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COMMITTEE OF THE
GENERAL ASSEMBLY

THE CONNECTICUT HOSPICE, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND 2009

THE CONNECTICUT HOSPICE, INC.

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Independent Auditors' Report

To the Board of Directors
The Connecticut Hospice, Inc.

We have audited the accompanying statements of financial position of The Connecticut Hospice, Inc. (the Hospital) as of September 30, 2010 and 2009, and the related statements of activities and change in unrestricted net assets, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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 financial statements referred to above present fairly, in all material respects, the financial position of The Connecticut Hospice, Inc., as of September 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

July 19, 2011

THE CONNECTICUT HOSPICE, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 941,652	\$ 2,723,720
Short-term investments	258,805	1,113,798
Patient accounts receivable, less allowance for doubtful accounts of \$301,000 in 2010 and \$350,000 in 2009	1,630,440	3,576,786
Due from third party	691,816	515,234
Grant receivable	-	105,877
Inventories	201,362	233,289
Other current assets	193,656	205,158
Total current assets	<u>3,917,731</u>	<u>8,473,862</u>
Property and Equipment, Net	<u>913,153</u>	<u>913,120</u>
Other Assets		
Assets held under split-interest agreements	26,371	26,371
Long-term investments	1,991,723	-
Due from The John D. Thompson Hospice Institute, net	10,858,856	7,938,364
Total other assets	<u>12,876,950</u>	<u>7,964,735</u>
Total Assets	<u>\$ 17,707,834</u>	<u>\$ 17,351,717</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,269,948	\$ 4,898,864
Accrued liabilities	2,835,981	3,463,824
Due to related party	800,000	800,000
Line of credit	2,427,530	-
Liability under split-interest agreements	9,500	9,500
Total liabilities	<u>9,342,959</u>	<u>9,172,188</u>
Net Assets		
Unrestricted	6,014,281	5,733,670
Temporarily restricted	942,202	1,217,467
Permanently restricted	1,408,392	1,228,392
Total net assets	<u>8,364,875</u>	<u>8,179,529</u>
Total Liabilities and Net Assets	<u>\$ 17,707,834</u>	<u>\$ 17,351,717</u>

The accompanying notes are an integral part of the financial statements

THE CONNECTICUT HOSPICE, INC.
STATEMENTS OF ACTIVITIES AND CHANGE IN UNRESTRICTED NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 29,855,209	\$ 31,186,203
Net assets released from restrictions	900,043	920,928
Other revenue	172,633	148,760
Total unrestricted revenues, gains and other support	<u>30,927,885</u>	<u>32,255,891</u>
Expenses		
Employee compensation	14,998,341	15,840,896
Purchased services and supplies	8,087,444	8,588,419
Management services	4,000,000	4,500,000
Fringe benefits	3,386,118	3,110,157
Plant and utilities	554,958	629,782
Nonmedical general	230,990	250,117
Rent	284,160	284,160
Dietary	241,236	257,659
Provision for bad debts	51,537	167,270
Depreciation	198,624	254,170
Interest	78,907	9,500
Total expenses	<u>32,112,315</u>	<u>33,892,130</u>
Loss from Operations	<u>(1,184,430)</u>	<u>(1,636,239)</u>
Other Income		
Unrestricted contributions	1,364,981	1,774,402
Investment income	100,060	87,930
Total other income	<u>1,465,041</u>	<u>1,862,332</u>
Change in Unrestricted Net Assets	280,611	226,093
Unrestricted Net Assets - Beginning of Year	<u>5,733,670</u>	<u>5,507,577</u>
Unrestricted Net Assets - End of Year	<u>\$ 6,014,281</u>	<u>\$ 5,733,670</u>

The accompanying notes are an integral part of the financial statements

THE CONNECTICUT HOSPICE, INC.
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Unrestricted Net Assets		
Change in unrestricted net assets	\$ 280,611	\$ 226,093
Temporarily Restricted Net Assets		
Reclassification of endowment earnings	-	36,967
Investment income	90,304	58,260
Contributions	534,474	544,328
Net assets released from restrictions	(900,043)	(920,928)
Decrease in temporarily restricted net assets	<u>(275,265)</u>	<u>(281,373)</u>
Permanently Restricted Net Assets		
Reclassification of endowment earnings	-	(36,967)
Contributions	180,000	220,000
Increase in permanently restricted net assets	<u>180,000</u>	<u>183,033</u>
Increase in Net Assets	185,346	127,753
Net Assets - Beginning of Year	<u>8,179,529</u>	<u>8,051,776</u>
Net Assets - End of Year	<u>\$ 8,364,875</u>	<u>\$ 8,179,529</u>

