AUDITED COMBINED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Windham Community Memorial Hospital, Inc., and Affiliates
Years Ended September 30, 2009 and 2008

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Audited Combined Financial Statements
and Other Financial Information

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Contents

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Report of Independent Auditors

Board of Trustees
Windham Community Memorial Hospital, Inc.

We have audited the accompanying combined balance sheets of Windham Community Memorial Hospital, Inc., and Affiliates as of September 30, 2009, and the related combined statements of operations and changes in net assets and cash flows for the year then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the financial statements of The Hatch Hospital Corporation which statements reflect total assets of $816,375 as of September 30, 2009 and total revenues of $1,879,625 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Hatch Hospital Corporation, is based solely on the report of the other auditors. The combined financial statements of Windham Community Memorial Hospital, Inc., and Affiliates for the year ended September 30, 2008, were audited by other auditors whose report dated December 30, 2008, expressed an unqualified opinion on those statements prior to restatement.

We conducted our audit in accordance with auditing standards generally accepted in 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. 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 audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the 2009 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Windham Community Memorial Hospital, Inc. and Affiliates as of September 30, 2009, and the combined results of their operations and changes in net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

We also audited the adjustments described in Note 1 that were applied to restate the 2008 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Ernst & Young LLP

March 1, 2010

Windham Community Memorial Hospital, Inc., and Affiliates

Combined Balance Sheets

	September 30	
	2009	**2008**
		(Restated)
Assets		
Current assets:		
Cash and cash equivalents	**$ 3,357,508**	$ 2,778,004
Current portion of assets whose use is limited	**798,482**	633,588
Accounts receivable, less allowances of approximately $2,103,000 in 2009 and $1,672,000 in 2008	**13,116,037**	11,996,552
Other receivables	**2,334,406**	1,810,842
Inventories of supplies	**1,175,255**	1,190,125
Prepaid expenses	**671,383**	1,175,688
Pledges receivable	**372,884**	442,572
Funds designated for debt service	**919,441**	2,077,564
Due from third-party reimbursement agencies	**1,258,523**	2,166,694
Total current assets	**24,003,919**	24,271,629
Other assets:		
Investments	**322,070**	240,140
Assets whose use is limited:		
Donor restricted investments	**2,749,514**	2,790,512
Beneficial interest in perpetual trust	**1,752,149**	1,791,715
Investment in real estate, net of accumulated depreciation of approximately $587,000 in 2009 and $516,000 in 2008	**946,499**	777,513
Unamortized bond discount and issuance expense	**448,118**	464,027
Escrow funds for long-term debt	**1,674,179**	1,717,049
Due from related party	**–**	1,655,190
Deposits and other assets	**902,998**	755,117
Total other assets	**8,795,527**	10,191,263
Property, plant and equipment, net of accumulated depreciation	**36,908,939**	37,119,116
Total assets	**$ 69,708,385**	$ 71,582,008

	September 30	
	2009	**2008**
		(Restated)
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	**$ 3,370,047**	$ 3,283,294
Salaries, wages, payroll taxes and amounts withheld from employees	**1,276,413**	1,074,903
Accrued vacation and holiday pay	**1,459,086**	1,766,017
Other accrued expenses	**1,033,556**	1,524,894
Accrued pension	**1,133,000**	1,018,000
Current portion of long-term debt and capital lease obligations	**855,910**	773,652
Total current liabilities	**9,128,012**	9,440,760
Long-term liabilities:		
Accrued pension and other liabilities	**57,389,912**	24,984,787
Long-term debt, less current portion	**19,698,257**	20,021,887
Interest rate swap obligation	**2,585,845**	1,655,190
Capital lease obligations, less current portion	**1,077,681**	746,552
Total liabilities	**89,879,707**	56,849,176
Net assets:		
Unrestricted	**(25,502,905)**	9,483,745
Temporarily restricted	**2,104,204**	1,975,413
Permanently restricted	**3,227,379**	3,273,674
Total net assets	**(20,171,322)**	14,732,832
Total liabilities and net assets	**$ 69,708,385**	$ 71,582,008

See accompanying notes.

Windham Community Memorial Hospital, Inc., and Affiliates

Combined Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2009	**2008**
		(Restated)
Unrestricted operating revenues:		
Net patient revenue	**$ 83,605,148**	$ 81,011,511
Grant – operating purposes	**–**	1,500,000
Other operating revenue	**2,401,877**	2,757,607
Total operating revenues	**86,007,025**	85,269,118
Operating expenses:		
Salaries	**37,098,685**	36,808,260
Employee benefits	**12,646,534**	12,641,493
Physician fees	**910,707**	1,049,122
Consulting, legal and auditing fees	**764,944**	458,143
Supplies	**9,495,592**	9,334,239
Insurance	**1,200,994**	1,225,040
Purchased services	**6,177,714**	5,240,944
Other nonsalary expenses	**6,608,688**	6,754,311
Provision for uncollectible accounts	**4,595,065**	4,723,613
Depreciation	**4,418,804**	4,033,780
Interest	**1,483,430**	1,218,189
Total operating expenses	**85,401,157**	83,487,134
Income from operations	**605,868**	1,781,984
Nonoperating (loss) income:		
Interest income, net	**152,507**	170,517
Gifts and bequests	**205,897**	248,855
Net realized and unrealized gain on investments	**1,992**	31,806
Net loss from investment in real estate	**(53,022)**	(11,012)
Other nonoperating activities	**(2,098,246)**	(129,699)
Net nonoperating (loss) income	**(1,790,872)**	310,467
(Deficiency) excess of revenues over expenses	**(1,185,004)**	2,092,451

Continued on next page.

