
Unearned premiums	**224,227**	-
Reserve for losses and loss adjustment expenses	**22,097,933**	-
Deferred revenue	**163,023**	258,814
Due to third-party agencies	**1,656,203**	1,086,881
Pension, self-insurance and other long-term liabilities	**64,546,676**	(2,742,252)
Net cash provided by operating activities	**36,422,009**	24,328,047
Investing activities:		
Net increase in board designated and donor restricted investments	**(7,402,743)**	(5,603,769)
Net increase in cash and cash equivalents related to GIC	**(22,580,734)**	-
Net decrease in assets held in trust under bond indenture	**39,077**	4,373,387
Net decrease (increase) in assets held in trust under lease agreement	**4,107,542**	(4,107,542)
Purchases of property, plant and equipment	**(11,239,665)**	(30,221,072)
Net decrease in investments in affiliates	**5,988,308**	1,019,923
Net cash used in investing activities	**(31,088,215)**	(34,539,073)
Financing activities:		
Debt forgiveness granted to CCHA	**(5,967,242)**	-
Principal payments on long-term debt, capital leases and line of credit	**(4,025,162)**	(40,916,831)
Proceeds from borrowings of long-term debt	**-**	42,330,000
Restricted contributions and investment income	**2,241,062**	381,657
Net cash (used in) provided by financing activities	**(7,751,342)**	1,794,826
Change in cash and cash equivalents	**(2,417,548)**	(8,416,200)
Cash and cash equivalents at beginning of year	**24,658,830**	33,075,030
Cash and cash equivalents at end of year	**$ 22,241,282**	$ 24,658,830

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

Note 1 - General

The Hospital of Central Connecticut (the Hospital), a voluntary, tax-exempt association incorporated under the General Statutes of the State of Connecticut, is a wholly owned subsidiary of Central Connecticut Health Alliance (CCHA or the Alliance). The Board of Directors is appointed by CCHA and oversees the operations of the Hospital. The Hospital has a wholly owned subsidiary, Grand Indemnity Company, Ltd. (GIC), which was incorporated under the laws of Bermuda, as a Class 2 insurer, on January 6, 2009. GIC underwrites claims made hospital medical professional liability and general liability insurance on behalf of the Hospital. GIC also underwrites provider medical insurance for the individual physicians in private practice who support the Hospital.

In August 2009, CCHA signed a Memorandum of Understanding and Summary of Terms (MOU) with Hartford Health Care Corporation to document the intentions of entering into a full corporate affiliation. The MOU had no effect on the consolidated financial statements as of September 30, 2009.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The 2008 financial statements were not consolidated, as GIC was not formed until January 6, 2009. The consolidated financial statements include the accounts of the Hospital and GIC. All significant inter-company balances and transactions have been eliminated in consolidation.

Recent Accounting Pronouncements - In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 168, *"FASB Accounting Standards Codification (ASC) and the Hierarchy of Generally Accepted Accounting Principles (GAAP) - A Replacement of FASB Statement No. 162."* This guidance establishes the FASB Accounting Standards Codification (the Codification) as the source of authoritative GAAP. The Codification supersedes all existing non-SEC accounting and reporting standards. Rules and interpretive releases of the SEC under authority of federal securities laws will remain authoritative GAAP for SEC registrants. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

As the Codification will not change existing GAAP, the adoption of this guidance did not have an impact on the Hospital's consolidated financial condition or results of operations.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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.

Note 2 - Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents - The Hospital considers all highly liquid investments with remaining maturities of three months or less at date of purchase to be cash equivalents. Cash balances maintained at banks are insured by the Federal Deposit Insurance Corporation (FDIC). At times the Hospital maintains cash balances that are in excess of the $250,000 insured FDIC limits. In addition, FDIC coverage for balances in non-interest bearing transaction deposit accounts is unlimited if the bank elects to participate. The Hospital maintains its cash at five banks, and it is the Hospital's policy to monitor the banks financial strength on an ongoing basis.

Inventories - Inventories, used in general operations of the Hospital, are stated using the average cost method.

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

Board Restricted Endowment - As of September 30, 2009 and 2008, the Hospital has $80,516,608 and $75,844,041, respectively, of unrestricted investments, which have been restricted by the Board of Directors and are not available for use without the approval of the Board of Directors.

Investments in Affiliates - Investments in affiliates are accounted for using the equity method of accounting. Equity income related to investments in affiliates included in other operating revenues was approximately $1,977,897 and $99,545 in 2009 and 2008, respectively, and is included within other operating revenues on the consolidated statements of operations.

Donor Restricted Gifts - Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the donation is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limits 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 operations as net assets released from restrictions.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities and mutual funds are measured at fair value, based upon quoted market prices. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the losses are deemed to be other than temporary.

Note 2 - Summary of Significant Accounting Policies (continued)

Effective October 1, 2008, the Hospital adopted provisions of FASB ASC 820-10, *"Fair Value Measurements and Disclosures"*, (ASC 820-10). For financial statement elements currently required to be measured at fair value, ASC 820-10 redefines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America, and enhances disclosures about fair value measurements. The new definition of fair value focuses on the price that would be received to sell the asset or paid to transfer the liability, which is referred to as the exit price. ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels (Level 1, 2 and 3).

> Level 1 - Observable inputs that reflect quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access at the measurement date.
>
> Level 2 - Observable inputs, other than quoted prices included in Level 1, for the asset or liability or prices for similar assets and liabilities.
>
> Level 3 - Unobservable inputs reflecting the Hospital's estimates of the assumptions that market participants could use in pricing the asset or liability (including assumptions about risk).

Other Than Temporary Impairments on Investments - When a decline in fair market value is deemed to be other than temporary, a provision for impairment is charged to earnings, included in net realized investment gains (losses), and the cost basis of that investment is reduced.

For equity securities, the Hospital's management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in a unrealized loss position, extent to which the fair value is less than cost, the financial condition and near term prospects of the issuer and the Hospital's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. There were no impairments related to equity securities which were recorded in 2009 and 2008.

