JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

SEPTEMBER 30, 2010 AND 2009

JOHNSON MEMORIAL HOSPITAL

CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Johnson Memorial Hospital

We have audited the accompanying consolidated balance sheets of Johnson Memorial Hospital (the Hospital) as of September 30, 2010 and 2009, and the related statements of operations and changes in net assets (deficit) 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Johnson Memorial Hospital as of September 30, 2010 and 2009, and the results of its operations, changes in its net assets (deficit) and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Hospital will continue as a going concern. As described in Note 1, the Hospital has experienced recurring losses from operations and debt covenant violations. During and subsequent to the fiscal year ended September 30, 2010, the Hospital has failed to meet financial covenants in connection with debt of approximately $18,000,000. If these covenant violations continue to occur, the lenders could demand repayment. These conditions raise substantial doubt about the Hospital's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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As described in Note 9, the Hospital is subject to debt covenants on its mortgage loan payable. Subsequent to September 30, 2010, the Hospital did not comply with the quarterly debt service coverage ratio requirement of this loan. The lender has waived this covenant violation through March 31, 2011, but there is uncertainty whether the Hospital will be able to comply with the debt service coverage ratio requirement for the quarter ending June 30, 2011. If the Hospital fails to comply with this covenant, the lender has the ability to demand repayment of the mortgage loan prior to September 30, 2011. As of September 30, 2010, $12,501,250 of this loan has been classified as a long-term liability in the accompanying balance sheet.

Marcum LLP

Hartford, CT
March 31, 2011

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2010 AND 2009

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	$ 4,402,038	$ 3,162,722
Patients accounts receivable, net of allowances for uncollectible accounts, 2010-$2,599,000 2009-$4,315,000	8,527,327	8,783,507
Other receivables	307,732	307,377
Inventories	1,154,583	1,163,240
Prepaid expenses and other current assets	1,328,530	1,283,214
Total Current Assets	15,720,210	14,700,060
Assets Whose Use is Limited		
Beneficial interests in perpetual trusts	3,283,243	3,164,547
Restricted cash and board designated investments	962,670	975,194
Investments permanently restricted by donor	843,587	843,587
Total Assets Whose Use is Limited	5,089,500	4,983,328
Other Assets		
Property, plant and equipment, net	23,774,781	24,012,205
Investments in joint ventures	2,868,975	2,523,346
Due from affiliated corporations	--	625,994
Deferred financing costs, net	724,807	217,605
Total Other Assets	27,368,563	27,379,150
	$ 48,178,273	$ 47,062,538

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

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

	2010	2009
Liabilities and Net Assets (Deficit)		
Liabilities Not Subject to Compromise		
Current Liabilities		
Trade accounts payable	$ 5,592,207	$ 3,027,742
Accrued payroll and related costs	3,323,608	3,161,613
Current portion of payments due under plan of reorganization	2,278,917	--
Senior debt under revolving line of credit	4,000,000	--
Current portion of mortgage payable	342,500	342,500
Current portion of subordinated debt	495,286	--
Current portion of capital lease obligations	243,253	28,396
Estimated amounts due to third-party reimbursement agencies	1,071,475	1,278,325
Total Current Liabilities	17,347,246	7,838,576
Long-Term Obligations		
Due to affiliate corporations	377,191	--
Payments due under plan of reorganization - less current portion	6,836,222	--
Mortgage payable - less current portion	12,501,250	12,843,750
Subordinated debt - less current portion	427,229	--
Obligations under capital lease - less current portion	234,658	14,723
Self-insurance liabilities	1,533,516	--
Other liabilities	289,217	270,929
Total Long-Term Obligations	22,199,283	13,129,402
Liabilities Subject to Compromise		
Pre-petition trade accounts payable	--	14,114,524
Subordinated debt	--	3,432,146
Accrued pension liability	--	22,989,424
Self-insurance liabilities	--	2,536,961
Total Liabilities Subject to Compromise	--	43,073,055
Total Liabilities	39,546,529	64,041,033
Net Assets (Deficit)		
Unrestricted	4,504,914	(20,986,629)
Permanently restricted	4,126,830	4,008,134
Total Net Assets (Deficit)	8,631,744	(16,978,495)
	$ 48,178,273	$ 47,062,538

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

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
Operating Revenues		
Net patient service revenues	$ 65,622,834	$ 64,260,266
Grant income and other contributions	277,399	54,542
Total Operating Revenues	65,900,233	64,314,808
Expenses		
Salaries	31,607,192	28,760,558
Employee benefits	8,853,187	7,240,022
Provision for uncollectible accounts	3,080,348	5,155,794
Professional fees and outsourced staffing	4,808,014	4,855,438
Depreciation and amortization	3,180,665	3,025,151
Purchased services	4,010,121	3,668,371
Supplies, drugs and patient care	7,504,844	7,034,336
Leases and service contracts	2,311,247	2,760,816
Occupancy costs	2,687,710	2,516,006
Insurance	1,013,279	511,050
Other expenses	2,181,028	1,347,133
Interest	592,676	845,550
Total Expenses	71,830,311	67,720,225
Loss from Operations	(5,930,078)	(3,405,417)
Nonoperating Revenues (Losses)		
Investment income (losses)	134,413	(605,744)
Equity earnings in joint ventures	315,629	544,613
	450,042	(61,131)
Changes in Net Unrealized Gains on Investments	--	149,633
Loss Before Reorganization Items	(5,480,036)	(3,316,915)
Reorganization Items		
Professional fees	(1,596,330)	(1,964,920)
Other	--	(411,472)
Gain on discharge of debt	34,613,501	--
	33,017,171	(2,376,392)
Excess (Deficiency) of Revenues over Expenses	$ 27,537,135	$ (5,693,307)

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

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (DEFICIT)

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
Unrestricted Net Assets		
Excess (deficiency) of revenues over expenses	$ 27,537,135	$ (5,693,307)
Changes in additional minimum pension liability	(2,045,592)	(14,173,540)
Grant for equipment	--	250,078
Transfers to affiliates	--	(406,320)
Change in Unrestricted Net Assets	25,491,543	(20,023,089)
Permanently Restricted Net Assets		
Increase (decrease) in fair value of beneficial interests in perpetual trusts	118,696	(82,321)
Change in Net Assets	25,610,239	(20,105,410)
Net Assets (Deficit) - Beginning	(16,978,495)	3,126,915
Net Assets (Deficit) - End	$ 8,631,744	$ (16,978,495)

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

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
Cash Flows From Operating Activities and Reorganization Items		
Change in net assets	$ 25,610,239	$ (20,105,410)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Gain on discharge of debt	(34,613,501)	--
Depreciation and amortization	3,180,665	3,025,151
Accretion of asset retirement obligation	18,288	17,131
Provision for uncollectible accounts	3,080,348	5,155,794
Loss on disposal of assets	--	634,167
Change in additional pension liability	2,045,592	14,173,540
Equity earnings in joint ventures	(315,629)	(544,613)
Transfers to affiliates		406,320
Net realized losses on investments	--	771,852
Change in net unrealized gains on investments	(118,696)	(67,312)
Grant for equipment	--	(250,078)
Changes in assets and liabilities:		
Patient accounts receivable	(2,824,168)	(3,995,080)
Other receivables	(355)	1,327,945
Prepaid expenses and other current assets	(65,548)	(1,014,141)
Inventories	8,657	(79,832)
Restricted cash and board designated investments	12,524	252,438
Accounts payable and accrued expenses	2,812,376	681,806
Accrued payroll and related costs	(281,812)	368,510
Estimated amounts due to third-party reimbursement agencies	16,163	252,967
Self-insurance liabilities	(503,445)	(142,406)
Accrued pension liability	1,573,084	319,198
Net Cash (Used) Provided by Operating Activities and Reorganization Items	(365,218)	1,187,947
Cash Flows From Investing Activities		
Capital expenditures	(2,353,889)	(2,604,112)
Grant for equipment	--	250,078
Purchases of investments	(30,000)	(56,946)
Proceeds from sales of investments	--	1,891,525
Net Cash Used by Investing Activities	(2,383,889)	(519,455)

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

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
Cash Flows From Financing Activities		
Principal payments on mortgage and subordinated debt	$ (342,500)	$ (517,933)
Proceeds from revolving line of credit	4,000,000	--
Financing fees paid	(530,200)	--
Principal payments on capital lease obligations	(142,062)	(183,088)
Change in due to/from affiliates	1,003,185	(796,044)
Net Cash Provided (Used) by Financing Activities	3,988,423	(1,497,065)
Net Change in Cash and Cash Equivalents	1,239,316	(828,573)
Cash and Cash Equivalents - Beginning	3,162,722	3,991,295
Cash and Cash Equivalents - Ending	$ 4,402,038	$ 3,162,722
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 745,470	$ 681,444
Cash paid for reorganization costs	$ (879,341)	$ (1,280,516)
Cash provided by operating activities	514,123	2,468,463
	$ (365,218)	$ 1,187,947

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

ORGANIZATION

Johnson Memorial Hospital (the Hospital) is an acute care hospital located in Stafford Springs, Connecticut. The Hospital is licensed for 92 beds and provides a broad range of inpatient and outpatient services primarily throughout the Hartford and Tolland Connecticut counties. Admitting physicians are primarily practitioners in this same geographic area. The Hospital has controlling interests in Johnson Professional Associates, P.C. (JPA) and Johnson Memorial Hospital Development Fund, Inc. (Development). The Hospital is a subsidiary of Johnson Memorial Corporation (the Corporation), a not-for-profit, non-stock holding company. The other subsidiaries of the Corporation are Johnson Health Care, Inc. (Health Care), Home & Community Health Services, Inc. (Home and Community) and Johnson Evergreen Corporation (Evergreen), which are not-for-profit companies, and WellCare, Inc., a taxable entity.

The Hospital's major accounting policies are as summarized below and in Note 2.

EMERGENCE FROM BANKRUPTCY

As a result of the Hospital's severe financial operating deficits, management determined it would be unable to pay its obligations in the normal course of business during fiscal year 2009 or service its debt in a timely fashion. On November 4, 2008, the Hospital, the Corporation and Evergreen, filed voluntary petitions for relief under Chapter 11 (Chapter 11 Proceedings) of the U.S. Bankruptcy Code (Bankruptcy Code) in the U.S. Bankruptcy Court for District of Connecticut, Hartford Division (Bankruptcy Court). This generally delayed payments of liabilities incurred prior to filing those petitions while the Hospital developed a plan of reorganization that was satisfactory to its creditors, and allowed it to continue as a going concern. As of September 30, 2009, the carrying amounts of assets and liabilities were unaffected by the proceeding, but liabilities were presented according to the status of the creditors.

On August 11, 2010, the Bankruptcy Court confirmed the Hospital's plan of reorganization which was subject to the Hospital's satisfaction of a number of conditions precedent. One of the conditions precedent was that the Hospital, the Corporation, and Evergreen (collectively the Debtors) were required to obtain a line of credit of at least $6 million. On September 30, 2010, the plan of reorganization became effective when the Debtors received financing under an $8 million line of credit and all other material conditions precedent to the plan becoming binding were resolved. The Bankruptcy Court issued a final decree on December 29, 2010.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

The Hospital prepared its financial statements in accordance with the guidance in FASB ASC Topic 852, *Reorganizations*, during the period from November 4, 2008 through September 30, 2010. Revenues, expenses, realized gains and losses, and provisions for losses directly related to the Chapter 11 Proceedings were recorded in Reorganization Items which do not constitute an element of operating loss due to their nature and due to the requirement of ASC 852 that they be reported separately.

As of September 30, 2009, the Hospital's balance sheet distinguished pre-petition liabilities subject to compromise from pre-petition liabilities not subject to compromise and from post-petition liabilities.

There was no change in control as the Hospital's Board of Trustees immediately prior to the confirmation of the plan retained control upon emergence from the Chapter 11 proceedings. Therefore, the Hospital did not adopt fresh-start reporting.

As of September 30, 2010, liabilities compromised by the confirmed plan have been recorded at the present values of amounts to be paid, determined at the current interest rate of 6.75%. The discharge of liabilities has been reported as a gain on the discharge of debt in the 2010 statement of operations.

The Hospital's confirmed plan provided for the following:

Secured Debt - The Hospital's $12,843,750 of secured debt with a bank (secured by a first mortgage lien on land and buildings located in Stafford Springs, Connecticut and a blanket lien on all furniture, fixtures, and equipment) was reinstated as such maturity existed before any default, and is payable in quarterly installments of $85,625 through January 1, 2048. The Hospital will also remain obligated as guarantor of the Corporation's and Evergreen's secured debt.

Other Secured Debt – The Hospital's $2,870,658 loan to finance information technology equipment was restructured to be paid in 60 monthly installments of $10,000, including interest, plus $414,474 from a restricted investment account. The carrying value of this compromised debt was $922,515 as of September 30, 2010.

Priority and Administrative Claims – All priority and administrative claims will be paid as allowed by the Court.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

Trade and Other Miscellaneous Claims - The holders of approximately $11 million of trade and other miscellaneous claims are entitled to receive $705,232 on the effective date, $256,025 on the first anniversary of the effective date, $488,775 on the second anniversary of the effective date and $954,275 on the each of the third, fourth, and fifth anniversaries of the effective date. The distribution could increase if the Hospital receives electronic medical record stimulus funding or if there is a change in control.

The holders of approximately $145,000 of convenience claims are entitled to receive 50% of their allowed claim. Unexpired leases and executory contracts not rejected by the Hospital are paid according to their original or negotiated terms.

Pension Benefit Guaranty Corporation (PBGC) Claims - The PBGC is entitled to receive $730,402 on the effective date, $266,475 on the first anniversary of the effective date, $508,725 on the second anniversary of the effective date and $993,225 on the each of the third, fourth, and fifth anniversaries of the effective date. The distribution could increase if the Hospital receives electronic medical record stimulus funding if there is a change in control, or if the Hospital receives litigation claim proceeds related to claims, rights or causes of action arising under Chapter 5 of the Bankruptcy Code.

The effects of the plan of reorganization on the Hospital's balance sheet as of September 30, 2010 were as follows:

	Pre-Confirmation	Debt Discharge	Reorganized Balance Sheet
Assets	$ 48,209,005	$ (30,732)	$ 48,178,273
Liabilities	74,190,762	(34,644,233)	39,546,529
Net Assets (Deficit)	(25,981,757)	34,613,501	8,631,744

GOING CONCERN

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. For the year ended September 30, 2010, the Hospital experienced a loss of $5,480,036 before reorganization items. As stated in Note 9, the Hospital entered into a credit agreement that requires certain financial and non financial covenants be maintained.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

These covenants, which require that the Hospital and its parent and affiliates achieve levels of EBIDA in excess of their current performance levels, were violated subsequent to September 30, 2010. The Hospital is also required to meet certain financial covenants in connection with its mortgage loan (see Note 9). If covenant violations continue to occur, the lender could demand repayment of the loan. These factors raise substantial doubt about the Hospital's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Management is in the process of implementing a financial improvement plan that includes increasing its profitability. It is the plan of management to ensure that the Hospital continues as a going concern.

The Hospital expects to meet its future cash requirements through a combination of cash generated from operations, existing cash balances and existing credit facilities. When necessary, the Hospital will seek waivers of the financial covenants under its credit agreement. The Hospital will also consider possible asset sales to generate cash and reduce debt, or potential affiliations to generate cash. Management continues to monitor its cash position carefully and evaluate its future cash requirements with respect to its strategy, business objectives and performance.

Management plans to introduce new programs and services while focusing on operating costs for these new services, as well as existing services, in relation to revenue generated. Management continues to work to look for ways to reduce expenses, assess job functions, outsource functions when it increases overall operating efficiency, and reduce employee benefit costs to improve its overall operating results.

The Hospital's continuation as a going concern is ultimately dependent upon its future financial performance, which will be affected by general economic, competitive and other factors, many of which are beyond the Hospital's control. There can be no assurance that the Hospital's plans to ensure continuation as a going concern will be successful.

PRINCIPLES OF CONSOLIDATION AND PRESENTATION

The accompanying consolidated financial statements include the accounts of Johnson Memorial Hospital, Johnson Professional Associates, P.C., and Johnson Memorial Hospital Development Fund, Inc. (Development). Johnson Professional Associates, P.C. and Development are entities in which the Hospital has a controlling financial interest. All inter-company accounts have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

CONSOLIDATION

ASC 810-25, *Consolidations*, requires a not-for-profit entity, among other things, to consolidate into its financial statements the financial results of another not-for-profit in which it has a controlling financial interest and to make certain disclosures. Reference is made to Note 2.

ASC 810-15 requires a for profit entity to be consolidated if an organization has the power through voting or similar rights to direct the economic activities of the entity.

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 which can be used for general operations of the Hospital. Included in unrestricted net assets are assets set aside by the Board of Trustees.

Temporarily Restricted – The Hospital reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in within the same year as received are reflected as unrestricted contributions in the accompanying financial statements. At September 30, 2010 and 2009, the Hospital had no temporarily restricted net assets.

Permanently Restricted – Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that income earned thereon is available for operations or a specific purpose.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectible accounts receivable for services to patients, and liabilities, including estimated net settlements with third-party reimbursement agencies and professional liabilities, and disclosure of contingent assets and contingent liabilities at the date of the financial statements. Estimates also affect the amounts of revenues and expenses reported during the 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.

REGULATORY MATTERS

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

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 net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

CASH AND CASH EQUIVALENTS

The Hospital considers all highly liquid investments with remaining maturities of three months or less at date of purchase to be cash equivalents. Cash and cash equivalents are held at a limited number of financial institutions and at times, the amounts on deposit exceed insured limits.

ACCOUNTS RECEIVABLE

Patient accounts receivable result from the health care services provided by the Hospital and JPA. The amount of the allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 3 for additional information relative to third-party payor programs.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

INVENTORIES

Inventories of drugs and supplies are stated at the lower of cost or market, determined using the first in first out method.

INVESTMENTS

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) and unrealized gains and losses are included in the excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law.

Unrealized gains and losses on investments on the Hospital's beneficial interest in perpetual trusts are recorded as changes in permanently restricted net assets.

INVESTMENT IN JOINT VENTURES

The Hospital has two joint ventures that it accounts for using the equity method. The changes in the Hospital's share in equity of these joint ventures is recorded as a component of nonoperating revenues (losses) in the consolidated statements of operations.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. The Hospital provides for depreciation of property, plant and equipment and amortization of assets recorded under capital leases using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

Financial Accounting Standards Board ASC 410-20, *Accounting for Asset Retirement Obligations,* provides guidance on accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Asset retirement obligations include, but are not limited to, certain types of environmental issues which are legally required to be remediated upon an asset's retirement as well as contractually required asset retirement obligations. ASC 410-20 provides clarifying guidance on conditional asset retirement obligations. Conditional asset retirement obligations are obligations whose settlement may be uncertain. ASC 410-20's guidance requires such conditional asset retirement obligations to be estimated and recognized. Application of these pronouncements affects the Hospital with respect to required future asbestos remediation.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

Conditional asset retirement obligations of $289,217 and $270,929 as of September 30, 2010 and 2009, respectively, were recorded in other liabilities on the balance sheets. These retirement obligations have been discounted at a rate of 6.75%. The undiscounted amount of the obligations were $346,000 at September 30, 2010 and 2009. There were no retirement obligations incurred or settled during 2010 or 2009. Reference is made to Note 14 regarding other environmental exposures.

IMPAIRMENT OF LONG-LIVED ASSETS

The Hospital records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There were no impairment losses in 2010 or 2009.

NONOPERATING REVENUES (LOSSES)

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating revenues (losses) consist primarily of income on invested funds, gains and losses on sales of securities and the changes in the Hospital's share of equity of the joint ventures accounted for under the equity method.

DEFERRED FINANCING FEES

Deferred financing costs, which were incurred in connection with the debt, are being amortized over the term of the related debt.

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES

The statements of operations and changes in net assets include the excess (deficiency) of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the excess (deficiency) of revenues over expenses, consistent with industry practice, 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), permanent transfers of assets to and from affiliates for other than goods and services, and pension liability adjustments.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

INCOME TAXES

The Hospital and Development are not-for-profit corporations as defined in Section 501(c)(3) of the Internal Revenue Code, and therefore are exempt from federal and state income taxes, except on net income derived from unrelated business activities. JPA is a professional corporation that has experienced losses since inception and accordingly, no provisions for federal or state income taxes have been recorded. The Hospital does not believe its financial statements include (or reflect) any uncertain tax positions.

ESTIMATED MEDICAL MALPRACTICE AND WORKERS' COMPENSATION COSTS

The provision for estimated medical malpractice and workers' compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

ADVERTISING

The Hospital expenses advertising costs as incurred. Advertising expenses for the years ended September 30, 2010 and 2009 were $129,395 and $47,964, respectively.

BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Hospital is the beneficiary of several trust funds. Although the principal balances in the trust funds are permanently restricted, the income earned on the trust funds is unrestricted. The 2010 unrealized gains from the trust funds were $118,696 and the 2009 unrealized losses from the trust fund were $82,321 and are included in changes in permanently restricted net assets.

RECOGNITION OF GRANT REVENUE

Grants are generally considered to be exchange transactions in which the grantor requires the performance of specified activities. Entitlement to cost reimbursement grants is conditioned 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 is conditioned on the attainment of specific performance. Grant receipts in excess of revenues recognized are presented as deferred grant support.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

CHARITY CARE

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge, or at amounts less than its established rates. The Hospital does not pursue collection of amounts determined to be charity care and these amounts are not reported as net patient service revenues. During the fiscal years ended September 30, 2010 and 2009, the charges foregone related to charity care were $280,655 and $559,676, respectively.

SUBSEQUENT EVENTS

The Hospital evaluates the impact of subsequent events, events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date or for disclosure in the notes to the consolidated financial statements. The Hospital evaluated events occurring subsequent to September 30, 2010 through March 31, 2011, the date on which the accompanying financial statements were available to be issued. During this period, there were no subsequent events that required disclosure or recognition in the financial statements other than the disclosure of certain debt covenant violations (see Note 9).

NOTE 2 – CONSOLIDATED ENTITIES

JPA is a medical practice that is controlled by the Hospital. Although the Hospital does not have direct ownership interests in JPA, the Hospital has a controlling voting interest in the Board of JPA, thus enabling the Hospital to control the economic activities of JPA. Also, the Hospital provides funding to JPA to fund its operating losses.

Johnson Memorial Hospital Development Fund, Inc. is a not-for-profit organization that raises funds for the Hospital and other affiliates in which the Hospital has a controlling financial interest by virtue of control of its board of directors and the fact that substantially all of Development's assets are for the use of the Hospital.

NOTE 3 – NET REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE

The following table summarizes net revenues from services to patients during the years ended September 30, 2010 and 2009:

	2010	2009
Gross patient service revenues	$ 161,154,502	$ 198,425,512
Contractual and other allowances	(95,251,013)	(133,605,570)
Free care	(280,655)	(559,676)
Net patient service revenues	$ 65,622,834	$ 64,260,266

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

The following table represents the percentages of net revenue received from payors during the years ended September 30, 2010 and 2009:

	2010	2009
Medicare	30%	34%
Medicaid	7%	6%
Third Parties	60%	59%
Other	3%	1%

NOTE 3 – NET REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE (CONTINUED)

Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

The significant concentrations of net accounts receivable for services to patients by payor at September 30, 2010 and 2009 follow:

	2010	2009
Medicare	24%	25%
Medicaid	9%	10%
Third Parties	47%	43%
Other	20%	22%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. 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. The Hospital believes that it is in compliance with all applicable laws and regulations. Cost reports for the Hospital, which serve as a basis for final settlement with government payors, have been settled by final settlement through 2006 for Medicare and 1993 for Medicaid. Other years remain open for settlement.

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 possible. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized poverty income levels for the State, 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.

NOTE 4 – ASSETS WHOSE USE IS LIMITED

The composition of assets whose use is limited, which include beneficial interests in perpetual trusts, cash restricted for payment of workers compensation claims, cash collateral related to the financing of the Hospital's information systems project to be repaid under the plan of reorganization and permanently restricted investments by donors are set forth in the following table. Investments are stated at fair value.

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Cash	$ 1,985,755	$ 1,985,755	$ 2,036,872	$ 2,036,872
Money market funds	8,926	8,926	5,147	5,147
Equities	1,843,697	2,072,960	1,797,679	2,018,639
Fixed income securities	908,944	1,016,547	847,767	922,670
Other securities	4,610	5,312	--	--
	$ 4,751,932	$ 5,089,500	$ 4,687,465	$ 4,983,328

Investment income and gains (losses) on investments for the years ended September 30 are below.

	2010	2009
Income (Losses)		
Interest income	$ 142,846	$ 185,614
Realized losses on sales of securities	--	(771,852)
	142,846	(586,238)
Less - investment management fees	(8,433)	(19,506)
Net investment gains (losses)	$ 134,413	$ (605,744)
Net unrealized gains on investments	$ --	$ 149,633

NOTE 5 – FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the financial statements are categorized, for disclosure purposes, based upon whether the inputs used to determine their fair values are observable or unobservable utilizing a three-level fair value hierarchy that prioritizes the inputs used to measure assets and liabilities at fair value. Level inputs are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Hospital has the ability to access on the reporting date.

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specific (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs that are unobservable for the asset or liability.

The fair values of Level 1 securities were determined through quoted market prices, while fair values of Level 2 securities were determined primarily through prices obtained from third party pricing sources, where quoted market prices for such securities were not available. The fair values of Level 3 securities were determined primarily through information obtained from the relevant counterparties for such investments, as information on which these securities' fair values are based is generally not readily available in the market.

NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes fair value measurements, by level, at September 30, 2010 and 2009, for all assets and liabilities which are measured at fair value on a recurring basis in the financial statements:

	Level 1	Level 2	Level 3	Total
September 30, 2010				
Beneficial interests in perpetual trusts	$ 3,192,964	$ --	$ 90,279	$ 3,283,243
Restricted cash and board designated investments	962,670	--	--	962,670
Investments permanently restricted by donor	843,587	--	--	843,587
	$ 4,999,221	$ --	$ 90,279	$ 5,089,500
September 30, 2009				
Beneficial interests in perpetual trusts	$ 2,979,036	$ --	$ 185,511	$ 3,164,547
Restricted cash and board designated investments	975,194	--	--	975,194
Investments permanently restricted by donor	843,587	--	--	843,587
	$ 4,797,817	$ --	$ 185,511	$ 4,983,328

NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a reconciliation of Level 3 assets (at either the beginning or the ending of the period) for which significant unobservable inputs were used to determine fair value:

	Beneficial Interests in Perpetual Trusts
Balance at October 1, 2008	$ 190,637
Issuance, payments and withdrawals, net	(5,126)
Balance at September 30, 2009	$ 185,511
Issuance, payments and withdrawals, net	(95,232)
Balance at September 30, 2010	$ 90,279

NOTE 6 – RESTRICTED ENDOWMENTS

The Hospital's endowments consist of donor-restricted endowment funds and beneficial interests in perpetual trusts. Net assets associated with endowment funds are classified and reported based on donor-imposed restrictions.

The Hospital's Board of Trustees has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (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. This does not apply to beneficial interests in perpetual trusts where the fair value of the investments is the basis for the amount recorded as permanently restricted net assets.

As a result of the interpretation of UPMIFA, 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, if applicable, (c) accumulations to the permanent endowment made in accordance with the related gift's donor instructions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets based on the donors' stipulations and those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard for expenditures as proscribed by UPMIFA.

NOTE 6 – RESTRICTED ENDOWMENTS (CONTINUED)

In accordance with UPMIFA, the Hospital considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment 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

RETURN OBJECTIVES AND RISK PARAMETERS

For the permanently restricted endowment funds, the bank, acting in its capacity as trustee, determines and directs the investment policy and asset allocation. For the unrestricted endowment funds, the Hospital's Board of Trustees has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Hospital expects these endowment funds, over time, to provide an average rate of return that exceeds the rate of inflation annually. 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 to achieve its long-term return objectives within prudent risk constraints.

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO THE SPENDING POLICY

The Hospital has a policy of evaluating the spending decisions for each endowment fund based upon the intentions of the donors and specific contractual agreements. In determining the annual amount to be spent, the Hospital considers the long-term expected return on its endowment. The spending policy is designed to limit spending to the expected long-term real rate of return. The annual distribution from the endowment funds is expected to be contained within a range of the trusts' market value that is consistent with the Hospital's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 6 – RESTRICTED ENDOWMENTS (CONTINUED)

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2010 AND 2009:

September 30, 2010	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ --	$ 843,587	$ 843,587
Beneficial interests in perpetual trusts	--	3,283,243	3,283,243
	$ --	$ 4,126,830	$ 4,126,830
September 30, 2009			
Donor-restricted endowment funds	$ --	$ 843,587	$ 843,587
Beneficial interests in perpetual trusts	--	3,164,547	3,164,547
	$ --	$ 4,008,134	$ 4,008,134

CHANGES IN ENDOWMENT NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

September 30, 2010	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning	$ --	$ 4,008,134	$ 4,008,134
Investment return:			
Investment income	138,160	--	138,160
Net unrealized gains	--	118,696	118,696
Total investment return	138,160	118,696	256,856
Appropriation of endowment assets for expenditure	(138,160)	--	(138,160)
Endowment net assets, ending	$ --	$ 4,126,830	$ 4,126,830

NOTE 6 – RESTRICTED ENDOWMENTS (CONTINUED)

September 30, 2009	Unrestricted	Permanently Restricted	Total
Endowment net assets, beginning	$ --	$ 4,090,455	$ 4,090,455
Investment return:			
Investment income	120,489	--	120,489
Net unrealized losses	--	(82,321)	(82,321)
Total investment return	120,489	(82,321)	38,168
Appropriation of endowment assets for expenditure	(120,489)	--	(120,489)
Endowment net assets, ending	$ --	$ 4,008,134	$ 4,008,134

NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets of $4,126,830 and $4,008,134 at September 30, 2010 and 2009 represent assets to be held in perpetuity, the income from which is expendable to support health care services and the general operations of the Hospital.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

The components of cost and the related accumulated depreciation comprising property, plant and equipment (exclusive of capital leases see Note 10) as of September 30, 2010 and 2009 are as follows:

	2010	2009
Land	$ 406,997	$ 406,997
Land improvements	1,237,587	1,237,587
Building and improvements	23,914,944	23,827,969
Fixed and movable equipment	32,724,494	30,022,953
	58,284,022	55,495,506
Less accumulated depreciation	(34,509,241)	(31,483,301)
	$ 23,774,781	$ 24,012,205

Depreciation for expense for property, plant and equipment amounted to $3,168,167 and $2,959,560 for the years ended September 30, 2010 and 2009, respectively. Included within depreciation and amortization on the statements of operations is amortization for capital leased assets of $100,680 and $108,712 for the years ended September 30, 2010 and 2009, respectively (see Note 10).

NOTE 9 – DEBT

MORTGAGE NOTE PAYABLE

On August 1, 2006, the Hospital entered into a $13,700,000 commercial construction mortgage loan with a bank. The loan was used to finance the expansion and renovation of the emergency department, three nursing units, the psychiatric unit, and two medical and surgical units, and to refinance the Hospital's existing loans (collectively, the Project). In December 2007, the loan was converted to a term loan, which is guaranteed by the United States Department of Agriculture (USDA) through the USDA Rural Development Community Facilities Program. The term loan calls for equal quarterly principal payments of $85,625 over 40 years and will mature on January 1, 2048. Fifty percent of the loan bears interest at the bank's five year cost of borrowing plus 1.50% and fifty percent of the loan bears interest at the three month LIBOR plus 1.25%. The interest rates in effect at September 30, 2010 were 6.63% and 1.783%, respectively.

NOTE 9 – DEBT (CONTINUED)

As of September 30, 2010 there was a balance of $12,843,750 due on the mortgage.

The Hospital is required to meet certain financial covenants under the mortgage. On September 27, 2010, the mortgage was modified and the bank waived all defaults that occurred prior to that date. The quarterly debt service coverage ratio requirement was also modified. The Hospital did not comply with this covenant for the quarter ended December 31, 2010. On March 30, 2011, the bank waived this default and also waived compliance with this covenant for the quarter ending March 31, 2011. If the Hospital fails to comply with this covenant, the bank could demand repayment of the mortgage loan prior to September 30, 2011.

In 2006, the Hospital entered into a conservation loan with the Connecticut Hospital Association Trust to pay for the cost of various energy conservation improvements made at the Hospital. The loan originally called for 84 equal monthly principal payments of $7,486, but the Hospital failed to make payments in accordance with the loan terms. The loan was unsecured and the balance of $561,488 was included in subordinated debt on the balance sheet at September 30, 2009. Pursuant to the Plan, the debt was discharged and it will be settled with other trade and other miscellaneous claims (See Note 1).

In 2006, the Hospital entered into a loan to finance certain information systems equipment at an interest rate of 5.5%. The Hospital failed to make payments in accordance with the loan terms. The loan was undersecured and the balance of $2,870,658 and accrued interest thereon was included in subordinated debt on the balance sheet at September 30, 2009. The Hospital's loan to refinance information equipment was restructured to be paid in 60 monthly installments of $10,000, including interest, plus $414,474 from a restricted investment account. The present value of the settlement value of this loan was $922,515 at September 30, 2010.

Future minimum payments by year and in the aggregate for the mortgage loan and subordinated debt were as follows at September 30, 2010:

2011	$ 837,786
2012	436,536
2013	443,083
2014	450,087
2015	457,578
Thereafter	11,141,195
	$ 13,766,265

NOTE 9 – DEBT (CONTINUED)

REVOLVING LOAN

In September 2010, the Hospital, along with several affiliates (the Borrowers), entered into a Revolving Loan and Security Agreement (senior debt under revolving line of credit) with a lender for an amount not to exceed the lesser of $8 million or the maximum borrowing base (85% of the book value of all eligible receivables). All amounts outstanding bear interest at the greater of the 3 month LIBOR rate plus 4.25% or 5.75% payable monthly in arrears and the line of credit expires on September 27, 2013. The Hospital has granted the lender a security interest in accounts receivable. The Hospital is jointly and severally liable for the full payment of the debt under this agreement, including any debt incurred by Evergreen and Home & Community Health Services, Inc.

As of September 30, 2010, there were outstanding borrowings of $4 million under the Loan and Security Agreement and $1,988,000 was available for future borrowings.

The Borrowers are subject to a number of covenants and restrictions under the Revolving Loan and Security Agreement. These include the following affirmative and negative covenants: provision of monthly, quarterly and annual financial information, adequate insurance coverage, notice of certain events and changes, change in ownership or management, restrictions on indebtedness and lease agreements, sale of assets, protection of collateral and financial covenants prepared on a consolidated basis for the Borrowers including cash flow and debt service coverage ratio requirements.

Subsequent to September 30, 2010, the Borrowers failed to comply with certain covenants of the Revolving Loan and Security Agreement. As a result of these covenant violations, the lender has the ability to demand repayment from the Hospital.

NOTE 10 – LEASE OBLIGATIONS

CAPITAL LEASES

The Hospital has entered into non-cancelable capital lease obligations for certain equipment. The cost of the assets is being amortized over the useful lives of the assets or the shorter of the respective lease term or useful life if the asset does not transfer to the Hospital at the end of the lease term and is summarized as of September 30, 2010 and 2009 are as follows:

	2010	2009
Medical and other equipment	$ 913,266	$ 98,393
Less, accumulated amortization	(166,755)	(66,074)
	$ 746,511	$ 32,319

In the course of the Chapter 11 Proceedings, the Hospital rejected several leases and recognized a net loss totaling $411,472 in 2009 which represented the excess of the carrying amount of the assets surrendered over the amount of debt discharged. The 2009 loss has been reported as a reorganization item in the statement of operations.

Future minimum lease payments under the capital leases, together with the present value of future minimum lease payments, as of September 30, 2010 are as follows:

2011	$ 262,877
2012	221,087
2013	30,313
Total future minimum lease payments	514,277
Less, amounts representing interest	(36,366)
Present value of future minimum lease payments	477,911
Less, current portion	(243,253)
	$ 234,658

NOTE 10 – LEASE OBLIGATIONS (CONTINUED)

OPERATING LEASES

The Hospital leases various computer equipment, medical equipment and office space under operating leases, which expire at various dates through 2015. Rent expense under the operating leases was $1,721,974 in 2010 and $2,401,433 in 2009, respectively. These leases have various terms and conditions. The Hospital subleases land to an affiliated corporation under a month-to-month lease arrangement. Sublease income was $180,000 for each of the fiscal years ended September 30, 2010 and 2009.

Minimum future rental commitments on these non-cancelable operating leases with initial or remaining terms of more than one year as of September 30, 2010 are as follows:

2011	$ 862,504
2012	685,360
2013	257,902
2014	49,287
2015	42,094
	$ 1,897,147

NOTE 11 – EMPLOYEE BENEFIT PLANS

The Hospital has a defined benefit pension plan covering certain employees. The benefits are based on years of service and the employees' compensation during the last five years of employment.

Effective December 31, 2005 (December 31, 2006 for bargaining unit employees), the defined benefit pension plan was frozen, limiting participants to employees that had obtained the age of 54 and 15 years of service as of that date. The remaining employees were eligible to participate in the Hospital's defined contribution plan, which was established in 2006, whereby the Hospital matched up to 4% of employee contributions subject to IRS limitations. Effective August 1, 2008, the Hospital ceased benefit accruals for all participants who had not previously ceased to accrue benefits. The Hospital made no contributions to the defined benefit plan in 2009 or 2010.

Pursuant to the plan of reorganization, the Pension Benefit Guaranty Corporation (PBGC) will be assuming the operations of the defined benefit plan.

NOTE 11 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Following is a summary of the benefit plan's funded status at September 30, 2010 and 2009:

	2010	2009
Change in benefit obligation		
Benefit obligation - beginning of year	$ 44,643,811	$ 34,079,071
Service cost	99,380	75,309
Interest cost	2,523,954	2,504,263
Actuarial loss	2,672,665	9,238,655
Benefits paid	(1,381,420)	(1,253,487)
Benefit obligation - end of year	$ 48,558,390	$ 44,643,811
Change in plan assets		
Fair value of plan assets - beginning of year	$ 21,654,387	$ 25,582,385
Actual return on plan assets	1,955,370	(2,155,069)
Benefits paid	(1,381,420)	(1,253,487)
Administrative expenses	(278,047)	(519,442)
Fair value of plan assets - end of year	$ 21,950,290	$ 21,654,387
Funded status (deficit)	$ (26,608,100)	$ (22,989,424)
Accrued pension liability	$ --	$ (22,989,424)

NOTE 11 – EMPLOYEE BENEFIT PLANS (CONTINUED)

As of September 30, 2010, the Hospital recorded a liability to the PBGC of $4,636,427 representing the present value of the settlement of the PBGC's bankruptcy claim. This liability, along with accrued plan termination premium of $360,687, was included in payment due under plan of reorganization in the 2010 balance sheet. Reference is made to Note 1.

	2010	2009
Components of net periodic pension cost		
Service cost	$ 416,630	$ 397,809
Interest cost	2,523,954	2,504,263
Expected return on plan assets	(2,478,948)	(2,584,838)
Prior service cost	1,964	1,964
Amortization of net loss	1,106,282	--
Recognition due to settlement or curtailment	3,202	--
Net periodic benefit cost	$ 1,573,084	$ 319,198

Included in unrestricted net assets were the following amounts that had not yet been recognized in net periodic cost at September 30, 2009:

Unamortized actuarial loss	$ 21,204,680
Prior service cost	5,166
Benefit obligation, end of year	$ 21,209,846

Changes in benefit obligations recognized in unrestricted net assets during 2010 and 2009 included:

	2010	2009
Current year actuarial losses	$ (3,157,040)	$ (14,175,504)
Amortization of prior service cost	5,166	1,964
Amortization of net loss	1,106,282	--
	$ (2,045,592)	$ (14,173,540)

NOTE 11 – EMPLOYEE BENEFIT PLANS (CONTINUED)

ASSUMPTIONS

The weighted-average assumptions used to determine benefit obligations at September 30, 2010 and 2009 were are as follows:

	2010	2009
Discount rate	5.25%	5.75%
Rate of compensation increase	N/A	3.50%

The weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2010 and 2009 are as follows:

	2010	2009
Discount rate	5.75%	7.50%
Expected return on assets	8.75%	8.75%
Rate of compensation increase	3.50%	3.50%

EXPECTED RETURN ON PLAN ASSETS

To develop the expected rate of return on assets assumptions, the Hospital considered the historical returns and the future expectations of returns for each asset class, as well as target asset allocations of the pension portfolio. This resulted in the selection of the 8.75% rate of return.

INVESTMENT POLICY

The Plan's weighted-average asset allocation at September 30, 2010 by asset category were as follows:

Asset Category	Actual Plan Assets	Asset Allocation Target
Equities	60%	54% - 100%
Debt securities - fixed income	9%	0% - 30%
Insurance contracts (cash management)	8%	0% - 20%
Real estate	23%	0%

NOTE 11 – EMPLOYEE BENEFIT PLANS (CONTINUED)

The Investment Committee of the Board of Directors (the Committee) was responsible for employee benefit program policies with respect to plan assets and the retention of qualified managers, consultants and trustee/custodians. The investment objective of the Committee is to maximize total return after inflation within the limits of prudent risk taking by diversifying across asset classes and multiple managers. The Committee has established an asset allocation policy that sets a target and range for each asset class as shown in the table above.

NOTE 12 – SELF-INSURANCE CLAIMS

There have been medical malpractice and workers' compensation claims that have been asserted against the Hospital. In addition, there are known incidents that have occurred through September 30, 2010 that may result in the assertion of claims. Hospital management has accrued its best estimate of these contingent losses. Other claims may be asserted arising from services provided to patients or workers' compensation incidents in the past. Hospital management has provided reserves for these contingent liabilities.

NOTE 13 – PROFESSIONAL, GENERAL LIABILITY AND WORKERS' COMPENSATION INSURANCE

For claims incurred through August 31, 2009, the Hospital was self-insured for professional liability and general liability claims, under a claims made plan, which covered the Corporation's entire health system. The Corporation has an excess umbrella claims made policy for claims in excess of the Corporation's self-insured limits. The Corporation's independent actuary estimated the expected costs to settle such claims. Accrued losses have been discounted at 3%.

The Hospital has accrued self-insurance liabilities of $1,269,265 and $2,204,000 for the estimated costs of settlements for its professional liability and general liability insurance risks as of September 30, 2010 and 2009, respectively. For claims incurred after August 31, 2009, the Hospital was covered under commercial claims made policies with no deductible and coverage of $1,000,000 per claim and an annual aggregate of $3,000,000 for all of the entities covered under the policy.

The Hospital was also self-insured for workers compensation claims through March 16, 2009 at which time it obtained commercial insurance. The Hospital has accrued $264,251 and $332,961 of self-insured liabilities as of September 30, 2010 and 2009, respectively, for workers' compensation cases. The Hospital's workers' compensation policy has no deductible and policy limits of $1,000,000 per case with no aggregate limit for claims incurred after March 16, 2009.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

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 its financial position.

The Hospital also has the following environmental exposures:

The Connecticut Department of Public Health (DPH) issued an order that requires the Hospital to monitor drinking water that comes from its well field, report the results and submit plans for review and approval by DPH to upgrade the drinking water supply system to reduce the level of uranium found in the well water. The Hospital and DPH have agreed on plans and specifications for the Hospital to construct improvements to the well system and report to DPH on or before July 1, 2012 that the work has been completed. Management estimates that the costs to enhance the well system will be approximately $350,000.

The Connecticut Department of Environmental Protection (DEP) issued a consent order (Sewer Order) which requires the Hospital to perform repairs or replacements to the aging wastewater treatment system at the Hospital. The Sewer Order requires a short-term and a long-term solution. The short-term work has been completed in accordance with the Sewer Order and the Hospital has been reporting to the DEP on the status of the short-term solution. Under the long-term solution, the Hospital has until March 30, 2011 to submit to the DEP for review and approval a schedule for: (i) the investigation of and remedial action alternatives to abate any pollution at the site arising from the operation of the on-site sewage treatment system or (ii) the construction of sanitary sewers to connect the Hospital to the Stafford Water Pollution Control Facility. The schedule shall provide for completion of the remedial actions not later than December 31, 2014.

The DEP filed a civil suit in 2007 in which the DEP sought civil penalties and temporary and permanent injunctions prohibiting the Hospital from violating the hazardous waste management regulations, preventing the Hospital from maintaining a discharge to the waters of the state and violating its air permit. Five of the six counts arose from allegations relating to the use of an underground storage tank for the storage of x-ray developer fixer and the release of the developer fixer from the tank. Use of that tank ended in April 2004 and the tank was removed. Part of the injunctive relief sought is an order requiring the investigation and remediation of the release of x-ray development fixer. The sixth count alleged that the Hospital violated its general air permit by submitting its annual compliance certification for 2005 ten months late. The Hospital has recorded a conditional retirement obligation related to the costs of an environmental investigation, but has not recorded a liability for any potential costs to remediate the site due to the fact that such costs, if any, cannot be reasonably estimated until the investigation is performed. The Hospital previously remediated the site when the tank was originally removed.

NOTE 15 – TRANSACTIONS WITH AFFILIATES

During 2010 and 2009, the Hospital billed affiliated organizations $1,526,988 and $1,474,544, respectively, for certain expenses and rental of space.

The amounts due from (to) affiliates represent receivables from and (payables) to affiliates that do not eliminate in consolidation. These balances are comprised of the following at September 30:

	2010	2009
Due to Johnson Memorial Corporation	$ (1,154,514)	$ (205,394)
Due from Johnson Medical Specialists, P.C.	167,664	202,982
Due from Home and Community Health Services, Inc.	297,097	147,408
Due from Johnson Evergreen Corporation	381,807	560,669
Due to Johnson Health Care, Inc.	(69,245)	(79,671)
	$ (377,191)	$ 625,994

The Hospital has provided guarantees of the debt of the Corporation and Evergreen which had balances of $3,420,000 and $15,199,990, respectively, as of September 30, 2010.

NOTE 16 – CONCENTRATIONS OF CREDIT RISK

The Hospital's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, investments and accounts receivable.

The Hospital places its cash deposits with high credit-quality institutions, which, at times, may exceed the Federal Deposit Insurance Corporation limits of $250,000 per bank. The Hospital has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 17 – FUNCTIONAL EXPENSES

The Hospital provides general patient care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended September 30:

	2010	2009
Patient care services	$ 57,563,663	$ 53,766,561
General and administrative (including bad debt expense, depreciation and amortization, interest and operations)	14,266,648	13,953,664
Reorganization items	1,596,330	2,376,392
	$ 73,426,641	$ 70,096,617

MARCUM
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INDEPENDENT AUDITORS' REPORT
ON OTHER FINANCIAL INFORMATION

Board of Trustees
Johnson Memorial Hospital

Our report on our audits of the basic consolidated financial statements of Johnson Memorial Hospital as of and for the years ended September 30, 2010 and 2009 appears on page 1. Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The following consolidating information is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Marcum LLP

Hartford, CT
March 31, 2011

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2010

	Hospital	JPA	Development	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 4,142,244	$ 232,217	$ 27,577	$ --	$ 4,402,038
Patients accounts receivable, net of allowances for uncollectible accounts	7,869,668	657,659	--	--	8,527,327
Other receivables	307,732	--	--	--	307,732
Inventories	1,154,583	--	--	--	1,154,583
Prepaid expenses and other current assets	1,147,109	181,421	--	--	1,328,530
Total Current Assets	14,621,336	1,071,297	27,577	--	15,720,210
Assets Whose Use is Limited					
Beneficial interests in perpetual trusts	3,283,243	--	--	--	3,283,243
Restricted cash and board designated investments	962,670	--	--	--	962,670
Investments permanently restricted by donor	843,587	--	--	--	843,587
Total Assets Whose Use is Limited	5,089,500	--	--	--	5,089,500
Other Assets					
Property, plant and equipment, net	23,598,478	176,303	--	--	23,774,781
Investment in joint ventures	2,868,975	--	--	--	2,868,975
Due from affiliated corporations	--	--	--	--	--
Deferred financing costs, net	724,807	--	--	--	724,807
Total Other Assets	27,192,260	176,303	--	--	27,368,563
	$ 46,903,096	$ 1,247,600	$ 27,577	$ --	$ 48,178,273

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2010

	Hospital	JPA	Development	Eliminations	Consolidated
Liabilities and Net Assets (Deficit)					
Current Liabilities					
Trade accounts payable	$ 5,340,005	$ 252,202	$ --	$ --	$ 5,592,207
Accrued payroll and related costs	2,629,814	693,794	--	--	3,323,608
Current portion of payments due under plan of reorganization	2,278,917	--	--	--	2,278,917
Revolving line of credit	4,000,000	--	--	--	4,000,000
Current portion of mortgage payable	342,500	--	--	--	342,500
Current portion of subordinated debt	495,286	--	--	--	495,286
Current portion of capital lease obligations	243,253	--	--	--	243,253
Estimated amounts due to third-party reimbursement agencies	1,071,475	--	--	--	1,071,475
Total Current Liabilities	16,401,250	945,996	--	--	17,347,246
Long-Term Obligations					
Due to affiliate corporations	(54,211)	8,400,387	--	(7,968,985)	377,191
Payments due under plan of reorganization	6,836,222	--	--	--	6,836,222
Mortgage payable - less current portion	12,501,250	--	--	--	12,501,250
Subordinated debt - less current portion	427,229	--	--	--	427,229
Obligations under capital lease - less current portion	234,658	--	--	--	234,658
Self-insurance liabilities	1,533,516	--	--	--	1,533,516
Other liabilities	289,217	--	--	--	289,217
Total Long-Term Obligations	21,767,881	8,400,387	--	(7,968,985)	22,199,283
Total Liabilities	38,169,131	9,346,383	--	(7,968,985)	39,546,529
Net Assets (Deficit)					
Unrestricted	4,607,135	(8,098,783)	27,577	7,968,985	4,504,914
Permanently restricted	4,126,830	--	--	--	4,126,830
Total Net Assets (Deficit)	8,733,965	(8,098,783)	27,577	7,968,985	8,631,744
	$ 46,903,096	$ 1,247,600	$ 27,577	$ --	$ 48,178,273

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2009

	Hospital	JPA	Development	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 3,033,010	$ 98,857	$ 30,855	$ --	$ 3,162,722
Patients accounts receivable, net of allowances for uncollectible accounts	8,626,274	157,233	--	--	8,783,507
Other receivables	307,377	--	--	--	307,377
Inventories	1,163,240	--	--	--	1,163,240
Prepaid expenses and other current assets	1,256,714	26,500	--	--	1,283,214
Total Current Assets	14,386,615	282,590	30,855	--	14,700,060
Assets Whose Use is Limited					
Beneficial interests in perpetual trusts	3,164,547	--	--	--	3,164,547
Restricted cash and board designated investments	975,194	--	--	--	975,194
Investments permanently restricted by donor	843,587	--	--	--	843,587
Total Assets Whose Use is Limited	4,983,328	--	--	--	4,983,328
Other Assets					
Property, plant and equipment, net	23,978,320	33,885	--	--	24,012,205
Investments in joint ventures	2,523,346	--	--	--	2,523,346
Due from affiliated corporations	902,517	--	--	(276,523)	625,994
Deferred financing costs, net	217,605	--	--	--	217,605
Total Other Assets	27,621,788	33,885	--	(276,523)	27,379,150
	$ 46,991,731	$ 316,475	$ 30,855	$ (276,523)	$ 47,062,538

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2009

	Hospital	JPA	Development	Eliminations	Consolidated
Liabilities and Net Assets (Deficit)					
Liabilities Not Subject to Compromise					
Current Liabilities					
Post-petition trade accounts payable	$ 2,939,193	$ 88,549	$ --	$ --	$ 3,027,742
Accrued payroll and related costs	2,911,626	249,987	--	--	3,161,613
Current portion of mortgage payable	342,500	--	--	--	342,500
Current portion of capital lease obligations	28,396	--	--	--	28,396
Estimated amounts due to third-party reimbursement agencies	1,278,325	--	--	--	1,278,325
Total Current Liabilities	7,500,040	338,536	--	--	7,838,576
Long-Term Obligations					
Mortgage payable - less current portion	12,843,750	--	--	--	12,843,750
Obligations under capital lease - less current portion	14,723	--	--	--	14,723
Due to affiliated corporations	--	5,711,920	5,000	(5,716,920)	--
Other liabilities	270,929	--	--	--	270,929
Total Long-Term Obligations	13,129,402	5,711,920	5,000	(5,716,920)	13,129,402
Liabilities Subject to Compromise					
Pre-petition trade accounts payable	14,114,524	--	--	--	14,114,524
Subordinated debt	3,432,146	--	--	--	3,432,146
Accrued pension liability	22,989,424	--	--	--	22,989,424
Self-insurance liabilities	2,536,961	--	--	--	2,536,961
Total Liabilities Subject to Compromise	43,073,055	--	--	--	43,073,055
Total Liabilities	63,702,497	6,050,456	5,000	(5,716,920)	64,041,033
Net Assets (Deficit)					
Unrestricted	(20,718,900)	(5,733,981)	25,855	5,440,397	(20,986,629)
Permanently restricted	4,008,134	--	--	--	4,008,134
Total Net Assets (Deficit)	(16,710,766)	(5,733,981)	25,855	5,440,397	(16,978,495)
	$ 46,991,731	$ 316,475	$ 30,855	$ (276,523)	$ 47,062,538

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Hospital	JPA	Development	Eliminations	Consolidated
Operating Revenues					
Net patient service revenues	$ 61,336,304	$ 5,154,336	$ --	$ (867,806)	$ 65,622,834
Grant income and other contributions	252,845	--	24,554	--	277,399
Total Operating Revenues	61,589,149	5,154,336	24,554	(867,806)	65,900,233
Expenses					
Salaries	26,664,936	4,942,256	--	--	31,607,192
Employee benefits	8,387,477	465,710	--	--	8,853,187
Provision for uncollectible accounts	2,544,297	536,051	--	--	3,080,348
Professional fees and outsourced staffing	4,484,445	384,541	--	(60,972)	4,808,014
Depreciation and amortization	3,172,136	8,529	--	--	3,180,665
Purchased services	4,766,803	50,152	--	(806,834)	4,010,121
Supplies, drugs and patient care	9,882,840	150,592	--	(2,528,588)	7,504,844
Leases and service contracts	2,259,622	51,625	--	--	2,311,247
Occupancy costs	2,474,068	213,642	--	--	2,687,710
Insurance	471,201	542,078	--	--	1,013,279
Other expenses	1,984,234	173,962	22,832	--	2,181,028
Interest	592,676	--	--	--	592,676
Total Expenses	67,684,735	7,519,138	22,832	(3,396,394)	71,830,311
(Loss) Income from Operations	(6,095,586)	(2,364,802)	1,722	2,528,588	(5,930,078)
Nonoperating Revenues					
Investment income	134,413	--	--	--	134,413
Equity earnings in joint ventures	315,629	--	--	--	315,629
	450,042	--	--	--	450,042
Changes in Net Unrealized Gains on Investments	--	--	--	--	--
Loss Before Reorganization Items	(5,645,544)	(2,364,802)	1,722	2,528,588	(5,480,036)
Reorganization Items					
Professional fees	(1,596,330)	--	--	--	(1,596,330)
Gain on discharge of debt	34,613,501	--	--	--	34,613,501
	33,017,171	--	--	--	33,017,171
Excess (Deficiency) of Revenues Over Expenses	$ 27,371,627	$ (2,364,802)	$ 1,722	$ 2,528,588	$ 27,537,135

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING STATEMENTS OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Hospital	JPA	Development	Eliminations	Consolidated
Operating Revenues					
Net patient service revenues	$ 62,785,887	$ 2,468,064	$ 25,197	$ (1,018,882)	$ 64,260,266
Grant Income and other contributions	54,542	--	--	--	54,542
Total Operating Revenues	62,840,429	2,468,064	25,197	(1,018,882)	64,314,808
Expenses					
Salaries	26,737,157	2,023,401	--	--	28,760,558
Employee benefits	7,028,510	211,512	--	--	7,240,022
Provision for uncollectible accounts	5,104,950	48,844	2,000	--	5,155,794
Professional fees and outsourced staffing	4,706,889	237,205	--	(88,656)	4,855,438
Depreciation and amortization	2,971,658	53,493	--	--	3,025,151
Purchased services	4,531,432	29,146	--	(892,207)	3,668,371
Supplies, drugs and patient care	7,709,947	90,824	--	(766,435)	7,034,336
Leases and service contracts	2,711,139	49,677	--	--	2,760,816
Occupancy costs	2,432,394	83,612	--	--	2,516,006
Insurance	367,794	143,256	--	--	511,050
Other expenses	1,250,023	135,059	70	(38,019)	1,347,133
Interest	845,087	463	--	--	845,550
Total Expenses	66,396,980	3,106,492	2,070	(1,785,317)	67,720,225
(Loss) Income from Operations	(3,556,551)	(638,428)	23,127	766,435	(3,405,417)
Nonoperating Revenues (Losses)					
Investment losses	(605,744)	--	--	--	(605,744)
Equity earnings in joint ventures	544,613	--	--	--	544,613
	(61,131)	--	--	--	(61,131)
Changes in Net Unrealized Gains on Investments	149,633	--	--	--	149,633
Loss Before Reorganization Items	(3,468,049)	(638,428)	23,127	766,435	(3,316,915)
Reorganization Items					
Professional fees	(1,964,920)	--	--	--	(1,964,920)
Other	(411,472)	--	--	--	(411,472)
	(2,376,392)	--	--	--	(2,376,392)
(Deficiency) Excess Revenue over Expenses	$ (5,844,441)	$ (638,428)	$ 23,127	$ 766,435	$ (5,693,307)