

The New Milford Hospital, Incorporated and Subsidiaries

Independent Auditors' Report,
Consolidated Financial Statements and
Other Financial Information

As of and for the Years Ended
September 30, 2010 and 2009



Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Independent Auditors' Report

To the Board of Directors of
The New Milford Hospital, Incorporated and Subsidiaries:

We have audited the accompanying consolidated balance sheets of The New Milford Hospital, Incorporated and Subsidiaries (the Hospital, formerly the New Milford Holding Corporation and Subsidiaries, see Note 1), a Connecticut not-for-profit, non-stock corporation, as of September 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the New Milford Visiting Nurse Association, Inc., a wholly owned subsidiary, which statements reflect total assets of \$3,277,487 and \$3,118,403 as of June 30, 2010 and 2009, respectively, and total revenues of \$3,548,307 and \$3,618,786 for the years 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 New Milford Visiting Nurse Association, Inc., is based solely on the report of the other auditors.

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 audits to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the 2010 and 2009 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The New Milford Hospital, Incorporated and Subsidiaries as of September 30, 2010 and 2009, and the results of its consolidated operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective October 1, 2008 the Hospital adopted the provisions of Emerging Issues Task Force Issue No. 06-10 "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements*," which has been superseded by FASB Accounting Standards Codification 715-60 "*Defined Benefit Plans - Other Postretirement*", which resulted in a change in the Hospital's method of accounting for the asset value in its collateral assignment split-dollar life insurance arrangement.

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Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The other financial information listed within the table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Saslow Lufkin & Buggy, LLP

December 9, 2010

The New Milford Hospital, Incorporated and Subsidiaries
Consolidated Balance Sheets
September 30, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,383,097	\$ 3,470,654
Restricted cash for SERP	922,589	1,095,852
Short-term investments	198,805	195,420
Accounts receivable, net of allowance of \$3,047,191 in 2010 and \$3,087,262 in 2009	10,587,187	11,329,197
Pledges receivable, current	217,911	223,358
Land held for sale	1,200,000	1,600,000
Prepaid expenses	1,563,107	3,007,450
Other receivables	935,782	545,245
Inventories	2,043,790	2,035,077
Total current assets	25,052,268	23,502,253
Other assets:		
Investments (VNA)	2,200,117	1,539,224
Investments (Foundation)	3,646,762	8,228,236
Assets held by trustees - permanently restricted	3,950,564	3,654,449
Pledges receivable, long-term	197,025	351,388
Other assets	1,009,712	804,444
	11,004,180	14,577,741
Property, plant and equipment:		
Land and land improvements	1,546,857	1,546,857
Buildings	48,167,495	46,125,430
Equipment	47,608,978	44,413,090
Construction in progress	2,034,805	668,678
	99,358,135	92,754,055
Less: accumulated depreciation	(66,345,362)	(60,856,636)
Net property, plant and equipment	33,012,773	31,897,419
Total assets	\$ 69,069,221	\$ 69,977,413
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 4,712,535	\$ 7,819,842
Accrued salaries, wages and fees	1,350,121	2,986,189
Amounts due for SERP liability	922,589	1,095,852
Due to third party payers	3,703,516	2,389,775
Current portion of accrued pension liability	1,000,000	-
Current portion of long-term debt and capital leases	2,256,042	1,662,730
Total current liabilities	13,944,803	15,954,388
Other accrued expenses	2,535,980	2,284,464
Accrued pension liability	10,939,644	20,426,162
Long-term debt and capital leases, less current portion	6,944,190	7,543,997
Total liabilities	34,364,617	46,209,011
Net assets:		
Unrestricted	25,430,433	9,579,333
Temporarily restricted	5,323,607	10,534,620
Permanently restricted	3,950,564	3,654,449
Total net assets	34,704,604	23,768,402
Total liabilities and net assets	\$ 69,069,221	\$ 69,977,413

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

The New Milford Hospital, Incorporated and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenues:		
Net patient service revenues	\$ 91,604,813	\$ 92,926,343
Net assets released from restrictions used for operations	897,007	1,022,024
Other revenues	<u>3,713,825</u>	<u>4,042,218</u>
Total operating revenues	<u>96,215,645</u>	97,990,585
Operating expenses:		
Salaries and wages	40,590,289	42,871,480
Employee benefits	11,754,549	13,348,463
Supplies and other	34,876,693	38,367,170
Depreciation and amortization	5,488,727	4,988,522
Provision for bad debts	3,084,305	3,239,587
Interest	<u>538,204</u>	<u>675,584</u>
Total operating expenses	<u>96,332,767</u>	<u>103,490,806</u>
Loss from operations	(117,122)	(5,500,221)
Other income:		
Non-operating gains	105,533	162,119
Contributions	<u>201,836</u>	<u>173,032</u>
Excess of revenues over (under) expenses	<u>\$ 190,247</u>	<u>\$ (5,165,070)</u>

