# Audited Consolidated Financial Statements and Other Financial Information

CCMC Corporation and Subsidiaries
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

# CCMC Corporation and Subsidiaries

## Audited Consolidated Financial Statements and Other Financial Information

Years Ended September 30, 2010 and 2009

## Contents

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

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

# Report of Independent Auditors

Board of Directors
CCMC Corporation

We have audited the accompanying consolidated balance sheets of CCMC Corporation and Subsidiaries (the Corporation) as of September 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of The Children's Fund of Connecticut, Inc., a wholly owned subsidiary, whose statements reflect total assets of $32,107,112 and $31,583,013 as of September 30, 2010 and 2009 and total revenues of $4,612,609 and $170,876, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for The Children's Fund of Connecticut, Inc., is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CCMC Corporation and Subsidiaries at September 30, 2010 and 2009, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

January 27, 2011

CCMC Corporation and Subsidiaries

Consolidated Balance Sheets

| | September 30 | |
|---|---|---|
| | **2010** | **2009** |
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 5,638,104** | $ 4,836,967 |
| Short-term investments | **11,027,121** | 5,286,908 |
| Funds held by trustee under revenue bond agreement | **10,424,098** | 5,185,038 |
| Accounts receivable, less allowance of approximately $7,831,000 in 2010 and $7,862,000 in 2009 | **23,910,497** | 26,094,375 |
| Inventories | **618,412** | 585,139 |
| Other current assets | **6,423,789** | 7,937,704 |
| Total current assets | **58,042,021** | 49,926,131 |
| | | |
| Assets whose use is limited: | | |
| Investments | **93,335,551** | 85,444,221 |
| Funds held in trust by others | **70,154,812** | 54,638,548 |
| | **163,490,363** | 140,082,769 |
| | | |
| Property, plant and equipment: | | |
| Leaseholds improvements | **1,782,862** | 1,770,539 |
| Buildings | **113,254,487** | 110,890,454 |
| Furniture and equipment | **55,538,456** | 52,587,846 |
| Construction in progress | **2,272,562** | 1,846,645 |
| | **172,848,367** | 167,095,484 |
| Less accumulated depreciation | **(78,194,916)** | (69,251,951) |
| | **94,653,451** | 97,843,533 |
| Other assets: | | |
| Bond issuance costs | **1,459,360** | 1,647,664 |
| Ground lease | **2,475,266** | 2,504,558 |
| Pledges receivables, long term | **1,029,433** | 536,117 |
| Other | **17,851,034** | 6,743,522 |
| | **22,815,093** | 11,431,861 |
| Total assets | **$ 339,000,928** | $ 299,284,294 |

| | September 30 | |
|---|---|---|
| | **2010** | **2009** |
| **Liabilities and net assets** | | |
| Current liabilities: | | |
| Current portion of bonds payable | **$ 2,375,000** | $ 2,260,000 |
| Current portion of notes payable | **4,246,490** | 3,222,230 |
| Accounts payable and accrued liabilities | **27,297,994** | 22,137,072 |
| Accrued wages | **12,574,021** | 13,132,660 |
| Due to third parties | **1,654,459** | 413,822 |
| Accrued interest payable and other current liabilities | **623,163** | 743,628 |
| Total current liabilities | **48,771,127** | 41,909,412 |
| | | |
| Bonds payable, less current portion | **30,531,457** | 32,943,820 |
| | | |
| Notes payable, less current portion | **9,171,356** | 5,469,214 |
| | | |
| Accrued pension liability | **15,664,920** | 14,507,634 |
| | | |
| Other long term liabilities | **20,453,010** | 19,846,945 |
| Total liabilities | **124,591,870** | 114,677,025 |
| | | |
| Net assets: | | |
| Unrestricted | **109,366,904** | 98,946,091 |
| Temporarily restricted | **19,020,035** | 16,312,385 |
| Permanently restricted | **86,022,119** | 69,348,793 |
| Total net assets | **214,409,058** | 184,607,269 |
| | | |
| Total liabilities and net assets | **$ 339,000,928** | $ 299,284,294 |

*See accompanying notes.*

CCMC Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

| | Year Ended September 30 | |
|---|---|---|
| | **2010** | **2009** |
| Revenues: | | |
| Net patient service revenue | **$ 223,198,671** | $ 211,707,121 |
| Other revenues | **18,402,062** | 17,984,474 |
| Contributions and donations, net | **7,233,069** | 2,958,651 |
| Investment income, net | **14,123,287** | 1,875,836 |
| Net assets released from restrictions | **12,554,321** | 12,119,958 |
| | **275,511,410** | 246,646,040 |
| Expenses: | | |
| Salaries and wages | **134,723,998** | 125,134,807 |
| Benefits | **33,095,115** | 25,579,146 |
| Supplies and miscellaneous | **84,842,650** | 76,988,541 |
| Bad debts | **4,379,254** | 5,094,187 |
| Interest | **1,396,384** | 1,922,272 |
| Depreciation and amortization | **10,396,136** | 9,942,819 |
| | **268,833,537** | 244,661,772 |
| Excess of revenues over expenses | **6,677,873** | 1,984,268 |