The Hospital adopted FASB ASC 320-10, *"Investments - Debt and Equity Securities"* (which encompassed Financial Staff Position (FSP) Financial Accounting Standard (FAS) 115-2 and FAS 124-2, *"Recognition and Presentation of Other Than Temporary Impairments"* (FSP FAS 115-2/124-2), which relates to fixed income securities.

This guidance requires the Hospital to evaluate whether it intends to sell an impaired fixed income security or whether it is more likely than not that it will be required to sell an impaired fixed income security before recovery of the amortized cost basis. If either of these criteria are met, an impairment equal to the difference between the fixed income securities amortized cost and its fair value is recognized in earnings.

Note 2 - Summary of Significant Accounting Policies (continued)

The Hospital adopted FASB ASC 320-10, *"Investments - Debt and Equity Securities"* (which encompassed Financial Staff Position (FSP) Financial Accounting Standard (FAS) 115-2 and FAS 124-2, *"Recognition and Presentation of Other Than Temporary Impairments"* (FSP FAS 115-2/124-2), which relates to fixed income securities.

This guidance requires the Hospital to evaluate whether it intends to sell an impaired fixed income security or whether it is more likely than not that it will be required to sell an impaired fixed income security before recovery of the amortized cost basis. If either of these criteria are met, an impairment equal to the difference between the fixed income securities has amortized cost and its fair value is recognized in earnings.

For impaired fixed income securities that do not meet these criteria, the Hospital determines if a credit loss exists with respect to the impaired security. If a credit loss exists, the credit loss component of the impairment (i.e., the difference between the security's amortized cost and its projected net present value) is recognized in earnings and the remaining portion of the impairment is recognized as a component of unrestricted net assets. There were no impairments related to fixed income securities which were recorded in 2009 or 2008.

Investments in Joint Ventures **-** The Hospital has invested in several joint ventures and limited liability companies, which are accounted for under the equity method of accounting.

	Ownership Percentage
New Britain Alliance Occupational Health	86%
Central Connecticut Sports Medicine	50%
New Britain MRI Limited Partnership	43%
Total Laundry Collaborative LLC	37%
Central Connecticut Endoscopy Center	13%

Investments in limited liability companies are accounted for using the equity method in accordance with FASB ASC 272-10, *"Limited Liability Entities"*. New Britain Alliance Occupational Health is not consolidated within the financial statements of the Hospital as of September 30, 2009 and 2008, as it is immaterial to the consolidated financial statements.

Property, Plant and Equipment **-** Property, plant and equipment are stated at cost. Improvements and major renewals are capitalized and maintenance and repairs are charged to expense as incurred. The Hospital provides for depreciation of property, plant and equipment and assets under capital leases using the straight-line method in amounts sufficient to amortize the cost of its assets over their estimated useful lives or the lease term.

Amortization of intangible assets is included in depreciation expense. The Hospital leases various medical equipment under capital leases with terms of 5 years.

Note 2 - Summary of Significant Accounting Policies (continued)

Excess of Revenues Over Expenses **-** The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, except for losses that are deemed to be other than temporary, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Non-Operating Gains and Losses **-** Activities not related to providing health care services are considered to be non-operating.

Non-operating gains and losses consist primarily of income on invested funds, unrestricted gifts and bequests, gains and losses on sales of securities, other than temporary losses on marketable securities and changes in the fair value of its interest rate debt instruments. In 2008, the Hospital refinanced its debt and incurred defeasance cost of $1,562,310, which was recorded as a non-operating loss.

Income Taxes **-** The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. At times, the Hospital is involved with activities that subject minor amounts of unrelated business federal income tax, which are paid as they come due in accordance with the Code and the regulations there under. Such amounts are insignificant to the Hospital's consolidated financial statements.

GIC is an insurance company organized under the laws of Bermuda. GIC has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until the year 2016.

Effective October 1, 2007, the Hospital adopted certain provisions of FASB ASC 740-10, *"Income Taxes"* (ASC 740-10), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a company's tax position taken or expected to be taken in a tax return. ASC 740-10 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of ASC 740-10 did not have any impact on the accompanying consolidated financial statements as the Hospital or GIC do not believe they have any uncertain tax positions.

Subsequent Events **-** Subsequent events have been evaluated through December 15, 2009, the date through which procedures were performed to prepare the consolidated financial statements for issuance.

Reclassifications **-** Certain reclassifications to the 2008 consolidated financial statements have been made in order to conform to the 2009 presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

Unpaid Losses and Loss Adjustment Expenses - The reserve for losses and loss adjustment expenses and related reinsurance recoverable includes case basis estimates of reported losses, plus supplemental amounts calculated based upon loss projections utilizing actuarial studies, the Hospital's own historical data and industry data. In establishing this reserve and the related reinsurance recoverable, GIC utilizes the findings of an independent consulting actuary. Management believes that its aggregate reserve for losses and loss adjustment expenses and related reinsurance recoverable at year end represents its best estimate, based on the available data, of the amount necessary to cover the ultimate cost of losses; however, because of the nature of the insured risks and limited historical experience, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such asset and liability at the consolidated balance sheet date. Accordingly, the ultimate asset and liability could be significantly in excess of or less than the amount indicated in these consolidated financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Recognition of Premium Revenues - Premiums written are earned on a pro-rata basis over the related policy period. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums.

Reinsurance - In the normal course of business, GIC seeks to reduce its loss exposure by reinsuring certain levels of risk with reinsurers. Reinsurance is accounted for in accordance with FASB ASC 944-20, *"Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts"*. Premiums ceded are expensed over the term of their related policies.

Note 3 - Net Revenues from Services to Patients and Charity Care

The following table summarizes net revenues from services to patients.

	2009	2008
Gross revenues from patients	**$ 834,657,877**	$ 837,093,313
Deductions:		
Allowances	**459,849,366**	482,939,776
Connecticut Uncompensated Care Pool	**(4,575,350)**	(3,912,421)
Charity care	**7,075,484**	9,126,298
Net assets released for free care	-	(29,340)
	462,349,500	488,124,313
	$ 372,308,377	$ 348,969,000

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

Patient revenues and accounts receivable are recorded when services are performed. Payments received from certain payers are different from established billing rates of the Hospital, and these differences are accounted for as allowances. During 2009 and 2008, approximately 36% and 37%, respectively, of net patient revenue was received under the Medicare program, 12% and 10%, respectively, under the state Medicaid program, and 52% and 53%, respectively, from contracts with other third parties and self-pay patients.