Windham Community Memorial Hospital, Inc., and Affiliates

Combined Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2009	**2008**
		(Restated)
Unrestricted net assets:		
(Deficiency) excess of revenues over expenses	**(1,185,004)**	2,092,451
Change in pension funding and post retirement obligations	**(33,873,622)**	143,771
Write-off of unamortized bond costs	**–**	(701,102)
Unrealized loss on investments	**–**	(11,780)
Net assets released from restriction for capital	**11,387**	–
Other	**(13,922)**	(33,397)
Transfer from (to) temporarily restricted net assets	**74,511**	(5,257)
Transfer	**–**	(25,000)
(Decrease) increase in unrestricted net assets	**(34,986,650)**	1,459,686
Temporarily restricted net assets:		
Gifts and bequests	**129,238**	92,656
Investment income, net	**25,969**	(7,945)
Realized (loss) gain on investments	**(35,866)**	5,096
Unrealized gain (loss) on investments	**95,348**	(511,721)
Transfer (to) from unrestricted net assets	**(74,511)**	5,257
Net assets released from restrictions for operations	**–**	(299,203)
Net assets released from restriction for capital	**(11,387)**	–
Increase (decrease) in temporarily restricted net assets	**128,791**	(715,860)
Permanently restricted net assets:		
Investment loss income, net	**(4,189)**	–
Realized (loss) gain on investments	**(41,490)**	–
Unrealized gain (loss) on investments	**38,950**	(82,958)
Change in fair value of perpetual trust	**(39,566)**	(352,934)
Decrease in permanently restricted net assets	**(46,295)**	(435,892)
(Decrease) increase in net assets	**(34,904,154)**	307,934
Net assets, beginning of year	**14,732,832**	14,424,898
Net assets, end of year	**$(20,171,322)**	$ 14,732,832

See accompanying notes.

Windham Community Memorial Hospital, Inc., and Affiliates

Combined Statements of Cash Flows

	Year Ended September 30 2009	2008 *(Restated)*
Cash flows from operating activities		
Change in net assets	**$ (34,904,154)**	$ 307,934
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	**4,434,713**	4,275,387
Change in unrealized gains and losses on investments	**136,838**	606,459
Change in unrealized gains and losses on investments on funds held in trust by others	**39,566**	352,934
Provision for uncollectible accounts	**4,595,065**	4,723,613
Change in net assets related to post retirement and pension plans	**33,873,622**	(143,711)
Change in fair value of interest rate swap agreements	**930,655**	1,655,190
Guarantee of swap	**1,655,190**	(1,655,190)
Restricted contributions, realized losses, and investment income	**(73,662)**	(89,807)
Other changes in net assets:		
Changes in assets and liabilities, net	**(6,752,464)**	(7,345,540)
Net cash provided by operating activities	**3,935,369**	2,687,269
Cash flows from investing activities		
Net purchase of property, plant and equipment	**(3,365,043)**	(2,007,449)
Investment in real estate	**(168,986)**	(372,501)
(Purchase) sales of investments	**(342,664)**	300,522
Net cash used in investing activities	**(3,876,693)**	(2,079,428)
Cash flows from financing activities		
Proceeds of issuance of bonds	**–**	20,045,000
Payments on debt	**(307,270)**	(14,515,182)
Proceeds (use of) debt service funds	**1,200,993**	(1,652,110)
Payment of capital leases	**(446,557)**	(2,903,045)
Restricted contributions and investment income	**73,662**	89,807
Net cash provided by financing activities	**520,828**	1,064,470
Net increase in cash and cash equivalents	**579,504**	1,672,311
Cash and cash equivalents at beginning of year	**2,778,004**	1,105,693
Cash and cash equivalents at end of year	**$ 3,357,508**	$ 2,778,004

See accompanying notes.

1. Significant Accounting Policies

The accounting policies that affect significant elements of Windham Community Memorial Hospital, Inc.'s financial statements are summarized below and in Note 2.

Organization and Basis of Combination

Windham Community Memorial Hospital, Inc. (Windham) is a voluntary association incorporated under the General Statutes of the State of Connecticut, and as of March 2009, is an affiliate of Hartford Healthcare Corporation (HHC). The Board of Directors of Windham, appointed by HHC, controls the operations of Windham. The accompanying combined financial statements include Windham Community Memorial Hospital, Inc., The Hatch Hospital Corporation, and the Windham Hospital Foundation, Inc. (together, the Hospital). All material intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Windham, located in Willimantic, Connecticut, is a nonprofit acute care hospital. Windham provides inpatient, outpatient and emergency care services for residents of Northeastern Connecticut.

The Hatch Hospital Corporation (Hatch) is a nonprofit organization incorporated under the General Statutes of the State of Connecticut. Its purpose is to promote, foster, aid, carry out and fulfill the aims, objectives and purposes of the trust created under the Tenth Clause of the will of George Hatch. Periodically, amounts are transferred from the trust to Hatch for expenses as the need arises.

Windham Hospital Foundation, Inc. (Foundation) is a nonprofit organization incorporated under the General Statutes of the State of Connecticut. Its purpose is to promote and solicit charitable support for the purposes of Windham.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. 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.

1. Significant Accounting Policies (continued)

Regulatory Matters

The Hospital is required to file annual operating information with the State of Connecticut Office of Health Care Access (OHCA).

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of other financial instruments are disclosed in the respective notes and/or in Note 5.

Cash and Cash Equivalents

Cash and cash equivalents are defined as highly liquid investments with maturities of 90 days or less. The Hospital maintains its cash and cash equivalents in bank deposit or brokerage accounts that, at times, may exceed federally insured limits. In addition, cash and cash equivalents may, at times, be invested in instruments not covered by federal insurance. The Hospital's deposits exceeded federal depository insurance limits as of September 30, 2009 and 2008. However, the Hospital has not experienced any losses in such accounts or instruments, and management believes the Hospital is not exposed to any significant credit risk on cash and cash equivalents.

Investments

During 2009, the Hospital determined that its investment portfolio is more accurately classified as trading, with unrealized gains and losses included in the deficiency of revenues over expenses. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the combined balance sheet date. Fair value is determined based on quoted market prices. Assets temporarily restricted (by donor) are recorded at fair value at the date of donation, which is then considered cost. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in nonoperating income unless the income or loss is restricted by the donor or law. The cost of securities sold is based on the specific identification method.

1. Significant Accounting Policies (continued)

Patient Accounts Receivable

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

The amount of the allowance for doubtful 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.

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.

Inventories

Inventory consists of medical supplies and instruments and is valued at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Unamortized Bond Issuance Costs

During 2008, in conjunction with the refinancing of its bonds, the Hospital wrote off costs of $701,102 related to the 1997 Series C bonds and capitalized $477,285 related to the 2007 Series D bond issuance. The unamortized balance as of September 30, 2009 is $448,118.