*Continued on next page.*

CCMC Corporation and Subsidiaries

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

| | Year Ended September 30 | |
|---|---|---|
| | **2010** | **2009** |
| Unrestricted net assets: | | |
| Excess of revenues over expenses | **6,677,873** | 1,984,268 |
| Unrealized gain on investments | **5,450,490** | 2,814,385 |
| Change in funded status of pension and post-retirement plans | **(2,058,550)** | (8,428,727) |
| Adoption of new accounting principle | **–** | (1,484,825) |
| Net assets released from restrictions for capital | **351,001** | 934,528 |
| Increase (decrease) in unrestricted net assets | **10,420,813** | (4,180,371) |
| | | |
| Temporarily restricted net assets: | | |
| Unrealized gain on investments | **376,679** | 43,254 |
| Income from investments | **100,091** | 151,140 |
| Net assets released from restrictions for operations | **(12,554,321)** | (12,119,958) |
| Net assets released from restrictions for capital | **(351,001)** | (934,528) |
| Bequests, gifts and grants | **15,136,202** | 15,954,003 |
| Increase in temporarily restricted net assets | **2,707,650** | 3,093,911 |
| | | |
| Permanently restricted net assets: | | |
| Bequests, gifts and grants | **1,157,062** | 117,215 |
| Change in funds held in trust by others | **15,516,264** | (2,587,585) |
| Increase (decrease) in permanently restricted net assets | **16,673,326** | (2,470,370) |
| Increase (decrease) in net assets | **29,801,789** | (3,556,830) |
| | | |
| Net assets at beginning of year | **184,607,269** | 188,164,099 |
| Net assets at end of year | **$ 214,409,058** | $ 184,607,269 |

*See accompanying notes.*

# CCMC Corporation and Subsidiaries

## Consolidated Statements of Cash Flows

| | Year Ended September 30 | |
|---|---|---|
| | **2010** | **2009** |
| **Operating activities** | | |
| Increase (decrease) in net assets | **$ 29,801,789** | $ (3,556,830) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Noncash items: | | |
| Bad debt expense | **4,379,254** | 5,094,187 |
| Provision for depreciation and amortization | **10,396,136** | 9,942,819 |
| Change in funds held in trust by others | **(15,516,264)** | 2,587,585 |
| Unrealized gain on investments | **(5,827,170)** | (2,857,639) |
| Change in funded status of pension and post-retirement plans | **2,058,550** | 8,428,727 |
| Adoption of new accounting principle | **–** | 1,484,825 |
| Other changes in net assets: | | |
| Restricted contributions and investment income | **(16,293,261)** | (16,222,358) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **(2,688,692)** | (4,803,779) |
| Inventories | **(33,273)** | (54,899) |
| Other current assets | **1,513,915** | (2,492,440) |
| Accounts payable and accrued liabilities | **5,160,922** | (10,931,486) |
| Accrued wages and interest payable | **(679,104)** | 2,271,878 |
| Due to third parties | **1,203,274** | (2,096,027) |
| Accrued pension liability | **(901,264)** | (3,599,376) |
| Other long term liabilities | **606,066** | 9,749,109 |
| Net cash provided (used) by operating activities | **13,180,878** | (7,055,705) |
| | | |
| **Investing activities** | | |
| Purchases of property, plant and equipment, net | **(6,738,490)** | (7,816,298) |
| Increase in other assets | **(11,357,480)** | (1,934,107) |
| Increase in investments, net | **(7,804,374)** | (1,870,350) |
| (Increase) decrease in funds held by trustee under revenue bond | **(5,239,060)** | 119,967 |
| Net cash used in investing activities | **(31,139,404)** | (11,500,788) |
| | | |
| **Financing activities** | | |
| Restricted contributions and investment income | **16,293,261** | 16,222,358 |
| Principal payment on bonds and notes payable | **(5,777,048)** | (5,261,077) |
| Proceeds from new debt issued | **8,243,450** | 2,226,320 |
| Net cash provided by financing activities | **18,759,663** | 13,187,601 |
| Increase (decrease) in cash and cash equivalents | **801,137** | (5,368,892) |
| | | |
| Cash and cash equivalents at beginning of year | **4,836,967** | 10,205,859 |
| Cash and cash equivalents at end of year | **$ 5,638,104** | $ 4,836,967 |

*See accompanying notes.*

## 1. Significant Accounting Policies and Organization

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

### Regulatory Matters

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

### Use of Estimates

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

### Principles of Consolidation

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

### Cash and Cash Equivalents

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

**1. Significant Accounting Policies and Organization (continued)**

**Investments**

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

**Inventories**

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

**Funds Held in Trust by Others**

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

**Bond Issuance Costs**

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

**Property, Plant and Equipment**

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

## 1. Organization and Accounting Policies (continued)

### Pension Plan

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

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

### Contributions and Donor Restricted Gifts

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

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

### 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.

## 1. Organization and Accounting Policies (continued)

### Temporarily and Permanently Restricted Net Assets

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

### Medical Malpractice Insurance

Coverage for medical malpractice insurance is provided on a claims-made basis. The primary level of coverage is $10,000,000 per claim and $39,000,000 in the aggregate. The excess indemnity coverage is layered with four different insurance companies at $15,000,000 per claim and $60,000,000 in the aggregate. There are no deductibles. A portion of the primary coverage is reinsured by the carrier with CHS Insurance Limited a captive insurance company in which the Medical Center has a 25% ownership interest. The investment in CHS Insurance Limited is included in other assets in the consolidated balance sheets.

### Excess of Revenues over Expenses

The statement of operations includes excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates, net assets released from restrictions for capital expenditures and changes in the funded status of the pension and post-retirement plans.

### Advertising

The Corporation's policy is to expense advertising costs as incurred. Total advertising expense was $1,081,458 and $1,045,703 at September 30, 2010 and 2009, respectively.

### Auxiliary

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

## 1. Organization and Accounting Policies (continued)

### Income Taxes

The Corporation and its subsidiaries, with the exception of CCMC Ventures, Inc., are not-for-profit organizations and are exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. CCMC Ventures, Inc. has no federal tax liability because it has been inactive since its incorporation.

### Subsequent Events

The Corporation evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued for potential recognition in the financial statements as of the balance sheet date. For the year ended September 30, 2010, the Corporation evaluated subsequent events through January 27, 2011, which is the date the financial statements were issued. No events occurred that require disclosure or adjustment to the consolidated financial statements.

### New Accounting Standards

In December 2008, the Financial Accounting Standards Board (FASB) issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in Accounting Standards Codification (ASC) 715, *Compensation — Retirement Benefits*. This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. See Note 8 for these additional disclosures for the year ended September 30, 2010. The adoption of this guidance did not have a significant impact on the Corporation's consolidated financial statements for the year ended September 30, 2010.