The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized federal poverty income levels. These charges are not included in net patient service revenues for financial reporting purposes. In addition, temporarily restricted net assets have been released from restrictions to provide free care for 2008. No temporarily restricted net assets have been released for 2009.

Net patient revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payers.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation.

Hospital management believes that the Hospital is in compliance with all applicable laws and regulations and is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and reductions of funding levels could have an adverse impact on the Hospital.

The Hospital has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

Note 4 - Investments

The Hospital has investments whose use is limited, which are carried on the consolidated balance sheets within cash and cash equivalents related to GIC, assets held by trustees under bond indenture agreements related to financing activities with the State of Connecticut Health and Educational Facilities Authority (CHEFA), assets held in trust under lease agreements, assets held in trust by others, board restricted endowment and temporary and permanently donor restricted investments. The portion of these amounts required for funding current liabilities is included in current assets.

The composition of assets whose use is limited is set forth in the following table.

	2009	**2008**
Cash and cash equivalents	**$ 23,465,196**	$ 1,037,435
Mutual funds	**50,613,172**	47,885,640
Collective investment funds	**50,524,403**	52,035,061
Fixed income securities	**5,197,972**	5,063,385
Equity securities	**7,733,838**	8,052,851
Alternative investments	**599,902**	671,510
	$ 138,134,483	$ 114,745,882

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The composition of the mutual funds are 49% bonds, 44% equities and 7% foreign securities as of September 30, 2009 and 44% bonds, 49% equities and 7% foreign securities as of September 30, 2008.

Investments are recorded at fair value in accordance with ASC 820-10 as described in Note 2. The Hospital measures the fair value of these securities as of September 30, 2009 as follows:

	Quoted Prices in Active Markets (Level 1)	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Mutual funds	$ 50,613,172	$ -	$ -
Collective investment funds	-	50,524,403	-
Fixed income securities	5,197,972	-	-
Equity securities	7,733,838	-	-
Alternative investments	-	-	599,902
	$ 63,544,982	$ 50,524,403	$ 599,902

Note 4 - Investments (continued)

The alternative investments include hedge funds and real estate securities and are classified as level 3 in accordance with ASC 820-10. These investments are included in assets held in trust by others and are under the control of the trustee as of September 30, 2009.

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2009 and 2008.

2009	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$ 8,490,394	$ (9,234)	$ 8,796,057	$ (219,079)	$17,286,451	$ (228,313)
Alternative investments	6,831	(3,050)	-	-	6,831	(3,050)
	$ 8,497,225	$ (12,284)	$ 8,796,057	$ (219,079)	$17,293,282	$ (231,363)

2008	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	$ -	$ -	$43,589,117	$ (1,559,181)	$43,589,117	$ (1,559,181)
Fixed income	343,761	(20,349)	-	-	343,761	(20,349)
	$ 343,761	$ (20,349)	$43,589,117	$ (1,559,181)	$43,932,878	$ (1,579,530)

No impairment loss was recognized during 2009 or 2008, as no investments were less than twenty percent of cost and in an unrealized loss position for more than one year.

Interest and dividend income on the unrestricted investments totaled $5,148,142 and $3,693,387 for the years ended September 30, 2009 and 2008, respectively. Realized (losses) gains on the investments totaled ($904,524) and $692,347 for the years ended September 30, 2009 and 2008, respectively.

Note 5 - Endowments (Board Designated, Temporary and Permanent)

The Hospital's endowments consist of multiple funds established for a variety of purposes. The endowments include both donor-restricted endowment funds, funds designated by the Board of Directors to function as endowments and assets held in trust by others. As required by accounting principles generally accepted in the United States of America, endowments, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor restrictions.

Note 5 - Endowments (Board Designated, Temporary and Permanent) (continued)

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

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

The net asset composition of the Hospital's endowments, including board designated investments, as of September 30, 2009 are as follows.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 80,516,608	$ -	$ -	$ 80,516,608
Beneficial trusts	-	-	13,240,758	13,240,758
Donor restricted	-	15,126,178	6,600,444	21,726,622
	$ 80,516,608	$ 15,126,178	$ 19,841,202	$ 115,483,988

The net asset composition of the Hospital's endowments as of September 30, 2008 are as follows.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 75,844,041	$ -	$ -	$ 75,844,041
Beneficial trusts	-	-	13,679,684	13,679,684
Donor restricted	-	14,403,986	6,601,791	21,005,777
	$ 75,844,041	$ 14,403,986	$ 20,281,475	$ 110,529,502

Note 5 - Endowments (Board Designated, Temporary and Permanent) (continued)

Changes in endowments for the year ended September 30, 2009 are as follows.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at October 1, 2008	$ 75,844,041	$ 14,403,986	$ 20,281,475	$ 110,529,502
Investment return:				
Investment income	3,665,582	718,175	-	4,383,757
Net change in market value	166,178	100,101	(438,927)	(172,648)
Other changes	28,415	-	(28,415)	-
Contributions	812,392	1,395,717	27,069	2,235,178
Expenditures	-	(1,491,801)	-	(1,491,801)
Balance at September 30, 2009	$ 80,516,608	$ 15,126,178	$ 19,841,202	$ 115,483,988

Endowments and pledges receivable that are temporarily restricted are available for the following as of September 30, 2009 and 2008.

	2009	2008
Indigent care	**$ 662,293**	$ 643,297
Other healthcare services and capital acquisitions	**14,537,978**	14,089,672
	$ 15,200,271	$ 14,732,969

Endowments that are permanently restricted are available for the following as of September 30, 2009 and 2008.

	2009	2008
Held in perpetuity with income restricted for operations	**$ 6,600,444**	$ 6,601,791
Beneficial trusts	**13,240,758**	13,679,684
	$ 19,841,202	$ 20,281,475

Funds with Deficiencies **-** From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2009 and 2008, there were no funds that were below the level required by donor or law.