The accompanying notes are an integral part of the financial statements

THE CONNECTICUT HOSPICE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
Cash Flows from Operating Activities		
Increase in net assets	\$ 185,346	\$ 127,753
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	198,624	254,170
Bad debt expense	51,537	167,270
Net realized and unrealized gains on sales of securities	(99,615)	(59,141)
(Increase) decrease in operating assets:		
Patient accounts receivable	1,894,809	(564,700)
Due from third party	(176,582)	(515,234)
Grant receivable	105,877	178,153
Inventories and other current assets	43,429	(29,774)
Due from The John D. Thompson Hospice Institute, net	(2,920,492)	(896,946)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(2,256,759)	1,085,269
Net cash used in operating activities	(2,973,826)	(253,180)
Cash Flows from Investing Activities		
Purchases of property and equipment, net	(198,657)	(161,921)
Purchase of investments	(1,223,939)	(1,080,268)
Sale of investments	186,824	1,382,546
Net cash provided by (used in) investing activities	(1,235,772)	140,357
Cash Flows from Financing Activities		
Advance from related party	-	800,000
Proceeds from line of credit	2,427,530	-
Net cash provided by financing activities	2,427,530	800,000
Net Increase (Decrease) in Cash and Cash Equivalents	(1,782,068)	687,177
Cash and Cash Equivalents - Beginning of Year	2,723,720	2,036,543
Cash and Cash Equivalents - End of Year	\$ 941,652	\$ 2,723,720
Cash Paid During the Year for Interest	\$ 78,907	\$ 9,500

The accompanying notes are an integral part of the financial statements

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

The Connecticut Hospice, Inc. (the Hospital) is a not-for-profit corporation exempt from federal and state income taxes. The Hospital is engaged principally in providing inpatient and homecare services for patients with progressive and irreversible illnesses. The Hospital is accredited with commendation by the Joint Commission on Accreditation of Health Care Organizations as a hospital, home care agency and hospice; is licensed by the State of Connecticut Department of Health Services as a short-term hospital, special hospice and home care agency; and is certified by Medicare as a hospice, home care agency and hospital.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

Net Asset Categories - To ensure observance of limitations and restrictions placed on the use of resources available to the Hospital, the accounts of the Hospital are maintained in the following net asset categories:

Unrestricted - Unrestricted net assets represent available resources other than donor-restricted contributions. Net assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes are included in unrestricted net assets.

Temporarily Restricted - Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure. Temporarily restricted net assets as of September 30, 2010 and 2009, are available to support operations and repayment of long-term debt.

Permanently Restricted - Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that only the income earned thereon be available for operations. Permanently restricted net assets of \$1,408,392 and \$1,228,392 as of September 30, 2010 and 2009, respectively, are to be held in perpetuity, the income from which is expendable to support health care services and is reported as investment income.

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

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Income Taxes - The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes pursuant to Section 501(a) of the Code.

Cash and Cash Equivalents - Cash and cash equivalents include cash and investments in highly liquid securities. The Hospital's deposits in financial institutions may, at times, exceed federal depository insurance limits. Management believes that its deposits are not subject to credit risk.

Grants and Contracts - Grants and contracts are generally considered to be exchange transactions in which the grantor or contractor requires the performance of specified activities. Entitlement to cost-reimbursement grants and contracts is based on the expenditure of funds in accordance with grant restrictions, and, therefore, revenue is recognized to the extent of grant expenditures. Entitlement to performance-based grants and contracts is based on the attainment of specific performance goals, and, therefore, revenue is recognized to the extent of performance achieved. Grant and contract receipts in excess of revenue recognized are presented as deferred grant and contract revenue.

Inventories - Inventories, consisting principally of medical and pharmaceutical supplies, are stated at the lower of cost or market.