## 1. Organization and Accounting Policies (continued)

### Recently Issued Accounting Standards

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements*, (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each "class" of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 becomes effective for reporting periods beginning after December 15, 2009. Management is currently evaluating the effect that the provisions of ASU 2010-06 will have on the consolidated financial statements.

### Reclassification

Certain 2009 amounts have been reclassified to conform with the 2010 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, 2010 and 2009. Laws and regulations governing the Medicaid programs are complex and subject to interpretation. The Medical Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicaid program. Changes in the Medicaid program and the reduction of funding levels could have an adverse affect on the Medical Center.

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

The following table summarizes net revenues from services to patients:

| | Year Ended September 30 | |
|---|---|---|
| | **2010** | **2009** |
| Total gross revenues from patients | **$ 448,026,177** | $ 415,668,643 |
| Less total contractual allowances | **215,758,711** | 198,691,457 |
| Less charity care and other allowances | **9,068,795** | 5,270,065 |
| | **224,827,506** | 203,961,522 |
| Net patient service revenue | **$ 223,198,671** | $ 211,707,121 |

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from certain payors are different from established billing rates of the Medical Center, and the difference is accounted for as allowances.

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

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

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

**3. Contributions Receivable**

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

| | September 30 | |
|---|---|---|
| | **2010** | **2009** |
| Contributions receivable in one year or less | **$ 3,631,538** | $ 4,430,393 |
| Contributions receivable in one to five years | **1,029,433** | 536,117 |
| Less discount and provision for bad debts | **(196,096)** | (252,608) |
| Net pledges receivable | **$ 4,464,875** | $ 4,713,902 |

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

**4. Concentrations of Credit Risk**

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

The Corporation's cash and cash equivalent are placed with high credit quality financial institutions. The Corporation's investment policy limits its exposure to concentrations of credit risk. In the normal course of business, the Corporation maintains cash balances in excess of the Federal Deposit Insurance Corporation's (FDIC) insurance limit. Cash balances exceeded FDIC limits by approximately $4.9 million and $5.6 million at September 30, 2010 and 2009, respectively.

**4. Concentrations of Credit Risk (continued)**

The Medical Center provides health care services and grants credit without collateral to its patients, most of whom are Connecticut residents and are insured under third-party payor agreements. An estimated allowance for doubtful accounts as well as contractual allowances is maintained at levels considered adequate to reduce the account balances to net realizable value. The mix of receivables from patients and third-party payors at September 30, 2010 and 2009, was as follows:

| | 2010 | 2009 |
|---|---|---|
| Medicaid | **8%** | 11% |
| Medicaid Managed Care | **39** | 32 |
| Commercial/Managed Care – Contracted | **38** | 42 |
| Commercial/Managed – Non-Contracted | **3** | 4 |
| Patients and other | **12** | 11 |
| | **100%** | 100% |

**5. Investments**

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

| | September 30 | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| | Cost | Market | Cost | Market |
| Short-term investment | **$ 11,027,121** | **$ 11,027,121** | $ 5,286,908 | $ 5,286,908 |
| Marketable equity securities | **1,083,971** | **1,215,444** | 941,387 | 1,028,511 |
| Fixed income securities | **238,115** | **253,451** | 234,646 | 244,519 |
| Mutual Funds and other securities | **80,085,269** | **81,610,193** | 78,096,624 | 74,337,971 |
| Institutional Managed Bond Fund | **9,301,397** | **10,256,463** | 9,371,938 | 9,833,220 |
| | **$101,735,873** | **$104,362,672** | $ 93,931,503 | $ 90,731,129 |

Investments consisted of mutual funds and individual securities that comprised approximately 55% equity securities and 45% fixed income investments at September 30, 2010, and 58% equity securities and 42% fixed income investments at September 30, 2009.

**5. Investments (continued)**

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

| | Less Than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** |
| Marketable equity securities | **$ 45,585** | **$ 6,046** | **$ 31,128** | **$6,308** | **$ 76,713** | **$ 12,354** |
| Mutual funds and other securities | **4,667,237** | **807,738** | **32,653,345** | **3,227,622** | **37,320,582** | **4,035,360** |
| Total investments | **$ 4,712,822** | **$ 813,784** | **$ 32,684,473** | **$3,233,930** | **$ 37,397,295** | **$ 4,047,714** |

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

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

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the market value has been less than cost along with the Corporation's intent and ability to hold the investments. During the years ended September 30, 2010 and 2009, the Corporation has not recorded any other-than-temporary declines in the fair value of investments, as the Corporation has the ability and intent to hold the securities to recovery.

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

**5. Investments (continued)**

Included in investment income, net on the statement of operations is realized gains (losses) of $493,843 and ($2,307,289) for the years ended September 30, 2010 and 2009, respectively, and interest and dividend income of $2,271,028 and $3,019,153 for the years ended September 30, 2010 and 2009, respectively.

**6. Restricted Net Assets**

**Endowments**

The Corporation's endowment consists of approximately seven individual donor-restricted funds established for a variety of purposes which are held and controlled by the Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. At September 30, 2010 and 2009, the Corporation had approximately $16,552,294 and $15,160,005 in endowments held at the Foundation, respectively.

**Interpretation of Relevant Law**

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

(1) The duration and preservation of the fund.
(2) The purposes of the organization and the donor-restricted endowment fund.
(3) General economic conditions.
(4) The possible effect of inflation and deflation.
(5) The expected total return from income and the appreciation of investments.
(6) Other resources of the organization.
(7) The investment policies of the organization.

**6. Restricted Net Assets (continued)**

**Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets as of September 30, 2009. Deficiencies at September 30, 2010 and 2009 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.