Note 5 - Endowments (Board Designated, Temporary and Permanent) (continued)

Return Objectives and Risk Parameters **-** The Hospital's investment and spending policies for endowment assets attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

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

Spending Policy **-** During its annual budgeting process, the Hospital appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The Hospital has appropriated $1,746,691 and $2,679,286 of funds for expenditure from its temporarily restricted endowment funds for the year ending September 30, 2009 and 2008, respectively. The Hospital has not appropriated funds for expenditure from its board restricted endowment funds for the years ending September 30, 2009 and 2008. The board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Hospital.

Note 6 - Property, Plant and Equipment

Property, plant and equipment consist of the following as of September 30, 2009 and 2008.

	2009	**2008**
Land	**$ 2,572,259**	$ 2,572,259
Buildings and improvements	**189,498,383**	183,242,839
Equipment	**157,667,774**	153,101,105
	349,738,416	338,916,203
Less: accumulated depreciation	**(229,023,210)**	(211,827,177)
	120,715,206	127,089,026
Construction in progress	**3,463,048**	3,329,274
	$ 124,178,254	$ 130,418,300

The cost to complete the construction in progress is $3,300,000 and $4,500,000 as of September 30, 2009 and 2008, respectively. Depreciation and amortization expense for the years ended September 30, 2009 and 2008 amounted to $17,479,711 and $15,420,700, respectively. Equipment held under capital leases of $10,440,000 are included in equipment as of September 30, 2009 and 2008.

Note 7 - Pledges Receivable

The Hospital has received unconditional promises to give and estimates the year of receipt to the extent possible. The anticipated present value of the pledges to be received is as follows as of September 30, 2009.

Year	Pledges
2009	$ 18,637
2010	63,689
Less: allowance for uncollectible pledges	(8,233)
	$ 74,093

Unconditional promises to give have been discounted at a rate commensurate with the risks involved. As of September 30, 2009 and 2008, the unamortized discount deducted from pledges was $3,259 and $15,586, respectively.

Note 8 - Long-Term Debt, Lines of Credit and Capital Leases

In July 2008, the Hospital advance refunded its CHEFA Series B revenue bonds by issuing CHEFA Series A, variable rate, demand revenue bonds, under a Trust Indenture with U.S. Bank National Association (the Trustee) in the amount of $33,690,000, of which $32,115,000 and $33,690,000 are outstanding as of September 30, 2009 and 2008, respectively. The Series A bonds mature on July 1, 2024 and are subject to redemption provisions prior to their maturity. The redemptions begin on July 1, 2009 and continue annually thereafter by operation of a sinking fund. Interest on the bonds is based on a variable rate, which has been converted to a 3.75% fixed rate debt instrument through an interest rate swap agreement with Bank of America, NA.

The CHEFA Series B bonds were defeased in 2008, and the Hospital recorded a $1,562,310 defeasance cost within non-operating gains (losses) in the consolidated statement of operations for the year ended September 30, 2008.

Pursuant to the CHEFA loan agreement, the Hospital is obligated to pay amounts sufficient to enable CHEFA to pay the principal and interest due on the Series A bonds. The debt is secured by a separate irrevocable, direct-pay letter of credit issued by Bank of America, NA., which expires on August 8, 2011, subject to extension or earlier termination upon the occurrence of certain events. The bonds are secured by a pledge of gross receipts of the Hospital.

The loan agreement and letter of credit agreement place certain limits on the incurrence of additional borrowings of the Hospital and require that the Hospital satisfy certain measures of financial performance while the bonds are outstanding, including a debt service coverage ratio of 1.25 to 1 and other covenants similar in financings of this type. As of September 30, 2009 and 2008, the Hospital is in compliance with these covenants.

Note 8 - Long-Term Debt, Lines of Credit and Capital Leases (continued)

The Hospital's interest rate swap agreement expires on July 1, 2024. The Hospital is required to pay interest on the notional amount, which is equal to the outstanding balance on the CHEFA Series A tax-exempt demand bonds, at a fixed rate of 3.75%. The objective of this cash flow hedge is to protect cash flows paid for interest from adverse extreme market interest rate changes. The counterparty to the swap agreement will pay interest at a rate equal to the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index, formerly the Bond Market Association Municipal Swap Index. The difference between the actual variable rate on the debt and the rate of the SIFMA Municipal Swap Index paid by the counterparty will be recorded by the Hospital as an increase or decrease of interest expense depending on the relationship of the index to the actual variable rate on the debt.

The interest rate swap agreement met the definition of a derivative instrument under FASB ASC 815-20, "*Derivatives and Hedging*" (ASC 815-20). Consequently, the fair value of the interest rate swap (a liability of $2,476,572 and $505,537 as of September 30, 2009 and 2008, respectively) has been recorded in the accompanying consolidated balance sheets within other long-term liabilities. The Hospital measures the fair value of this derivative instrument as Level 3, as defined in Note 2, in accordance with ASC 820-10.

The change in fair value of the interest rate swap of $1,971,035 and $505,537 for the years ended September 30, 2009 and 2008, respectively, is recorded in the consolidated statements of operations as a component of non-operating income, due to the fact that the effectiveness of the interest rate swap was not measured. The Hospital and its counterparty in the interest rate swap agreement are exposed to credit risk in the event of nonperformance or early termination of the agreement.

Expenses associated with the issuance of CHEFA debt were deferred and are being amortized over the life of the related debt. These costs, of approximately $428,657 and $479,194 as of September 30, 2009 and 2008, net of amortization, are included in other assets in the accompanying consolidated balance sheets, respectively.

The fair value of the CHEFA debt outstanding, using discounted cash flow analyses is $36,517,939 and $38,454,293 as of September 30, 2009 and 2008, respectively.

In 2006, the Hospital entered into a deferred payment arrangement with a vendor for the enhancement of certain information systems and previously deferred system maintenance costs. The principal and interest were due in 74 monthly installments of $54,366, which began in 2007. In 2008, the Hospital amended its master agreement and the vendor forgave this obligation. During 2008, the Hospital recognized forgiveness income of $2,597,072, which was included within supplies and other expenses, as a reduction to information systems expenses.