Property and Equipment - Property and equipment acquisitions and improvements thereon that individually exceed \$600 are capitalized at cost. The Hospital provides for depreciation using the straight-line method over the estimated useful lives of the various assets, which range from 3 to 40 years. Repairs and maintenance are charged to expense as incurred.

Investments - Investments in equity securities with readily determinable fair values and investments in debt securities are carried at fair value in the statements of financial position.

Realized and unrealized gains and losses and investment income on donor-restricted endowment assets are classified as increases or decreases in temporarily restricted net assets until appropriated for expenditure.

Contributions - Contributions are defined as voluntary, nonreciprocal transfers. Unrestricted and unconditional contributions are recognized as support when received or pledged, if applicable. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of such assets. When a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and change in unrestricted net assets as net assets released from restrictions. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

The Hospital's policy is to recognize the expiration of donor restrictions for contributions of property and equipment or the use of contributions restricted for property and equipment in the year the property and equipment are placed in service.

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Patient Service Revenue and Patient Accounts Receivable - Net patient service revenue is reported at the established net realizable amounts from patients, third-party agencies and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party agencies. Net patient service revenue and patient accounts receivable are recorded when patient services are performed. Adjustments and settlements under reimbursement agreements with third-party agencies are accrued on an estimated basis in the period the related services are provided and adjusted in future periods, if necessary, as final settlements are determined and estimates are refined.

As of September 30, 2010 and 2009, 80% and 82%, respectively, of patient accounts receivable were due from federal and state governmental payors. As of September 30, 2010 and 2009, 20% and 18%, respectively, of patient accounts receivable were due from nongovernmental payors. Nongovernmental payors are primarily managed-care companies. As of September 30, 2010, the Hospital had approximately 10 managed-care contracts. Risk of nonpayment from federal and state governmental payors and managed-care companies is considered minimal. Risk of nonpayment from self-pay payors is more significant than with third-party payors. Management has recorded an allowance for doubtful accounts which, in its opinion, is sufficient to provide for any risks related to nonpayment.

Charity Care - The Hospital's policy is to provide care to all patients and their families, regardless of their ability to pay for services.

All care provided to patients that do not have the means to pay for services and that are not covered by Medicaid or any other third-party payor and certain services that are only partially covered by Medicare are considered to be charity care.

The Hospital estimates the amount of charity care approximated \$2,011,000 and \$2,103,000 for the years ended September 30, 2010 and 2009, respectively. The Hospital depends on the success of its philanthropic programs to offset the costs of providing this charity care.

Contributed Services - Under GAAP, contributed services are recognized in the financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition. However, many volunteers have donated significant amounts of time in supporting the Hospital's mission.

Volunteers assist the employees of the Hospital in carrying out a wide array of services including art, bereavement, pastoral care, nursing, social work, groundskeeping, maintenance, development and clerical assistance. These volunteers are essential to the operations of the Hospital. They enhance the quality of care provided to the patients and their families. Although they do not qualify for inclusion in the financial statements under GAAP, the estimated value of contributed services was \$1,899,000 and \$1,929,000 for the years ended September 30, 2010 and 2009, respectively.

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events - In preparing these financial statements, management has evaluated subsequent events through July 19, 2011, which represents the date the financial statements were available to be issued.

NOTE 3 - RELATED PARTY TRANSACTIONS

The Connecticut Hospice Institute a/k/a The John D. Thompson Hospice Institute for Education, Training and Research, Inc. (the Institute) is a separate not-for-profit corporation exempt from federal and state income taxes engaged principally in offering education, training, research, clerkships, internships and residencies to physicians, nurses, social workers and others pertaining to the care of patients with progressive and irreversible illnesses and their families. The programs of the Institute previously mentioned are achieved through a strategic alliance of the management and Board of Directors of the Institute and the Hospital. The accounting records of the Institute and the Hospital are separately maintained, and separate financial statements are prepared.

As strategically allied entities, the Hospital and the Institute periodically pay expenses and advance cash to each other in order to pay for operating expenses and capital additions.

