Audited Financial Statements

Natchaug Hospital, Inc.
Years Ended September 30, 2010 and 2009
With Report of Independent Auditors

Natchaug Hospital, Inc.

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Contents

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Report of Independent Auditors

The Board of Directors
Natchaug Hospital, Inc.

We have audited the accompanying balance sheets of Natchaug Hospital, Inc. (the Hospital) as of September 30, 2010 and 2009, and the related statements of operations and 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 and the Standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, and 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 Natchaug Hospital, Inc. at September 30, 2010 and 2009, and the results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

December 20, 2010

Natchaug Hospital, Inc.

Balance Sheets

	September 30 2010	September 30 2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 989,113**	$ 594,090
Accounts receivable, less allowance for uncollectible accounts of $2,073,000 in 2010 and $1,665,000 in 2009	**4,284,711**	4,443,082
Other receivables	**205,773**	258,851
Inventory and prepaid expenses	**533,556**	485,816
Due from third-party reimbursement agencies	**119,241**	77,139
Total current assets	**6,132,394**	5,858,978
Property, plant, and equipment:		
Land	**195,897**	195,897
Buildings and leasehold improvements	**13,834,745**	13,464,240
Equipment	**3,717,876**	3,323,476
Vehicles	**900,958**	820,876
	18,649,476	17,804,489
Accumulated depreciation and amortization	**(7,220,504)**	(6,345,735)
	11,428,972	11,458,754
Construction in process	**1,520**	11,000
Net property, plant, and equipment	**11,430,492**	11,469,754
Other assets	**134,550**	134,755
	$ 17,697,436	$ 17,463,487
Liabilities and net assets		
Current liabilities:		
Accounts payable and other accrued expenses	**$ 619,576**	$ 774,966
Payroll-related accruals	**1,345,110**	1,615,358
Due to affiliated corporation	**142,508**	141,733
Current portion of long-term debt	**158,317**	180,242
Total current liabilities	**2,265,511**	2,712,299
Accrued pension obligation and other	**2,978,837**	2,289,788
Long-term debt, less current portion	**3,603,807**	3,893,170
Net assets:		
Unrestricted	**8,639,928**	8,387,400
Temporarily restricted	**209,353**	180,830
	8,849,281	8,568,230
	$ 17,697,436	$ 17,463,487

See accompanying notes.

Natchaug Hospital, Inc.

Statements of Operations and Changes in Net Assets

	Years Ended September 30	
	2010	**2009**
Unrestricted revenues, gains, and other support:		
Net patient service revenue	**$ 42,671,670**	$ 40,229,374
Other revenue	**17,348**	38,247
Net assets released from restriction for operations	**44,638**	32,310
	42,733,656	40,299,931
Operating expenses:		
Salaries and employee benefits	**32,876,780**	30,637,189
Purchased services and professional fees	**3,188,205**	2,875,883
Supplies and other	**4,210,117**	4,513,444
Provision for uncollectible accounts	**774,965**	668,742
Depreciation and amortization	**968,333**	905,649
Interest	**265,707**	297,085
	42,284,107	39,897,992
Excess of revenues over expenses	**449,549**	401,939
Change in net assets related to pension plan	**(276,590)**	(1,648,852)
Net assets released from restriction for property, plant, and equipment	**79,569**	152,471
Increase (decrease) in unrestricted assets	**252,528**	(1,094,442)
Temporarily restricted contributions	**152,730**	104,924
Net assets released from restriction for property, plant, and equipment	**(79,569)**	(152,471)
Net assets released from restriction for operations	**(44,638)**	(32,310)
Increase (decrease) in temporarily restricted net assets	**28,523**	(79,857)
Increase (decrease) in net assets	**281,051**	(1,174,299)
Net assets at beginning of year	**8,568,230**	9,742,529
Net assets at end of year	**$ 8,849,281**	$ 8,568,230

See accompanying notes.

Natchaug Hospital, Inc.