Note 8 - Long-Term Debt, Lines of Credit and Capital Leases (continued)

In October 1996, the Hospital entered into a financing agreement with a bank for a twenty-year mortgage note of $450,000 with a five-year interest rate of 9.1%. On the fifth-year and for each subsequent fifth-year anniversary, the interest rate will be adjusted to the Federal Home Loan Bank's five-year advance rate to its member banks plus 2.5%. The bank has a lien on the Hospital's Bradley campus buildings. During 2009, the Hospital paid the note in full. The outstanding balance on this loan as of September 30, 2008 was $214,293. The interest rate on the mortgage note was 7.23% as of September 30, 2008.

In October 2005, the Hospital entered into a ten-year non-interest bearing loan agreement for $2,400,000 from the Barnes Memorial Trust. The Hospital is required to make annual payments of $240,000 toward the loan. The outstanding balance on this loan as of September 30, 2009 and 2008 was $1,504,422 and $1,744,422, respectively.

In October 2004, the Hospital entered into a five-year, $1,800,000 capital lease agreement with CHEFA for MRI equipment. This lease has an interest rate of 4.07%. The bank has a lien on the MRI equipment. The outstanding balance on this lease as of September 30, 2009 and 2008 was $32,982 and $420,182, and the net book value of the leased equipment was $540,170 and $943,074, respectively.

In May 2008, the Hospital entered into a five-year, $4,950,000 capital lease agreement with CHEFA for novalis medical equipment. This lease has an interest rate of 3.75%. The bank has a lien on the novalis medical equipment. The outstanding balance on this lease as of September 30, 2009 and 2008 was $3,718,249 and $4,648,046, and the net book value of the leased equipment was $4,376,999 and $5,005,570, respectively.

In August 2008, the Hospital entered into a five-year, $3,690,000 capital lease agreement with CHEFA for pet scan equipment. This lease has an interest rate of 4.27%. The bank has a lien on the pet scan equipment. The outstanding balance on this lease as of September 30, 2009 and 2008 was $2,955,852 and $3,634,723 and the net book value of the leased equipment was $3,272,918 and $3,742,845, respectively.

The Hospital has an available line of credit with a director-related bank for credit availability of up to $2,000,000. There were no outstanding balances under this line of credit as of September 30, 2009 and 2008. The line of credit was at customary terms and carried a variable rate of interest equal to the prevailing prime rate of a large New York-based bank (2.25% and 3.00% as of September 30, 2009 and 2008, respectively). The line of credit is reviewed annually each February.

During the years ended September 30, 2009 and 2008, the Hospital paid interest of $1,955,937 and $1,457,412, respectively.

Note 8 - Long-Term Debt, Lines of Credit and Capital Leases (continued)

The following is a schedule of future principal payments by fiscal year on long-term debt as of September 30, 2009.

	CHEFA	Notes Payable	Capital Leases	Total
Year:				
2010	$ 1,570,000	$ 240,000	$ 1,941,126	$ 3,751,126
2011	1,635,000	240,000	1,908,143	3,783,143
2012	1,705,000	240,000	1,908,143	3,853,143
2013	1,780,000	240,000	1,477,318	3,497,318
2014	1,855,000	240,000	-	2,095,000
Thereafter	23,570,000	304,422	-	23,874,422
	32,115,000	1,504,422	7,234,730	40,854,152
Less: interest	-	-	527,647	527,647
Less: current portion	1,570,000	240,000	1,704,668	3,514,668
Long-term portion	$ 30,545,000	$ 1,264,422	$ 5,002,415	$ 36,811,837

Note 9 - Retirement Plans

The Hospital has two noncontributory, defined benefit pension plans (New Britain and Bradley campuses) covering substantially all of its employees hired prior to January 1, 2006. Benefits are based on years of service and the employee's compensation during the last five years of employment. Employees hired after January 1, 2006 are eligible to participate in a defined contributions plan, as the defined benefit plans are closed to employees hired after January 1, 2006. In addition, the Hospital has a Supplemental Executive Retirement Plan (SERP) under section 457(b) of the Internal Revenue Code of 1986, as amended. The SERP has been established to supplement the retirement benefits of eligible employees designated by the Hospital's Board of Directors. The accrued liability relating to the SERP, which is funded annually, amounted to $2,279,243 and $1,733,145 as of September 30, 2009 and 2008, respectively. The expenses incurred related to the SERP amounted to $324,996 and $399,999 for the years ended September 30, 2009 and 2008, respectively.

Note 9 - Retirement Plans (continued)

Significant disclosures relating to the retirement benefit plans, which are measured as of September 30, 2009 and 2008 are as follows.

	NBGH		Bradley	
	2009	**2008**	**2009**	**2008**
Change in benefit obligation:				
Benefit obligation, beginning of year	**$ (177,241,598)**	$ (195,850,364)	**$ (23,433,887)**	$ (26,884,848)
Service cost	**(5,843,344)**	(6,973,192)	**(779,621)**	(932,602)
Interest cost	**(13,230,084)**	(12,148,487)	**(1,695,676)**	(1,608,401)
Actuarial (loss) gain	**(62,642,366)**	31,961,320	**(6,772,207)**	4,967,959
Benefits paid	**5,708,219**	5,321,369	**809,219**	769,442
Administrative expenses paid	**362,955**	447,756	**195,238**	254,563
Benefit obligation, end of year	**$ (252,886,218)**	$ (177,241,598)	**$ (31,676,934)**	$ (23,433,887)
Change in plan assets:				
Fair value of plan assets, beginning	**$ 146,708,221**	$ 162,748,090	**$ 20,086,281**	$ 22,713,998
Actual return on plan assets	**4,668,228**	(22,675,744)	**538,043**	(3,234,712)
Employer contributions	**21,200,000**	12,405,000	**2,700,000**	1,631,000
Benefits paid	**(5,708,219)**	(5,321,369)	**(809,219)**	(769,442)
Administrative expenses paid	**(362,955)**	(447,756)	**(195,238)**	(254,563)
Fair value of plan assets, end of year	**$ 166,505,275**	$ 146,708,221	**$ 22,319,867**	$ 20,086,281
Accrued pension liability:				
Unfunded status	**$ (86,380,943)**	$ (30,533,377)	**$ (9,357,067)**	$ (3,347,606)
Components of net periodic benefit cost:				
Service cost	**$ 5,843,344**	$ 6,973,192	**$ 779,621**	$ 932,602
Interest cost	**13,230,084**	12,148,487	**1,695,676**	1,608,401
Expected return on plan assets	**(14,270,744)**	(12,612,042)	**(1,682,513)**	(1,853,974)
Net amortization and deferral	**(437,574)**	957,525	**298,352**	236,493
Net periodic benefit cost	**$ 4,365,110**	$ 7,467,162	**$ 1,091,136**	$ 923,522
Assumptions:				
Weighted average assumption used to determine benefit obligations were:				
Discount rate	**5.60%**	7.50%	**5.60%**	7.50%
Rate of compensation increase	**4.00%**	4.25%	**4.00%**	4.00%
Weighted average assumption used to determine periodic benefit cost were:				
Discount rate	**7.50%**	6.25%	**7.50%**	6.25%
Rate of compensation increase	**4.25%**	4.25%	**4.00%**	4.25%
Expected return on plan assets	**8.25%**	8.25%	**8.25%**	8.25%