The Hospital leases the facility used for clinical and administrative activities from the Institute under an operating lease which expires in 2021. Under this lease, effective May 6, 2001, the Hospital leases 23,489 square feet of the facility located at 100 Double Beach Road, Branford, Connecticut. Under this lease, the Hospital will pay \$284,160 per year through May 6, 2011. The succeeding two five-year terms will be negotiated based on the then prevailing rates in New Haven County and building appraisals. Included in the lease are electricity, heat and hot water.

The Hospital also purchases certain administrative, management, dietary, housekeeping and system technology services from the Institute for a fee of \$333,333 and \$375,000 per month for the years ended September 30, 2010 and 2009, respectively.

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS

GAAP has established a fair value hierarchy that prioritizes the inputs to valuation techniques to measure fair value. Highest rank is given to unadjusted quoted prices in active markets for identical assets (Level 1) and lowest rank to unobservable inputs (Level 3). Investments are ranked based on the lowest level of input that is significant to their fair value measurement. The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date.

Level 2 - Pricing inputs that are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of other valuation methodologies. Level 2 assets may include certain investments valued at Net Asset Value (NAV) with liquidity of 90 days or less.

Level 3 - Pricing inputs are unobservable for the investment. Level 3 assets may also include certain investments valued at NAV with liquidity of greater than 90 days. The Hospital has no Level 3 investments at September 30, 2010 or 2009.

Investments in which both the investment fund's and the underlying investments' values are based on quoted market prices in active markets are classified as Level 1. Investment funds classified as Level 2 may contain underlying investments that are actively traded; however, the ownership rights of the investment fund itself are not actively traded or are determined through the use of other methodologies.

The following is a summary of the source and fair value measurements for investments:

<u>Description</u>	<u>September 30, 2010</u>	<u>Fair Value Measurements Using</u>	
		<u>Level 1</u>	<u>Level 2</u>
Certificates of deposits	\$ 211,229	\$ 211,229	\$ -
Government and agency securities	349,177	349,177	-
Corporate bonds	929,405	-	929,405
Municipal securities	501,051	-	501,051
Mutual funds	259,666	259,666	-
 Total Assets	 \$ <u>2,250,528</u>	 \$ <u>820,072</u>	 \$ <u>1,430,456</u>

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS (Continued)

<u>Description</u>	<u>September 30, 2009</u>	<u>Fair Value Measurements Using</u>	
		<u>Level 1</u>	<u>Level 2</u>
Certificates of deposits	\$ 610,481	\$ 610,481	\$ -
Government and agency securities	147,190	147,190	-
Corporate bonds	255,230	-	255,230
Mutual funds	100,897	100,897	-
Total Assets	\$ <u>1,113,798</u>	\$ <u>858,568</u>	\$ <u>255,230</u>

Investment income for the years ended September 30, 2010 and 2009, consists of the following:

	<u>2010</u>	<u>2009</u>
Realized and unrealized gains	\$ 99,615	\$ 59,141
Interest and dividends	90,749	87,049
Net Investment Income	\$ <u>190,364</u>	\$ <u>146,190</u>

NOTE 5 - RETIREMENT PLAN

The Hospital has a defined contribution retirement plan (the Plan) covering all eligible employees. The provision for pension costs charged against operations each year is sufficient to match a portion of employee contributions as specified under the terms of the plan agreement. The Hospital makes contributions to the Plan equal to amounts accrued for pension expense. The total employer pension contributions were approximately \$336,000 and \$318,000 for the years ended September 30, 2010 and 2009, respectively.

NOTE 6 - PROPERTY AND EQUIPMENT

The components of property and equipment as of September 30, 2010 and 2009, are as follows:

	<u>2010</u>	<u>2009</u>
Furniture and equipment	\$ 3,278,692	\$ 3,078,339
Property held for future use	323,000	323,000
	<u>3,601,692</u>	<u>3,401,339</u>
Less accumulated depreciation	2,688,539	2,488,219
Net Property and Equipment	\$ <u>913,153</u>	\$ <u>913,120</u>

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 7 - OPERATING LEASES

The Hospital is obligated under leases for office space and equipment through 2013. Total rent expense under the operating leases totaled approximately \$267,000 and \$360,000 in 2010 and 2009, respectively.

