The Hospital of Central Connecticut

Independent Auditors' Report,
Consolidated Financial Statements
and Supplemental Information

As of and for the Years Ended
September 30, 2010 and 2009

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

The Hospital of Central Connecticut
Independent Auditors' Report, Consolidated Financial Statements
and Supplemental Information
As of and for the Years Ended September 30, 2010 and 2009

Table of Contents

	Page
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Changes in Net Assets	3
Consolidated Statements of Cash Flows	5
Notes to the Consolidated Financial Statements	6
Supplemental Information:	
Consolidating Balance Sheet - 2010	32
Consolidating Statement of Operations and Changes in Unrestricted Net Assets - 2010	34

Saslow
Lufkin &
Buggy, LLP
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, 2010 and 2009, and the related consolidated statements of operations and 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 $34,153,903 and $29,080,626 as of September 30, 2010 and 2009 and total revenues of $5,577,409 and $18,217,976 for the years then ended, respectively. 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, 2010 and 2009, 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 audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information listed within the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Saslow Lufkin & Buggy, LLP

December 14, 2010

10 Tower Lane
Avon CT 06001
Telephone (860) 678-9200
FAX (860) 678-9202

30 Main Street
Burlington, VT 05401
Telephone (802) 865-9300
FAX (802) 865-9302

email: information@slbcpa.com

The Hospital of Central Connecticut
Consolidated Balance Sheets
September 30, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 27,488,766**	$ 22,241,282
Accounts receivable, less allowance for bad debts of $13,234,021 in 2010 and $12,056,056 in 2009	**36,543,623**	36,493,910
Premiums receivable	**37,081**	317,861
Reinsurance recoverable	**6,496,841**	5,551,841
Other receivables	**718,095**	1,523,761
Current portion of pledges receivable, net	**8,809**	16,773
Due from affiliates	**19,913**	103,936
Inventories	**4,849,198**	4,999,628
Prepaid expenses	**3,338,973**	2,161,189
Assets whose use is limited - related to GIC	**2,000,000**	3,228,000
Assets whose use is limited - required for current liabilities	**16,427**	69,761
Total current assets	**81,517,726**	76,707,942
Assets whose use is limited:		
Cash and cash equivalents related to GIC	**-**	19,352,734
Investments related to GIC	**21,420,330**	-
Assets held in trust by others	**14,035,818**	13,240,758
Board restricted endowment	**91,527,136**	80,516,608
Temporarily and permanently donor restricted investments	**22,886,521**	21,726,622
	149,869,805	134,836,722
Pledges receivable, net	**1,589**	57,320
Investments in affiliates	**3,484,759**	4,035,350
Other assets	**3,612,491**	2,993,162
Due from affiliates	**1,192,649**	1,427,271
Property, plant and equipment, net	**125,427,098**	124,178,254
Total assets	**$ 365,106,117**	$ 344,236,021
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 25,285,305**	$ 21,403,282
Accrued compensation	**11,779,341**	13,045,926
Due to affiliates	**40,867**	-
Unearned premiums	**34,166**	224,227
Reserve for losses and loss adjustment expenses	**2,000,000**	3,228,000
Deferred revenue	**339,220**	760,583
Due to third-party agencies	**19,449,485**	14,739,235
Current portion of long-term debt	**3,889,577**	3,514,668
Current portion of pension, self-insurance and other long-term liabilities	**15,595,053**	18,550,000
Total current liabilities	**78,413,014**	75,465,921
Reserve for losses and loss adjustment expenses	**22,433,279**	18,869,933
Long-term debt	**34,217,519**	36,811,837
Pension, self-insurance and other long-term liabilities	**92,507,195**	89,660,009
Total liabilities	**227,571,007**	220,807,700
Net assets:		
Unrestricted	**100,602,371**	88,386,848
Temporarily restricted	**16,296,477**	15,200,271
Permanently restricted	**20,636,262**	19,841,202
Total net assets	**137,535,110**	123,428,321
Total liabilities and net assets	**$ 365,106,117**	$ 344,236,021

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

The Hospital of Central Connecticut
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2010 and 2009

	2010	2009
Revenues:		
Net revenues from services to patients	**$ 368,946,837**	$ 372,308,377
Other operating revenues	**9,629,436**	10,228,558
Net premiums earned	**5,577,409**	18,217,976
Net assets released from restrictions used for operations	**1,144,549**	777,708
Total revenues	**385,298,231**	401,532,619
Expenses:		
Salaries and benefits	**216,146,521**	206,493,495
Supplies and other expenses	**127,626,323**	127,489,113
Provision for bad debts, net of recoveries of $3,136,962 in 2010 and $3,129,789 in 2009	**10,952,307**	18,902,943
Depreciation and amortization	**17,446,295**	17,479,711
Losses and loss adjustment expenses	**3,374,164**	16,874,515
Information technology conversion	**7,850,321**	-
Interest	**1,941,343**	1,943,343
Total expenses	**385,337,274**	389,183,120
(Loss) income from operations	**(39,043)**	12,349,499
Non-operating gains (losses):		
Investment income	**2,847,543**	5,148,142
Unrestricted gifts and bequests	**1,195,945**	1,054,227
Gains (losses) on sales of securities	**4,495,661**	(904,524)
Change in fair value of interest rate swap	**(1,343,101)**	(1,971,035)
Total non-operating gains	**7,196,048**	3,326,810
Excess of revenues over expenses	**$ 7,157,005**	$ 15,676,309

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

The Hospital of Central Connecticut
Consolidated Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2010 and 2009

	2010	2009
Unrestricted net assets:		
Excess of revenues over expenses	**$ 7,157,005**	$ 15,676,309
Pension changes other than net periodic benefit costs	**714,815**	(80,300,781)
Debt forgiveness granted to affiliate	**(586,456)**	-
Debt forgiveness granted to CCHA	**-**	(5,967,242)
Net unrealized gains (losses) on investments	**4,400,689**	(2,009,331)
Net assets released from restrictions used for capital	**529,470**	968,983
Other changes	**-**	28,415
Change in unrestricted net assets	**12,215,523**	(71,603,647)
Temporarily restricted net assets:		
Net realized and unrealized gains on investments	**1,097,149**	100,101
Income from investments	**364,208**	718,175
Contributions	**1,308,868**	1,395,717
Net assets released from restrictions used for operations	**(1,144,549)**	(777,708)
Net assets released from restrictions used for capital	**(529,470)**	(968,983)
Change in temporarily restricted net assets	**1,096,206**	467,302
Permanently restricted net assets:		
Contributions	**-**	27,069
Other changes	**-**	(28,415)
Change in assets held in trust by others	**795,060**	(438,927)
Change in permanently restricted net assets	**795,060**	(440,273)
Change in net assets	**14,106,789**	(71,576,618)
Net assets at beginning of year	**123,428,321**	195,004,939
Net assets at end of year	**$ 137,535,110**	$ 123,428,321