Statements of Cash Flows

	Years Ended September 30 2010	2009
Operating activities		
Change in net assets	**$ 281,051**	$ (1,174,299)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	**968,333**	905,649
Provision for uncollectible accounts	**774,965**	668,742
Other changes in net assets:		
Temporarily restricted contributions	**(152,730)**	(104,924)
Change in net assets related to pension plan	**276,590**	1,648,852
Changes in assets and liabilities:		
Accounts receivable	**(616,594)**	617,358
Other receivables, inventory and prepaid expenses	**(243,285)**	(197,982)
Other assets	**(93,359)**	18,370
Accounts payable, other accrued expenses, and payroll-related accruals	**(177,015)**	(878,422)
Due from third-party reimbursement agencies	**(42,102)**	17,143
Accrued pension obligation and other	**412,459**	(69,401)
Due to affiliated corporation	**775**	(534,773)
Net cash provided by operating activities	**1,389,088**	916,313
Investing activity		
Purchases of property, plant, and equipment, net	**(835,507)**	(689,415)
Net cash used in investing activity	**(835,507)**	(689,415)
Financing activities		
Temporarily restricted contributions	**152,730**	104,924
Proceeds from issuance of debt	**–**	69,169
Principal payments on obligations	**(311,288)**	(291,100)
Net cash used in financing activities	**(158,558)**	(117,007)
Increase in cash and cash equivalents	**395,023**	109,891
Cash and cash equivalents at beginning of year	**594,090**	484,199
Cash and cash equivalents at end of year	**$ 989,113**	$ 594,090

See accompanying notes.

Natchaug Hospital, Inc.

Notes to Financial Statements

September 30, 2010

1. Significant Accounting Policies

Organization

Natchaug Hospital, Inc. (the Hospital) is a nonprofit organization incorporated under the General Statutes of the State of Connecticut. The Hospital provides inpatient and outpatient psychiatric healthcare services. Effective August 1998, Hartford Health Care Corporation (HHCC) became the sole member of the Hospital. Accordingly, the Board of Directors of HHCC elects the Board of Directors of the Hospital.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with a maturity date of three months or less. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Hospital's policy to monitor the financial strength of these institutions.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those where use by the Hospital has been limited by donors to a specific time frame or purpose. Temporarily restricted net assets include donations and grant proceeds.

1. Significant Accounting Policies (continued)

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying statements of operations and changes in net assets.

Fair Values of Financial Instruments

The carrying values of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of financial instruments are disclosed in Note 9.

Income Taxes

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

Patient Accounts Receivable

Patient accounts receivable result from health care services provided by the Hospital. Additions to the allowance for uncollectible accounts result from the provision for uncollectible accounts. Accounts written off as uncollectible are deducted from the allowance for uncollectible accounts.

The amount of the allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third party payor programs.

1. Significant Accounting Policies (continued)

The Hospital's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies and private patients. The Hospital manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable are as follows as of September 30:

	2010	2009
Medicare	**13%**	11%
Medicaid	**21%**	28%
Commercial and other	**28%**	28%
Self-pay	**38%**	33%
	100%	100%

Property, Plant, and Equipment

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

Medical Malpractice Insurance

Coverage for medical malpractice insurance is provided on a claims-made basis. The primary level of coverage is $10,000,000 per claim and $39,000,000 in the aggregate. The excess indemnity coverage is layered with four different insurance companies at $15,000,000 per claim and $15,000,000 in the aggregate for each layer. The primary coverage is with CHS Insurance Limited, a captive insurance company, which is owned by affiliates of HHCC. The Hospital has recorded a liability for claims incurred but not reported of approximately $309,000 and $296,000 at September 30, 2010 and 2009, respectively.

Excess of Revenues over Expenses

The statements of operations and changes in net assets include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the excess of revenues over expenses, consistent with industry practice, include changes in net assets related to a pension plan, and net assets released from restrictions for property, plant, and equipment.

1. Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2010 balances previously reported in the balance sheets and statement of operations and changes in net assets in order to conform with the year ended September 30, 2010 presentation.

Subsequent Events

The Hospital evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the year ended September 30, 2010, the Hospital evaluated subsequent events through December 20, 2010, which is the date the financial statement were available to be issued. No events occurred that require disclosure or adjustment to the financial statements.

Adoption of New Accounting Standards

In December 2008, the FASB issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in Accounting Standards Codification (ASC) 715. 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 3 for these additional disclosures for the year ended September 30, 2010. The adoption of this guidance did not have a significant impact on the Hospital's financial statements for the year ended September 30, 2010.

1. Significant Accounting Policies (continued)

Recently Issued Accounting Standards

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

2. Patient Service Revenue and Charity Care

Revenues from the Medicare and Medicaid programs accounted for approximately 11% and 37%, and 10% and 38%, of the Hospital's net patient service revenue for the years ended September 30, 2010 and 2009, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, 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 the reduction of funding levels could have an adverse impact on the Hospital.

2. Patient Service Revenue and Charity Care (continued)

The following table summarizes net patient service revenue:

	Years Ended September 30	
	2010	**2009**
Gross patient service revenue	**$ 61,513,130**	$ 53,373,972
Deductions:		
Allowances	**18,655,714**	12,949,300
Charity care	**185,746**	195,298
Net patient service revenue	**$ 42,671,670**	$ 40,229,374

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from certain payors are different from established billing rates of the Hospital and the differences are accounted for as allowances.

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

A patient is classified as a charity care patient by reference to the established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized poverty income levels for the State of Connecticut, but also includes certain cases where incurred charges are significant when compared to patients' income. These charges are not included in net patient service revenue for financial reporting purposes.

3. Pension Plan

The Hospital has a defined benefit pension plan (the Plan). The Plan covers all employees of the Hospital represented by the New England Healthcare Employees Union. The benefits for the Plan are based on years of service and the employees' compensation during the last five years of employment.

3. Pension Plan (continued)

Included in unrestricted net assets at September 30, 2010 and 2009, but not yet been recognized in net periodic pension cost is unrecognized actuarial loss of $2,484,800 and $2,208,210, respectively. The actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2011 is $180,345.

The following table sets forth the Plan's funded status and amounts recognized in the Hospital's balance sheets:

	September 30	
	2010	**2009**
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 4,988,210**	$ 3,108,291
Service cost	**368,592**	227,287
Interest cost	**276,162**	237,762
Net benefit payments and transfers	**(147,612)**	(138,855)
Liability loss	**408,384**	1,553,725
Benefit obligation at end of year	**5,893,736**	4,988,210
Change in plan assets		
Fair value of plan assets at beginning of year	**2,989,172**	2,679,454
Actual return on plan assets	**202,230**	93,743
Employer contribution	**184,609**	354,830
Net benefit payments and transfers	**(147,612)**	(138,855)
Fair value of plan assets at end of year	**3,228,399**	2,989,172
Funded status of the plan	**$ (2,665,337)**	$ (1,999,038)
Components of net periodic benefit cost		
Service cost	**$ 368,592**	$ 227,287
Interest cost	**276,162**	237,762
Expected return on plan assets	**(241,579)**	(222,668)
Net amortization and deferral	**171,143**	33,798
Benefit cost	**$ 574,318**	$ 276,179

3. Pension Plan (continued)

The measurement date for the Plan is September 30. The actuarial assumptions used are as follows for September 30:

	2010	2009
Discount rate used for projected benefit obligation	**5.20%**	5.50%
Discount rate used for benefit cost	**5.50%**	7.50%
Expected long-term rate of return on plan assets	**8.00%**	8.00%
Average rate of increase in compensation	**3.50%**	3.50%

The expected long-term rate of return on plan assets was developed through analysis of historical market returns, current market conditions, and the Plan's past experience. Estimates of future market returns by asset category are lower than actual long-term historical returns in order to reflect current market conditions.

The accumulated benefit obligation at September 30, 2010 and 2009 was $4,918,239 and $4,129,316, respectively.

Plan Assets

The Hospital's retirement plan assets are managed by outside investment managers. The investment strategy with respect to pension assets is to maximize return while protecting principal. The Hospital, through the Executive Committee of the Board, establishes the overall investment allocation strategy for the Plan. The investment manager has the flexibility to adjust the asset allocation and move funds to the asset class that offers the most opportunity given the established investment strategy. Investment performance is periodically reviewed by the Hospital's Executive Committee and revised as appropriate.

The Hospital's pension plan weighted-average allocations at September 30, 2010 and 2009, by asset category, are as follows:

Asset Category	2010	2009
Equities	**55%**	56%
Fixed-income securities	**39%**	26%
Cash and cash equivalents	**6%**	18%
Total	**100%**	100%

3. Pension Plan (continued)

As discussed in Note 1, the Hospital adopted the FASB's authoritative disclosure guidance on reporting for assets of postretirement benefit plans for the fiscal year ended September 30, 2010. As discussed in the Fair Value Measurements note (Note 9), the Hospital follows a three-level hierarchy to categorize assets measured at fair value. In accordance with this hierarchy, as of September 30, 2010, 100% of the Hospital Plan's assets which are measured at fair value on a recurring basis were categorized as Level 1 investments. Securities with readily determinable values are carried at fair value as determined based on independent published sources.

The Hospital's target allocation for pension plan assets is 50% equities, 48% fixed-income securities, and 2% cash and cash equivalents.

Contributions

The Hospital expects to contribute $374,433 to the Plan in 2011.

Estimated Future Benefit Payments

Benefit payments are expected to be paid as follows:

Fiscal Year Ending:	Pension Benefits
2011	$ 138,000
2012	145,000
2013	142,000
2014	157,000
2015	199,000
Years 2016 – 2020	1,364,000

The Hospital also has a defined contribution retirement plan. Under this plan, the Hospital contributes 5% to 7% of the employees' compensation, based upon years of service. The Hospital's expenses for this plan totaled $881,736 and $742,277 for the years ended September 30, 2010 and 2009, respectively.

4. Long-Term Debt

Long-term debt and obligations under capital leases are as follows:

	September 30 2010	September 30 2009
Mortgage loans payable	**$ 2,958,287**	$ 3,058,718
Installment loan payable	**745,634**	849,156
Various installment loans	**58,203**	165,538
	3,762,124	4,073,412
Less current portion	**(158,317)**	(180,242)
	$ 3,603,807	$ 3,893,170

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

Fiscal Year Ending:	**Amount**
2011	$ 158,317
2012	878,260
2013	129,459
2014	239,840
2015	125,225
Thereafter	2,231,023
	$ 3,762,124

The Hospital has a revolving line of credit, which provides for borrowings up to $800,000, bearing interest at 0.5% above the prime rate (3.25% at September 30, 2010). All outstanding principal is due on May 27, 2011. The line is secured by all tangible and intangible personal property of the Hospital. There were no borrowings under this line of credit on either September 30, 2010 or September 30, 2009.

The Hospital has four mortgage loans payable to various entities and individuals. The first mortgage loan is payable to a bank, carries a five-year adjustable interest rate (fixed at 7.625% through 2013), and is payable in monthly installments of $22,050. The final payment is due on October 1, 2018. The loan is secured by a first-position mortgage on the Hospital building. The second mortgage loan, to the estate of the former owner, carries a fixed interest rate of 7.50% and is payable in monthly installments of $2,991. The final payment is due on February 1, 2017. The loan is secured by a third-position mortgage on the Hospital building.

4. Long-Term Debt (continued)

The Hospital also has two mortgage loans related to the acquisition of the Conantville Medical Office Building. The former owners of the property hold these mortgage loans. Each loan carries a fixed interest rate of 6.00% and is payable in monthly installments of $1,213. The final payments are due in September 2013. Both loans are secured by mortgages on the medical office building, its real property, and the equipment therein. The two mortgages are equal in priority.