**6. Restricted Net Assets (continued)**

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

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

**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.

## 6. Restricted Net Assets (continued)

### Temporarily Restricted

Temporarily restricted net assets are available for the following purposes as of September 30, 2010 and 2009:

| | **2010** | **2009** |
|---|---|---|
| Equipment purchases | **3%** | 3% |
| Education | **6** | 6 |
| Other health care services | **91** | 91 |
| | **100%** | 100% |

### Permanently Restricted

Permanently restricted net assets at September 30, 2010 and 2009 are restricted to:

| | **2010** | **2009** |
|---|---|---|
| Health care and children's services | **82%** | 79% |
| Other health care services | **13** | 16 |
| Education | **5** | 5 |
| | **100%** | 100% |

## 7. Pension Plan

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

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

**7. Pension Plan (continued)**

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

During 2009, in accordance with ASC 715, the Medical Center eliminated the early measurement date for the retirement plan (formerly June 30) and 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 resulted in a reduction of net assets of $1,484,825, which is included in the accompanying consolidated statement of changes in net assets.

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

Included in unrestricted net assets at September 30, 2010 and 2009 are unrecognized actuarial losses of $21,965,854 and $18,577,336, respectively. The actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2011 is $1,169,554.

**7. Pension Plan (continued)**

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

| | Year Ended September 30 | |
|---|---|---|
| | **2010** | **2009** |
| **Change in benefit obligation** | | |
| Benefit obligation at beginning of year | **$ 66,212,816** | $ 60,598,898 |
| Effect of eliminating early measurement date | **–** | 1,946,806 |
| Service cost | **–** | 2,432,317 |
| Interest cost | **3,494,299** | 4,016,129 |
| Actuarial loss, including the effects of any assumption changes | **4,860,027** | 5,637,741 |
| Benefits paid | **(2,522,490)** | (2,872,162) |
| Plan amendments | **–** | (972,927) |
| Curtailments | **–** | (4,573,986) |
| Benefit obligation at end of year | **$ 72,044,652** | $ 66,212,816 |
| | | |
| **Change in plan assets** | | |
| Fair value of plan assets at beginning of year | **$ 51,705,182** | $ 52,405,440 |
| Effect of eliminating early measurement date | **–** | 499,248 |
| Contributions | **2,125,000** | 3,176,000 |
| Actual return on plan assets | **5,072,040** | (1,503,344) |
| Benefits paid | **(2,522,490)** | (2,872,162) |
| Fair value of plan assets at end of year | **$ 56,379,732** | $ 51,705,182 |
| | | |
| Funded status of the plan | **$ (15,664,920)** | $ (14,507,634) |

The weighted-average assumptions used to develop the projected benefit obligation as of September 30, 2010 and 2009:

| | **2010** | **2009** |
|---|---|---|
| Measurement date | **September 30, 2010** | September 30, 2009 |
| Discount rate | **4.85%** | 5.50% |
| Rate of compensation | **N/A** | N/A |
| Cash balance interest credit | **5.50** | 5.50 |
| Return on plan assets | **6.75** | 8.00 |

**7. Pension Plan (continued)**

| | 2010 | 2009 |
|---|---|---|
| **Components of net periodic benefit** | | |
| Service cost | **$ –** | $ 2,432,317 |
| Interest cost | **3,494,299** | 4,016,129 |
| Expected return on plan assets | **(4,072,545)** | (4,227,725) |
| Curtailment gain | **–** | (1,496,083) |
| Net amortization: | | |
| Prior service cost | **–** | (1,037,610) |
| Net actuarial loss | **472,014** | 233,100 |
| Net periodic benefit | **$ (106,232)** | $ (79,872) |

The weighted-average assumptions used to determine net periodic benefit costs are as follows for September 30, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Discount rate | **5.50%** | 6.50% |
| Cash balance interest credit | **5.50** | 5.50 |
| Expected long-term rate of return on plan assets | **8.00** | 8.00 |
| Rate of compensation | **N/A** | 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, 2010 and 2009 was $72,044,652 and $66,212,816, respectively.

**Plan Assets**

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

**7. Pension Plan (continued)**

The asset allocation for the Plan at September 30, 2010 and 2009, by asset category, are as follows:

| Asset Category | Percentage of Plan Assets at Year-End 2010 | 2009 |
|---|---|---|
| Domestic Equities | **41%** | 45% |
| International Equities | **11** | 11 |
| Debt securities | **43** | 41 |
| Other | **5** | 3 |
| Total | **100%** | 100% |

The Medical Center expects to contribute $1,300,000 to its pension plan in 2011.

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

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | **$ 1,005,882** | **$ –** | **$ –** | **$ 1,005,882** |
| Fixed income securities | **6,578,156** | **–** | **–** | **6,578,156** |
| Fixed income mutual funds | **16,778,744** | **–** | **–** | **16,778,744** |
| Equity mutual funds | **25,211,611** | **–** | **–** | **25,211,611** |
| Multi-Asset balanced mutual funds | **6,805,339** | **–** | **–** | **6,805,339** |

The fair values of Connecticut Children's pension plan assets at September 30, 2009, by asset category are as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 1,579,764 | $ – | $ – | $ 1,579,764 |
| Fixed income securities | 10,636,682 | – | – | 10,636,682 |
| Fixed income mutual funds | 10,445,374 | – | – | 10,445,374 |
| Equity mutual funds | 20,159,521 | – | – | 20,159,521 |
| Multi-Asset balanced mutual funds | 8,883,841 | – | – | 8,883,841 |

**7. Pension Plan (continued)**

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

| Fiscal Year | Pension Benefits |
|---|---|
| 2011 | $ 10,847,306 |
| 2012 | 4,703,754 |
| 2013 | 3,168,181 |
| 2014 | 3,648,681 |
| 2015 | 2,813,998 |
| Years 2016 – 2020 | 20,466,699 |

**8. Postretirement Benefit Plan**

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

During 2009 in accordance with ASC 715, the Medical Center eliminated the early measurement date for the PRW Plan (formerly June 30) and 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, 2010 and 2009, respectively are $1,385,812 and $55,844 of net unrecognized actuarial gains that have not yet been recognized in net periodic benefit cost. The actuarial gain included in unrestricted net assets and expected to be recognized in net periodic benefit cost during the year ended September 30, 2011 is $93,232.