Future minimum lease payments are as follows:

Year Ending September 30

2011	\$	211,786
2012		142,899
2013		<u>5,556</u>
Total Future Minimum Lease Payments	\$	<u>360,241</u>

NOTE 8 - DUE TO RELATED PARTY

During 2009, a board member advanced \$800,000 to the Hospital. This amount is recorded as due to related party on the statements of financial position. This note bears interest at 2.5% per year, and there currently is no formal repayment plan.

NOTE 9 - LONG-TERM DEBT

On September 23, 2002, the Hospital and the Institute entered into a note payable with Wachovia Bank for \$7,400,000. This note bears interest at the LIBOR Market Index Rate plus 1.75%. The note originally matured on April 1, 2009. On February 2, 2009, a Modification Agreement extended the maturity date to December 31, 2009. A principal payment of \$150,000 was made on October 1, 2008. Under the Modification Agreement, principal payments of \$70,000 were due on April 1, 2009 and October 1, 2009 with all remaining principal to be paid on December 31, 2009. The note payable is secured by a mortgage on the premises at 100 Double Beach Road, Branford, Connecticut, and the other assets of both the Hospital and the Institute. This mortgage was paid off during 2010.

NOTE 10 - LINE OF CREDIT

The Hospital has a line of credit in the amount of \$2,530,000. The line has a one-year term, provisions for annual extensions, and includes a due on demand feature. The Hospital has drawn down \$2,427,530 as of September 30, 2010. Interest, at a rate of 2% over LIBOR (2.256% at September 30, 2010), is payable monthly. The Hospital's investments are pledged as security on the line of credit.

**THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 - ENDOWMENT

The Hospital's endowment consists of approximately three individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the Hospital

Endowment Net Assets - Endowment net asset composition by type of fund is as follows as of September 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,408,392	\$ 1,408,392
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,408,392</u>	<u>\$ 1,408,392</u>

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - ENDOWMENT (Continued)

Changes in endowment net assets for the year ended September 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ -	\$ -	\$ 1,228,392	\$ 1,228,392
Investment return:				
Investment income	-	43,040	-	43,040
Investment gains	-	47,264	-	47,264
Total investment return	-	90,304	-	90,304
Contributions	-	-	180,000	180,000
Appropriation of endowment assets for expenditure	-	(90,304)	-	(90,304)
Endowment Net Assets - End of Year	\$ -	\$ -	\$ 1,408,392	\$ 1,408,392

Endowment net asset composition by type of fund is as follows as of September 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 1,228,392	\$ 1,228,392
Total funds	\$ -	\$ -	\$ 1,228,392	\$ 1,228,392

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - ENDOWMENT (Continued)

Changes in endowment net assets for the year ended September 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ (19,278)	\$ -	\$ 1,045,359	\$ 1,026,081
Investment return:				
Investment income	19,278	26,892	-	46,170
Investment losses	-	31,368	-	31,368
Total investment return	<u>19,278</u>	<u>58,260</u>	<u>-</u>	<u>77,538</u>
Contributions	<u>-</u>	<u>-</u>	<u>220,000</u>	<u>220,000</u>
Reclassification of endowment earnings from permanent to temporary	<u>-</u>	<u>36,967</u>	<u>(36,967)</u>	<u>-</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(95,227)</u>	<u>-</u>	<u>(95,227)</u>
Endowment Net Assets - End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,228,392</u>	<u>\$ 1,228,392</u>

Amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) are as follows as of September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by CTPMIFA	\$ <u>1,408,392</u>	\$ <u>1,228,392</u>
Total Endowment Funds Classified as Permanently Restricted Net Assets	<u>\$ 1,408,392</u>	<u>\$ 1,228,392</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or CTPMIFA requires the Hospital to retain as a fund of perpetual duration. There were no such deficiencies as of September 30, 2010 and 2009.

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 11 - ENDOWMENT (Continued)

Return Objectives and Risk Parameters - The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is broadly diversified among asset classes determined appropriate by the Board of Directors. The overall objective is the highest possible long-term rate of return consistent with accepting a low level of risk as it relates to the investment of total assets. Actual returns in any given year may vary from this amount.

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

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Hospital has a policy of appropriating for distribution each year the income earned on its endowment subject to prudent spending consideration to offset operating expenses. All funds appropriated for distribution are done with approval from the Board of Directors.

NOTE 12 - HEALTHCARE INDUSTRY

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation.