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CONNECTICUT OFFICE OF
HEALTH CARE ACCESS

Ms. Karen Roberts, Director

410 Capitol Avenue, 3rd Floor

Hartford, Connecticut

06134-0308

October 19th, 2010

Dear Ms. Roberts:

I am writing to inform you that a final copy of the Audited Financial Statement for the Year Ended September 30th, 2009 is attached.

To this point your office has had available the Preliminary and tentative report for the said year.

The main reasons for the delay were (1) the shortage of staff and time to work with auditors to complete the audit and (2) the time demands of competing deadlines, such other audits including pension, etc.

I sincerely appreciate your patience and understanding.

Yours truly,

David R. Goldfarb

Senior Vice President of Finance and Human Resources

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Homeport Cove
Branford, CT 06405
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Branford, CT 06405
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Home Care: 860-674-1723
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1 Park Street
Norwalk, CT 06851
Home Care: 203-847-9210
Fax: 203-847-9305

2 Trap Falls Road
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Shelton, CT 06484
Home Care: 203-944-0900
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110 Barnes Road
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Hospice Institute
for Education, Training and Research, Inc.

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CONNECTICUT OFFICE OF
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THE CONNECTICUT HOSPICE, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2009 AND 2008

THE CONNECTICUT HOSPICE, INC.

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BlumShapiro

Accounting | Tax | Business Consulting

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, 2009 and 2008, 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, 2009 and 2008, 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.

September 16, 2010

THE CONNECTICUT HOSPICE, INC.
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2009 AND 2008

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,723,720	\$ 2,036,543
Short-term investments	1,113,798	1,356,935
Patient accounts receivable, less allowance for doubtful accounts of \$350,000 in 2009 and \$300,000 in 2008	3,576,786	3,179,356
Due from third party	515,234	-
Grant receivable	105,877	284,030
Inventories	233,289	205,826
Other current assets	205,158	202,847
Total current assets	8,473,862	7,265,537
Property and Equipment, Net	913,120	1,005,369
Other Assets		
Assets held under split-interest agreements	26,371	26,371
Due from The John D. Thompson Hospice Institute, net	7,938,364	7,041,418
Total other assets	7,964,735	7,067,789
Total Assets	\$ 17,351,717	\$ 15,338,695
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 4,898,864	\$ 3,897,787
Accrued liabilities	3,463,824	3,379,632
Due to related party	800,000	-
Liability under split-interest agreements	9,500	9,500
Total liabilities	9,172,188	7,286,919
Net Assets		
Unrestricted	5,733,670	5,507,577
Temporarily restricted	1,217,467	1,498,840
Permanently restricted	1,228,392	1,045,359
Total net assets	8,179,529	8,051,776
Total Liabilities and Net Assets	\$ 17,351,717	\$ 15,338,695

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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 31,186,203	\$ 31,030,621
Net assets released from restrictions	862,668	884,021
Other revenue	148,760	197,047
Total unrestricted revenues, gains and other support	<u>32,197,631</u>	<u>32,111,689</u>
Expenses		
Employee compensation	15,840,896	15,235,115
Purchased services and supplies	8,588,419	8,512,898
Management services	4,500,000	6,400,000
Fringe benefits	3,110,157	3,082,538
Plant and utilities	629,782	602,711
Nonmedical general	250,117	372,856
Rent	284,160	284,160
Dietary	257,659	256,438
Provision for bad debts	167,270	179,337
Depreciation	254,170	217,231
Interest	9,500	7,580
Total expenses	<u>33,892,130</u>	<u>35,150,864</u>
Loss from Operations	<u>(1,694,499)</u>	<u>(3,039,175)</u>
Other Income (Expense)		
Unrestricted contributions	1,774,402	2,594,528
Investment income (loss)	146,190	(25,573)
Net other income	<u>1,920,592</u>	<u>2,568,955</u>
Change in Unrestricted Net Assets	226,093	(470,220)
Unrestricted Net Assets - Beginning of Year	<u>5,507,577</u>	<u>5,977,797</u>
Unrestricted Net Assets - End of Year	<u>\$ 5,733,670</u>	<u>\$ 5,507,577</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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Unrestricted Net Assets		
Change in unrestricted net assets	\$ 226,093	\$ (470,220)
Temporarily Restricted Net Assets		
Reclassification of endowment earnings	36,967	-
Contributions	544,328	577,570
Net assets released from restrictions	<u>(862,668)</u>	<u>(884,021)</u>
Decrease in temporarily restricted net assets	<u>(281,373)</u>	<u>(306,451)</u>
Permanently Restricted Net Assets		
Reclassification of endowment earnings	(36,967)	-
Contributions	<u>220,000</u>	<u>220,000</u>
Increase in permanently restricted net assets	<u>183,033</u>	<u>220,000</u>
Increase (Decrease) in Net Assets	127,753	(556,671)
Net Assets - Beginning of Year	<u>8,051,776</u>	<u>8,608,447</u>
Net Assets - End of Year	<u>\$ 8,179,529</u>	<u>\$ 8,051,776</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, 2009 AND 2008

	2009	2008
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 127,753	\$ (556,671)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	254,170	217,231
Bad debt expense	167,270	179,337
Net realized and unrealized (gains) losses on sales of securities	(59,141)	136,625
(Increase) decrease in operating assets:		
Patient accounts receivable	(564,700)	224,393
Due from third party	(515,234)	-
Grant receivable	178,153	(284,030)
Inventories and other current assets	(29,774)	(32,620)
Due from The John D. Thompson Hospice Institute, net	(896,946)	(53,270)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	1,085,269	1,312,662
Liability under split-interest agreements	-	(3,966)
Net cash provided by (used in) operating activities	(253,180)	1,139,691
Cash Flows from Investing Activities		
Purchases of property and equipment, net	(161,921)	(302,360)
Assets held under split-interest agreements	-	126,396
Purchase of investments	(1,080,268)	(3,626,099)
Sale of investments	1,382,546	2,132,539
Net cash provided by (used in) investing activities	140,357	(1,669,524)
Cash Flows from Financing Activities		
Advance from related party	800,000	-
Net cash provided by financing activities	800,000	-
Net Increase (Decrease) in Cash and Cash Equivalents	687,177	(529,833)
Cash and Cash Equivalents - Beginning of Year	2,036,543	2,566,376
Cash and Cash Equivalents - End of Year	\$ 2,723,720	\$ 2,036,543
Cash Paid During the Year for Interest	\$ 9,500	\$ 7,580

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, 2009 and 2008, 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 \$1,228,392 and \$1,045,359 as of September 30, 2009 and 2008, 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, 2009 and 2008, 82% and 89%, respectively, of patient accounts receivable were due from federal and state governmental payors. As of September 30, 2009 and 2008, 18% and 11%, respectively, of patient accounts receivable were due from nongovernmental payors. Nongovernmental payors are primarily managed-care companies. As of September 30, 2009, 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 \$2,103,000 and \$2,014,000 for the years ended September 30, 2009 and 2008, 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 \$1,929,000 and \$1,874,000 for the years ended September 30, 2009 and 2008, 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 September 16, 2010, which represents the date the financial statements were available to be issued.

Reclassifications - In connection with the adoption of the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA), management performed a comprehensive analysis of the Organization's endowment and reclassified accumulated unspent endowment earnings from permanently restricted net assets to temporarily restricted net assets. This reclassification is shown as reclassification of net assets on the accompanying statement of changes in net assets for the year ended September 30, 2009.

Certain amounts in the 2008 financial statements have been reclassified to conform with the current year's presentation.

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 \$375,000 and \$533,333 per month for the years ended September 30, 2009 and 2008, respectively.

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

NOTE 4 - INVESTMENTS

The fair values of all investments are determined using quoted prices in active markets for identical assets (Level 1, as defined in GAAP).

Investments as of September 30, 2009 and 2008, consist of the following:

	<u>2009</u>	<u>2008</u>
Certificate of deposits	\$ 610,481	\$ 531,358
Government and agency securities	147,190	293,844
Corporate bonds	255,230	397,020
Mutual funds	<u>100,897</u>	<u>134,713</u>
 Total Investments	 <u>\$ 1,113,798</u>	 <u>\$ 1,356,935</u>

Investment income for the years ended September 30, 2009 and 2008, consists of the following:

	<u>2009</u>	<u>2008</u>
Realized and unrealized gains (losses)	\$ 59,141	\$ (136,625)
Interest and dividends	<u>87,049</u>	<u>111,052</u>
 Total Investment Income (Loss)	 <u>\$ 146,190</u>	 <u>\$ (25,573)</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 \$318,000 and \$299,000 for the years ended September 30, 2009 and 2008, respectively.

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

NOTE 6 - PROPERTY AND EQUIPMENT

The components of property and equipment as of September 30, 2009 and 2008, are as follows:

	2009	2008
Furniture and equipment	\$ 3,078,339	\$ 2,916,418
Property held for future use	323,000	323,000
	3,401,339	3,239,418
Less accumulated depreciation	2,488,219	2,234,049
Net Property and Equipment	\$ 913,120	\$ 1,005,369

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 \$360,000 and \$312,000 in 2009 and 2008, respectively.

Future minimum lease payments are as follows:

Year Ending September 30

2010	\$	266,690
2011		211,786
2012		142,899
2013		5,556
		626,931
Total Future Minimum Lease Payments	\$	626,931

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. No interest is being charged on this advance, and there currently is no formal repayment plan.

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

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% (2.00% as of September 30, 2009). 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. As described in Note 12, the Hospital and the Institute paid off the mortgage subsequent to year end.

NOTE 10 - ENDOWMENT

The Hospital's endowment consists of approximately 3 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

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - ENDOWMENT (Continued)

Endowment Net Assets - 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	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,228,392</u>	\$ <u>1,228,392</u>
Total	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,228,392</u>	\$ <u>1,228,392</u>

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	\$ <u>(19,278)</u>	\$ <u>-</u>	\$ <u>1,045,359</u>	\$ <u>1,026,081</u>
Investment return:				
Investment income	19,278	26,892	-	46,170
Investment gains	<u>-</u>	<u>31,368</u>	<u>-</u>	<u>31,368</u>
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>

Endowment net asset composition by type of fund is as follows as of September 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>(19,278)</u>	\$ <u>-</u>	\$ <u>1,045,359</u>	\$ <u>1,026,081</u>
Total funds	\$ <u>(19,278)</u>	\$ <u>-</u>	\$ <u>1,045,359</u>	\$ <u>1,026,081</u>

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

NOTE 10 - ENDOWMENT (Continued)

Changes in endowment net assets for the year ended September 30, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ -	\$ -	\$ 825,359	\$ 825,359
Investment return:				
Investment income	-	83,714	-	83,714
Investment losses	-	(102,992)	-	(102,992)
Total investment return	-	(19,278)	-	(19,278)
Contributions	-	-	220,000	220,000
Replenishment of endowment assets for underwater funds	(19,278)	19,278	-	-
Endowment Net Assets - End of Year	<u>\$ (19,278)</u>	<u>\$ -</u>	<u>\$ 1,045,359</u>	<u>\$ 1,026,081</u>

Amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment only) are as follows as of September 30, 2009 and 2008:

	<u>2009</u>	<u>2008</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	\$ 1,228,392	\$ 1,045,359
Total Endowment Funds Classified as Permanently Restricted Net Assets	<u>\$ 1,228,392</u>	<u>\$ 1,045,359</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. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$19,278 as of September 30, 2008. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no such deficiencies as of September 30, 2009.

THE CONNECTICUT HOSPICE, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - 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 to offset operating expenses. All funds appropriated for distribution are done with approval from the Board of Directors.

NOTE 11 - 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.

NOTE 12 - SUBSEQUENT EVENTS

Subsequent to year end, the Hospital and the Institute moved their cash and investment accounts to a different bank as part of an arrangement whereby they were given a margin loan. This loan was used to pay down the note payable to Wachovia Bank. The Hospital and the Institute are currently looking for another bank to finance the margin loan on a longer term basis.