## 8. Postretirement Benefit Plan (continued)

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

| | Year Ended September 30 | |
|---|---|---|
| | **2010** | **2009** |
| **Change in benefit obligation** | | |
| Benefit obligation at beginning of year | **$ 5,630,141** | $ 4,116,076 |
| Service cost | **342,470** | 288,970 |
| Interest cost | **334,257** | 309,050 |
| Actuarial (gain) loss, including the effects of any assumption changes | **(1,329,968)** | 956,947 |
| Benefits paid | **(53,850)** | (40,902) |
| Benefit obligation at end of year | **$ 4,923,050** | $ 5,630,141 |
| | | |
| **Change in plan assets** | | |
| Fair value of plan assets at beginning of year | **$ –** | $ – |
| Contributions | **53,850** | 40,902 |
| Benefits paid | **(53,850)** | (40,902) |
| Fair value of plan assets at end of year | **$ –** | $ – |
| | | |
| Accrued postretirement obligation included in other long-term liabilities | **$ 4,923,050** | $ 5,630,141 |

The weighted-average assumptions used to develop the postretirement benefit obligation as of September 30, 2010 and 2009:

| | **2010** | **2009** |
|---|---|---|
| Measurement date | **September 30, 2010** | September 30, 2009 |
| Discount rate | **5.20%** | 5.50% |
| Healthcare cost trend rate: | | |
| Current year | **9.00** | 8.00 |
| Ultimate | **5.00** | 5.00 |
| Number of years to reach ultimate | **8** | 6 |

**8. Postretirement Benefit Plan (continued)**

| | 2010 | 2009 |
|---|---|---|
| **Components of net periodic benefit cost** | | |
| Service cost | **$ 342,470** | $ 288,970 |
| Interest cost | **334,257** | 309,050 |
| Net amortization: | | |
| Net actuarial loss | **–** | (20,161) |
| Net periodic benefit cost | **$ 676,727** | $ 577,859 |

The weighted-average assumptions used to determine net periodic benefit costs are as follows for September 30, 2010 and 2009:

| | 2010 | 2009 |
|---|---|---|
| Discount rate | **5.50%** | 6.50% |
| Health care cost trend rate | | |
| Initial rate | **8.00** | 8.50 |
| Ultimate rate | **5.00** | 5.00 |
| Years to ultimate | **6** | 7 |

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

| | One-percentage Point | |
|---|---|---|
| | Increase | Decrease |
| Effect on postretirement benefit obligation | 272,981 | (236,480) |
| Effect on total of service and interest cost | 26,459 | (22,937) |

The Medical Center expects to contribute $91,150 to its postretirement benefit plan in 2011.

**8. Postretirement Benefit Plan (continued)**

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

| Fiscal Year | Postretirement Benefits |
|---|---|
| 2011 | $ 91,150 |
| 2012 | 145,757 |
| 2013 | 181,383 |
| 2014 | 216,832 |
| 2015 | 254,203 |
| Years 2016 – 2020 | 2,000,370 |

**9. Bonds Payable**

In May 2004, the Medical Center and the Foundation (the "Obligated Group") refinanced their existing Series A State of Connecticut Health and Educational Facilities Authority ("CHEFA") bonds with fixed interest rate bonds (Series B Bonds) with a principal amount of $21,285,000 and with variable interest rate bonds (Series C Bonds) with a principle amount of $23,700,000, net of original issue premium of $131,547 and $168,820 at September 30, 2010 and 2009, 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 $32,988,989 at September 30, 2010.

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 2010 and 2009, the Obligated Group's auctions failed to clear, resulting in interest rates ranging from 0.57% to 0.89% in 2010 and 0.68% to 8.94% in 2009.

**9. Bonds Payable (continued)**

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 exceeds its covenants by specified amounts. At September 30, 2010 and 2009, the Obligated Group did not exceed the specified days cash on hand requirement for the release of funds. Therefore, the funds have not been released to the Obligated Group and remain in the debt service reserve fund. At September 30, 2010 and 2009, the Obligated Group was in compliance with the covenants.

The Obligated Group is required to make quarterly principal and interest repayments equal to one-quarter of the principal of the Bonds becoming due on the following July 1 of each Bond year for the Series B Bonds. Additionally, in all events the payment made on June 30 of each Bond year shall provide sufficient funds necessary to make payment in full of the principal becoming due on the following July 1 of each Bond year. The next principal payment for the Series B bonds is due on July 1, 2019.

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 and are funded quarterly to meet the annual obligation.

Interest paid for 2010 and 2009 was $724,283 and $1,230,354, respectively.

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

| | |
|---|---|
| Years Ended September 30: | |
| 2011 | $ 2,375,000 |
| 2012 | 2,775,000 |
| 2013 | 2,875,000 |
| 2014 | 2,950,000 |
| 2015 | 3,050,000 |
| Aggregate thereafter | 18,750,000 |
| | $ 32,775,000 |

**9. Bonds Payable (continued)**

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 $2,721,995 and $2,187,942 at September 30, 2010 and 2009, respectively) is reported in other long term liabilities as of September 30, 2010 and September 30, 2009, respectively. The decline in value of $534,053 is reported as an offset to income from investments. The swap, while serving as an economic hedge, does not qualify as an accounting hedge.

