Central Connecticut Health Alliance, Inc. and Subsidiaries

Independent Auditors' Report,
Consolidated Financial Statements
and Other Financial Information

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

Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Independent Auditors' Report

To Board of Directors of
Central Connecticut Health Alliance, Inc.:

We have audited the accompanying consolidated balance sheets of Central Connecticut Health Alliance, Inc. and Subsidiaries (the Alliance) 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 Alliance's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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 Alliance'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 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 financial position of Central Connecticut Health Alliance, Inc. and Subsidiaries as of September 30, 2010 and 2009, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental information listed within the 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 cash flows of the individual companies, and it is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies. The supplemental 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. Such 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

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Central Connecticut Health Alliance, Inc. and Subsidiaries
Consolidated Balance Sheets
September 30, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 43,866,837**	$ 36,164,805
Accounts receivable (less allowance for doubtful accounts of $14,369,277 in 2010 and $13,369,966 in 2009)	**40,669,114**	40,346,696
Premiums receivable	**37,081**	317,861
Reinsurance recoverable	**6,496,841**	5,551,841
Other receivables	**1,532,175**	1,823,391
Current portion of pledges receivable, net	**8,809**	16,773
Due from affiliates	**148,183**	159,847
Inventories and prepaid expenses	**8,934,553**	7,796,774
Other current assets	**122,149**	395,572
Assets whose use is limited - related to GIC	**2,000,000**	3,228,000
Assets whose use is limited - required for current liabilities	**160,737**	244,058
Total current assets	**103,976,479**	96,045,618
Assets whose use is limited:		
Cash and cash equivalents related to GIC	**-**	19,352,734
Assets held in trust under bond indenture	**1,396,043**	1,403,892
Other assets whose use is limited	**23,353,986**	2,647,278
Assets held in trust by others	**14,040,818**	13,240,758
Board restricted endowment	**91,527,136**	80,516,608
Temporarily and permanently donor restricted investments	**23,050,198**	21,890,649
	153,368,181	139,051,919
Long-term investments	**8,797,579**	7,793,578
Pledges receivable, net	**1,589**	57,320
Investments in affiliates	**1,243,706**	1,694,979
Other assets	**4,224,098**	5,252,804
Property, plant and equipment, net	**149,095,971**	150,222,380
Total assets	**$ 420,707,603**	$ 400,118,598
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 27,931,108**	$ 24,304,738
Accrued compensation	**14,564,699**	16,475,784
Unearned premiums	**34,166**	224,227
Reserve for losses and loss adjustment expenses	**2,000,000**	3,228,000
Due to third-party reimbursement agencies	**20,263,312**	15,301,884
Deferred revenue	**2,374,489**	2,085,920
Due to affiliates	**9,029**	-
Lines of credit, current portion of long-term debt and capital leases	**5,155,846**	4,383,372
Current portion of pension, self-insurance and other long-term liabilities	**18,021,149**	21,455,763
Total current liabilities	**90,353,798**	87,459,688
Reserve for losses and loss adjustment expenses	**22,433,279**	18,869,933
Long-term debt and capital leases	**55,637,010**	56,958,603
Pension, self-insurance and other long-term liabilities	**92,507,195**	92,073,353
Minority interest in net assets of consolidated subsidiaries	**1,707,794**	2,252,498
Deferred tax liability	**-**	127,873
Other long-term liabilities	**3,074,709**	2,322,551
Total liabilities	**265,713,785**	260,064,499
Net assets:		
Unrestricted	**117,892,402**	104,848,599
Temporarily restricted	**16,376,223**	15,281,161
Permanently restricted	**20,725,193**	19,924,339
Total net assets	**154,993,818**	140,054,099
Total liabilities and net assets	**$ 420,707,603**	$ 400,118,598

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

Central Connecticut Health Alliance, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Net revenues from services to patients	**$ 393,944,721**	$ 406,289,808
Other operating revenues	**46,228,343**	39,035,774
Net premiums earned	**5,577,409**	18,217,976
Net assets released from restrictions	**1,168,686**	808,135
Total operating revenues	**446,919,159**	464,351,693
Operating expenses:		
Salaries and benefits	**259,334,713**	251,324,074
Supplies and other expenses	**141,239,689**	140,816,732
Depreciation and amortization	**20,583,888**	20,112,507
Provision for bad debts	**11,232,298**	19,258,817
Losses and loss adjustment expenses	**3,374,164**	16,874,515
Information technology conversion	**7,850,321**	-
Interest	**3,033,705**	2,870,283
Total operating expenses	**446,648,778**	451,256,928
Income from operations before minority interest	**270,381**	13,094,765
Minority interest in income of consolidated subsidiaries	**(552,437)**	(893,760)
(Loss) income from operations	**(282,056)**	12,201,005
Non-operating gains (losses):		
Unrestricted gifts and bequests	**1,373,265**	1,177,281
Investment income	**3,055,495**	5,445,489
Gains (losses) on sales of securities	**4,517,927**	(1,526,664)
Change in fair value of interest rate swap agreements	**(2,220,583)**	(3,130,355)
Other	**25,217**	47,004
Total non-operating gains	**6,751,321**	2,012,755
Excess of revenues over expenses	**$ 6,469,265**	$ 14,213,760

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

Central Connecticut Health Alliance, Inc. and Subsidiaries
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	**$ 6,469,265**	$ 14,213,760
Net unrealized gains (losses) on investments	**5,330,917**	(2,580,314)
Net assets released from restrictions used for capital	**554,229**	988,153
Pension changes other than net periodic benefit cost	**657,927**	(80,311,182)
Other changes in net assets	**31,465**	69,689
Change in unrestricted net assets	**13,043,803**	(67,619,894)
Temporarily restricted net assets:		
Net realized and unrealized gains on investments	**1,097,149**	100,101
Income from investments	**364,208**	718,175
Contributions	**1,356,620**	1,458,158
Net assets released from restrictions used for operations	**(1,168,686)**	(808,135)
Net assets released from restrictions used for capital	**(554,229)**	(988,153)
Change in temporarily restricted net assets	**1,095,062**	480,146
Permanently restricted net assets:		
Contributions	**-**	27,069
Other changes	**794**	(28,415)
Change in assets held in trust by others	**800,060**	(442,003)
Change in permanently restricted net assets	**800,854**	(443,349)
Change in net assets	**14,939,719**	(67,583,097)
Net assets at beginning of year	**140,054,099**	207,637,196
Net assets at end of year	**$ 154,993,818**	$ 140,054,099

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

Central Connecticut Health Alliance, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2010 and 2009