The unfunded status of the accrued pension liability is included within the current and long-term portion of the pension, self-insurance and other long-term liabilities on the accompanying consolidated balance sheets. The accumulated benefit obligation for the NBGH plan was $210,992,926 and $148,956,186 as of September 30, 2009 and 2008, respectively. The accumulated benefit obligation for the Bradley plan was $27,914,163 and $20,819,366 as of September 30, 2009 and 2008, respectively.

Note 9 - Retirement Plans (continued)

Pension changes other than net periodic benefit costs, for the years ended September 30, 2009 and 2008 resulted in a decrease to unrestricted net assets of $80,300,781 and $2,253,175, respectively. These changes have been reflected in the consolidated statements of net assets. The reason for the large increase in 2009 is attributable to the decrease in the discount rate assumption.

The Hospital's expected long-term rate of return on plan assets is updated periodically, taking into consideration asset allocation, historical return on the type of assets held and the current economic environment.

The Hospital's investment objective is to meet the outgoing payout requirements of the plans' and to offset future inflation and minimize future contributions. The target allocation percentages are 65% in equities, 32% in fixed income securities and 3% in cash. The performance goal is to have a minimum total return of the CPI plus 3% over a rolling ten-year period.

Accumulated amounts recorded in unrestricted net assets as of September 30, 2009 not yet amortized as components of net periodic benefit costs are as follows.

	NBGH	Bradley
Unamortized prior service (credit) costs	$ (2,067,983)	$ 121,177
Unamortized actuarial loss	98,643,342	12,975,234
Amount recognized as a reduction in unrestricted net assets	$ 96,575,359	$ 13,096,411

The amortization of the above items expected to be recognized in net periodic benefit costs for the year ended September 30, 2010 is $5,340,424.

The Hospital measures the fair value of the plan securities in accordance with ASC 820-10 as of September 30, 2009 as follows.

	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds	$ 63,622,205	$ -	$ -
Money market funds	-	1,266,072	-
Collective investment funds	-	118,403,907	-
Alternative investments	-	-	5,532,958
	$ 63,622,205	$ 119,669,979	$ 5,532,958

Note 9 - Retirement Plans (continued)

As of October 1, 2008, the value of the alternative investment was $0. During the year ending September 30, 2009, the value increased for contributions in the amount of $5,044,174, investment income of $120,341, net unrealized and realized gains of $445,988 and decreased for expenses of $77,545.

The Hospital expects to make contributions of $16,300,000 to the NBGH plan, $1,925,000 to the Bradley plan and $325,000 to its SERP during fiscal 2010.

The following benefit payments, which reflect expected future service, are expected to be paid during the fiscal years indicated.

Benefit Payments	NBGH	Bradley
Year:		
2010	$ 6,440,154	$ 969,105
2011	$ 6,851,163	$ 1,018,399
2012	$ 7,728,002	$ 1,128,270
2013	$ 8,498,890	$ 1,236,819
2014	$ 9,303,379	$ 1,350,706
2015-2019	$ 66,178,978	$ 9,174,266

The Hospital has a defined contribution benefit plan, which became effective January 1, 2006. Substantially all full-time employees, hired after January 1, 2006, are eligible to participate in the new plan. Employees may contribute a percentage of their annual contribution subject to IRS limitations and the Hospital contributes up to 4% of annual compensation for employees that work greater than 20 hours a week and 3% of annual compensation for employees that work less than 20 hours a week. The Hospital has made employer contributions to this plan totaling $1,974,091 and $1,592,367 and for the years ended September 30, 2009 and 2008, respectively. Employees become vested in the Hospital’s contributions over three years. The portion of the employer contributions unvested upon termination of an employee are forfeited and used to reduce future contributions made by the Hospital on a dollar-for-dollar basis.

Note 10 - Medical Malpractice Insurance

As of September 30, 2008, the Hospital purchased limits of professional and general liability from Partners Interinsurance Exchange (PIE) to cover risks up to specified limits under a claims-made policy. PIE was a licensed Vermont reciprocal captive insurance company and a joint venture among four entities, including the Hospital. Professional liability limits through PIE covered the first $2,000,000 per claim and $8,000,000 in aggregate annually under a claims-made policy. The Hospital also purchased excess liability coverage through PIE for claims in excess of $2,000,000 and $8,000,000 annually, up to an annual aggregate limit of $35,000,000.

Note 10 - Medical Malpractice Insurance (continued)

Effective January 6, 2009, the Hospital transferred all assets and liabilities from PIE to GIC through a loss portfolio transfer. GIC, which is a wholly owned subsidiary of the Hospital, provides professional and general liability coverage on a claims-made basis to the Hospital, as further discussed in Note 16.

The Hospital no longer self-insures any malpractice risks other than exposures greater than its excess coverages, however, as of September 30, 2009 and 2008, the Hospital has recorded a liability for estimated incurred but not reported claims, as it currently has a claims-made policy with PIE and GIC.

Note 11 - Self-Insurance of Workers' Compensation

The Hospital self-insures workers' compensation claims with retention on the first $350,000 per claim. The Hospital has also purchased excess liability insurance, which provides coverage for workers' compensation claims in excess of $350,000, and up to aggregate limits of $1,000,000 per employers' liability claim. The self-insurance plan is unfunded.

During the year, potential losses from asserted and unasserted claims identified by the Hospital's risk management system are accrued based upon estimates that incorporate the Hospital's past experience, as well as the nature of each claim or incident and relevant trend factors.

The Hospital's year-end workers' compensation reserve, as estimated by Hospital management in conjunction with its independent actuaries, is included in pension, self-insurance and other long-term liabilities on the consolidated balance sheets and is discounted at 2.0% and 2.5% in 2009 and 2008, respectively. The balances as of September 30, 2009 and 2008 are $1,977,591 and $1,666,000, respectively.

Note 12 - Transactions with Affiliated Entities

Due from affiliates on the accompanying consolidated balance sheets represent amounts due from CCHA of $1,427,271 and $7,242,405 and from other affiliates of $103,936 and $47,085 for the years ended September 30, 2009 and 2008, respectively. CCHA provides administrative and management services to the Hospital, there is no formal agreement and the monthly fee is agreed to during the budget process of CCHA. During 2009, the Hospital forgave $5,967,242 due from CCHA, which has been included within the consolidated statement of changes in net assets as of September 30, 2009.

Note 13 - Leases

The Hospital has leases for various equipment and office space, which are accounted for as operating leases. Operating lease expense in 2009 and 2008 was approximately $3,746,615 and $3,653,857, respectively.

Note 13 - Leases (continued)

As of September 30, 2009, future lease commitments on noncancelable leases with remaining terms of one year or more consisted of the following:

Year	Operating Leases
2010	$ 2,178,558
2011	1,813,711
2012	1,065,374
2013	590,553
2014	590,553
Thereafter	770,830
	$ 7,009,579

Note 14 - Contingencies

The Hospital is a party to various lawsuits incidental to its business. Management believes that the lawsuits will not have a material adverse effect on its financial position.

The Hospital and the Hospital's defined benefit pension plans invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

FASB ASC 410, *"Asset Retirement and Environmental Obligations"* addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as asbestos-containing facilities, when the amount of the liability can be reasonably estimated. Management is currently evaluating the fair market value of its Asset Retirement Obligation (ARO), relating to its various facilities. An ARO liability of $1,782,962 and $1,887,577 has been established as of September 30, 2009 and 2008, respectively and is included within pension, self-insurance and other long-term liabilities on the consolidated balance sheets. During 2009, the Hospital incurred asbestos abatement expenses of $104,615. Management will continue to evaluate its exposure to asbestos removal and adjust the ARO for the fair value of the associated costs.

The Hospital currently utilizes an external information systems vendor for all information technology services, including personnel and hardware. During 2009, the Hospital provided the information systems vendor with a notice to terminate the contract. The Hospital has accrued $1,000,000 for the termination fee, which has been included within accounts payable and accrued expenses on the consolidated balance sheet. The termination is expected to occur during 2010.

Note 15 - Functional Expenses

The Hospital provides general health care services to residents within its geographic location including acute inpatient and outpatient services. Expenses related to providing these services are as follows:

	2009	**2008**
Health care services	**$ 344,263,022**	$ 317,550,036
General and administrative	**44,341,093**	35,567,725
Fundraising	**579,005**	682,426
	$ 389,183,120	$ 353,800,187

Note 16 - Captive Insurance Activities

Effective January 6, 2009, GIC provides professional and general liability coverage on a claims-made basis to the Hospital. The coverage limits for the Hospital were $2 million per claim with an annual aggregate of $4 million for the years 1986 to 2005. The aggregate limit increased to $5 million in 2006 and $8 million for 2007 and subsequent years.

Coverage provided in the attending physician program is on a claims-made basis and is based on each physician's retroactive coverage date. The limits of coverage per physician are $1 million per claim and $4 million in aggregate.

In 2009, the Hospital purchased excess insurance limits of $35 million, above the insured retention noted above.

Effective January 31, 2009, GIC entered into a novation agreement to assume all rights, obligations and liabilities as insurer under insurance contracts with the Hospital, which were previously held with PIE.

A reconciliation of direct to net premiums on a written and earned basis is summarized as follows for year ended September 30, 2009.

	Written	**Earned**
Direct	$ 20,281,191	$ 20,056,964
Ceded	(1,838,988)	(1,838,988)
	$ 18,442,203	$ 18,217,976

Note 16 - Captive Insurance Activities (continued)

Activity in the reserve for losses and loss adjustment expenses is summarized as follows for the year ended September 30, 2009.

Balance at beginning of the year	$ -
Loss portfolio transfer	13,834,423
Incurred related to:	
Current year	2,954,213
Prior years	85,880
Total incurred	3,040,093
Paid related to:	
Current year	8,966
Prior years	319,458
Total paid	328,424
Net balance at the end of the year	16,546,092
Plus: reinsurance recoverable	5,551,841
Balance at end of year	$ 22,097,933

As a result of changes in estimates of insured events in prior years, the reserve for losses and loss adjustment expenses increased by approximately $86,000 in 2009.

The ultimate settlement of losses may vary significantly from the reserves recorded. In particular, ultimate settlements on medical malpractice claims depend, among other things, on the resolution of litigation, the outcome of which is difficult to predict. Also, since the reserves have been discounted, there is the possibility that the timing of loss payments and income earned on invested assets will be significantly different than anticipated.

Note 17 - Fair Value of Financial Instruments

Management determines the appropriate classification of its investments in all securities at the time of purchase and re-evaluates such determination at each consolidated balance sheet date, in accordance with ASC 820-10 as described in Note 2. The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets approximate the fair value.

Assets held in trust by others: For marketable equity securities and other investments, fair values are based on quoted market prices or dealer quotes.

Note 17 - Fair Value of Financial Instruments (continued)

Interest rate swap agreement: The fair value of the interest rate swap liability is based on information provided by Bank of America, NA. The fair value estimate considers the underlying notional debt principal amounts and the current interest rates paid by the Hospital and Bank of America, NA under the swap contract.

Supplemental executive retirement plan: For marketable equity securities and other investments, fair values are based on quoted market prices or dealer quotes (Level 1).

Due to third-party agencies: The carrying amounts reported in the consolidated balance sheets approximate the fair value.

Long-term debt and capital lease obligations: The carrying amounts reported in the consolidated balance sheets approximate the fair values. The fair value of the Hospital's long-term debt is estimated using a discounted cash flow analysis, based on the Hospital's current incremental borrowing rates for similar types of borrowing (Level 3).

Receivables and payables - The fair value of receivables and payables approximates the carrying amount reported in the consolidated balance sheets as of September 30, 2009 and 2008.

Note 18 - Consolidating Schedules

The attached consolidating schedules are presented for the year ended September 30, 2009 due to the establishment of GIC, effective January 6, 2009.

The Hospital of Central Connecticut
Consolidating Balance Sheet
September 30, 2009

	The Hospital of Central Connecticut	Grand Indemnity Company, LTD.	Eliminations	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 22,241,282	$ -	$ -	$ 22,241,282
Accounts receivable, less allowance for bad debts of $12,056,056	36,493,910	-	-	36,493,910
Premiums receivable	-	317,861	-	317,861
Reinsurance recoverable	-	5,551,841	-	5,551,841
Other receivables	1,802,686	-	(278,925)	1,523,761
Current portion of pledges receivable, net	16,773	-	-	16,773
Due from affiliates	103,936	-	-	103,936
Inventories	4,999,628	-	-	4,999,628
Prepaid expenses	2,143,994	630,190	(612,995)	2,161,189
Assets whose use is limited - cash and cash equivalents related to GIC	-	3,228,000	-	3,228,000
Assets whose use is limited - required for current liabilities	69,761	-	-	69,761
Total current assets	67,871,970	9,727,892	(891,920)	76,707,942
Assets whose use is limited:				
Cash and cash equivalents related to GIC	-	19,352,734	-	19,352,734
Assets held in trust by others	13,240,758	-	-	13,240,758
Board restricted endowment	80,516,608	-	-	80,516,608
Temporary and permanently donor restricted investments	21,726,622	-	-	21,726,622
	115,483,988	19,352,734	-	134,836,722
Pledges receivable, net	57,320	-	-	57,320
Investments in affiliates	8,926,927	-	(4,891,577)	4,035,350
Other assets	2,993,162	-	-	2,993,162
Due from affiliates	1,427,271	-	-	1,427,271
Property, plant and equipment, net	124,178,254	-	-	124,178,254
Total assets	$ 320,938,892	$ 29,080,626	$ (5,783,497)	$ 344,236,021

See accompanying Independent Auditors' Report.

The Hospital of Central Connecticut
Consolidating Balance Sheet (continued)
September 30, 2009

Liabilities and Net Assets	The Hospital of Central Connecticut	Grand Indemnity Company, LTD.	Eliminations	Total
Current liabilities:				
Accounts payable and accrued expenses	$ 21,371,282	$ 32,000	$ -	$ 21,403,282
Accrued compensation	13,045,926	-	-	13,045,926
Due to affiliates	-	278,925	(278,925)	-
Unearned premiums	-	224,227	-	224,227
Premiums received in advance	-	612,995	(612,995)	-
Reserve for losses and loss adjustment expenses	-	3,228,000	-	3,228,000
Deferred revenue	760,583	-	-	760,583
Due to third-party agencies	14,739,235	-	-	14,739,235
Current portion of long-term debt	3,514,668	-	-	3,514,668
Current portion of pension, self-insurance and other long-term liabilities	18,550,000	-	-	18,550,000
Total current liabilities	71,981,694	4,376,147	(891,920)	75,465,921
Reserve for losses and loss adjustment expenses	-	18,869,933	-	18,869,933
Long-term debt	36,811,837	-	-	36,811,837
Pension, self-insurance and other long-term liabilities	89,660,009	-	-	89,660,009
Total liabilities	198,453,540	23,246,080	(891,920)	220,807,700
Net assets:				
Share capital	-	120,000	(120,000)	-
Contributed surplus	-	4,771,577	(4,771,577)	-
Unrestricted	87,443,879	942,969	-	88,386,848
Temporarily restricted	15,200,271	-	-	15,200,271
Permanently restricted	19,841,202	-	-	19,841,202
Total net assets	122,485,352	5,834,546	(4,891,577)	123,428,321
Total liabilities and net assets	$ 320,938,892	$ 29,080,626	$ (5,783,497)	$ 344,236,021

See accompanying Independent Auditors' Report.

The Hospital of Central Connecticut
Consolidating Statement of Operations
For the Year Ended September 30, 2009

	The Hospital of Central Connecticut	Grand Indemnity Company, LTD.	Eliminations	Total
Revenues:				
Net revenues from services to patients	$ 372,308,377	$ -	$ -	$ 372,308,377
Other operating revenues	10,228,558	-	-	10,228,558
Net premiums earned	-	18,217,976	-	18,217,976
Net assets released from restrictions				
used for operations	777,708	-	-	777,708
Total revenues	383,314,643	18,217,976	-	401,532,619
Expenses:				
Salaries and benefits	206,493,495	-	-	206,493,495
Supplies and other expenses	127,088,621	400,492	-	127,489,113
Provision for bad debts, net of recoveries of $3,129,789	18,902,943	-	-	18,902,943
Depreciation and amortization	17,479,711	-	-	17,479,711
Losses and loss adjustment expenses	-	16,874,515	-	16,874,515
Interest	1,943,343	-	-	1,943,343
Total expenses	371,908,113	17,275,007	-	389,183,120
Income from operations	11,406,530	942,969	-	12,349,499
Non-operating gains (losses):				
Investment income	5,148,142	-	-	5,148,142
Unrestricted gifts and bequests	1,054,227	-	-	1,054,227
(Losses) gains on sales of securities	(904,524)	-	-	(904,524)
Change in fair value of interest rate swap	(1,971,035)	-	-	(1,971,035)
Total non-operating gains	3,326,810	-	-	3,326,810
Excess of revenues over expenses	$ 14,733,340	$ 942,969	$ -	$ 15,676,309

See accompanying Independent Auditors' Report.