Property, Plant and Equipment

Land, buildings and equipment acquisitions that individually exceed $500 ($250 for technology) are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives. Estimated useful lives are as follows:

Land and improvements	10-20 years
Building and leasehold improvements	5-75 years
Equipment	2-25 years

Amortization of equipment held under capital leases is included in depreciation expense.

1. Significant Accounting Policies (continued)

Conditional asset retirement obligations recorded under the provisions of Accounting Standards Codification (ASC) 410-20, *Asset Retirement Obligations*, amounted to $151,482 as of September 30, 2009. These obligations are recorded in other noncurrent liabilities in the accompanying combined balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations.

Temporarily and Permanently 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 are available to provide for the support of the new emergency room renovations, purchase of equipment, free care, nursing support, scholarships and various other special purposes. Permanently restricted net assets have been restricted by donors and are maintained by the Hospital in perpetuity. The Hospital is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value. The investment income generated from these funds is expendable to support healthcare services and the assets are classified as permanently restricted.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Unrestricted contributions are recorded, net of expenses, within other operating revenue.

Pledges receivable to be received beyond one year are discounted utilizing at a discount rate commensurate with the related risks involved. Amortization of the discount is recognized as revenue and is reflected in accordance with donor-imposed restrictions, if any, on the contributions.

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 either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined 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 unrestricted contributions in the accompanying financial statements, except those relating to donations of long-lived assets.

1. Significant Accounting Policies (continued)

Nonoperating Revenues

Activities, other than in connection with providing healthcare services, are considered to be nonoperating. Nonoperating gains consist primarily of income earned on invested funds, realized and unrealized gains and losses on unrestricted funds, change in fair value of interest rate swap agreements, and gifts and bequests.

(Deficiency) Excess of Revenues over Expenses

The combined statements of operations and changes in net assets include (deficiency) excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from (deficiency) excess of revenues over expenses include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), changes in pension funding and postretirement obligations, the write-off of unamortized bond issuance costs, and net asset transfers.

Professional Liability Insurance

Through September 30, 2008 the Hospital maintained professional liability insurance on a claims-made policy through a commercial insurance company. Effective October 1, 2008 the Hospital insured its primary hospital and physician professional liability on a claims-made basis with CHS Insurance Limited (an affiliate of HHC) primary level of with maximum coverage limited to $10,000,000 per occurrence and $39,000,000 in the aggregate. The excess indemnity coverage is layered with three different insurance companies at $15,000,000 per claims and $15,000,000 in the aggregate per layer.

The Hospital establishes reserves for unpaid losses with the assistance of consulting actuaries based on a combination of industry and hospital specific data. Future adjustments to the amounts recorded resulting from continual review processes, as well as differences between estimates and ultimate payments, will be reflected in the consolidated statement of operations of future years when such adjustments, if any, become known.

Interest Rate Swap Agreements

The Hospital utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. The Hospital does not hold or issue derivative financial instruments for trading purposes. The Hospital is exposed to credit loss in the event of nonperformance by the counterparties to its interest rate swap agreements.

1. Significant Accounting Policies (continued)

Interest rate swap agreements are reported at fair value. Changes in fair value are recognized in the performance indicator in the statements of operations and changes in net assets.

Income Taxes

Windham, Hatch and the Foundation are nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Adoption of New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued ASC 105, *Generally Accepted Accounting Principles* (ASC 105), which establishes the FASB Accounting Standards Codification as the sole source of authoritative GAAP. Pursuant to the provisions of ASC 105, the Hospital has updated references to GAAP in its combined financial statements issued for the year ended September 30, 2009. The adoption of ASC 105 did not impact the Hospital's financial position or results of operations.

Effective October 1, 2008, the Hospital adopted ASC 820-10, *Fair Value Measurements* (ASC 820-10). ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosure about fair value measurements. The Hospital's adoption of ASC 820-10 did not significantly affect its combined financial statements (see Note 5).

Effective October 1, 2008, the Hospital adopted ASC 825-10, *The Fair Value Option for Financial Assets and Liabilities (*ASC 825-10). ASC 825-10 permits companies to choose to measure certain financial instruments and other items at fair value that currently are not required to be measured at fair value under GAAP. The Hospital chose not to elect the fair value option for its financial assets and liabilities. Consequently, the adoption of ASC 825-10 did not have any impact on its combined financial statements.

1. Significant Accounting Policies (continued)

On October 1, 2008, the Hospital adopted ASC 958-205: *Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds* (ASC 958-205), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The adoption of ASC 958-205 did not have a material effect on the Hospital's combined balance sheet at September 30, 2009, or on the combined statement of operations and changes in net assets for the year ended September 30, 2009. See Note 3 for disclosures related to the Hospital's endowment funds.

During 2009, the Hospital adopted ASC 855-10, *Subsequent Event*s (ASC 855-10). ASC 855-10 establishes general standards of accounting and disclosure requirements for subsequent events, events that occur after the balance sheet date but before the financial statements are issued or available to be issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date under the requirements of ASC 855-10. The Hospital adopted the provisions of ASC 855-10 as of September 30, 2009, and evaluated the impact of subsequent events through March 1, 2010, representing the date at which the combined financial statements were issued.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2008 balances previously reported in the combined balance sheets and statements of operations and changes in net assets in order to conform with the year ended September 30, 2009 presentation.

1. Significant Accounting Policies (continued)

Restatement of 2008 Financial Statements

During fiscal 2009, the Hospital determined that: (i) interests in certain perpetual trusts had not been recognized in its financial statements, (ii) certain recorded gifts had not been recognized as restricted assets; and (iii) an endowment gift had not been recorded, all as required by GAAP. These were recorded in the Hospital's 2009 financial statements and certain amounts reported as of and for the year ended September 30, 2008 have been restated in the accompanying financial statements to correct these errors. The cumulative effect of this restatement as of October 1, 2007 is a decrease in unrestricted net assets of $969,240, an increase in temporarily restricted net assets of $389,074 and an increase in permanently restricted net assets of $2,312,766. The effect of the restatement on the 2008 financial statements is summarized in the table below:

	As Previously Reported	As Restated
Combined Balance Sheets:		
Total net assets - October 1, 2007	$ 12,692,298	$ 14,424,898
Investments - September 30, 2008	3,174,512	240,140
Donor restricted investments - September 30, 2008	–	2,790,512
Beneficial interests in trusts - September 30, 2008	518,845	1,791,715
Other assets - September 30, 2008	423,282	755,117
Unrestricted net assets - September 30, 2008	10,143,299	9,483,745
Temporarily restricted net assets - September 30, 2008	1,866,961	1,975,413
Permanently restricted net assets - September 30, 2008	1,261,727	3,273,674
Combined Statements of Changes in Net Assets:		
Unrealized loss on investments - unrestricted net assets - September 30, 2008	(360,122)	(11,780)
Other - unrestricted net assets - September 30, 2008	–	(33,397)
Transfer to temporarily restricted net assets - unrestricted net assets - September 30, 2008	–	(5,257)
Investment income, net - temporarily restricted net assets - September 30, 2008	59,946	(7,945)
Unrealized loss on investments, net - temporarily restricted net assets – September 30, 2008	(241,261)	(511,721)
Transfer from unrestricted net assets - temporarily restricted net assets – September 30, 2008	–	5,257
Realized gain on investments - temporarily restricted net assets - September 30, 2008	–	5,096
Other-temporarily restricted net assets - September30, 2008	(47,376)	
Investment loss, net - permanently restricted net assets - September 30, 2008	(20,007)	–
Unrealized losses on investments, net - permanently restricted net assets - September 30, 2008	–	(82,958)
Change in fair value of beneficial interests in perpetual trusts - permanently restricted net assets - September 30, 2008	(115,064)	(352,934)

2. Revenues from Services to Patients and Charity Care

Significant concentrations of net patient revenues are comprised of 41% Medicare, 9% Medicaid and 20% Blue Cross for the year ended September 20, 2009, and 41% Medicare, 11% Medicaid and 20% Blue Cross for the year ended September 30, 2008.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. 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.

The following table summarizes the combined gross and net revenues from services to patients for the years ended September 30, 2009 and 2008:

	2009	2008
Gross revenues from patients:		
Inpatient:		
Routine services	**$ 16,619,235**	$ 15,984,031
Special services	**55,826,977**	58,521,344
	72,446,212	74,505,375
Outpatient	**117,737,661**	119,289,489
Gross revenues from patients	**190,183,873**	193,794,864
Deductions:		
Allowances	**104,418,812**	110,124,702
Charity care	**2,159,913**	2,658,651
	106,578,725	112,783,353
Net patient revenue	**$ 83,605,148**	$ 81,011,511

2. Revenues from Services to Patients and Charity Care (continued)

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. During fiscal 2009 and 2008 the Hospital recorded net changes in estimate of approximately $43,000 and $(540,000), respectively, as a result of adjustments to prior year cost reports.

The Hospital has established estimates based on information presently available, of amounts due to or from Medicare, Medicaid and third-party payors for adjustments to current and prior year payment rates, based on industry-wide and Hospital-specific data. Such amounts are included in the accompanying balance sheets.

The Hospital has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

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

3. Net Assets

Temporarily restricted net assets at September 30, 2009 and 2008 are available for the following purposes:

	2009	2008
Purchase of equipment	**$ 80,043**	$ 82,017
Free care	**1,388**	19,495
Nursing support	**950,386**	1,066,613
Other purpose restrictions	**1,072,387**	807,288
Total temporarily restricted net assets	**$ 2,104,204**	$ 1,975,413

Permanently restricted net assets at September 30, 2009 and 2008 are restricted for:

	2009	2008
Investments to be held in perpetuity, the income from which is expendable to support health care services	**$ 1,475,230**	$ 1,481,959
Restricted funds held in trust by others, the income from which is expendable to support health care services	**1,752,149**	1,791,715
	$ 3,227,379	$ 3,273,674

The Hospital’s endowment consists of various finds established for a variety of purposes. The endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

3. Net Assets (continued)

The Board of Directors of the Hospital has interpreted UPMIFA 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 net restricted 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 of 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 organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1) The duration and preservation of the fund
2) The purposes of the Hospital and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Hospital
7) The investment policies of the Hospital

The primary objective of the endowment fund is to provide long-term support for the Hospital's capital and operating programs. The Hospital's investment goals are to maximize total return (capital appreciation, dividends and interest) while also protecting the Hospital's inflation-adjusted value over time. The Hospital's assets are diversified across multiple assets classes (e.g., common stocks, bonds and cash) to achieve an optimal balance between risk and return between current income and capital appreciation. The investment program is structured to offer reasonably high probability of generating real return to protect the real inflation-adjusted value of assets and to meet the spending requirements. The investment committee reviews investment policies annually to determine if changes need to be made to changing market conditions or other factors.

Management evaluates endowment spending in light of capital replacement and expansion plans. The spending policy does not apply a prescribed rate of spending in a given year, but does consider expenditures based on need and current market conditions as well as long-term invest goals.

3. Net Assets (continued)

Changes in endowment funds for the fiscal year ended September 30, 2009 consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year	$ 1,364,605	$ 1,481,959	$ 2,846,564
Net asset reclassification	20,353	–	20,353
Endowment net assets after reclassification	1,384,958	1,481,959	2,866,917
Investment return:			
Investment income	15,185	(4,189)	10,996
Net (realized and unrealized)	59,482	(2,540)	56,942
Total investment return	74,667	(6,729)	67,938
Contributions	–	–	–
Appropriation of endowment assets for expenditure	(11,387)	–	(11,387)
Endowment net assets at end of year	$ 1,448,238	$ 1,475,230	$ 2,923,468

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level that the donor of UPMIFA requires the Hospital to retain as a fund of perpetual duration. These deficiencies result 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 significant deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2009.

4. Assets Whose Use is Limited and Investments

Investments and assets whose use is limited are stated at fair value at September 30, 2009 and 2008, and are as follows:

	2009	2008
Cash and cash equivalents	**$ 798,482**	$ 638,631
Marketable equity securities	**1,041,516**	1,001,159
Corporate and government obligations	**630,836**	750,645
Mutual funds	**1,399,232**	1,273,805
	$ 3,870,066	$ 3,664,240

4. Assets Whose Use is Limited and Investments (continued)

The Hospital is the income beneficiary of certain perpetual trusts. The market value of the Hospital's share of these trusts were $1,752,149 and $1,791,715 as of September 30, 2009 and 2008, respectively.

The composition and presentation of unrestricted investment income which is included in nonoperating (loss) income and the change in unrestricted net assets are comprised of the following for the years ended September 30, 2009 and 2008:

	2009	2008
Nonoperating (loss) income:		
Interest income, net	**$ 152,507**	$ 170,517
Net realized and unrealized gain on investments	**1,992**	31,806
	$ 154,499	$ 202,323
Other changes in unrestricted net assets:		
Unrealized losses on unrestricted net assets	**$ –**	$ (11,780)

Investment in real estate at September 30, 2009 and 2008 is as follows:

	2009	**2008**
Professional building	**$ 885,445**	$ 885,444
Coventry Medical Building	**648,729**	408,597
	1,534,174	1,294,041
Less accumulated depreciation	**587,675**	516,528
Net investment in real estate	**$ 946,499**	$ 777,513

5. Fair Values of Financial Instruments

As described in Note 1, on October 1, 2008, the Hospital adopted the methods of calculating fair value as described in ASC 820-10 to value its financial assets and liabilities, where applicable. 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. The Hospital also considers counterparty credit risk in its assessment of fair value.

5. Fair Values of Financial Instruments (continued)

Financial assets and liabilities 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	$ 3,357,508	$ –	$ –	$ 3,357,508
Assets whose use is limited:				
Cash and cash equivalents	798,482	–	–	798,482
Mutual funds	1,399,232	–	–	1,399,232
Corporate and government obligations	630,836	–	–	630,836
Marketable equity securities	1,041,516	–	–	1,041,516
Funds held in trust	–	1,752,149	–	1,752,149
Liabilities				
Interest rate swap agreements	–	2,585,845	–	2,585,845

Fair value for Level 1 is based upon quoted market prices while fair value for Level 2 securities were determined primarily through prices obtained from third party pricing sources. The amounts in the above table exclude assets invested in the Hospital's pension plan (see Note 9).

6. Property, Plant and Equipment

A summary of property, plant and equipment at September 30, 2009 and 2008, is as follows:

	2009	2008
Land and improvements	**$ 5,215,610**	$ 4,992,251
Buildings and leasehold improvements	**45,041,772**	43,569,841
Equipment	**44,204,964**	41,031,611
Construction in progress	**428,448**	297,934
	94,890,794	89,891,637
Less accumulated depreciation	**57,981,855**	52,772,521
Net property, plant and equipment	**$ 36,908,939**	$ 37,119,116

The Hospital capitalized interest expense of $138,355 for the year ended September 30, 2009.

7. Debt Arrangements

Debt arrangements at September 30, 2009 and 2008, include the following:

	2009	2008
CHEFA 2007 Series D bonds repayable over a 29-year period ending July 1, 2037, bearing 7.5% interest, secured by the Hospital's real property	**$ 19,555,000**	$ 19,745,000
Promissory mortgage note with a bank bearing interest at 6%, payments are due in equal installments through November 1, 2032, secured by a mortgage on the related real property	**294,189**	297,596
Connecticut Hospital Association energy note due November 2010, noninterest bearing, monthly payments of $7,900	**110,603**	205,406
Promissory mortgage note with a bank bearing interest at 5.9%, payments are due in equal installments through November 1, 2008, secured by a mortgage on the related real property	**64,366**	83,426
	20,024,158	20,331,428
Less current portion	**325,901**	309,541
Total long-term debt	**$ 19,698,257**	$ 20,021,887

The future minimum principal payments of long-term debt are as follows:

Year Ending September 30:	
2010	$ 325,901
2011	263,481
2012	264,360
2013	262,045
2014	282,480
Thereafter	18,625,888
	$ 20,024,155

The Connecticut Health and Educational Facilities Authority (CHEFA) Revenue bonds Series D (Series D CHEFA Bonds) were issued on November 14, 2007 in the amount of $19,745,000. These proceeds were advanced to the Hospital under the terms of a loan agreement between the Hospital and CHEFA. Proceeds from the issuance of the 2007 Series D CHEFA bonds were used to redeem Series C CHEFA Bonds, pay off various capital leases, and fund equipment and facility improvements.

The carrying value of the Series D CHEFA Bonds approximates fair value.

7. Debt Arrangements (continued)

In conjunction with the issuance of the Series D CHEFA Bonds, the Hospital entered into two interest rate swap agreements with a financial institution, with an original notional amount of $19,745,000, to fix the debt at a rate of 4.15%. The fair value of the swap agreements were $2,585,845 and $1,655,190 at September 30, 2009 and 2008, respectively, and are recorded in the accompanying balance sheets. Although the swap agreements represent economic hedges of the interest rate on the bonds, they do not qualify for hedge accounting. The changes in fair value of these agreements are reported in the accompanying statements of operations and changes in net assets as a component of other nonoperating activities along with the net cash receipts on the swap agreements.

The Series D CHEFA Bonds contain a covenant which includes the maintenance of a minimum debt service coverage ratio. As of September 30, 2009, the Hospital was in compliance with the covenant. In addition, the Hospital is required to set aside certain funds for the purposes of future debt payments.

The Hospital has an outstanding line of credit with a financial institution for $5,000,000 which expires on June 1, 2010. Interest is set at prime, and there have been no drawings under this under the line of credit as of September 30, 2009 and 2008.

8. Capital Leases

The Hospital has entered into numerous agreements to lease equipment that meet the requirements of a capital lease.

Capital lease obligations as of September 30, 2009 and 2008, include the following:

	2009	2008
Capital lease obligations	**$ 1,607,690**	$ 1,210,663
Less current portion	**530,009**	464,111
Long-term capital lease obligations	**$ 1,077,681**	$ 746,552

8. Capital Leases (continued)

The following is a schedule of future minimum lease payments under capital leases as of September 30, 2009:

Fiscal Year Ending September 30:	
2010	$ 642,662
2011	504,536
2012	405,253
2013	233,520
2014	58,380
Total minimum lease payments	1,844,351
Less amount representing interest	236,661
Present value of net minimum lease payments	$ 1,607,690

9. Pension and Other Postretirement Benefits

The Hospital has a pension plan that provides for both a contributory and noncontributory defined benefit plan for eligible employees providing for retirement and certain death benefits. The benefits are based on years of service and the employee’s compensation during the last five years of employment. The Hospital makes contributions in amounts sufficient to fund the pension plan’s minimum funding requirements under the Employee Retirement Income Security Act.

Effective January 1, 2004, Windham began sponsoring the Windham Community Memorial Hospital 401(k) Plan. Under the terms of the plan, eligible employees receive a basic contribution of 2%, and the Hospital matches 50% of the employee’s salary contribution up to an additional 3% of the employee’s compensation. Effective April 1, 2006, all nonunion employees hired prior to April 1, 2004 have ceased their participation in the defined benefit plan, and their pension accruals have been frozen as of that date. A second defined contribution plan known as the Windham Hospital Defined Contribution Plan was established for nonunion employees hired prior to April 1, 2004. Under the terms of the plan, eligible employees receive a basic contribution of 5% with no matching contribution.

Expense for employer contributions was approximately $609,000 in 2009 and $571,000 in 2008.

The Hospital provides health care and life insurance benefits to its retired employees who meet certain eligibility requirements. The Hospital’s policy is to fund the cost of postretirement benefits other than the pension costs as incurred.

9. Pension and Other Postretirement Benefits (continued)

The measurement date for determining the pension plan's assets and obligations and the other postretirement benefit plan's obligations is September 30.

The following table sets forth the funded status and amounts recognized in the combined balance sheets for the pension and postretirement benefits:

	Pension Benefits		Other Postretirement Benefits	
	2009	**2008**	**2009**	**2008**
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ (64,525,026)**	$ (72,162,840)	**$ (17,779,323)**	$ (19,570,984)
Service cost	**(1,225,710)**	(1,585,929)	**(144,708)**	(197,707)
Interest cost	**(4,792,080)**	(4,638,308)	**(1,315,638)**	(1,248,742)
Participant contributions	**(86,087)**	(88,787)	**(98,442)**	(85,485)
Benefits paid	**2,728,453**	2,464,865	**1,064,404**	1,059,534
Actuarial (losses) gains	**(21,893,928)**	11,485,973	**(7,820,510)**	2,264,061
Benefit obligation at end of year	**(89,794,378)**	(64,525,026)	**(26,094,217)**	(17,779,323)
Change in plan assets:				
Fair value of plan assets at beginning of year	**56,601,562**	62,275,365	–	–
Actual return on plan assets	**(22,645)**	(8,689,136)	–	–
Employer contributions	**3,510,132**	5,391,411	**965,962**	974,049
Participant contributions	**86,087**	88,787	**98,442**	85,485
Benefits paid	**(2,728,453)**	(2,464,865)	**(1,064,404)**	(1,059,534)
Fair value of plan assets at end of year	**57,446,683**	56,601,562	–	–
Unfunded status	**$ (32,347,695)**	$ (7,923,464)	**$ (26,094,217)**	$ (17,779,323)

The accumulated benefit obligations for the defined benefit pension plan and other postretirement benefit plan at September 30, 2009 are $86,100,395 and $26,094,217, respectively.

The following table sets forth the unrecognized items impacting the pension and the postretirement plans as of September 30, 2009 and 2008:

	Pension Benefits		Other Postretirement Benefits	
	2009	**2008**	**2009**	**2008**
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	**$ 42,552,843**	$ 16,374,001	**$ 8,679,556**	$ 859,046
Unrecognized prior service cost	**4,723**	5,886	–	–
Unrecognized transition asset	–	–	**747,400**	871,967

9. Pension and Other Postretirement Benefits (continued)

Amounts included in unrestricted net assets at September 30, 2009 and expected to be recognized in net periodic benefit cost during the year ended September 30, 2010 are as follows:

Amortization of transition obligation	$ 124,567
Amortization of prior service cost	1,163
Amortization of net loss	3,849,870
	$ 3,975,600

	Pension Benefits		Other Postretirement Benefits	
	2009	**2008**	**2009**	**2008**
Components of net periodic benefit cost:				
Service cost	**$ 1,225,710**	$ 1,585,929	**$ 144,708**	$ 197,707
Interest cost	**4,792,080**	4,638,308	**1,315,638**	1,248,742
Return on plan assets	**22,645**	8,689,136	**–**	–
Net amortization and deferral	**(4,283,751)**	(13,846,638)	**124,567**	253,169
Benefit cost	**$ 1,756,684**	$ 1,066,735	**$ 1,584,913**	$ 1,699,618

The weighted-average discount rates used in determining the actuarial present value of the projected benefit obligation of the defined benefit plan was 5.58% and 7.55% in 2009 and 2008, respectively. The weighted-average discount rates used in determining net periodic benefit cost of the defined benefit plan was 7.55% and 6.53% in 2009 and 2008, respectively. The rate of compensation increase was a graded scale based on age ranging from 7.0% to 2.0% in 2009 and 2008. The expected long-term rate of return on plan assets was 9% in 2009 and 2008. The expected long-term rate of return assumption is determined by adding expected inflation to expected long-term real returns of various asset classes, taking into account expected volatility and correlation between the returns of various asset classes.

The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to grade from 8% per year in fiscal year 2009 to 4% in fiscal year 2017. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a 1% point increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation and service and interest costs by $3,435,064 and $160,260, respectively, at September 30, 2009. A 1% point decrease in the assumed health care cost trend rate would decrease the accumulated postretirement benefit obligation and service and interest costs by $2,866,335 and $(135,728), respectively, at September 30, 2009.

9. Pension and Other Postretirement Benefits (continued)

The Hospital's pension plan weighted-average asset allocations by asset category are as follows:

	2009	**2008**
Mutual funds (equities)	**60%**	57%
Mutual funds (fixed income)	**32**	35
Short-term investments	**–**	1
Immediate participation guarantee contract	**8**	7
	100%	100%

The asset mix was determined by evaluating the expected return against the plan's long-term objectives. Performance is monitored on a monthly basis, and the portfolio is rebalanced back to target levels to ensure the targets are within range. The investment policy describes which securities are allowed in the portfolios and the financed objectives of the plan which the Investment Committee of the Hospital Board oversees. The Investment Committee monitors the investment performance annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy.

Contributions

The Hospital expects to contribute approximately $2,900,000 to its pension plan beginning October 1, 2009. The Hospital funds its other postretirement plan for actual expenses incurred.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid as follows:

	Pension Benefits	**Other Postretiremen t Benefits**
2010	$ 2,570,000	$ 1,133,000
2011	2,743,000	1,215,000
2012	2,972,000	1,310,000
2013	3,262,000	1,405,000
2014	3,580,000	1,508,000
2015-2019	23,953,000	8,888,000

10. Pledges Receivable

Pledges receivable as of September 30, 2009 and 2008, are expected to be collected as follows:

	2009	2008
Within one year	**$ 709,066**	$ 808,298
Less reserve for uncollectible pledges	**(336,182)**	(365,726)
Net pledges receivable	**$ 372,884**	$ 442,572

11. Commitments and Contingencies

There have been claims that fall within the Hospital's professional liability insurance coverage which have been asserted against the Hospital. In addition, there are known incidents that have occurred through September 30, 2009 that may result in the assertion of claims.

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

Operating Leases

The Hospital rents certain equipment under terms of leases that qualify as operating leases. Rental and lease expense amounted to $722,322 and $740,244 for the years ended September 30, 2009 and 2008, respectively.

The minimum lease commitments under all noncancelable operating leases with initial or remaining terms of more than one year are as follows:

Year Ending September 30:	
2010	$ 297,936
2011	300,321
2012	309,843
2013	312,441
2014	313,835
Thereafter	1,166,334
	$ 2,700,710

12. Supplemental Cash Flow Information

The changes in assets and liabilities are as follows:

	September 30 2009	September 30 2008
	(in thousands)	
Increase in accounts receivable	**$ (5,714,550)**	$ (3,523,544)
Increase in other receivables	**(523,564)**	(362,881)
Decrease in pledge receivables	**69,688**	385,662
Decrease (increase) in inventories of supplies and prepaid expenses	**519,175**	(52,923)
Decrease (increase) in estimated third-party payor settlements	**908,171**	(754,905)
Increase in deposits and other assets	**(147,881)**	(378,610)
Increase in accounts payable	**86,753**	733,210
(Increase) decrease in salaries, wages, payroll taxes and amounts withheld from employees and accrued vacation	**(105,421)**	316,067
Decrease in other accrued expenses	**(491,338)**	(9,373)
Increase in accrued pension	**(1,353,497)**	(3,698,243)
	$ (6,752,464)	$ (7,345,540)

13. Related Parties

During 2008, a letter of intent between the Hospital and HHC was executed. As part of this letter of intent, HHC agreed to guarantee the termination value of the Hospital's interest rate swap agreements in the event of either nonperformance by the counterparty or an election to terminate the interest rate swap agreements. As a result the Hospital recorded a receivable from HHC and other nonoperating income of $1,655,190 in the 2008 financial statements. In connection with the executed affiliation agreement with HHC in 2009, the original amount of the guarantee was reversed and included in the nonoperating activities in the accompanying statement of operations.

14. Functional Expenses

Windham provides short-term general health care services to acute-care patients. Hatch provides care, treatment and rehabilitation to patients convalescing from acute or chronic illness or injury. Expenses related to providing these services for the years ended September 30, 2009 and 2008, are as follows:

	2009	**2008**
Health care services	**$ 46,457,609**	$ 46,085,803
General and administrative	**38,943,549**	37,401,331
	$ 85,401,157	$ 83,487,134

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Report of Independent Auditors on Other Financial Information

Board of Trustees
Windham Community Memorial Hospital, Inc.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining details appearing in conjunction with the combined financial statements are presented for purposes of additional analysis and are not a required part of the combined financial statements of the Hospital. Such information has been subjected to the auditing procedures applied in our audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Ernst & Young LLP

March 1, 2010

Windham Community Memorial Hospital, Inc., and Affiliates

Combining Balance Sheets

	September 30, 2009					
	Windham Community Memorial Hospital, Inc.	**The Hatch Hospital Corporation**	**Windham Hospital Foundation, Inc.**	**Eliminations**	**Combined**	**September 30 2008 Combined**
						(Restated)
Assets						
Current assets:						
Cash and cash equivalents	$ 3,174,616	$ 13,551	$ 169,341		$ 3,357,508	$ 2,778,004
Current portion of assets whose use is limited	798,482	–	–		798,482	633,588
Accounts receivable, less allowances of approximately $2,103,000	13,116,037	–	–		13,116,037	11,996,552
Other receivables	2,249,943	–	95,000	$ (10,537)	2,334,406	1,810,842
Due from affiliate	104,840	–	–	(104,840)	–	–
Inventories of supplies	1,175,255	–	–	–	1,175,255	1,190,125
Prepaid expenses	670,986	–	397	–	671,383	1,175,688
Pledges receivable	336,182	–	36,702	–	372,884	442,572
Funds designated for debt service	919,441	–	–	–	919,441	2,077,564
Due from third-party reimbursement agencies	1,258,523	–	–	–	1,258,523	2,166,694
Total current assets	23,804,305	13,551	301,440	(115,377)	24,003,919	24,271,629
Other assets:						
Investments	48,706	273,364	–	–	322,070	240,140
Assets limited as to use:						
Donor restricted investments	2,728,090	21,424	–	–	2,749,514	2,790,512
Beneficial interest in perpetual trust	1,244,117	508,032	–	–	1,752,149	1,791,715
Investments in real estate, net of accumulated depreciation of approximately $587,000	946,499	–	–	–	946,499	777,513
Unamortized bond discount and issuance expense	448,118	–	–	–	448,118	464,027
Debt service reserve fund	1,674,179	–	–	–	1,674,179	1,717,049
Due from related party	–	–	–	–	–	1,655,190
Deposits and other assets	902,998	–	–	–	902,998	755,117
Total other assets	7,992,707	802,820	–	–	8,795,527	10,191,263
Property, plant and equipment, net of accumulated depreciation	36,908,935	4	–	–	36,908,939	37,119,116
Total assets	$ 68,705,947	$ 816,375	$ 301,440	$ (115,377)	$ 69,708,385	$ 71,582,008
Liabilities and net assets						
Current liabilities:						
Trade accounts payable	$ 3,370,047				$ 3,370,047	$ 3,283,294
Salaries, wages, payroll taxes and amounts withheld from employees	1,276,413				1,276,413	1,074,903
Accrued vacation and holiday pay	1,459,086				1,459,086	1,766,017
Other accrued expenses	946,474		$ 87,082		1,033,556	1,524,894
Accrued pension	1,133,000		–		1,133,000	1,018,000
Due to affiliate	–		115,377	$ (115,377)	–	–
Current portion of long-term debt and capital lease obligation	855,910		–	–	855,910	773,652
Total current liabilities	9,040,930		202,459	(115,377)	9,128,012	9,440,760
Accrued pension and other liabilities	57,389,912		–	–	57,389,912	24,984,787
Long-term debt, less current portion	19,698,257		–	–	19,698,257	20,021,887
Interest rate swap obligation	2,585,845		–	–	2,585,845	1,655,190
Capital lease obligations, less current portion	1,077,681		–	–	1,077,681	746,552
Total liabilities	89,792,625		202,459	(115,377)	89,879,707	56,849,176
Net assets:						
Unrestricted	(25,841,270)	$ 286,919	51,446	–	(25,502,905)	9,483,745
Temporarily restricted	2,035,246	21,424	47,534	–	2,104,204	1,975,413
Permanently restricted	2,719,347	508,032	–	–	3,227,379	3,273,674
Total net assets	(21,086,677)	816,375	98,980	–	(20,171,322)	14,732,832
Total liabilities and net assets	$ 68,705,948	$ 816,375	$ 301,439	$ (115,377)	$ 69,708,385	$ 71,582,008

Windham Community Memorial Hospital, Inc., and Affiliates

Combining Statements of Operations and Changes in Net Assets

	Year Ended September 30, 2009					
	Windham Community Memorial Hospital, Inc.	**The Hatch Hospital Corporation**	**Windham Hospital Foundation, Inc.**	**Eliminations**	**Combined**	**Year Ended September 30 2008 Combined**
						(Restated)
Unrestricted operating revenues:						
Net patient revenue	$ 81,874,850	$ 1,730,298			$ 83,605,148	$ 81,011,511
Grant – operating purposes	–	–			–	1,500,000
Other operating revenue	$2,252,550	149,327			2,401,877	2,757,607
Total operating revenue	84,127,400	1,879,625			86,007,025	85,269,118
Operating expenses:						
Salaries	36,234,346	797,622	$ 66,717		37,098,685	36,808,260
Employee benefits	12,349,281	271,900	25,353		12,646,534	12,641,493
Physician fees	891,127	19,580	–		910,707	1,049,122
Consulting, legal and auditing fees	748,498	16,446	–		764,944	458,143
Supplies	9,290,711	204,155	726		9,495,592	9,334,239
Insurance	1,175,173	25,821	–		1,200,994	1,225,040
Purchased services	6,029,543	132,821	15,350		6,177,714	5,240,944
Other nonsalary expenses	6,449,851	142,087	16,750		6,608,688	6,754,311
Provision for uncollectible accounts	4,496,271	98,794	–		4,595,065	4,723,613
Depreciation	4,323,800	95,004	–		4,418,804	4,033,780
Interest	1,451,536	31,894	–		1,483,430	1,218,189
Total operating expenses	83,440,137	1,836,124	124,896		85,401,157	83,487,134
Income (loss) from operations	687,263	43,501	(124,896)		605,868	1,781,984
Gain transferred to Windham	43,501	(43,501)	–		–	–
Nonoperating (loss) income:						
Investment income, net	142,428	6,922	3,157		152,507	170,517
Gifts and bequests	687	–	205,210		205,897	248,855
Net realized and unrealized (loss) gains on investments	(2,005)	4,040	(43)		1,992	31,806
Net loss from investment in real estate	(53,022)	–	–		(53,022)	(11,012)
Other nonoperating activities	(2,084,014)	(14,232)	–		(2,098,246)	(129,699)
Total nonoperating (expense) revenue	(1,995,926)	(3,270)	208,324		(1,790,872)	310,467
(Deficiency) excess of revenues over expenses	(1,265,162)	(3,270)	83,428	–	(1,185,004)	2,092,451

Continued on next page.

Combining Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30, 2009					
	Windham Community Memorial Hospital, Inc.	**The Hatch Hospital Corporation**	**Windham Hospital Foundation, Inc.**	**Eliminations**	**Combined**	**Year Ended September 30 2008 Combined**
Unrestricted net assets:						
(Deficiency) excess of revenues over expenses	(1,265,162)	(3,270)	83,428		(1,185,004)	2,092,451
Change in pension funding and post retirement obligations	(33,873,622)	–	–		(33,873,622)	143,771
Write-off of unamortized bond costs	–	–	–		–	(701,102)
Unrealized losses on investments	–	–	–		–	(11,780)
Net assets released from restriction for capital	–	11,387	–		11,387	–
Other	(13,922)	–	–		(13,922)	(33,397)
Transfer from (to) temporarily restricted net assets	94,864	(20,353)	–		74,511	(5,257)
Transfer	119,748	–	(119,748)		–	(25,000)
(Decrease) increase in unrestricted net assets	(34,938,094)	(12,236)	(36,320)		(34,986,650)	1,459,686
Temporarily restricted net assets:						
Gifts and bequests	–	–	129,238		129,238	92,656
Investment income, net	13,511	12,458	–		25,969	(7,945)
Realized (loss) gain on investments	(35,866)	–	–		(35,866)	5,096
Unrealized gain (loss) on investments	95,348	–	–		95,348	(511,721)
Transfer (to) from unrestricted net assets	(1,760)	20,353	(93,104)		(74,511)	5,257
Net assets released from restriction for operations	–	–	–		–	(299,203)
Net assets released from restriction for capital	–	(11,387)	–		(11,387)	–
Increase (decrease) in temporarily restricted net assets	71,233	21,424	36,134		128,791	(715,860)
Permanently restricted net assets:						
Investment loss, net	(4,189)	–	–		(4,189)	–
Realized loss on investments	(41,490)	–	–		(41,490)	–
Unrealized gains (losses) on investments	38,950	–	–		38,950	(82,958)
Change in fair value of perpetual trust	(49,106)	9,540	–		(39,566)	(352,934)
Decrease in permanently restricted net assets	(55,835)	9,540	–		(46,295)	(435,892)
(Decrease) increase in net assets	(34,922,696)	18,728	(186)		(34,904,154)	307,934
Net assets, beginning of year	13,836,020	797,647	99,165		14,732,832	14,424,898
Net assets, end of year	$ (21,086,676)	$ 816,375	$ 98,979	$ –	$ (20,171,322)	$ 14,732,832