	2010	2009
Operating activities and non-operating gains and losses:		
Change in net assets	**$ 14,939,719**	$ (67,583,097)
Adjustments to reconcile change in net assets to net cash provided by operating activities and non-operating gains and losses:		
Depreciation and amortization	**20,583,888**	20,112,507
Provision for bad debts	**11,232,298**	19,258,817
Change in assets held in trust by others	**(800,060)**	442,003
Net realized and unrealized (gains) losses on investments and assets whose use is limited	**(10,945,993)**	4,006,877
Deferred tax liability	**(127,873)**	127,873
Restricted contributions and investment income	**(1,720,828)**	(7,689,854)
Changes in assets and liabilities:		
Accounts receivable	**(11,554,716)**	(19,652,288)
Premiums receivable	**280,780**	(317,861)
Reinsurance recoverable	**(945,000)**	(5,551,841)
Other receivables	**291,216**	614,034
Due from affiliates	**11,664**	219,949
Inventories and prepaid expenses	**(1,137,779)**	540,003
Pledges receivable	**63,695**	226,479
Other assets	**1,302,129**	(390,755)
Accounts payable and accrued expenses	**3,626,370**	(5,717,981)
Accrued compensation	**(1,911,085)**	1,182,233
Unearned premiums	**(190,061)**	224,227
Reserve for losses and loss adjustment expenses	**2,335,346**	22,097,933
Due to third-party reimbursement agencies	**4,961,428**	1,924,665
Deferred revenue	**288,569**	524,224
Due to affiliates	**9,029**	(57,907)
Pension, self-insurance and other long-term liabilities	**(2,248,614)**	66,969,780
Minority interest in net assets of consolidated subsidiaries	**(544,704)**	162,331
Net cash provided by operating activities and non-operating gains and losses	**27,799,418**	31,672,351
Investing activities:		
Change in board designated, donor restricted and long-term investments	**(2,228,085)**	(7,616,543)
Change in cash and cash equivalents related to GIC	**20,580,734**	(22,580,734)
Change in assets held under bond indenture	**7,849**	69,293
Change in assets held in trust under lease agreements	**-**	4,107,542
Change in assets whose use is limited	**(20,623,387)**	533,477
Additions to property, plant and equipment	**(19,457,479)**	(17,418,226)
Change in investments in affiliates	**451,273**	6,129,307
Net cash used in investing activities	**(21,269,095)**	(36,775,884)
Financing activities:		
Principal payments on long-term debt, capital leases and lines of credit	**(2,949,119)**	(8,019,570)
Proceeds from long-term debt and lines of credit	**2,400,000**	3,143,234
Principal payments received on notes receivable	**-**	48,083
Restricted contributions and investment income	**1,720,828**	7,689,854
Net cash provided by financing activities	**1,171,709**	2,861,601
Change in cash and cash equivalents	**7,702,032**	(2,241,932)
Cash and cash equivalents at beginning of year	**36,164,805**	38,406,737
Cash and cash equivalents at end of year	**$ 43,866,837**	$ 36,164,805

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

Note 1 - General

Organization **-** Central Connecticut Health Alliance, Inc. and Subsidiaries (the Alliance or CCHA) is comprised of The Hospital of Central Connecticut (the Hospital), VNA of Central Connecticut, Inc. (VNACC), Central Connecticut Senior Health Services, Inc. (CCSHS) (d/b/a Southington Care Center), which includes Mulberry Gardens of Southington, LLC (Mulberry Gardens) and The Orchards at Southington (the Orchards), Community Mental Health Affiliates, Inc. (CMHA), CenConn Services, Inc. (CSI), New Britain MRI Limited Partnership (NBMRI) (consolidated with CSI), and various other smaller affiliated entities.

During the year ended September 30, 2009, Grand Indemnity Company, Ltd. (GIC) was established and became a wholly owned subsidiary of the Hospital. GIC was incorporated under the laws of Bermuda, as a Class 2 insurer, on January 6, 2009.

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 Alliance and its wholly owned subsidiaries. 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 Alliance for the year ended September 30, 2009. The adoption of the Codification did not have an impact on the Alliance'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 Alliance 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 Alliance is currently evaluating the impact of these disclosures on its consolidated financial statements.

In March 2010, the Alliance adopted FASB ASU 2010-11, which expands the disclosure requirements for derivative instruments and hedging activities to include an explanation of the Alliance'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 Alliance'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 FASB ASC 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 FASB ASC 350, and FASB Statement No. 160, *"Noncontrolling Interests in Consolidated Financial Statements,"* found under FASB ASC 810, fully applicable to not-for-profit entities. These pronouncements will be effective for the Alliance on October 1, 2010. The Alliance 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 Alliance on October 1, 2011. The Alliance 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 Alliance on October 1, 2011. The Alliance 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 consolidated 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 Alliance 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 Alliance maintains cash balances that are in excess of the $250,000 insured FDIC limits. The Alliance maintains its cash at various banks, and it is the Alliance'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.

Temporarily and Permanently Restricted Net Assets **-** Temporarily restricted net assets are those assets whose use by the Alliance that 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 Alliance in perpetuity or in funds held in trust by others.

Investments in Affiliates **-** The Alliance has investments accounted for on the equity method of accounting for the years ended September 30, 2010 and 2009. The Alliance owns a 20% interest in MedConn Collection Agency, LLC. As of September 30, 2009, the Alliance owned a 25% interest in Vein Center of Central CT, LLC, which provides nonsurgical treatment for veracious veins. In January 2010, the Alliance sold its interest in the Vein Center of Central CT, LLC. Under the equity method of accounting, undistributed earnings of the applicable entity increases the investment in affiliates within the consolidated balance sheets and are reflected as other operating revenues in the consolidated statements of operations and changes in net assets.

Investments **-** The Alliance'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.

Note 2 - Summary of Significant Accounting Policies (continued)

***Other Than Temporary Impairments on Investments* -** The Alliance accounts for other than temporary impairments in accordance with FASB ASC 320 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.

***Donor Restricted Gifts and Net Assets* -** Contributions and unconditional promises to give cash and other assets to the Alliance are reported at fair value at the date received or the promise is made. 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 to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets, as net assets released from restrictions. Permanently restricted net assets have been restricted by donors to be maintained by the Alliance in perpetuity or in funds held in trust by others.

***Board Restricted Endowment* -** At September 30, 2010 and 2009, the Alliance has $91,527,136 and $80,516,608, respectively, of unrestricted investments, which have been restricted by the Board of Directors and are unavailable for use without the approval of the Board of Directors.

***Inventories* -** Inventories, consisting primarily of medical supplies and pharmaceuticals, are stated at the lower cost or market value utilizing the first-in, first-out method.

***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 Alliance provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to amortize the cost of its assets over their estimated useful lives. Amortization of intangible assets is included in depreciation expense. The Alliance leases various equipment under capital leases with terms of 3 - 5 years.

***Excess of Revenues over Expenses* -** The consolidated 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 investment losses that are deemed to be other than temporary, certain pension charges 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 and property and equipment, the change in the fair value of the interest rate swap agreements and other than temporary losses on marketable securities.

Note 2 - Summary of Significant Accounting Policies (continued)

Income Taxes - The Alliance, with the exception of CSI, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. At times, the Alliance 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 Alliance's consolidated financial statements. Tax provisions and related liabilities for CSI are not material to the consolidated financial statements, however, have been recorded within the expenses and liabilities of CSI for presentation purposes.

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 Alliance 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 Alliance 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 Alliance does not have any uncertain tax positions as September 30, 2010. As of September 30, 2010, the Alliance 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 Alliance's consolidated financial statements.

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

***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, *"Financial Services-Insurance"*. Premiums ceded are expensed over the term of their related policies.

***Subsequent Events* -** Subsequent events have been evaluated through December 14, 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	**$ 840,676,112**	$ 872,997,957
Deductions (additions):		
Allowances	**442,345,826**	464,208,015
State of Connecticut uncompensated care pool	**(4,035,006)**	(4,575,350)
Charity care	**8,420,571**	7,075,484
	446,731,391	466,708,149
	$ 393,944,721	$ 406,289,808

Patient revenues and accounts receivable are recorded when services are performed. Payments received from certain payers are different from established billing rates of certain subsidiaries, and these differences are accounted for as allowances.

During 2010 and 2009, approximately 36% and 37% of net patient revenue was received under the Medicare program, 15% and 13%, under the Medicaid program, and 49% and 50% from contracts with other third-parties and self-pay patients, respectively.

Certain subsidiaries accept all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the subsidiaries. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the subsidiaries utilize 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 charity care in 2010 and 2009.

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

Consolidated net revenues from services to patients 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. Alliance management believes that it 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 Alliance.

Certain subsidiaries have 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 subsidiaries for certain covered services based upon discounted fee schedules.

Note 4 - Community Benefit

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

The Alliance utilizes guidelines developed by various organizations to quantify community benefit activities. The Alliance 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 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 Alliance calculates the cost of other community benefits by identifying specific expenditures incurred by the Alliance that directly benefit the community.

Note 5 - Transactions with Affiliated Entities

All significant intercompany accounts and transactions have been eliminated in consolidation and are summarized below for the years ending September 30, 2010 and 2009.

		2010		2009
Management fees charged by the Alliance are as follows:				
The Hospital of Central Connecticut	**$**	**1,759,110**	$	2,013,451
Other affiliates	**$**	**759,792**	$	1,006,456
Services were sold / purchased as follows:				
The Hospital of Central Connecticut / VNACC	**$**	**2,270**	$	12,418
VNACC / The Hospital of Central Connecticut	**$**	**19,882**	$	23,120
CT Sports Med / The Hospital of Central Connecticut	**$**	**1,756,078**	$	1,742,044
The Hospital of Central Connecticut / CSI	**$**	**95,419**	$	146,865
The Hospital of Central Connecticut / NBMRI	**$**	**385,413**	$	398,809
Notes receivable/loans payable are as follows:				
CCHA / CMHA	**$**	**2,618,750**	$	2,653,750

CCHA provides administrative and management services to the Hospital, there is no formal agreement and the monthly fee is agreed to during the budget process of CCHA. During 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.

CCHA billed CMHA a management fee of $69,504 and $114,338 for the years ended September 30, 2010 and 2009, respectively. In addition, the Hospital bills CMHA for properties rented and allocates a portion of salaries for employees' time spent assisting CMHA's programs. There is no formal agreement and the monthly fees are agreed to during the budget process of CMHA.

CMHA subcontracts with the Hospital for the management of two behavioral health programs. During the fiscal year ended June 30, 2010, one subcontract was terminated and all shared employee positions terminated as of June 30, 2010. Total expenses for these services were $152,044 and $297,115 for the years ended June 30, 2010 and 2009. In addition, during the fiscal year ended June 30, 2010, CMHA subcontracted with the Hospital for physician coverage for its substance abuse residential program. The total amount expensed was $34,650 for the year ended June 30, 2010. As of June 30, 2010 and 2009, CMHA owed the Hospital $23,703 and $113,593, respectively for the subcontracts.

During the fiscal year ending June 30, 2008, CMHA entered into three loan agreements with CCHA.

The first loan agreement was entered into on July 3, 2007 in the amount of $350,000. The loan is a non-interest bearing loan requiring a balloon payment of the entire outstanding principle balance at the end of five years. During 2010 and 2009, CCHA forgave $35,000 and $105,000 of this amount. The remaining $210,000 is expected to be forgiven.

Note 5 - Transactions with Affiliated Entities (continued)

The second loan agreement was entered into on March 25, 2008 in the amount of $1,500,000. The loan is a non-interest bearing loan requiring a balloon payment of the entire outstanding principle balance at the end of three years.

The third loan agreement was entered into on April 8, 2008 in the amount of $900,000. The loan bears interest at the prime rate less 0.5% adjusted monthly requiring a balloon payment of the entire outstanding principle balance at the end of three years.

The loan agreements contain various reporting covenants. CMHA was in compliance with these reporting covenants during fiscal year 2010 and 2009.

During the fiscal year ending June 30, 2010, CMHA entered into a debt repayment plan with CCHA for the second and third loan agreements. The debt repayment plan calls for payments of $225,000 per year starting in fiscal year 2011 through 2014 and payments of $250,000 per year from fiscal year 2015 through 2020.

In 2008, Southington Care Center entered into a lease agreement with the Hospital for the Hospital's diagnostic center, and the agreement became effective July 1, 2008. The lease is for a term of five-years and the Hospital shall have two five-year options to renew the lease. The basic annual rent is $22,800, payable to Southington Care Center in monthly installments of $1,900, with payments due in advance on the first day of every month.

VNACC has a land lease with the Hospital. The term is for fifty years with a renewal option for forty more years. The lease began April 7, 1986. Rent expense charged to operations for fiscal years 2010 and 2009 was $5,000. Minimum rental commitments required under this lease for the next five years are approximately $25,000 with approximately $105,000 for future fiscal years.

During 2010 and 2009, VNACC purchased $76,617 and $104,125, respectively, of contracted services from the Alliance for administrative and computer support.

NBMRI rents space from the Hospital on a month-to-month basis. The monthly rental payment is $9,831 and rent expense amounted to $117,976 for each of the years ended September 30, 2010 and 2009.

CCHA and its affiliates have a number of due from/due to accounts established, whereby, certain affiliates have financed intercompany activities and/or have borrowed funds. These balances have been eliminated in consolidation.

Note 6 - Investments

The composition of long-term investments is set forth in the following table.

	2010	2009
Money market funds	**$ 891,923**	$ 887,212
Equities	**11,822**	7,919
Fixed income mutual funds	**3,703,194**	2,857,328
Collective investment funds	**4,190,640**	4,041,119
Total	**$ 8,797,579**	$ 7,793,578

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

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

	2010	2009
Cash and cash equivalents	**$ 2,042,521**	$ 24,887,993
Equities	**531,065**	482,355
Fixed income mutual funds	**107,597,989**	53,279,419
Collective investment funds	**7,643,346**	50,524,403
U.S. Treasury Obligations	**101,691**	102,218
Alternative Investments	**23,571,488**	6,831
	141,488,100	129,283,219
Beneficial interest in trusts	**14,040,818**	13,240,758
Total	**$ 155,528,918**	$ 142,523,977

Note 6 - Investments (continued)

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.

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)
Equities	4,929,073	(684,095)	-	-	4,929,073	(684,095)
Alternative investments	6,831	(3,050)	-	-	6,831	(3,050)
Total	$ 13,426,298	$ (696,379)	$ 8,796,057	$ (219,079)	$ 22,222,355	$ (915,458)

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 $3,055,495 and $5,445,489 for the years ended September 30, 2010 and 2009, respectively. Realized gains (losses), net, on the unrestricted investments totaled $4,517,927 and ($1,526,664) for the years ended September 30, 2010 and 2009, respectively.

Note 7 - Fair Value Measurements

FASB ASC 820, *"Fair Value Measurements and Disclosures,"* provides a framework for measuring fair value. That framework provides a fair value hierarchy 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).

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 Alliance 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.

Note 7 - Fair Value Measurements (continued)

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	$ 2,042,520	$ -	$ -	$ 2,042,521
Money market funds	891,923	-	-	891,923
Equities				
U.S. large cap	365,798	-	-	365,798
U.S. mid cap	57,684	-	-	57,684
U.S. small cap	47,598	-	-	47,598
International developed	51,350	-	-	51,350
Emerging markets	20,457	-	-	20,457
U.S. Treasury obligations	-	101,691	-	101,691
Fixed income				
Collective investment funds	-	11,833,986	-	11,833,986
Fixed income mutual funds	111,301,183	-	-	111,301,183
Alternative Investments				
Equity fund	-	2,346,660	-	2,346,659
Public REIT	-	-	8,602	8,602
Offshore feeder fund	-	-	21,216,227	21,216,227
	114,778,513	14,282,337	21,224,829	150,285,679
Beneficial interest in trusts	-	-	14,040,818	14,040,818
Total	$ 114,778,513	$ 14,282,337	$ 35,265,647	$ 164,326,497
Liabilities:				
Obligations under interest rate swap agreements	$ -	$ 6,166,519	$ -	$ 6,166,519
Total	$ -	$ 6,166,519	$ -	$ 6,166,519

Note 7 - Fair Value Measurements (continued)

2009	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Cash	$ 24,887,993	$ -	$ -	$ 24,887,993
Money market funds	887,212	-	-	887,212
Equities				
U.S. large cap	341,239	-	-	341,239
U.S. mid cap	53,336	-	-	53,336
U.S. small cap	38,884	-	-	38,884
International developed	51,125	-	-	51,125
Emerging markets	5,780	-	-	5,780
U.S. Treasury obligations	-	102,128	-	102,128
Fixed income				
Collective investment funds	-	54,565,522	-	54,565,522
Fixed income mutual funds	56,136,747	-	-	56,136,747
Alternative Investments				
Public REIT	-	-	6,831	6,831
	82,402,316	54,667,650	6,831	137,076,797
Beneficial interest in trusts	-	-	13,240,758	13,240,758
Total	$ 82,402,316	$ 54,667,650	$ 13,247,589	$ 150,317,555
Liabilities:				
Obligations under interest rate swap swap agreements	$ -	$ 3,945,936	$ -	$ 3,945,936
Total	$ -	$ 3,945,936	$ -	$ 3,945,936

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	-	263	-	263
Net change in market value	800,060	(1,280)	533,227	1,332,007
Contributions	-	2,788	20,683,000	20,685,788
Balance as of September 30, 2010	$ 14,040,818	$ 8,602	$ 21,216,227	$ 35,265,647

Note 7 - Fair Value Measurements (continued)

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 Alliance's valuation methodologies used to measure financial assets and liabilities at fair value are outlined below. Where applicable, the Alliance uses quoted prices in active markets for identical assets and liabilities to determine fair value (Level 1 inputs). This pricing methodology applies to equities, fixed income mutual funds and money market 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, U.S. treasury obligations and interest rate swap agreements. The equity fund is valued based on GIC's ownership interest in the NAV of the fund. The Alliance 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 agreements are 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 Alliance's interest in the public REIT, the offshore feeder fund and beneficial interest in trusts.

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 Alliance'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 Alliance's assets is based on total fund values and the Alliance'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.

Note 7 - Fair Value Measurements (continued)

As of September 30, 2010 and 2009, the Alliance'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 8 - 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	**15,611,980**	14,544,775
Capital campaign	**10,398**	74,093
	$ 16,376,223	$ 15,281,161

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	**$ 6,684,375**	$ 6,683,581
Restricted funds held in trust by others, the income from which is expendable to support health care services	**14,040,818**	13,240,758
	$ 20,725,193	$ 19,924,339

The Alliance'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.

Note 8 - Net Assets (continued)

The Alliance 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 Alliance 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 Alliance; and (7) the investment policies of the Alliance.

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

	Asset Allocation Targets	
Asset Class	**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 Alliance 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 Alliance 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 Alliance appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The Alliance has appropriated $1,722,915 and $1,796,288 of funds for expenditure from its temporarily restricted endowment funds for the year ending September 30, 2010 and 2009, respectively. The Alliance 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 Alliance.

Note 8 - Net Assets (continued)

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	$ 15,207,068	$ 19,924,339	$ 115,648,015
Investment return:				
Investment income	2,390,873	364,208	-	2,755,081
Net change in market value	7,256,269	1,097,149	800,854	9,154,272
Contributions	1,363,386	1,356,620	-	2,720,006
Expenditures	-	(1,659,220)	-	(1,659,220)
Balance as of September 30, 2010	$ 91,527,136	$ 16,365,825	$ 20,725,193	$ 128,618,154

2009	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of October 1, 2008	$ 75,844,041	$ 14,500,443	$ 20,367,688	$ 110,712,172
Investment return:				
Investment income	3,665,582	718,175	-	4,383,757
Net change in market value	166,178	100,101	(442,003)	(175,724)
Other changes	28,415	-	(28,415)	-
Contributions	812,392	1,458,158	27,069	2,297,619
Expenditures	-	(1,569,809)	-	(1,569,809)
Balance as of September 30, 2009	$ 80,516,608	$ 15,207,068	$ 19,924,339	$ 115,648,015

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 Alliance 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 9 - Pledges Receivable

The Alliance 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, Capital Leases and Lines of Credit

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, N.A., 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 the Hospital's 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, Capital Leases and Lines of Credit (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 a 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.

In December 1997, CCSHS advance refunded its CHEFA Series A revenue bonds in the amount of $6,810,000 by issuing CHEFA Series B variable rate demand revenue bonds under a Trust Indenture with State Street Bank and Trust Company in the amount of $19,630,000. The Series B bonds were split between Southington Care Center and the Orchards. Southington Care Center refinanced its Series A bonds and also received additional funds for the construction of a rehabilitation facility and other capital projects for a total of $8,637,200. The portion attributable to the Orchards was $10,992,800.

The CCSHS Series B bonds mature on July 1, 2029 and are subject to redemption procedures prior to their maturity. The redemptions began on July 1, 2000 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 fixed rate under an interest rate swap agreement described below.

Pursuant to the Loan and Guaranty Agreement, CCSHS is obligated to pay amounts sufficient to enable CHEFA to pay the principal and interest due on the Series B bonds. The debt is secured by CCSHS through mortgages of the real property, buildings, equipment, furnishings, personal property and fixtures included within the Series B project and a security interest in the gross receipts. The Series B bonds are also secured by a separate irrevocable letter of credit issued by a bank which expires on December 22, 2012, subject to the extension or earlier termination upon the occurrence of certain events.

The loan agreement and letter of credit agreement provide for covenants regarding the debt service coverage ratio of Southington Care Center and the Orchards on a combined basis and other covenants similar in financings of this type. As of September 30, 2010 and 2009, compliance with these covenants had been met.

Effective March 1, 2007, Mulberry Gardens refinanced its existing bank debt by issuing CHEFA Series E variable rate demand revenue bonds under a Trust Indenture with State Street Bank and Trust Company in the amount of $4,155,000. The Series E bonds mature on July 1, 2036 and are subject to redemption procedures prior to their maturity. The redemptions began on July 1, 2007 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 fixed rate under a swap agreement described below.

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

Pursuant to the Loan and Guaranty Agreement, Mulberry Gardens is obligated to pay amounts sufficient to enable CHEFA to pay the principal and interest due on the Series E bonds. The debt is secured by Mulberry Gardens through mortgages of the real property, buildings, equipment, furnishings, personal property and fixtures included within the Series E project and a security interest in the gross receipts. The Series E bonds are also secured by a separate irrevocable letter of credit issued by a bank which expires on March 29, 2012, subject to the extension or earlier termination upon the occurrence of certain events.

The loan agreement and letter of credit agreement provide for covenants regarding the debt service coverage ratio of Mulberry Gardens and other covenants similar in financings of this type. As of September 30, 2010 and 2009, compliance with these covenants had been met.

On May 11, 2010, CMHA entered into a Revolving Credit and Term Loan Agreement (the Agreement) with Farmington Bank. Under the Agreement, CMHA has a $500,000 line of credit available, which bears interest at the prime rate (3.25% as of June 30, 2010). There were no amounts outstanding on this line of credit as of June 30, 2010.

The Agreement also included a term loan in the amount of $950,000, which was used to refinance the various real estate notes payable described below. The Agreement was secured by mortgages on the underlying properties and a guarantee from CCHA. The term of the loan is ten years and matures on June 1, 2020 with balances accruing interest at a fixed rate of 5.38% for the first five years. After the first five years the interest rate becomes a variable rate based on the prime rate plus 2.25%.

CMHA also entered into a sale-leaseback transaction whereby three of the mortgaged properties were sold and will be leased by CMHA for a period of seven years with renewal options. Net proceeds from the sales of these properties was $1,300,000, which was used in part to pay off the loan balances and release the mortgages related to the three properties in the amount of $418,431. The net gain on all property dispositions was $53,892 and was recognized in income in 2010 as the amount was immaterial for deferral.

The agreement contains certain financial covenants such as a minimum debt service coverage ratio requirement of at least 1.20 to 1.00, which is measured annually based on the audited financial statements.

During 2010, CMHA entered into three year capital lease agreements to assist in the financing of an information technology upgrade. The leases all contain a bargain purchase option and are for a term of three years expiring at various dates in 2013.

CMHA has a $500,000 line of credit with Salisbury Bank and Trust Company, which bears interest at the prime rate (3.25% as of June 30, 2010 and 2009) with an interest rate floor of 6% and was collateralized by property in Salisbury, Connecticut. This line of credit agreement was terminated during 2010 in conjunction with the refinancing described above.

CMHA also has various bank loans that expire on various dates through June 2017. The loans balances were paid off in 2010 primarily with proceeds from the refinancing described above. The bank loans and the line of credit agreements held by CMHA contain various covenants primarily related to the debt service coverage ratio and a minimum tangible net worth. CMHA was not in compliance with these covenants as of June 30, 2009 and received a waiver from the bank for the covenant violations.

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

In addition, CCHA had entered into three promissory notes with CMHA, see Note 5 for further discussion of the notes.

CSI entered into non-cancellable capital leases for medical equipment and new building space during the year ended September 30, 2009.

Long-term debt and capital leases consist of the following as of September 30, 2010 and 2009:

	2010	2009
The Hospital CHEFA, Series A, due in varying amounts through 2024, with interest payable monthly at a variable interest rate	**$ 30,545,000**	$ 32,115,000
The Hospital ten-year non-interest bearing note, due in annual installments of $240,000	**1,264,422**	1,504,422
The Hospital five-year capital lease with an interest rate of 3.84%	**1,294,800**	-
The Hospital five-year capital lease with an interest rate of 4.07%	**-**	32,982
The Hospital five-year capital lease with an interest rate of 3.75%	**2,755,244**	3,718,249
The Hospital five-year capital lease with an interest rate of 4.27%	**2,247,630**	2,955,852
CCSHS CHEFA, Series B, net of discount of $48,523 and $60,948 as of September 30, 2010 and 2009, respectively, due in varying amounts through 2029, with interest payable monthly at a variable interest rate	**15,631,477**	16,079,052
CCSHS CHEFA, Series E, net of discount of $57,782 and $50,354 as of September 30, 2010 and 2009, respectively, due in varying amounts through 2036, with interest at a variable interest rate payable monthly	**3,847,218**	3,929,646
CenConn five-year capital lease obligations with monthly installment of $58,203	**2,379,526**	-
CMHA term note payable due May 2020, payable in monthly installments of $5,757 with an interest rate of 5.38%	**531,569**	-
CMHA three-year capital lease obligations with monthly installments ranging from $2,379 to $4,047	**288,322**	-
CMHA promissory notes to bank due through June 2017 in monthly installments of $13,325, (interest rates from 3.3% to 8.92%)	**-**	919,831
CMHA note payable, due in monthly installments of $365, including interest at 10.69%, secured by a vehicle	**7,648**	9,461
CMHA other various promissory notes	**-**	77,480
	60,792,856	61,341,975
Less: current portion	**(5,155,846)**	(4,383,372)
	$ 55,637,010	$ 56,958,603

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

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

	Long-Term Debt	Capital Leases	Total
Fiscal year:			
2011	$ 2,485,231	$ 3,018,318	$ 5,503,549
2012	2,581,903	3,024,538	5,606,441
2013	2,695,850	2,591,956	5,287,806
2014	2,808,412	881,636	3,690,048
2015	2,926,116	133,454	3,059,570
Thereafter	38,436,127	-	38,436,127
	51,933,639	9,649,902	61,583,541
Less: interest	-	684,380	684,380
Less: bond discount	106,305	-	106,305
Less: current portion	2,440,000	2,715,846	5,155,846
Long-term portion	$ 49,387,334	$ 6,249,676	$ 55,637,010

During the years ended September 30, 2010 and 2009, the Alliance paid interest of $2,512,249, and $2,473,610, respectively.

Note 11 - Derivatives

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

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 Alliance 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 Alliance, 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 Alliance 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 Alliance’s ability to meets its debts or liquidity covenants.

Note 11 - Derivatives (continued)

In connection with the issuance of the CHEFA bonds, the Alliance entered into interest rate swap agreements (swap agreements) to synthetically fix the interest payment. Under the swap agreements, the Alliance makes fixed payments to the swap counterparty and receives variable rate payments equal to the Securities Industry and Financial Markets Association (SIFMA) 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 Alliance 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 has been recorded in the accompanying consolidated balance sheets within other long-term liabilities.

The following table summarizes the swap agreements as of September 30, 2010 and 2009.

Entity	Counterparty	Termination Date	Interest Rate	Fair Value 2010	Fair Value 2009	Change in Fair Value 2010	Change in Fair Value 2009
The Hospital, Series A	Bank of America, N.A.	7/1/2024	3.75%	$3,819,673	$2,476,572	$1,343,101	$1,971,035
CCSHS, Series B	Bank of America, N.A.	12/1/2017	3.52%	$1,764,431	$1,028,371	$736,060	$958,416
CCSHS, Series E	Bank of America, N.A.	4/1/2017	3.75%	$582,415	$440,993	$141,422	$200,904

Management has not designated the swap agreements as hedging instruments. The change in fair value of the swap agreements is recorded in the consolidated statements of operations as a component of non-operating income.

Note 12 - Retirement Plans

The Alliance sponsors several retirement plans. The Hospital has two noncontributory, defined benefit pension plans covering substantially all of its employees hired before January 1, 2006. Benefits are based on years of service and the employee's compensation during the last five years of employment.

In addition, the Hospital has a Supplemental Executive Retirement Plan (SERP) under section 457(b) of the Internal Revenue Code of 1986, as amended. The SERP has been established to supplement the retirement benefits of eligible employees designated by the Hospital's Board of Directors. The 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.

Note 12 - Retirement Plans (continued)

The Alliance also has a SERP with certain senior executives. The obligations related to these agreements are included within the table below. During 2010, the plan was amended to provide accelerated vesting to the former Chief Financial Officer. The full value of the remaining benefits were distributed to the former Chief Financial Officer and Chief Executive Officer during 2010. The plan continues to have $1,702,008 of assets and $2,426,096 of liabilities as of September 30, 2010.

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

		2010		2009
Change in benefit obligation:				
Benefit obligation, beginning of year	**$**	**(286,915,504)**	$	(204,550,848)
Service cost		**(8,821,678)**		(6,844,956)
Interest cost		**(15,430,874)**		(15,158,281)
Actuarial loss		**(5,563,983)**		(69,485,399)
Benefits paid		**9,069,181**		8,565,787
Plan amendments		**(711,360)**		-
Administrative expenses paid		**587,952**		558,193
Benefit obligation, end of year	**$**	**(307,786,266)**	$	(286,915,504)
Change in plan assets:				
Fair value of plan assets, beginning	**$**	**188,825,142**	$	166,794,502
Actual return on plan assets		**18,219,158**		5,206,271
Employer contributions		**14,582,155**		25,948,349
Benefits paid		**(9,069,181)**		(8,565,787)
Administrative expenses paid		**(587,952)**		(558,193)
Fair value of plan assets, end of year	**$**	**211,969,322**	$	188,825,142
Accrued pension liability:				
Unfunded status	**$**	**(95,816,944)**	$	(98,090,362)
Components of net periodic benefit cost:				
Service cost	**$**	**8,821,678**	$	(6,844,956)
Interest cost		**15,430,874**		(15,158,281)
Expected return on plan assets		**(18,055,896)**		(15,953,257)
Net amortization and deferral		**4,843,472**		(78,803)
Net periodic benefit cost	**$**	**11,040,128**	$	(38,035,297)

Note 12 - Retirement Plans (continued)

	2010	2009
Assumptions:		
Weighted average assumption used to determine benefit obligations were:		
Discount rate	**5.25%**	5.60%
Rate of compensation increase	**3.50%**	4.00%
Weighted average assumption used to determine periodic benefit cost were:		
Discount rate	**5.60%**	7.50%
Rate of compensation increase	**4.00%**	4.13%
Expected return on plan assets	**8.25%**	8.40%

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 plans was $269,046,990 and $241,158,144 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 $657,927 and ($80,311,182), respectively. These changes have been reflected in the consolidated statements of operations and changes in net assets.

Accumulated amounts recorded in unrestricted net assets as of September 30, 2010 and 2009, not yet amortized as components of net periodic benefit costs are as follows.

	2010	2009
Unamortized prior service credits	**$ (1,518,550)**	$ (1,946,806)
Unamortized actuarial loss	**110,532,393**	111,618,576
Amount recognized as a reduction in unrestricted net assts	**$ 109,013,843**	$ 109,671,770

The amortization of the above items expected to be recognized in net periodic benefit costs for the year ended September 30, 2011 is $6,130,536.

The Alliance’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 Alliance’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.

	Target Allocation	NBGH		Bradley	
Asset Category	**2010**	**2010**	**2009**	**2010**	**2009**
Equity securities	**65%**	**66%**	66%	**68%**	67%
Debt securities	**32%**	**34%**	33%	**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 7. 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 Alliance expects to make contributions of $18,021,149 to the plans during fiscal year 2011. The following benefit payments, which reflect expected future service, are expected to be paid during fiscal years indicated.

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

Year	Benefit Payments
2011	$ 9,865,835
2012	$ 8,987,882
2013	$ 9,730,937
2014	$ 10,584,744
2015	$ 13,191,077
2016-2020	$ 80,348,729

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.

All employees of CMHA with 1,000 hours of service are eligible to participate after one year of employment in CMHA's retirement plan (the Plan). The Plan consists of a tax-deferred annuity issued through Prudential Retirement. CMHA will match 50% of all employee deferrals up to a maximum of 3% of the employee's compensation. In addition, CMHA at its discretion, may contribute additional contributions.

During 2010 and 2009, CMHA made discretionary contributions of 2% of all eligible employees' compensation. The employer contribution is reviewed and approved annually by the Board of Directors. Employees may contribute the lesser of $49,000 or 100% of includable compensation up to maximum allowed by Internal Revenue Code Sections 403(b), 402(g) and 415. The Plan is fully funded and employees' benefits are vested at a rate of 20% per year and are fully vested at five years. The cost of such contributions totaled approximately $288,000 in 2010 and $277,000 in 2009, respectively.

Southington Care Center has a defined contribution pension plan. The plan was effective July 1, 1990, and all employees who have completed one year of service are eligible for the plan. Employees must work a minimum 1,000 hours per year to remain eligible. There is no minimum age eligibility requirement for the plan. The employer's contribution is 3.5% of the annual compensation paid to employees. Southington Care Center also has a tax sheltered annuity plan. The plan was effective July 1, 1990, and all employees who are employed during the plan year are eligible for the plan. There is no minimum waiting period or age requirement. Southington Care Center employees are not required to contribute to the plan to be eligible. Southington Care Center incurred $307,609 and $275,693 in expense for these plans during the years ended September 30, 2010 and 2009, respectively.

Mulberry Gardens and the Orchards have a 401(k) plan and 403(b) plan, respectively. These plans require that employees work a minimum 1,000 hours per year to remain eligible. Employees are eligible to participate at their hire date. The minimum age for eligibility is twenty-one. As of September 30, 2010 and 2009 it is the employer's intent to contribute a discretionary matching contribution up to 3% for all eligible employees. Mulberry Gardens incurred $37,386 and $42,869 of expense related to its 401(k) plan for the years ended September 30, 2010 and 2009, respectively.

The Orchards incurred $28,084 and $42,065 of expense related to its 403(b) for the years ended September 30, 2010 and 2009, respectively.

Note 12 - Retirement Plans (continued)

Effective October 1, 1996, VNACC established the Visiting Nurse Association of Central Connecticut Thrift Plan (the Thrift Plan), a defined contribution pension plan for its employees. Employees are eligible following attainment of age twenty-one and completion of one year of employment which includes a minimum of 1,000 hours paid. Under the provisions of the Thrift Plan, VNACC contributes 3% of an eligible employee's salary and eligible employees can contribute up to 15% of their annual salary subject to federally established limits with a matching contribution by the VNACC equal to 50% of the first 4% of salary deferred. The Thrift Plan expense was $230,140 and $248,640 for the year ended June 30, 2010 and 2009, respectively.

Note 13 - Medical Malpractice Insurance

As of September 30, 2008, the Hospital purchased limits of professional and general liability insurance 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 18.

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.

CCSHS, VNACC, CMHA, Alliance Occupational Health, and CCSMC have medical malpractice coverage provided under claims-made policies. There are also known incidents that have occurred through September 30, 2010 and 2009, that may result in the assertion of additional claims. Other claims may be asserted arising from services provided to patients in the past.

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.

Note 14 - Self-Insurance of Workers' Compensation (continued)

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.

VNACC, CCSHS, CCHA and Central Connecticut Sports Medicine Center, LLC are also self-insured with respect to workers' compensation claims. These entities have recorded reserves representing management's best estimate of the exposure for such claims.

Note 15 - Operating Leases

The Alliance has leases for various equipment and office space, which are accounted for as operating leases. Operating lease expense in 2010 and 2009 was approximately $4,642,774 and $4,278,667, 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	$ 3,716,852
2012	2,977,818
2013	2,178,508
2014	1,054,774
2015	934,672
Thereafter	2,058,359
	$ 12,920,983

Note 16 - Contingencies

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

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

FASB ASC 410, *"Asset Retirement and Environmental Obligations,"* addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as asbestos-containing facilities, when the amount of the liability can be reasonably estimated. Management is currently evaluating the fair market value of its Asset Retirement Obligation (ARO), relating to its various facilities. An ARO liability of $1,698,359 and $1,782,962 has been established as of September 30, 2010 and 2009, respectively. During 2010 and 2009, the Alliance 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.

Note 16 - Contingencies (continued)

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 17 - Functional Expenses

The Alliance 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	**$ 394,090,047**	$ 392,100,529
General and administrative	**51,993,096**	58,562,985
Fundraising	**565,635**	593,414
	$ 446,648,778	$ 451,256,928

Note 18 - 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 18 - 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 anticipated.

Central Connecticut Health Alliance, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2010

	Central Connecticut Health Alliance, Inc.	The Hospital of Central Connecticut	CenConn Services, Inc.	Community Mental Health Affiliates, Inc.	Visiting Nurse Association of Central CT, Inc.	Central CT Senior Health Services, Inc.	New Britain Occupational Health Ctr., LLC	Central CT Sports Medicine Center, LLC	Eliminations	Total
Assets										
Current assets:										
Cash and cash equivalents	$ 1,783,239	$ 27,488,766	$ 3,395,349	$ 3,015,772	$ 1,805,008	$ 5,776,202	$ 406,862	$ 195,639	$ -	$ 43,866,837
Accounts receivable, net	-	36,543,623	438,079	674,830	992,733	1,619,773	254,393	184,307	(38,624)	40,669,114
Premiums receivable	-	37,081	-	-	-	-	-	-	-	37,081
Reinsurance recoverable	-	6,496,841	-	-	-	-	-	-	-	6,496,841
Other receivables	-	718,095	187,577	375,915	62,517	-	-	-	188,071	1,532,175
Current portion of pledges receivable, net	-	8,809	-	-	-	-	-	-	-	8,809
Due from affiliates	215,493	19,913	73,648	-	-	147,924	-	258,209	(567,004)	148,183
Inventories and prepaid expenses	38,537	8,188,171	-	160,328	36,571	482,594	20,574	7,778	-	8,934,553
Other current assets	-	-	-	122,149	-	-	-	-	-	122,149
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	-	-	-	144,310	-	-	-	160,737
Total current assets	2,037,269	81,517,726	4,094,653	4,348,994	2,896,829	8,170,803	681,829	645,933	(417,557)	103,976,479
Assets whose use is limited:										
Assets held in trust under bond indenture	-	-	-	-	-	1,396,043	-	-	-	1,396,043
Other assets whose use is limited	1,702,008	21,420,330	-	231,648	-	-	-	-	-	23,353,986
Assets held in trust by others	-	14,035,818	-	-	-	5,000	-	-	-	14,040,818
Board restricted endowment	-	91,527,136	-	-	-	-	-	-	-	91,527,136
Temporarily and permanently donor restricted investments	-	22,886,521	-	83,931	-	79,746	-	-	-	23,050,198
	1,702,008	149,869,805	-	315,579	-	1,480,789	-	-	-	153,368,181
Long-term investments	-	-	-	-	6,531,151	2,266,428	-	-	-	8,797,579
Pledges receivable, net	-	1,589	-	-	-	-	-	-	-	1,589
Investments in affiliates	2,011,687	3,484,759	52,085	-	-	-	-	-	(4,304,825)	1,243,706
Other assets	116,231	3,612,491	54,474	-	-	440,902	-	-	-	4,224,098
Due from affiliates	2,587,989	1,192,649	-	-	-	-	-	-	(3,780,638)	-
Property, plant and equipment:										
Land	162,625	2,637,259	2,849,695	77,759	100,657	2,114,888	-	-	-	7,942,883
Building and improvements	-	199,708,600	142,145	4,699,174	1,324,500	22,051,623	18,284	87,935	-	228,032,261
Equipment	-	165,976,070	5,807,837	1,044,032	904,351	4,303,148	310,763	244,662	-	178,590,863
Construction in progress	-	3,186,504	-	-	-	216,907	-	-	-	3,403,411
	162,625	371,508,433	8,799,677	5,820,965	2,329,508	28,686,566	329,047	332,597	-	417,969,418
Less: accumulated depreciation and amortization	-	(246,081,335)	(4,569,332)	(2,393,839)	(1,787,069)	(13,435,844)	(311,903)	(294,125)	-	(268,873,447)
	162,625	125,427,098	4,230,345	3,427,126	542,439	15,250,722	17,144	38,472	-	149,095,971
Total assets	$ 8,617,809	$ 365,106,117	$ 8,431,557	$ 8,091,699	$ 9,970,419	$ 27,609,644	$ 698,973	$ 684,405	$ (8,503,020)	$ 420,707,603

See accompanying independent auditors' report and notes to the consolidated financial statements.

Central Connecticut Health Alliance, Inc. and Subsidiaries
Consolidating Balance Sheet (continued)
September 30, 2010

	Central Connecticut Health Alliance, Inc.	The Hospital of Central Connecticut	CenConn Services, Inc.	Community Mental Health Affiliates, Inc.	Visiting Nurse Association of Central CT, Inc.	Central CT Senior Health Services, Inc.	New Britain Occupational Health Ctr. LLC	Central CT Sports Medicine Center, LLC	Eliminations	Total
Liabilities and Net Assets										
Current liabilities:										
Accounts payable and accrued expenses	$ 25,408	$ 25,285,305	$ 326,116	$ 1,068,605	$ 292,841	$ 817,441	$ 22,851	$ 130,610	$ (38,069)	$ 27,931,108
Accrued compensation	-	11,779,341	52,484	1,207,616	528,473	982,474	-	14,311	-	14,564,699
Unearned premiums	-	34,166	-	-	-	-	-	-	-	34,166
Reserve for losses and loss adjustment expenses	-	2,000,000	-	-	-	-	-	-	-	2,000,000
Due to third-party reimbursement agencies	-	19,449,485	-	539,709	132,878	141,240	-	-	-	20,263,312
Deferred revenue	-	339,220	-	513,839	313,692	1,207,738	-	-	-	2,374,489
Due to affiliates	-	40,867	190,617	248,703	-	45,460	111,989	-	(628,607)	9,029
Lines of credit and current portion of long-term debt and capital leases	-	3,889,577	563,492	137,777	-	565,000	-	-	-	5,155,846
Current portion of pension, self-insurance and other long-term liabilities	2,426,096	15,595,053	-	-	-	-	-	-	-	18,021,149
Total current liabilities	2,451,504	78,413,014	1,132,709	3,716,249	1,267,884	3,759,353	134,840	144,921	(666,676)	90,353,798
Reserve for losses and loss adjustment expenses	-	22,433,279	-	-	-	-	-	-	-	22,433,279
Long-term debt and capital leases	-	34,217,519	1,816,034	689,762	-	18,913,695	-	-	-	55,637,010
Pension, self-insurance and other long-term liabilities	-	92,507,195	-	-	-	-	-	-	-	92,507,195
Minority interest in net assets of consolidated subsidiaries	-	-	3,735,800	-	-	-	-	-	(2,028,006)	1,707,794
Other long-term liabilities	-	-	-	672,981	-	2,346,846	-	-	54,882	3,074,709
Due to affiliates	1,192,651	-	-	2,393,750	-	-	-	-	(3,586,401)	-
Total liabilities	3,644,155	227,571,007	6,684,543	7,472,742	1,267,884	25,019,894	134,840	144,921	(6,226,201)	265,713,785
Net assets:										
Unrestricted	4,973,654	100,602,371	1,747,014	535,026	8,702,535	2,505,004	564,133	539,484	(2,276,819)	117,892,402
Temporarily restricted	-	16,296,477	-	-	-	79,746	-	-	-	16,376,223
Permanently restricted	-	20,636,262	-	83,931	-	5,000	-	-	-	20,725,193
Total net assets	4,973,654	137,535,110	1,747,014	618,957	8,702,535	2,589,750	564,133	539,484	(2,276,819)	154,993,818
Total liabilities and net assets	$ 8,617,809	$ 365,106,117	$ 8,431,557	$ 8,091,699	$ 9,970,419	$ 27,609,644	$ 698,973	$ 684,405	$ (8,503,020)	$ 420,707,603

See accompanying independent auditors' report and notes to the consolidated financial statements.

Central Connecticut Health Alliance, Inc. and Subsidiaries
Consolidating Statements of Operations and Changes in Net Assets
For the Year Ended September 30, 2010

	Central Connecticut Health Alliance, Inc.	The Hospital of Central Connecticut	CenConn Services, Inc.	Community Mental Health Affiliates, Inc.	Visiting Nurse Association of Central CT, Inc.	Central CT Senior Health Services, Inc.	New Britain Occupational Health Ctr. LLC	Central CT Sports Medicine Center, LLC	Eliminations	Total
Operating revenues:										
Net revenues from services to patients	$ -	$ 368,946,837	$ -	$ -	$ 8,150,807	$ 15,757,617	$ 420,989	$ 757,405	$ (88,934)	$ 393,944,721
Other operating revenues	2,684,647	9,629,436	4,249,113	22,779,660	744,605	10,494,609	672	7,007	(4,361,406)	46,228,343
Net premiums earned	-	5,577,409	-	-	-	-	-	-	-	5,577,409
Net assets released from restrictions used for operations	-	1,144,549	-	-	-	24,137	-	-	-	1,168,686
Total operating revenues	2,684,647	385,298,231	4,249,113	22,779,660	8,895,412	26,276,363	421,661	764,412	(4,450,340)	446,919,159
Operating expenses:										
Salaries and benefits	2,373,234	216,146,521	1,846,577	15,355,554	6,993,348	17,802,875	260,055	522,065	(1,965,516)	259,334,713
Supplies and other expenses	595,398	127,626,323	811,162	6,245,038	1,914,389	5,479,388	127,013	188,878	(1,747,900)	141,239,689
Depreciation and amortization	45,173	17,446,295	969,425	440,203	170,210	1,497,533	3,049	12,000	-	20,583,888
Provision for bad debts	-	10,952,307	-	192,095	45,600	42,200	-	96	-	11,232,298
Losses and loss adjustment expenses	-	3,374,164	-	-	-	-	-	-	-	3,374,164
Information technology conversion	-	7,850,321	-	-	-	-	-	-	-	7,850,321
Interest	-	1,941,343	203,200	123,404	-	806,258	-	-	(40,500)	3,033,705
Total operating expenses	3,013,805	385,337,274	3,830,364	22,356,294	9,123,547	25,628,254	390,117	723,039	(3,753,916)	446,648,778
Income from operations before minority interest	(329,158)	(39,043)	418,749	423,366	(228,135)	648,109	31,544	41,373	(696,424)	270,381
Minority interest in income of consolidated subsidiaries	-	-	(1,208,458)	-	-	-			656,021	(552,437)
(Loss) income from operations	(329,158)	(39,043)	(789,709)	423,366	(228,135)	648,109	31,544	41,373	(40,403)	(282,056)
Non-operating gains (losses):										
Unrestricted gifts and bequests	-	1,195,945	-	-	177,320	-	-	-	-	1,373,265
Investment (loss) income	(1,175,000)	2,847,543	-	-	178,311	29,641	-	-	1,175,000	3,055,495
Gain (loss) on sale of securities	285,839	4,495,661	-	-	(302,344)	38,771	-	-	-	4,517,927
Change in fair value of interest rate swap agreements	-	(1,343,101)	-	-	-	(877,482)	-	-	-	(2,220,583)
Other income	-	-	-	-	-	25,217	-	-	-	25,217
Total non-operating gains (losses)	(889,161)	7,196,048	-	-	53,287	(783,853)	-	-	1,175,000	6,751,321
Excess of revenues over (under) expenses	$ (1,218,319)	$ 7,157,005	$ (789,709)	$ 423,366	$ (174,848)	$ (135,744)	$ 31,544	$ 41,373	$ 1,134,597	$ 6,469,265

See accompanying independent auditors' report and notes to the consolidated financial statements.

Central Connecticut Health Alliance, Inc. and Subsidiaries
Consolidating Statement of Operations and Changes in Net Assets (continued)
For the Year Ended September 30, 2010

	Central Connecticut Health Alliance, Inc.	The Hospital of Central Connecticut	CenConn Services, Inc.	Community Mental Health Affiliates, Inc.	Visiting Nurse Association of Central CT, Inc.	Central CT Senior Health Services, Inc.	New Britain Occupational Health Ctr. LLC	Central CT Sports Medicine Center, LLC	Eliminations	Total
Unrestricted net assets:										
Excess of revenues over (under) expenses	$ (1,218,319)	$ 7,157,005	$ (789,709)	$ 423,366	$ (174,848)	$ (135,744)	$ 31,544	$ 41,373	$ 1,134,597	$ 6,469,265
Net unrealized gains (losses) on investments	(153,400)	4,400,689	-	18,236	990,432	74,960	-	-	-	5,330,917
Net assets released from restrictions used for capital	-	529,470	-	-	-	24,759	-	-	-	554,229
Pension changes other than net periodic benefit costs	(56,888)	714,815	-	-	-	-	-	-	-	657,927
Debt forgiveness granted to affiliates	(35,000)	(586,456)	-	35,000	-	-	586,456	-	-	-
Other changes in net assets	(260)	-	(70,000)	53,892	-	(5,000)	49,315	3,518		31,465
Change in unrestricted net assets	(1,463,867)	12,215,523	(859,709)	530,494	815,584	(41,025)	667,315	44,891	1,134,597	13,043,803
Temporarily restricted net assets:										
Net realized and unrealized gains on investments	-	1,097,149	-	-	-	-	-	-	-	1,097,149
Income from investments	-	364,208	-	-	-	-	-	-	-	364,208
Contributions	-	1,308,868	-	-	-	47,752	-	-	-	1,356,620
Net assets released from restrictions used for operations	-	(1,144,549)	-	-	-	(24,137)	-	-	-	(1,168,686)
Net assets released from restrictions used for capital	-	(529,470)	-	-	-	(24,759)	-	-	-	(554,229)
Change in temporarily restricted net assets	-	1,096,206	-	-	-	(1,144)	-	-	-	1,095,062
Permanently restricted net assets:										
Other changes	-	-	-	794	-	-	-	-	-	794
Change in assets held in trust by others	-	795,060	-	-	-	5,000	-	-	-	800,060
Change in permanently restricted net assets	-	795,060	-	794	-	5,000	-	-	-	800,854
Change in net assets	(1,463,867)	14,106,789	(859,709)	531,288	815,584	(37,169)	667,315	44,891	1,134,597	14,939,719
Net assets at beginning of year	6,437,521	123,428,321	2,606,723	87,669	7,886,951	2,626,919	(103,182)	494,593	(3,411,416)	140,054,099
Net assets at end of year	$ 4,973,654	$ 137,535,110	$ 1,747,014	$ 618,957	$ 8,702,535	$ 2,589,750	$ 564,133	$ 539,484	$ (2,276,819)	$ 154,993,818

See accompanying independent auditors' report and notes to the consolidated financial statements.