**10. Notes Payable**

Notes payable at September 30, 2010 and 2009 consists of the following:

| | **2010** | 2009 |
|---|---|---|
| Notes payable to a healthcare financing company payable in monthly installments of $28,846 through October 2011, at 5.77% interest. Secured by certain equipment. | **$ 362,666** | $ 677,939 |
| Notes payable to a bank in monthly installments of $86,105 through October 2012 at 6.52% interest. Secured by certain equipment. | **1,652,591** | 2,623,198 |
| Notes payable to a bank in bi-annual installments of $947,956 through October 2012 at 4.09% interest. Secured by certain equipment. | **4,393,776** | 4,322,948 |
| Notes payable to a bank in monthly installments of $82,317 through April 2017 at 4.11% interest. Secured by certain equipment | **5,689,042** | – |
| Notes payable to a facilities management company payable in monthly installments of $18,319 in principal and interest at 8% through July 2013. Unsecured. | **677,818** | 897,646 |
| Note payable to landlord for leasehold improvements payable in monthly installments of $1,431 through August 2019 at 6%. Unsecured. | **118,343** | 128,093 |
| Note payable to a hospital association payable in monthly installments of $6,529, interest free. | **391,740** | – |
| Other notes | **131,870** | 41,620 |
| | **13,417,846** | 8,691,444 |
| Less current portion | **4,246,490** | 3,222,230 |
| | **$ 9,171,356** | $ 5,469,214 |

**10. Notes Payable (continued)**

Interest paid on the notes was $535,978 and $597,329 for September 30, 2010 and 2009, respectively.

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

| | |
|---|---|
| 2011 | $ 4,246,490 |
| 2012 | 3,603,850 |
| 2013 | 2,026,317 |
| 2014 | 959,728 |
| 2015 | 996,888 |
| Aggregate thereafter | 1,584,573 |
| | $ 13,417,846 |

**11. Contingencies**

There have been malpractice claims that fall within the Medical Center's malpractice insurance which have been asserted against the Medical Center. In addition, there are known incidents that have occurred through September 30, 2009 that may result in the assertion of claims. Refer to Note 1.

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

**12. Commitments**

**Ground Lease**

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

The Ground Lease was recorded as a prepaid asset in the original amount of $2,900,000 and is amortized over the term of the lease. The net asset is recorded as $2,475,266 and $2,504,558 as of September 30 2010 and 2009, respectively. The lease includes certain covenants which restrict, among other things, the Medical Center's ability to be a party to mergers.

**12. Commitments (continued)**

**Parking Agreement**

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

**13. Operating Leases**

Rental and lease expense amounted to $6,739,568 and $5,976,064 for the years ended September 30, 2010 and 2009, respectively.

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

| | |
|---|---|
| Fiscal years ending September 30: | |
| 2011 | $ 5,700,166 |
| 2012 | 5,362,254 |
| 2013 | 4,116,014 |
| 2014 | 3,721,606 |
| 2015 | 3,736,579 |
| | $ 22,636,619 |

**14. Functional Expenses**

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

| | **Year Ended September 30** | |
|---|---|---|
| | **2010** | **2009** |
| Health care services | **$ 225,343,023** | $ 218,044,697 |
| Fundraising | **2,672,009** | 2,581,327 |
| General and administrative | **40,818,505** | 24,035,748 |
| | **$ 268,833,537** | $ 244,661,772 |

## 15. Fair Value of Financial Instruments

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

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

**Level 2:** Observable inputs that are based on inputs not quoted in active markets, but corroborated by market 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, 2010 are classified in the table below in one of the three categories described above:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 5,638,104 | $ – | $ – | $ 5,638,104 |
| Short-term investments | 11,027,121 | – | – | 11,027,121 |
| Fixed income securities | 613,716 | – | – | 613,716 |
| Marketable equity securities | 1,215,444 | – | – | 1,215,444 |
| Mutual Funds | 75,164,408 | 16,341,983 | – | 91,506,391 |
| Funds held by trustee under revenue bond agreement | 10,424,098 | – | – | 10,424,098 |
| Funds held in trust by others | 70,154,812 | – | – | 70,154,812 |

### 15. Fair Value of Financial Instruments (continued)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Interest rate swap agreement | $ – | $ 2,721,995 | $ – | $ 2,721,995 |
| Long-term annuities | 61,637 | – | – | 61,637 |

Financial assets and liabilities carried at fair value as of September 30, 2009 are classified in the table below in one of the three categories described above:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 4,836,967 | $ – | $ – | $ 4,836,967 |
| Short-term investments | 5,286,908 | – | – | 5,286,908 |
| Fixed income securities | 581,819 | – | – | 581,819 |
| Marketable equity securities | 1,028,511 | – | – | 1,028,511 |
| Mutual Funds | 70,456,697 | 13,377,194 | – | 83,833,891 |
| Funds held by trustee under revenue bond agreement | 5,185,038 | – | – | 5,185,035 |
| Funds held in trust by others | 54,638,548 | – | – | 54,638,584 |
| **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 7).

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

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

# Report of Independent Auditors on Other Financial Information

Board of Directors
CCMC Corporation

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating details appearing in conjunction with the consolidated financial statements are presented for purposes of additional analysis and is not a required part of the consolidated financial statements of the Corporation. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, based on our audits and the report of other auditors is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst + Young LLP

January 27, 2011

CCMC Corporation and Subsidiaries

Consolidating Balance Sheets

September 30, 2010

| | Hospital & Subsidiaries | Foundation | Affiliates | Corporation | Ventures | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | $ 4,761,684 | $ 551,334 | $ 287,686 | $ 37,400 | | | $ 5,638,104 |
| Short-term investments | | 11,027,121 | | | | | 11,027,121 |
| Funds held by trustee under revenue bond agreement | 10,424,098 | | | | | | 10,424,098 |
| Accounts receivable, less allowance of approximately $7,831,000 | 21,201,681 | 1,652,512 | 1,056,304 | | | | 23,910,497 |
| Due from affiliated entities | 3,731,723 | 414,684 | 772,428 | 500 | | $ (4,919,335) | – |
| Inventories | 618,412 | | | | | | 618,412 |
| Other current assets | 6,146,871 | 240,420 | 36,498 | | | | 6,423,789 |
| Total current assets | 46,884,469 | 13,886,071 | 2,152,916 | 37,900 | – | (4,919,335) | 58,042,021 |
| | | | | | | | |
| Assets whose use is limited: | | | | | | | |
| Investments | 29,175,015 | 64,160,536 | | | | | 93,335,551 |
| Funds held in trust by others | 70,154,812 | | | | | | 70,154,812 |
| Investment in Foundation | 75,558,434 | | | | | (75,558,434) | – |
| | 174,888,261 | 64,160,536 | – | – | – | (75,558,434) | 163,490,363 |
| | | | | | | | |
| Property, plant and equipment: | | | | | | | |
| Leasehold improvements | | | 1,782,862 | | | | 1,782,862 |
| Buildings | 113,254,487 | | | | | | 113,254,487 |
| Furniture and equipment | 53,942,438 | 824,022 | 771,996 | | | | 55,538,456 |
| Construction in progress | 2,272,562 | | | | | | 2,272,562 |
| | 169,469,487 | 824,022 | 2,554,858 | – | – | – | 172,848,367 |
| Less accumulated depreciation | (76,296,443) | (380,813) | (1,517,660) | | | | (78,194,916) |
| | 93,173,044 | 443,209 | 1,037,198 | – | – | – | 94,653,451 |
| Other assets: | | | | | | | |
| Bond issuance costs | 1,459,360 | | | | | | 1,459,360 |
| Ground lease | 2,475,266 | | | | | | 2,475,266 |
| Pledges receivable, long term | | 1,029,433 | | | | | 1,029,433 |
| Other | 17,851,034 | | | 1,000 | | (1,000) | 17,851,034 |
| | 21,785,660 | 1,029,433 | – | 1,000 | – | (1,000) | 22,815,093 |
| Total assets | $ 336,731,434 | $ 79,519,249 | $ 3,190,114 | $ 38,900 | $ – | $ (80,478,769) | $ 339,000,928 |

CCMC Corporation and Subsidiaries

Consolidating Balance Sheets (continued)

September 30, 2010

| | Hospital & Subsidiaries | Foundation | Affiliates | Corporation | Ventures | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **Liabilities and net assets** | | | | | | | |
| Current liabilities: | | | | | | | |
| Current portion of bonds payable | $ 2,375,000 | | | | | | $ 2,375,000 |
| Current portion of notes payable | 4,246,490 | | | | | | 4,246,490 |
| Accounts payable and accrued liabilities | 27,245,932 | $ 24,765 | $ 27,297 | | | | 27,297,994 |
| Accrued wages | 11,929,850 | 193,149 | 451,022 | | | | 12,574,021 |
| Due to third parties | 1,654,459 | | | | | | 1,654,459 |
| Accrued interest payable and other current liabilities | 623,163 | | | | | | 623,163 |
| Due to affiliated entities | 1,026,261 | 3,681,264 | | $ 193,985 | $ 17,825 | $ (4,919,335) | – |
| Total current liabilities | 49,101,155 | 3,899,178 | 478,319 | 193,985 | 17,825 | (4,919,335) | 48,771,127 |
| Bonds payable, less current portion | 30,531,457 | | | | | | 30,531,457 |
| Notes payable, less current portion | 9,171,356 | | | | | | 9,171,356 |
| Accrued pension liability | 15,664,920 | | | | | | 15,664,920 |
| Other long term liabilities | 20,391,373 | 61,637 | | | | | 20,453,010 |
| Total liabilities | 124,860,261 | 3,960,815 | 478,319 | 193,985 | 17,825 | (4,919,335) | 124,591,870 |
| Net assets: | | | | | | | |
| Unrestricted | 106,859,691 | | 2,681,123 | (155,085) | (17,825) | (1,000) | 109,366,904 |
| Temporarily restricted | 18,989,363 | 59,691,127 | 30,672 | | | (59,691,127) | 19,020,035 |
| Permanently restricted | 86,022,119 | 15,867,307 | | | | (15,867,307) | 86,022,119 |
| Total net assets | 211,871,173 | 75,558,434 | 2,711,795 | (155,085) | (17,825) | (75,559,434) | 214,409,058 |
| Total net assets and liabilities | $ 336,731,434 | $ 79,519,249 | $ 3,190,114 | $ 38,900 | $ – | $ (80,478,769) | $ 339,000,928 |

CCMC Corporation and Subsidiaries

Consolidating Balance Sheets

September 30, 2009

| | Hospital & Subsidiaries | Foundation | Affiliates | Corporation | Ventures | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | $ 3,873,000 | $ 656,165 | $ 230,237 | $ 77,565 | | | $ 4,836,967 |
| Short-term investments | | 5,286,908 | | | | | 5,286,908 |
| Funds held by trustee under revenue bond agreement | 5,185,038 | | | | | | 5,185,038 |
| Accounts receivable, less allowance of approximately $7,862,000 | 23,148,880 | 1,582,606 | 1,362,889 | | | | 26,094,375 |
| Due from affiliated entities | 1,634,513 | 380,335 | 370,549 | 500 | | $ (2,385,897) | – |
| Inventories | 585,139 | | | | | | 585,139 |
| Other current assets | 7,840,826 | 77,191 | 19,687 | | | | 7,937,704 |
| Total current assets | 42,267,396 | 7,983,205 | 1,983,362 | 78,065 | – | (2,385,897) | 49,926,131 |
| Assets whose use is limited: | | | | | | | |
| Investments | 27,658,997 | 57,785,224 | | | | | 85,444,221 |
| Funds held in trust by others | 54,638,548 | | | | | | 54,638,548 |
| Investment in Foundation | 64,936,027 | | | | | (64,936,027) | – |
| | 147,233,572 | 57,785,224 | – | – | – | (64,936,027) | 140,082,769 |
| Property, plant and equipment: | | | | | | | |
| Leasehold improvements | | | 1,770,539 | | | | 1,770,539 |
| Buildings | 110,890,454 | | | | | | 110,890,454 |
| Furniture and equipment | 50,989,717 | 829,398 | 768,731 | | | | 52,587,846 |
| Construction in progress | 1,846,645 | | | | | | 1,846,645 |
| | 163,726,816 | 829,398 | 2,539,270 | – | – | – | 167,095,484 |
| Less accumulated depreciation | (67,524,384) | (350,538) | (1,377,029) | | | | (69,251,951) |
| | 96,202,432 | 478,860 | 1,162,241 | – | – | – | 97,843,533 |
| Other assets: | | | | | | | |
| Bond issuance costs | 1,647,664 | | | | | | 1,647,664 |
| Ground lease | 2,504,558 | | | | | | 2,504,558 |
| Pledges receivable, long term | | 536,117 | | | | | 536,117 |
| Other | 6,743,522 | | | 1,000 | | (1,000) | 6,743,522 |
| | 10,895,744 | 536,117 | – | 1,000 | – | (1,000) | 11,431,861 |
| Total assets | $ 296,599,144 | $ 66,783,406 | $ 3,145,603 | $ 79,065 | $ – | $ (67,322,924) | $ 299,284,294 |

CCMC Corporation and Subsidiaries

Consolidating Balance Sheets (continued)

September 30, 2009

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

CCMC Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

For the Year Ended September 30, 2010

| | **Hospital & Subsidiaries** | **Foundation** | **Affiliates** | **Corporation** | **Ventures** | **Eliminations** | **Consolidated** |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Net patient service revenue | $ 223,198,671 | | | | | | $ 223,198,671 |
| Other revenues | 10,039,658 | | $ 8,362,404 | | | | 18,402,062 |
| Contributions and donations, net | | $ 7,233,069 | | | | | 7,233,069 |
| Investment income | 13,077,450 | 1,045,837 | | | | | 14,123,287 |
| Net assets released from restrictions | 12,539,812 | | 14,509 | | | | 12,554,321 |
| | 258,855,591 | 8,278,906 | 8,376,913 | – | – | – | 275,511,410 |
| Expenses: | | | | | | | |
| Salaries and wages | 126,865,396 | 1,843,931 | 5,968,313 | $ 46,358 | | | 134,723,998 |
| Benefits | 31,018,031 | 488,734 | 1,576,063 | 12,287 | | | 33,095,115 |
| Supplies and miscellaneous | 83,414,751 | 857,920 | 569,729 | | $ 250 | | 84,842,650 |
| Bad debts | 4,379,254 | | | | | | 4,379,254 |
| Interest | 1,396,384 | | | | | | 1,396,384 |
| Depreciation and amortization | 10,219,855 | 35,651 | 140,630 | | | | 10,396,136 |
| | 257,293,671 | 3,226,236 | 8,254,735 | 58,645 | 250 | – | 268,833,537 |
| Operating income (loss) | 1,561,920 | 5,052,670 | 122,178 | (58,645) | (250) | – | 6,677,873 |
| Change in equity interest in net assets of the Foundation | 5,052,670 | | | | | $ (5,052,670) | – |
| (Deficiency) excess of revenues over expenses | 6,614,590 | 5,052,670 | 122,178 | (58,645) | (250) | (5,052,670) | 6,677,873 |

*Continued on next page.*

CCMC Corporation and Subsidiaries

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

For the Year Ended September 30, 2010

| | Hospital & Subsidiaries | Foundation | Affiliates | Corporation | Ventures | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| Unrestricted net assets: | | | | | | | |
| (Deficiency) excess of revenues over expenses | 6,614,590 | 5,052,670 | 122,178 | (58,645) | (250) | (5,052,670) | 6,677,873 |
| Net unrealized loss on investments | 1,514,585 | 3,935,905 | | | | | 5,450,490 |
| Change in funded status of pension and post-retirement plans | (2,058,550) | | | | | | (2,058,550) |
| Adoption of new accounting principle | | | | | | | – |
| Net assets released from restrictions for purchase of equipment | 351,001 | | | | | | 351,001 |
| Change in equity interest in the net asset of the Foundation | 3,935,905 | | | | | (3,935,905) | – |
| Transfers to affiliates | | | | | | | – |
| Decrease in unrestricted net assets | 10,357,531 | 8,988,574 | 122,178 | (58,645) | (250) | (8,988,575) | 10,420,813 |
| | | | | | | | |
| Temporarily restricted net assets: | | | | | | | |
| Net unrealized losses on investments | | 376,679 | | | | | 376,679 |
| Income from investments | | 100,091 | | | | | 100,091 |
| Transfer from (to) affiliates | 4,244,404 | (4,248,532) | 4,128 | | | | – |
| Net assets released from restrictions for operations | (12,539,812) | | (14,509) | | | | (12,554,321) |
| Net assets released from restrictions for capital | (351,001) | | | | | | (351,001) |
| Change in equity interest in the net asset of the Foundation | 476,770 | | | | | (476,770) | – |
| Bequests, gift, and grants | 10,878,265 | 4,248,532 | 9,405 | | | | 15,136,202 |
| Increase (decrease) in temporarily restricted net assets | 2,708,626 | 476,770 | (976) | – | – | (476,770) | 2,707,650 |
| | | | | | | | |
| Permanently restricted net assets: | | | | | | | |
| Bequests, gifts, and grants | | 1,157,062 | | | | | 1,157,062 |
| Change in equity interest in the net asset of the Foundation | 1,157,062 | | | | | (1,157,062) | – |
| Change in funds held by others | 15,516,264 | | | | | | 15,516,264 |
| Decrease in permanently restricted net assets | 16,673,326 | 1,157,062 | – | – | – | (1,157,062) | 16,673,326 |
| | | | | | | | |
| Net assets at beginning of year | 182,131,692 | 64,936,027 | 2,590,592 | (96,440) | (17,575) | (64,937,027) | 184,607,269 |
| Net assets at end of year | $ 211,871,175 | $ 75,558,433 | $ 2,711,794 | $ (155,085) | $ (17,825) | $ (75,559,434) | $ 214,409,059 |

CCMC Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

For the Year Ended September 30, 2009

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

*Continued on next page.*

CCMC Corporation and Subsidiaries

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

For the Year Ended September 30, 2009

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