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

The New Milford Hospital, Incorporated and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2010 and 2009

	2010	2009
Unrestricted net assets:		
Excess of revenues over (under) expenses	\$ 190,247	\$ (5,165,070)
Net assets released for capital acquisitions	5,019,265	67,303
Net unrealized losses on interest rate swap contract	(37,312)	(360,318)
Net unrealized gains (losses) on investments	110,251	(188,554)
Pension changes other than net periodic benefit costs	10,568,649	(13,148,781)
Cumulative effect of a change in accounting principle	-	(869,254)
Change in unrestricted net assets	15,851,100	(19,664,674)
Temporarily restricted net assets:		
Contributions	792,547	1,385,404
Investment income	272,264	309,501
Loss on land held for sale	(400,000)	(400,000)
Net realized losses on investments	-	(391,384)
Net assets released for operations	(897,007)	(1,022,024)
Net assets released from restrictions for capital	(5,019,265)	(67,303)
Net unrealized gains on investments	40,448	136,132
Special events	-	24,350
Change in temporarily restricted net assets	(5,211,013)	(25,324)
Permanently restricted net assets:		
Net unrealized gains (losses) on investments held in trust by others	296,115	(106,481)
Change in permanently restricted net assets	296,115	(106,481)
Change in net assets	10,936,202	(19,796,479)
Net assets, beginning of year	23,768,402	43,564,881
Net assets, end of year	\$ 34,704,604	\$ 23,768,402

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

The New Milford Hospital, Incorporated and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities and nonoperating gains:		
Change in net assets	\$ 10,936,202	\$ (19,796,479)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,488,727	4,988,522
Provision for bad debts	3,084,305	3,239,587
Net unrealized (gains) losses on investments	(446,814)	158,903
Loss on land held for sale	400,000	400,000
Net realized losses on investments	-	391,384
Pension changes other than net periodic benefit costs	(10,568,649)	13,148,781
Net periodic benefit cost	2,077,536	2,439,309
Restricted contributions and investment income	(1,064,811)	(1,719,255)
Changes in operating working capital	(4,694,041)	987,993
Net cash provided by operating activities	5,212,455	4,238,745
Cash flows from investing activities:		
Additions to property, plant, and equipment	(6,604,081)	(2,527,837)
(Purchases) sales of short-term investments	(3,385)	634,739
Sales (purchases) of long-term investments	4,113,892	(2,880,881)
Net cash used in investing activities	(2,493,574)	(4,773,979)
Cash flows from financing activities:		
Change in restricted cash for SERP	173,263	39,504
Proceeds from long-term debt	1,708,023	-
Payments on long-term debt	(1,752,535)	(1,332,760)
Payments on bank line of credit	-	(2,070,000)
Restricted contributions and investment income	1,064,811	1,719,255
Net cash provided by (used in) financing activities	1,193,562	(1,644,001)
Net change in cash and cash equivalents	3,912,443	(2,179,235)
Cash and cash equivalents, beginning of year	3,470,654	5,649,889
Cash and cash equivalents, end of year	\$ 7,383,097	\$ 3,470,654
Details of changes in operating working capital:		
Accounts receivable	\$ (2,342,295)	\$ (2,893,866)
Pledges receivable	159,810	568,357
Prepaid expenses	1,444,343	(664,915)
Other receivables	(390,537)	331,339
Inventories	(8,713)	55,198
Other assets	(205,268)	644,181
Accounts payable and accrued expenses	(3,107,307)	1,339,450
Accrued salaries, wages and fees	(1,636,068)	162,475
Amount due for SERP liability	(173,263)	(39,504)
Due to third party payers	1,313,741	1,087,442
Other accrued expenses	251,516	397,836
	\$ (4,694,041)	\$ 987,993

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

The New Milford Hospital, Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2010 and 2009

Note 1 - General

Organization - The New Milford Hospital, Incorporated, is a voluntary, not-for-profit, non-stock corporation incorporated under the General Statutes of the State of Connecticut and is the sole corporate member of its subsidiaries, New Milford Hospital Foundation, Inc. and New Milford Visiting Nurse Association, Inc.

New Milford Hospital Foundation, Inc. (the Foundation), was incorporated as a not-for-profit, non-stock corporation incorporated under the General Statutes of the State of Connecticut and is operated, in part, to maintain a capital campaign fund and solicit and receive contributions on behalf of The New Milford Hospital, Incorporated and other Section 501(c)(3) organizations affiliated with the Hospital.

New Milford Visiting Nurse Association, Inc. (the VNA) was incorporated in 1918 in Connecticut as a not-for-profit corporation. The VNA provides health and supportive services to individuals at their homes, primarily in New Milford, Connecticut and neighboring communities.

The VNA operates on a fiscal year ending June 30th. There are no intervening events that occurred after June 30, 2010 that would materially affect the September 30, 2010 consolidated financial statements of the Hospital.

The New Milford VNA Foundation, Inc. (VNA Foundation), was incorporated as a not-for-profit, non-stock corporation incorporated under the General Statutes of the State of Connecticut and is operated, in part, to maintain a capital campaign fund and solicit and receive contributions on behalf of the VNA. The VNA Foundation's assets and net assets are not included within these consolidated financial statements, as the Hospital does not have significant control over the operations of the VNA Foundation.

Effective October 28, 2009, the Hospital formed a strategic partnership with Radcorp of New Milford, LLC. The partnership, New Milford MRI JV, LLC, offers MRI services located at New Milford Hospital. The Hospital owns a 51% share of New Milford MRI JV, LLC with the remaining 49% owned by Radcorp of New Milford, LLC. The Hospital records a 51% interest in this company with the remaining 49% recorded as a minority interest. The Hospital recorded the minority interest in New Milford MRI JV, LLC of \$12,682 on the consolidated balance sheets within accrued expenses as of September 30, 2010.

Principles of Consolidation - The consolidated financial statements include the accounts of the Hospital, the Foundation and the VNA (collectively, the Hospital). Intercompany accounts and transactions have been eliminated in consolidation.

Affiliation - The Hospital became a member of the Western Connecticut Healthcare, Inc. (WCH) effective September 30, 2010. The WCH consists of Danbury Hospital, Inc. and New Milford Hospital, Inc. and their respective subsidiaries. Through this affiliation, WCH became the sole member of New Milford Hospital, Inc. The affiliation allows the two hospitals to retain separate licenses and operate autonomously, while promoting collaboration and efficiencies to provide innovative and accessible quality health care for residents of western Connecticut and the adjacent eastern State of New York.

The Hospital previously had an affiliation agreement with Columbia Presbyterian Medical Center, which was terminated by mutual agreement effective June 30, 2010.

The New Milford Hospital, Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

New Accounting Pronouncements - In January 2010, the FASB issued FASB ASU 2010-06, which clarifies certain existing fair value measurement disclosure requirements of FASB ASC 820-10 and also requires additional fair value measurement disclosures. The new disclosures relate to transfers in and out of Level 1 and 2 investments, and disclosures about inputs and valuation techniques. The disclosures regarding transfers in and out of Level 1 and 2 investments, and clarifications to existing disclosures are effective for interim and annual periods beginning after December 15, 2009. The disclosures of Level 3 investment rollforward of activity on a gross basis are effective for fiscal years beginning after December 15, 2010. The Hospital is currently evaluating the impact of these disclosures on its consolidated financial statements.

In March 2010, the Hospital adopted FASB ASU 2010-11, which expands the disclosure requirements for derivative instruments and hedging activities to include an explanation of the entity's reason for using derivative instruments, the risks involved, and how these instruments and related hedge items affect an entity's financial position, financial performance, and cash flow. To meet these objectives, FASB ASU 2010-11 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the fair values of derivative instruments and their gains and losses, and disclosures about credit-risk-related contingent features in derivative agreements. The enhanced disclosures about derivative instruments and hedging activities are included in Note 13.

In December 2008, the FASB issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in FASB ASC 715 (formerly FASB Staff Position FAS 132(R) - 1, "*Employers' Disclosures about Postretirement Benefit Plan Assets*)." This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. See Note 5 for these additional disclosures for the year ended September 30, 2010. The adoption of this guidance did not have a significant impact on the Hospital's consolidated financial statements for the year ended September 30, 2010.

In April 2009, the FASB issued a new accounting pronouncement regarding mergers and acquisitions for not-for-profit entities (formerly SFAS No. 164, "*Not-for-Profit Entities: Mergers and Acquisitions, including an amendment of FASB Statement No. 142*)." The pronouncement, found under ASC Topic 958, establishes principles and requirements for how a not-for-profit entity accounts for mergers and acquisitions. The pronouncement also makes FASB Statement No. 142, "*Goodwill and Other Intangible Assets*", found under FASB ASC Topic 350, and FASB Statement No. 160, "*Noncontrolling Interests in Consolidated Financial Statements*", found under FASB ASC Topic 810, fully applicable to not-for-profit entities. These pronouncements will be effective for the Hospital on October 1, 2010. The Hospital is currently evaluating the impact on its consolidated financial position and results of operations from the adoption of this pronouncement.