The Hospital has one installment loan payable to the Hospital's parent corporation. The loan carries a one-year variable interest rate (2.56% at September 30, 2010) and is payable in monthly installments of interest only. The loan is due on October 1, 2011.

Various other installment loans exist relating to auto loans with interest rates ranging from 0% to 9.44%. The loans are secured by vehicles.

The Hospital paid interest of $265,707 and $297,085 in fiscal years 2010 and 2009, respectively.

The carrying value and fair value of the Hospital's fixed rate debt was $2,958,287 and $3,193,690, respectively, as of September 30, 2010. The carrying value of the Hospital's other long-term debt approximates fair value.

In addition to the above-reference mortgage loans, the Hospital has signed a lien agreement in favor of the State of Connecticut related to a State grant award. This award provided funding for the construction of a residential treatment facility on a portion of the Hospital's main campus. The facility is operated under contract with the State Department of Children and Families. Under the award, the Hospital is obligated to repay all monies previously advanced by the State should it fail to maintain a license to operate the facility or fail to enter into an agreement covering such operation. Payment shall be equal to the full amount of the award less 10% for each full year of continuous operation, amounting to $1,948,371, as of September 30, 2010. The calculation of the annual 10% reduction in repayment will start on the date the final payment becomes due. Under the grant award, the State shall release the lien either at the end of the ten-year period, provided that the facility has been continuously operated in accordance with the grant award, or sooner if the Hospital repays to the State the amount owed upon termination of the grant award.

5. Transactions with Affiliated Corporations

At September 30, 2010 and 2009, $142,508 and $141,733, respectively, was owed to HHCC affiliates relating to intercompany exchanges of services, management fees, corporate fees and certain other expenses.

6. Pledges Receivable

Pledges receivable, included in the accompanying balance sheets, are expected to be received as follows:

	September 30 2010	September 30 2009
Due within one year	**$ 49,906**	$ 89,450
Due in one to five years	**7,000**	30,822
	56,906	120,272
Less allowance	**(2,494)**	(10,334)
Net pledge receivable	**$ 54,412**	$ 109,938

The allowance recognizes the estimated uncollectible portion of the pledges and the discount of the pledges to net present value.

7. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance as explained in Note 1 or are deemed to be immaterial. While the outcomes of the lawsuits cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the Hospital's financial position or changes in net assets of the Hospital.

The Hospital has several operating lease agreements for certain real estate. Certain of these leases have renewal options for periods up to five years and escalation clauses. Rent is payable in equal monthly installments. Rent expense was $479,916 and $510,664 for the years ended September 30, 2010 and 2009, respectively.

The future minimum lease payments are as follows:

2011	$ 348,000
2012	324,000
2013	267,000
2014	212,000
2015	141,000
Thereafter	132,000
	$ 1,424,000

8. Functional Expenses

The Hospital provides psychiatric healthcare services to residents. Expenses related to providing these services are as follows:

	Years Ended September 30	
	2010	**2009**
Healthcare services	**$ 34,164,592**	$ 32,061,800
General and administrative	**8,119,515**	7,836,192
	$ 42,284,107	$ 39,897,992

9. Fair Values of Financial Instruments

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

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

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Hospital utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. In addition, the Hospital considers counterparty credit risk in its assessment of fair value.

9. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value as of September 30, 2010 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ **989,113**	$ –	$ –	$ **989,113**
Postretirement pension plan assets:				
Cash	**183,738**	–	–	**183,738**
Fixed income securities	**1,032,842**	–	–	**1,032,842**
Mutual funds	**1,209,447**	–	–	**1,209,447**
Equities	**802,372**	–	–	**802,372**

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

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 594,090	$ –	$ –	$594,090

Fair value for Level 1 assets is based upon quoted market prices.