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, 2010 and 2009

	2010	2009
Operating activities:		
Change in net assets	**$ 14,106,789**	$ (71,576,618)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**17,446,295**	17,479,711
Provision for bad debts	**10,952,307**	18,902,943
Net realized and unrealized (gains) losses on assets whose use is limited	**(5,195,749)**	2,448,258
Restricted contributions and investment income	**(2,770,225)**	(2,241,062)
Debt forgiveness granted to affiliate	**586,456**	-
Debt forgiveness granted to CCHA	**-**	5,967,242
Changes in assets and liabilities:		
Accounts receivable	**(11,002,020)**	(19,634,052)
Premiums receivable	**280,780**	(317,861)
Reinsurance recoverable	**(945,000)**	(5,551,841)
Other receivables	**805,666**	976,597
Due from affiliates	**318,645**	5,758,283
Inventories	**150,430**	275,712
Prepaid expenses	**(1,177,784)**	(54,977)
Pledges receivable	**63,695**	226,479
Other assets	**(619,329)**	(240,150)
Accounts payable and accrued expenses	**3,882,023**	(5,559,058)
Accrued compensation	**(1,266,585)**	874,341
Due to affiliates	**40,867**	-
Unearned premiums	**(190,061)**	224,227
Reserve for losses and loss adjustment expenses	**2,335,346**	22,097,933
Deferred revenue	**(421,363)**	163,023
Due to third-party agencies	**4,710,250**	1,656,203
Pension, self-insurance and other long-term liabilities	**(107,761)**	64,546,676
Net cash provided by operating activities	**31,983,672**	36,422,009
Investing activities:		
Net increase in board designated and donor restricted investments	**(7,716,404)**	(7,402,743)
Net increase in investments in GIC	**(21,420,330)**	-
Net decrease (increase) in cash and cash equivalents related to GIC	**20,580,734**	(22,580,734)
Net decrease in assets held in trust under bond indenture	**-**	39,077
Net decrease in assets held in trust under lease agreement	**-**	4,107,542
Purchases of property, plant and equipment	**(18,695,139)**	(11,239,665)
Net decrease in investments in affiliates	**550,591**	5,988,308
Net cash used in investing activities	**(26,700,548)**	(31,088,215)
Financing activities:		
Debt forgiveness granted to affiliate	**(586,456)**	-
Debt forgiveness granted to CCHA	**-**	(5,967,242)
Principal payments on long-term debt, capital leases and line of credit	**(3,669,409)**	(4,025,162)
Proceeds from borrowings of long-term debt	**1,450,000**	-
Restricted contributions and investment income	**2,770,225**	2,241,062
Net cash used in financing activities	**(35,640)**	(7,751,342)
Change in cash and cash equivalents	**5,247,484**	(2,417,548)
Cash and cash equivalents at beginning of year	**22,241,282**	24,658,830
Cash and cash equivalents at end of year	**$ 27,488,766**	$ 22,241,282

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. In May 2010, the Office of Health Care Access granted Certificate of Need approval related to this affiliation. The MOU had no effect on the consolidated financial statements as of September 30, 2010 and 2009.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The consolidated financial statements include the accounts of the Hospital and GIC. All significant inter-company balances and transactions have been eliminated in consolidation.

New Accounting Pronouncements - In June 2009, the FASB issued Statement of Financial Accounting Standards No. 168. This guidance establishes the FASB ASC (the Codification) as the source of authoritative GAAP. The Codification did not change GAAP, but organized and consolidated authoritative guidance into a single, concise source of GAAP. Since the adoption of the Codification, the FASB issues any new authoritative accounting standards in the form of Accounting Standards Updates (ASU's). This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009 and was adopted by the Hospital for the year ended September 30, 2009. The adoption of the Codification did not have an impact on the Hospital's consolidated financial condition or results of operations.

In September 2009, the FASB released ASU 2009-12, which includes guidance on fair value measurements and disclosures relating to investments that calculate net asset value (NAV) per share (or its equivalent). The guidance permits, as a practical expedient, an entity holding investments in certain entities that calculate NAV per share or its equivalent for which the fair value is not readily determinable, to measure the fair value of such investments on the basis of that NAV per share, or its equivalent, without adjustment. The guidance also requires disclosure of the attributes of investments within the scope of the guidance by major category of investment. Such disclosures include the nature of any restrictions on an investor's ability to redeem its investments at the measurement date, any unfunded commitments and the investment strategies of the investee. The guidance is effective for interim and annual periods ending after December 15, 2009. The Hospital has adopted this guidance effect with the issuance of its September 30, 2010 consolidated financial statements.

Note 2 - Summary of Significant Accounting Policies (continued)

In January 2010, the FASB issued FASB ASU 2010-06, which clarifies certain existing fair value measurement disclosure requirements of FASB ASC 820 and also requires additional fair value measurement disclosures. The new disclosures relate to transfers in and out of Level 1 and 2 investments, and disclosures about inputs and valuation techniques. The disclosures regarding transfers in and out of Level 1 and 2 investments, and clarifications to existing disclosures are effective for interim and annual periods beginning after December 15, 2009. The disclosures of Level 3 investment rollforward of activity on a gross basis are effective for fiscal years beginning after December 15, 2010. The Hospital is currently evaluating the impact of these disclosures on its consolidated financial statements.

In March 2010, the Hospital adopted FASB ASU 2010-11, which expands the disclosure requirements for derivative instruments and hedging activities to include an explanation of the entity's reason for using derivative instruments, the risks involved, and how these instruments and related hedge items affect an entity's financial position, financial performance and cash flow. To meet these objectives, FASB ASU 2010-11 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair values of derivative instruments and their gains and losses, and disclosures about credit-risk-related contingent features in derivative agreements. The enhanced disclosures about derivative instruments and hedging activities are included in Note 11.

In December 2008, the FASB issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in FASB ASC 715 (formerly FASB Staff Position FAS 132(R) - 1, *"Employers' Disclosures about Postretirement Benefit Plan Assets"*). 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 12 for these additional disclosures for the year ended September 30, 2010. The adoption of this guidance did not have a significant impact on the Hospital's consolidated financial statements for the year ended September 30, 2010.

In April 2009, the FASB issued a new accounting pronouncement regarding mergers and acquisitions for not-for-profit entities (formerly SFAS No. 164, *"Not-for-Profit Entities: Mergers and Acquisitions, including an amendment of FASB Statement No. 142"*). The pronouncement, found under ASC Topic 958, establishes principles and requirements for how a not-for-profit entity accounts for mergers and acquisitions. The pronouncement also makes FASB Statement No. 142, *"Goodwill and Other Intangible Assets,"* found under ASC Topic 350, and FASB Statement No. 160, *"Noncontrolling Interests in Consolidated Financial Statements,"* found under ASC Topic 810, fully applicable to not-for-profit entities. These pronouncements will be effective for the Hospital on October 1, 2010. The Hospital is currently evaluating the impact on its financial position and results of operations from the adoption of this pronouncement.

In August 2010, the FASB issued ASU 2010-23, which is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for the Hospital on October 1, 2011. The Hospital is currently evaluating the impact on its disclosures from the adoption of this pronouncement.

Note 2 - Summary of Significant Accounting Policies (continued)

In August 2010, the FASB issued ASU No. 2010-24, which clarifies that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for the Hospital on October 1, 2011. The Hospital is currently evaluating the impact on its financial position and results of operations from the adoption of this pronouncement.

Use of Estimates - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Hospital considers all highly liquid investments with remaining maturities of three months or less at date of purchase to be cash equivalents. Cash equivalents include money market funds. 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. The Hospital maintains its cash at various banks, and it is the Hospital’s policy to monitor the banks financial strength on an ongoing basis.

Money market funds are not insured by the FDIC and are not a risk-free investment. Money market funds invest in a variety of instruments including mortgage-backed and asset-backed securities. Although a money market fund seeks to preserve its $1 per share value, it is possible that a money market fund’s value can decrease below $1 per share.

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, 2010 and 2009, the Hospital has $91,527,136 and $80,516,608, 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 $1,150,437 and $2,124,308 in 2010 and 2009, respectively.

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 and changes in net assets as net assets released from restrictions.

Note 2 - Summary of Significant Accounting Policies (continued)

***Investments* -** The Hospital's investment portfolio is classified as available for sale, with unrealized gains and losses excluded in excess of revenues over expenses, unless the losses are deemed to be other than temporary. Investments in equity securities with readily determinable fair values and all investments in debt securities and mutual funds are measured at fair value in the consolidated balance sheets. 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.

***Other Than Temporary Impairments on Investments* -** The Hospital accounts for other than temporary impairments in accordance with FASB ASC 320-10 and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairments recorded in 2010 or 2009.

***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	6%

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, 2010 and 2009, as it is immaterial to the consolidated financial statements.

***Property, Plant and Equipment* -** Property, plant and equipment is 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 and changes in net assets 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.

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.

During 2010, the Hospital adopted certain provisions of FASB ASC 740, *“Income Taxes”* which provide a new framework for how companies should recognize, measure, present and disclose uncertain tax positions in their consolidated financial statements. With these changes, the Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Hospital does not have any uncertain tax positions as September 30, 2010. As of September 30, 2010, the Hospital did not record any penalties or interest associated with uncertain tax positions. Therefore, the certain provisions of FASB ASC 740, which were adopted during 2010, had no impact on the Hospital’s consolidated financial statements.

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.

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Subsequent Events - Subsequent events have been evaluated through November 15, 2010, the date through which procedures were performed to prepare the consolidated financial statements for issuance.

Reclassifications - Certain reclassifications to the 2009 consolidated financial statements have been made in order to conform to the 2010 presentation. Such reclassifications did not have a material effect on the consolidated financial statements.

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

The following table summarizes net revenues from services to patients.

	2010	2009
Gross revenues from patients	**$ 809,324,847**	$ 834,657,877
Deductions:		
Allowances	**435,992,445**	459,849,366
Connecticut Uncompensated Care Pool	**(4,035,006)**	(4,575,350)
Charity care	**8,420,571**	7,075,484
	440,378,010	462,349,500
Total net revenue from services to patients	**$ 368,946,837**	$ 372,308,377

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 2010 and 2009, approximately 35% and 36%, of net patient revenue was received under the Medicare program, 15% and 12%, under the state Medicaid program, and 50% and 52%, 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. No temporarily restricted net assets have been released for 2010 and 2009.

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

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 - Community Benefit

The Hospital provides quality health care to all, regardless of their ability to pay. Charity care is provided to those who are eligible based on the Hospital's policy. The Hospital receives insufficient payments to covers the costs of Medicare and Medicaid programs which results in community benefits. In addition to charity care responsibilities, the Hospital provides numerous other community benefits which include medical education and research, community health education, screenings, support groups, counseling services, medical and specialty clinics and in-kind support.

The Hospital utilizes guidelines developed by various organizations to quantify community benefit activities. The Hospital defines community benefit activities as those that improve access to healthcare services, enhance the health of the community and provide education of medical and health issues to the broader community. In addition to charity care and unpaid cost of government sponsored health care (Medicare and/or Medicaid shortfalls), community benefit activities will normally fall into on the following categories: unbilled community health service/community health improvement services, health professions education, subsidized health services and research. Services provided to Medicare, Medicaid and charity care patients represent the most significant levels of uncompensated care. The Hospital calculates the cost of other community benefits by identifying specific expenditures incurred by the Hospital that directly benefit the community.

Note 5 - Investments

The Hospital has investments whose use is limited, which are carried on the consolidated balance sheets within investments related to GIC, 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.

Note 5 - Investments (continued)

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

	2010	2009
Cash	**$ 157,650**	$ 22,910,087
Equities	**531,064**	482,355
Fixed income mutual funds	**105,946,866**	50,970,049
Collective investment funds	**7,643,346**	50,524,403
Equity fund	**2,346,660**	-
Alternative investments	**21,224,828**	6,831
	137,850,414	124,893,725
Beneficial interest in trusts	**14,035,818**	13,240,758
Total assets whose use is limited	**$ 151,886,232**	$ 138,134,483

There were no investments in a gross unrealized loss position as of September 30, 2010. 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.

	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)

No impairment loss was recognized during 2010 or 2009, 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 $2,847,543 and $5,148,142 for the years ended September 30, 2010 and 2009, respectively. Realized gains (losses) on the investments totaled $4,495,661 and ($904,524) for the years ended September 30, 2010 and 2009, respectively.

Note 6 - Fair Value Measurements

FASB ASC 820, *"Fair Value Measurements and Disclosures,"* provides a framework for measuring fair value. That framework provides a fair value hierarch that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Note 6 - Fair Value Measurements (continued)

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has specified (contractual) terms, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table presents the financial instruments carried at fair value as of September 30, 2010 and 2009, by the valuation hierarchy.

2010	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 157,650	$ -	$ -	$ 157,650
Equities:				
U.S. large cap	365,797	-	-	365,797
U.S. mid cap	57,684	-	-	57,684
U.S. small cap	35,776	-	-	35,776
International developed	51,350	-	-	51,350
Emerging markets	20,457	-	-	20,457
Fixed income:				
Collective investment funds	-	7,643,346	-	7,643,346
Fixed income mutual funds	105,946,866	-	-	105,946,866
Equity fund	-	2,346,660	-	2,346,660
Alternative investments:				
Public REIT	-	-	8,601	8,601
Offshore feeder fund	-	-	21,216,227	21,216,227
	106,635,580	9,990,006	21,224,828	137,850,414
Beneficial interest in trusts	-	-	14,035,818	14,035,818
Total	$ 106,635,580	$ 9,990,006	$ 35,260,646	$ 151,886,232

Note 6 - Fair Value Measurements (continued)

2010	Level 1	Level 2	Level 3	Total
Liabilities:				
Obligations under interest rate swap agreement	$ -	$ 3,819,673	$ -	$ 3,819,673
Total	$ -	$ 3,819,673	$ -	$ 3,819,673

2009	Level 1	Level 2	Level 3	Total
Assets:				
Cash	$ 22,910,087	$ -	$ -	$ 22,910,087
Equities:				
U.S. large cap	341,149	-	-	341,149
U.S. mid cap	53,336	-	-	53,336
U.S. small cap	30,965	-	-	30,965
International developed	51,125	-	-	51,125
Emerging markets	5,780	-	-	5,780
Fixed income:				
Collective investment funds	-	50,524,403	-	50,524,403
Fixed income mutual funds	50,970,049	-	-	50,970,049
Alternative investment:				
Public REIT	-	-	6,831	6,831
	74,362,491	50,524,403	6,831	124,893,725
Beneficial interest in trusts	-	-	13,240,758	13,240,758
Total	$ 74,362,491	$ 50,524,403	$ 13,247,589	$ 138,134,483
Liabilities:				
Obligations under interest rate swap agreement	$ -	$ 2,476,572	$ -	$ 2,476,572
Total	$ -	$ 2,476,572	$ -	$ 2,476,572

Note 6 - Fair Value Measurements (continued)

A rollforward of the amounts in the consolidated balance sheets classified as Level 3 within the fair value hierarchy, are as follows.

2010	Beneficial Interest in Trusts	Public REIT	Offshore Feeder Fund	Total
Balance as of October 1, 2009	$ 13,240,758	$ 6,831	$ -	$ 13,247,589
Investment return:				
Investment income	-	262	-	262
Net change in market value	795,060	(1,280)	533,227	1,327,007
Contributions	-	2,788	20,683,000	20,685,788
Balance as of September 30, 2010	$ 14,035,818	$ 8,601	$ 21,216,227	$ 35,260,646

2009	Beneficial Interest in Trusts	Public REIT	Total
Balance as of October 1, 2008	$ 13,679,684	$ 9,609	$ 13,689,293
Investment return:			
Investment income	-	272	272
Net change in market value	(438,926)	(3,050)	(441,976)
Balance as of September 30, 2009	$ 13,240,758	$ 6,831	$ 13,247,589

The Hospital's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below. Where applicable, the Hospital uses quoted prices in active markets for identical assets and liabilities to determine fair value (Level 1 inputs). This pricing methodology applies to equities and fixed income mutual funds.

If quoted prices in active markets for identical assets and liabilities are not available, then quoted prices for similar assets and liabilities, quoted prices for identical assets or liabilities in inactive markets or inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, will be used to determine fair value (Level 2 inputs). The Level 2 classifications include collective investment funds, the equity fund and interest rate swap agreement. The equity fund is valued based on GIC's ownership interest in the NAV of the fund. The Hospital routinely monitors and assesses methodologies and assumptions used in valuing these interests. The equity fund includes certain liquidity restrictions that may require 90 days advance notice for redemptions. The interest rate swap agreement is valued based on a determination of market expectations relating to the future cash flows associated with the swap contract using sophisticated modeling based on observable market-based inputs, such as interest rate curves.

Assets and liabilities that are valued using significant unobservable inputs, such as extrapolated data, proprietary models or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy. The Level 3 classification includes the Hospital's interest in the public REIT, the offshore feeder fund and beneficial interest in trusts.

Note 6 - Fair Value Measurements (continued)

The offshore feeder fund invests all of its capital into a master fund, which in turn invests in managed funds. Investments held by the master fund, which include private placements and other securities for which values are not readily available, are determined in good faith by the investment advisors of the respective master fund. The estimated fair values may differ significantly from the values that would have been used had a readily available market price existed for these investments, and these differences could be material. Net asset values are provided monthly by the master fund, the fair value is based on the Hospital's ownership interest in the NAV of the master fund. The offshore feeder fund includes certain liquidity restrictions that may require 65 days advance notice for redemptions. The value of the Hospital's beneficial interest in trusts is based on total fund values and the Hospital's corresponding beneficiary percentage.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Hospital 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 fair value measurement at the reporting date.

As of September 30, 2010 and 2009, the Hospital's other financial instruments included accounts receivable, accounts payable and accrued expenses, estimated third-party payer settlements, long-term debt and capital leases. The carrying amounts reported in the consolidated balance sheets for these financial instruments approximate their fair value.

Note 7 - Net Assets

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

	2010	**2009**
Indigent care	**$ 753,845**	$ 662,293
Other healthcare services and capital acquisitions	**15,542,632**	14,537,978
	$ 16,296,477	$ 15,200,271

Note 7 - Net Assets (continued)

Permanently restricted net assets as of September 30, 2010 and 2009 are restricted for the following purposes.

	2010	2009
Investments to be held in perpetuity, the income from which is expendable to support health care services	**$ 6,600,444**	$ 6,600,444
Restricted funds held in trust by others, the income from which is expendable to support health care services	**14,035,818**	13,240,758
	$ 20,636,262	$ 19,841,202

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 GAAP, 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.

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 Hospital has adopted investment and spending policies for endowment assets that attempt to provide a reasonably stable and predictable stream of earnings to support the operations of the endowments and to preserve and enhance over time the real value of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment and management costs, of at least 6% over the long-term. Actual returns in any given year may vary from this amount.

The Investment Committee of the Board is responsible for defining and reviewing the investment policy to determine an appropriate long-term asset allocation policy. The asset allocation policy reflects the objective with allocations structured for capital growth and inflation protection over the long-term.

Note 7 - Net Assets (continued)

The current asset allocation targets and ranges as of September 30, 2010, are as follows.

Asset Class	Asset Allocation Targets Policy Target	Ranges
Global equities	46%	30% - 60%
Marketable alternative assets	20%	15% - 25%
Non-marketable alternative assets	4%	0% - 6%
Real assets	14%	6% - 20%
U.S. bonds	11%	8% - 20%
Non-U.S. bonds	5%	0% - 10%

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.

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 $1,674,019 and $1,746,691 of funds for expenditure from its temporarily restricted endowment funds for the year ending September 30, 2010 and 2009, respectively. The Hospital has not appropriated funds for expenditure from its board restricted endowment funds for the years ending September 30, 2010 and 2009. The board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Hospital.

Changes in endowments for the year ended September 30, 2010 and 2009 are as follows.

2010	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of October 1, 2009	$ 80,516,608	$ 15,126,178	$ 19,841,202	$ 115,483,988
Investment return:				
Investment income	2,390,873	364,208	-	2,755,081
Net change in market value	7,256,269	1,097,149	795,060	9,148,478
Other changes	-	(210,193)	-	(210,193)
Contributions	1,363,386	1,308,868	-	2,672,254
Expenditures	-	(1,400,131)	-	(1,400,131)
Balance as of September 30, 2010	$ 91,527,136	$ 16,286,079	$ 20,636,262	$ 128,449,477

Note 7 - Net Assets (continued)

2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of 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 as of September 30, 2009	$ 80,516,608	$ 15,126,178	$ 19,841,202	$ 115,483,988

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, 2010 and 2009, there were no funds that were below the level required by donor or law.

Note 8 - Property, Plant and Equipment

Property, plant and equipment consist of the following as of September 30, 2010 and 2009.

	2010	2009
Land	**$ 2,637,259**	$ 2,572,259
Buildings and improvements	**199,708,600**	189,498,383
Equipment	**165,976,070**	157,667,774
	368,321,929	349,738,416
Less: accumulated depreciation	**(246,081,335)**	(229,023,210)
	122,240,594	120,715,206
Construction in progress	**3,186,504**	3,463,048
	$ 125,427,098	$ 124,178,254

The cost to complete the construction in progress is $2,600,000 and $3,300,000 as of September 30, 2010 and 2009, respectively. Depreciation and amortization expense for the years ended September 30, 2010 and 2009 amounted to $17,446,295 and $17,479,711, respectively. Equipment held under capital leases of $10,839,285 and $11,519,795 are included in equipment as of September 30, 2010 and 2009, respectively.

Note 9 - 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 are $10,398 and $74,093 as of September 30, 2010 and 2009, respectively.

Note 10 - 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 $30,545,000 and $32,115,000 are outstanding as of September 30, 2010 and 2009, 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.

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. Management believes this letter of credit will be renewed and therefore the debt has not been reclassified as a current liability. 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, 2010 and 2009, the Hospital is in compliance with these covenants.

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 $378,120 and $428,657 as of September 30, 2010 and 2009, net of amortization, are included in other assets in the accompanying consolidated balance sheets, respectively.

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.

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, 2010 and 2009 was $1,264,422 and $1,504,422, 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 lease for the MRI equipment was paid off during 2010. The outstanding balance on this lease as of September 30, 2009 was $32,982, and the net book value of the leased equipment was $540,170.

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, 2010 and 2009 was $2,755,244 and $3,718,249, and the net book value of the leased equipment was $3,748,369 and $4,376,999, respectively.

Note 10 - Long-Term Debt, Lines of Credit and Capital Leases (continued)

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, 2010 and 2009 was $2,247,630 and $2,955,852 and the net book value of the leased equipment was $2,803,685 and $3,272,918, respectively.

In February 2010, the Hospital entered into a five-year, $1,450,000 capital lease agreement with CHEFA for MRI equipment. This lease has an interest rate of 3.84%. The bank has a lien on the MRI equipment. The outstanding balance on this lease as of September 30, 2010 was $1,294,800 and the net book value of the leased equipment was $1,407,886.

The Hospital has an available line of credit with bank for credit availability of up to $2,000,000. There were no outstanding balances under this line of credit as of September 30, 2010 and 2009. 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% as of September 30, 2010 and 2009). The line of credit is reviewed annually each February.

During the years ended September 30, 2010 and 2009, the Hospital paid interest of $1,636,755 and $1,646,977, respectively.

The following is a schedule of future principal payments by fiscal year on long-term debt as of September 30, 2010.

	CHEFA	Notes Payable	Capital Leases	Total
Year:				
2011	$ 1,635,000	$ 240,000	$ 2,227,336	$ 4,102,336
2012	1,705,000	240,000	2,227,336	4,172,336
2013	1,780,000	240,000	1,796,510	3,816,510
2014	1,855,000	240,000	319,193	2,414,193
2015	1,935,000	240,000	133,454	2,308,454
Thereafter	21,635,000	64,422	-	21,699,422
	30,545,000	1,264,422	6,703,829	38,513,251
Less: interest	-	-	406,155	406,155
Less: current portion	1,635,000	240,000	2,014,577	3,889,577
Long-term portion	$ 28,910,000	$ 1,024,422	$ 4,283,097	$ 34,217,519

Note 11 - Derivatives

The Hospital uses derivative instruments, specifically an interest rate swap, to manage its exposure to changes in the interest rate on its CHEFA Series A variable rate bond. The use of derivative instruments exposes the Hospital to additional risks related to the derivative instrument, including market risk, credit risk and termination risk as described below, and the Hospital has defined risk management practices to mitigate these risks, as appropriate.

Note 11 - Derivatives (continued)

Market risk represents the potential adverse effect on the fair value and cash flow of a derivative instrument due to changes in interest rates or rate spreads. Market risk is managed through ongoing monitoring of interest rate exposure based on set parameters regarding the type and degree of market risk that the Hospital will accept. Credit risk is the risk that the counterparty on a derivative instrument may be unable to perform its obligation during the term of the contract. When the fair value of a derivative contract is positive, the counterparty owes the Hospital, which creates credit risk. Credit risk is managed by setting stringent requirements for qualified counterparties at the date of execution of a derivative transaction and requiring counterparties to post collateral in the event of a credit rating downgrade or if the fair value of the derivative contract exceeds a negotiated threshold.

Termination risk represents the risk that the Hospital may be required to make a significant payment to the counterparty, if the derivative contract is terminated early. Termination risk is assessed at onset by performing a statistical analysis of the potential for a significant termination payment under various scenarios designed to encompass expected interest rate changes over the life of the proposed contract. The test measures the ability to make a termination payment without a significant impairment to the Hospital's ability to meets its debts or liquidity covenants.

In connection with the issuance of the CHEFA Series A bonds, the Hospital entered into a interest rate swap agreement (swap agreement) to synthetically fix the interest payment. Under the swap agreement, the Hospital makes fixed payments equal to 3.75% to the swap counterparty and receives variable rate payments 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 fair value of the interest rate swap (a liability of $3,819,673 and $2,476,572 as of September 30, 2010 and 2009, respectively) has been recorded in the accompanying consolidated balance sheets within other long-term liabilities. The counterparty to the swap agreement is Bank of America, N.A. The swap agreement expires on July 1, 2024 and is secured by obligations issued under the Master Indenture.

Management has not designated the swap agreement as a hedging instrument. The change in fair value of the interest rate swap of $1,343,101 and $1,971,035 for the years ended September 30, 2010 and 2009, respectively, is recorded in the consolidated statements of operations and changes in net assets as a component of non-operating income.

Note 12 - 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.

Note 12 - Retirement Plans (continued)

The SERP has been established to supplement the retirement benefits of eligible employees designated by the Hospital's Board of Directors. The fair value of the assets relating to the SERP are $2,684,313 and $1,944,940 as of September 30, 2010 and 2009. The accrued liability relating to the SERP, which is funded annually, amounted to $3,084,313 and $2,279,243 as of September 30, 2010 and 2009, respectively. The expenses incurred related to the SERP amounted to $1,019,098 and $324,996 for the years ended September 30, 2010 and 2009, respectively.

Significant disclosures relating to the retirement benefit plans, which are measured as of September 30, 2010 and 2009 are as follows.

	NBGH		Bradley	
	2010	**2009**	**2010**	**2009**
Change in benefit obligation:				
Benefit obligation, beginning of year	**$ (252,886,218)**	$ (177,241,598)	**$ (31,676,934)**	$ (23,433,887)
Service cost	**(7,811,748)**	(5,843,344)	**(947,405)**	(779,621)
Interest cost	**(13,643,971)**	(13,230,084)	**(1,708,268)**	(1,695,676)
Actuarial loss	**(3,888,119)**	(62,642,366)	**(472,485)**	(6,772,207)
Benefits paid	**6,242,594**	5,708,219	**844,432**	809,219
Administrative expenses paid	**361,159**	362,955	**226,793**	195,238
Benefit obligation, end of year	**$ (271,626,303)**	$ (252,886,218)	**$ (33,733,867)**	$ (31,676,934)
Change in plan assets:				
Fair value of plan assets, beginning	**$ 166,505,275**	$ 146,708,221	**$ 22,319,867**	$ 20,086,281
Actual return on plan assets	**16,063,845**	4,668,228	**2,155,313**	538,043
Employer contributions	**11,200,000**	21,200,000	**1,400,000**	2,700,000
Benefits paid	**(6,242,594)**	(5,708,219)	**(844,432)**	(809,219)
Administrative expenses paid	**(361,159)**	(362,955)	**(226,793)**	(195,238)
Fair value of plan assets, end of year	**$ 187,165,367**	$ 166,505,275	**$ 24,803,955**	$ 22,319,867
Accrued pension liability:				
Unfunded status	**$ (84,460,936)**	$ (86,380,943)	**$ (8,929,912)**	$ (9,357,067)
Components of net periodic benefit cost:				
Service cost	**$ 7,811,748**	$ 5,843,344	**$ 947,405**	$ 779,621
Interest cost	**13,643,971**	13,230,084	**1,708,268**	1,695,676
Expected return on plan assets	**(16,179,756)**	(14,270,744)	**(1,876,140)**	(1,682,513)
Net amortization and deferral	**3,911,839**	(437,574)	**1,000,319**	298,352
Net periodic benefit cost	**$ 9,187,802**	$ 4,365,110	**$ 1,779,852**	$ 1,091,136

Note 12 - Retirement Plans (continued)

Assumptions:	**NBGH 2010**	**NBGH 2009**	**Bradley 2010**	**Bradley 2009**
Weighted average assumption used to determine benefit obligations were:				
Discount rate	5.25%	5.60%	5.60%	5.60%
Rate of compensation increase	3.50%	4.00%	4.00%	4.00%
Weighted average assumption used to determine periodic benefit cost were:				
Discount rate	5.60%	7.50%	5.60%	7.50%
Rate of compensation increase	4.00%	4.25%	4.00%	4.00%
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 $236,601,618 and $210,992,926 as of September 30, 2010 and 2009, respectively. The accumulated benefit obligation for the Bradley plan was $30,726,333 and $27,914,163 as of September 30, 2010 and 2009, respectively.

Pension changes other than net periodic benefit costs, for the years ended September 30, 2010 and 2009 resulted in an increase (decrease) to unrestricted net assets of $714,815 and ($80,300,781), respectively. These changes have been reflected in the consolidated statements operations and changes in net assets. The reason for the large decrease in 2009 is attributable to the decrease in the discount rate assumption.

Accumulated amounts recorded in unrestricted net assets as of September 30, 2010 not yet amortized as components of net periodic benefit costs are as follows.

	NBGH	**Bradley**
Unamortized prior service (credit) costs	$ (1,630,408)	$ 88,862
Unamortized actuarial loss	98,297,959	12,200,542
Amount recognized as a reduction in unrestricted net assets	$ 96,667,551	$ 12,289,404

The amortization of the above items expected to be recognized in net periodic benefit costs for the year ended September 30, 2011 is $5,920,690.

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. Investment risk is effectively managed through the diversification of assets for a mix of capital growth and capital protection across various investment styles. The performance goal is to have a minimum total return of the CPI plus 3% over a rolling ten-year period.

Note 12 - Retirement Plans (continued)

The weighted average asset allocations as of September 30, 2010 and 2009 are as follows:

Asset Category	Target Allocation 2010	NBGH 2010	NBGH 2009	Bradley 2010	Bradley 2009
Equity securities	**65%**	**66%**	66%	**68%**	67%
Debt securities	**32%**	**34%**	34%	**32%**	32%
Cash	**3%**	**0%**	1%	**0%**	1%

Fair value methodologies used to assign plan assets to levels in accordance with FASB ASC 820 are consistent with the inputs described in Note 5. The value of the guaranteed income fund is calculated by discounting the related cash flows based on current yields of similar instruments with comparable durations. The Invesco feeder fund invests in the non-voting preferred shares of a master fund. The market value of the Invesco feeder fund is represented by the interest in the NAV of the master fund.

The fair value of the Hospital's defined benefit pension plan and SERP as of September 30, 2010 and 2009 are as follows.

2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds	$ 661,217	$ -	$ -	$ 661,217
Guaranteed income fund	-	-	767,314	767,314
Fixed income:				
Collective investment fund	-	17,020,467	-	17,020,467
Fixed income mutual funds	-	190,188,615	-	190,188,615
Alternative investment:				
Invesco feeder fund	-	-	6,016,022	6,016,022
	$ 661,217	$ 207,209,082	$ 6,783,336	$ 214,653,635

2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Money market funds	$ 1,266,072	$ -	$ -	$ 1,266,072
Guaranteed income fund			257,157	257,157
Fixed income:				
Collective investment fund	-	118,403,907	-	118,403,907
Fixed income mutual funds	-	65,309,988	-	65,309,988
Alternative investment:				
Invesco feeder fund	-	-	5,532,958	5,532,958
	$ 1,266,072	$ 183,713,895	$ 5,790,115	$ 190,770,082

Note 12 - Retirement Plans (continued)

A rollforward of the amounts in the consolidated balance sheets classified as Level 3 within the fair value hierarchy, are as follows.

2010	**Invesco Feeder Fund**	**Guaranteed Income Fund**	**Total**
Balance as of October 1, 2009	$ 5,532,958	$ 257,157	$ 5,790,115
Investment return:			
Investment income	271,535	6,795	278,330
Net change in market value	255,522	-	255,522
Contributions	-	503,362	503,362
Expenditures	(43,993)	-	(43,993)
Balance as of September 30, 2010	$ 6,016,022	$ 767,314	$ 6,783,336

2009	**Invesco Feeder Fund**	**Guaranteed Income Fund**	**Total**
Balance as of October 1, 2008	$ -	$ 119,156	$ 119,156
Investment return:			
Investment income	120,341	92,179	212,520
Net change in market value	445,988	39,006	484,994
Contributions	5,044,174	6,816	5,050,990
Expenditures	(77,545)	-	(77,545)
Balance as of September 30, 2009	$ 5,532,958	$ 257,157	$ 5,790,115

The Hospital expects to make contributions of $13,000,000 to the NBGH plan, $1,500,000 to the Bradley plan and $1,095,053 to its SERP during fiscal 2011.

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

Benefit Payments	**NBGH**	**Bradley**
Year:		
2011	$ 7,095,243	$ 1,051,553
2012	$ 7,830,021	$ 1,157,861
2013	$ 8,474,322	$ 1,256,615
2014	$ 9,224,627	$ 1,360,117
2015	$ 10,396,321	$ 1,462,095
2016-2020	$ 70,438,373	$ 9,910,356

Note 12 - Retirement Plans (continued)

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 $1,749,494 and $1,974,091 and for the years ended September 30, 2010 and 2009, 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 13 - 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.

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 19.

The Hospital does not self-insure any malpractice risks other than exposures greater than its excess coverages, however, as of September 30, 2010 and 2009, the Hospital has recorded a liability for estimated incurred but not reported claims, as it currently has a claims-made policy with GIC.

Note 14 - 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 1.0% and 2.0% in 2010 and 2009, respectively. The balances as of September 30, 2010 and 2009 are $2,123,088 and $1,977,591, respectively.

Note 15 - Transactions with Affiliated Entities

Due from affiliates on the accompanying consolidated balance sheets represent amounts due from CCHA of $1,192,649 and $1,427,271 and due from other affiliates of $19,913 and $103,936 for the years ended September 30, 2010 and 2009, respectively. Due to affiliates on the accompanying consolidated balance sheets represent amounts due to other affiliates of $40,867 as of September 30, 2010.

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. The administrative fee for the year ending September 30, 2010 and 2009 was $1,929,786 and $2,013,451, respectively. During 2010 and 2009, the Hospital forgave $586,456 due from New Britain Alliance Occupational Health and $5,967,242 due from CCHA, respectively, which has been included within the consolidated statements of operations and changes in net assets.

Note 16 - Leases

The Hospital has leases for various equipment and office space, which are accounted for as operating leases. Operating lease expense in 2010 and 2009 was approximately $3,691,607 and $3,746,615, respectively.

As of September 30, 2010, future lease commitments on noncancelable leases with remaining terms of one year or more consisted of the following:

Year	Operating Leases
2011	$ 2,567,828
2012	1,988,603
2013	1,496,955
2014	420,188
2015	385,173
Thereafter	1,094,472
	$ 7,953,219

Note 17 - 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.

Note 17 - Contingencies (continued)

An ARO liability of $1,698,359 and $1,782,962 has been established as of September 30, 2010 and 2009, respectively, and is included within pension, self-insurance and other long-term liabilities on the consolidated balance sheets.

During 2010 and 2009, the Hospital incurred asbestos abatement expenses of $84,604 and $104,615, respectively. Management will continue to evaluate its exposure to asbestos removal and adjust the ARO for the fair value of the associated costs.

Prior to 2010, the Hospital contracted with 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. As of September 30, 2009, the Hospital accrued $1,000,000 in anticipation of a termination fee. During 2010, the Hospital signed a release and settlement agreement to regards to the termination of the Master Agreement for information technology services. The agreement resulted in a $5.5 million termination fee to be paid in three equal installments in fiscal year 2011. Information technology conversion expense as of September 30, 2010 consists of transition costs of $3.5 million and a termination fee of $4.3 million.

Note 18 - 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.

	2010	**2009**
Health care services	**$ 346,177,514**	$ 344,263,022
General and administrative	**38,604,649**	44,341,093
Fundraising	**555,111**	579,005
	$ 385,337,274	$ 389,183,120

Note 19 - 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 2010 and 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.

Note 19 - Captive Insurance Activities (continued)

A reconciliation of direct to net premiums on a written and earned basis is summarized as follows for year ended September 30, 2010.

	Written	Earned
Direct	$ 7,834,428	$ 8,024,489
Ceded	(2,447,080)	(2,447,080)
	$ 5,387,348	$ 5,577,409

Activity in the reserve for losses and loss adjustment expenses is summarized as follows for the year ended September 30, 2010.

Balance at beginning of the year	$ 22,097,933
Less: reinsurance recoverable	(5,551,841)
	16,546,092
Incurred related to:	
Current year	1,500,380
Prior years	1,873,784
Total incurred	3,374,164
Paid related to:	
Current year	24,124
Prior years	1,959,694
Total paid	1,983,818
Net balance at the end of the year	17,936,438
Plus: reinsurance recoverable	6,496,841
Balance at end of the year	$ 24,433,279

As a result of changes in estimates of insured events in prior years, the reserve for losses and loss adjustment expenses increased by $1,873,784 in 2010.

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 anticipate.

The Hospital of Central Connecticut
Consolidating Balance Sheet
September 30, 2010

Assets	**The Hospital of Central Connecticut**	**Grand Indemnity Company, LTD.**	**Eliminations**	**Total**
Current assets:				
Cash and cash equivalents	$ 23,292,786	$ 4,195,980	$ -	$ 27,488,766
Accounts receivable, less allowance for bad debts of $13,234,021	36,543,623	-	-	36,543,623
Premiums receivable	-	37,081	-	37,081
Reinsurance recoverable	-	6,496,841	-	6,496,841
Other receivables	1,090,234	-	(372,139)	718,095
Current portion of pledges receivable, net	8,809	-	-	8,809
Due from affiliates	19,913	-	-	19,913
Inventories	4,849,198	-	-	4,849,198
Prepaid expenses	3,335,302	3,671	-	3,338,973
Assets whose use is limited - related to GIC	-	2,000,000	-	2,000,000
Assets whose use is limited - required for current liabilities	16,427	-	-	16,427
Total current assets	69,156,292	12,733,573	(372,139)	81,517,726
Assets whose use is limited:				
Investments related to GIC	-	21,420,330	-	21,420,330
Assets held in trust by others	14,035,818	-	-	14,035,818
Board restricted endowment	91,527,136	-	-	91,527,136
Temporary and permanently donor restricted investments	22,886,521	-	-	22,886,521
	128,449,475	21,420,330	-	149,869,805
Pledges receivable, net	1,589	-	-	1,589
Investments in affiliates	8,752,634	-	(5,267,875)	3,484,759
Other assets	3,612,491	-	-	3,612,491
Due from affiliates	1,192,649	-	-	1,192,649
Property, plant and equipment, net	125,427,098	-	-	125,427,098
Total assets	$ 336,592,228	$ 34,153,903	$ (5,640,014)	$ 365,106,117

See accompanying Independent Auditors' Report.

The Hospital of Central Connecticut
Consolidating Balance Sheet (continued)
September 30, 2010

Liabilities and Net Assets	The Hospital of Central Connecticut	Grand Indemnity Company, LTD.	Eliminations	Total
Current liabilities:				
Accounts payable and accrued expenses	$ 25,218,831	$ 66,474	$ -	$ 25,285,305
Accrued compensation	11,779,341	-	-	11,779,341
Due to affiliates	40,867	372,139	(372,139)	40,867
Unearned premiums	-	34,166	-	34,166
Reserve for losses and loss adjustment expenses	-	2,000,000	-	2,000,000
Deferred revenue	339,220	-	-	339,220
Due to third-party agencies	19,449,485	-	-	19,449,485
Current portion of long-term debt	3,889,577	-	-	3,889,577
Current portion of pension, self-insurance and other long-term liabilities	15,595,053	-	-	15,595,053
Total current liabilities	76,312,374	2,472,779	(372,139)	78,413,014
Reserve for losses and loss adjustment expenses	-	22,433,279	-	22,433,279
Long-term debt	34,217,519	-	-	34,217,519
Pension, self-insurance and other long-term liabilities	92,507,195	-	-	92,507,195
Total liabilities	203,037,088	24,906,058	(372,139)	227,571,007
Net assets:				
Share capital	-	120,000	(120,000)	-
Contributed surplus	-	5,147,875	(5,147,875)	-
Unrestricted net assets / surplus	96,622,401	3,979,970	-	100,602,371
Temporarily restricted net assets	16,296,477	-	-	16,296,477
Permanently restricted net assets	20,636,262	-	-	20,636,262
Total net assets / surplus	133,555,140	9,247,845	(5,267,875)	137,535,110
Total liabilities and net assets	$ 336,592,228	$ 34,153,903	$ (5,640,014)	$ 365,106,117

See accompanying Independent Auditors' Report.

The Hospital of Central Connecticut
Consolidating Statement of Operations and Changes in Unrestricted Net Assets
For the Year Ended September 30, 2010

	The Hospital of Central Connecticut	Grand Indemnity Company, LTD.	Eliminations	Total
Revenues:				
Net revenues from services to patients	$ 368,946,837	$ -	$ -	$ 368,946,837
Other operating revenues	9,629,436	-	-	9,629,436
Net premiums earned	-	5,577,409	-	5,577,409
Net assets released from restrictions used for operations	1,144,549	-	-	1,144,549
Total revenues	379,720,822	5,577,409	-	385,298,231
Expenses:				
Salaries and benefits	216,146,521	-	-	216,146,521
Supplies and other expenses	127,139,749	486,574	-	127,626,323
Provision for bad debts, net of recoveries of $3,136,962	10,952,307	-	-	10,952,307
Depreciation and amortization	17,446,295	-	-	17,446,295
Losses and loss adjustment expenses	-	3,374,164	-	3,374,164
Information technology conversion	7,850,321	-	-	7,850,321
Interest	1,941,343	-	-	1,941,343
Total expenses	381,476,536	3,860,738	-	385,337,274
(Loss) income from operations	(1,755,714)	1,716,671	-	(39,043)
Non-operating gains (losses):				
Investment income	2,847,543	-	-	2,847,543
Unrestricted gifts and bequests	1,195,945	-	-	1,195,945
Gains on sales of securities	4,495,661	-	-	4,495,661
Change in fair value of interest rate swap	(1,343,101)	-	-	(1,343,101)
Total non-operating gains	7,196,048	-	-	7,196,048
Excess of revenues over expenses	5,440,334	1,716,671	-	7,157,005
Changes in unrestricted net assets:				
Pension changes other than net periodic benefit costs	714,815	-	-	714,815
Debt forgiveness granted to affiliate	(586,456)	-	-	(586,456)
Net unrealized gains on investments	3,080,359	1,320,330	-	4,400,689
Net assets released from restrictions for capital	529,470	-	-	529,470
	$ 9,178,522	$ 3,037,001	$ -	$ 12,215,523

See accompanying Independent Auditors' Report.