The New Milford Hospital, Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

In August 2010, the FASB issued ASU 2010-23, which is intended to reduce the diversity in practice regarding the measurement basis used in the disclosure of charity care. ASU 2010-23 requires that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care, and requires disclosure of the method used to identify or determine such costs. This ASU is effective for the Hospital on October 1, 2011. The Hospital is currently evaluating the impact on its disclosures from the adoption of this pronouncement.

In August 2010, the FASB issued ASU No. 2010-24, which clarifies that a health care entity may not net insurance recoveries against related claim liabilities. In addition, the amount of the claim liability must be determined without consideration of insurance recoveries. This ASU is effective for the Hospital on October 1, 2011. The Hospital is currently evaluating the impact on its consolidated financial position and results of operations from the adoption of this pronouncement.

FASB ASC 740, “*Income Taxes*” is effective for the Hospital for fiscal year 2009 and establishes a threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. FASB ASC 740 is to be applied to all open tax years as of the date of effectiveness. The adoption of FASB ASC 740 did not have a material impact on the consolidated financial statements.

Use of Estimates - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. While management believes the estimates and assumptions used in the preparation of the consolidated financial statements are appropriate, actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash and short-term investments with a maturity of three months or less when purchased. The Federal Depository Insurance Corporation (FDIC) insures cash balances up to \$250,000 per customer, per bank. In addition, FDIC coverage for balances in non-interest bearing transaction deposit accounts is unlimited if the bank elects to participate. Amounts in excess of the FDIC limits are uninsured. Most of the Hospital’s banking activity, including cash and cash equivalents, is maintained with several regional banks and, from time-to-time, exceeds FDIC limits. It is the Hospital’s policy to monitor these banks’ financial strength on an ongoing basis.

Restricted Cash - Restricted cash as of September 30, 2010 and 2009 consists of cash designated by the Hospital for Supplemental Executive Retirement Plan (SERP), see Note 5.

Short-term Investments - Short-term investments consist of certificates of deposit with original maturities of four months or longer.

The New Milford Hospital, Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

Split-Dollar Life Insurance Policies - Split-dollar life insurance policies are included within other assets and prior to October 1, 2008, were carried at the lower of the policies' cash surrender value or total policy premiums paid by the Hospital. Effective October 1, 2008, the Hospital adopted the provisions of Emerging Issues Task Force Issue No. 06-10 "*Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements*" (EITF 06-10), which has been superseded by FASB ASC 715-60 "*Defined Benefit Plans - Other Postretirement*". Under EITF 06-10, the Hospital is required to value the asset in a collateral assignment split-dollar life insurance arrangement based on the future cash flows to which the Hospital is entitled. Consequently, the Hospital has reduced the carrying amount of the asset by \$869,254, as of October 1, 2008, to reflect the present value of the future cash flows that it expects to receive under this agreement. This reduction in unrestricted net assets is reflected on the consolidated statements of changes in net assets as a cumulative effect of adopting EITF 06-10.

Inventories - Inventories, used in general operations of the Hospital, are stated at average cost.

Investments - The Hospital measures fair value in accordance with FASB ASC 820, "*Fair Value Measurements and Disclosures*." FASB ASC 820 provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has specified (contractual) terms, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable.

Other Than Temporary Impairments on Investments - When a decline in fair market value is deemed to be other than temporary, a provision for impairment is charged to non-operating income, included in other than temporary impairments on investments, and the cost basis of that investment is reduced.

The New Milford Hospital, Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

For equity securities, the Hospital's management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in a unrealized loss position, extent to which the fair value is less than cost, the financial condition and near term prospects of the issuer and the Hospital's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value. There were no impairment losses recorded during the years ended September 30, 2010 and 2009.

The Hospital adopted FASB ASC 320-10, "*Investments - Debt and Equity Securities*" (which encompassed FSP FAS115-2 and FAS 124-2, "*Recognition and Presentation of Other-Than-Temporary Impairments*" (FSP FAS 115-2/124-2)), which relates to fixed income securities.

This guidance requires the Hospital to evaluate whether it intends to sell an impaired fixed income security or whether it is more likely than not that it will be required to sell an impaired fixed income security before recovery of the amortized cost basis. If either of these criteria are met, an impairment equal to the difference between the fixed income security's amortized cost and its fair value is recognized in earnings. For impaired fixed income securities that do not meet these criteria, the Hospital determines if a credit loss exists with respect to the impaired security. If a credit loss exists, the credit loss component of the impairment is recognized in earnings and the remaining portion of the impairment is recognized as a component of changes in net assets within unrealized depreciation on investments.

Property, Plant and Equipment - Property, plant and equipment are stated at cost. The Hospital provides for depreciation of property, plant and equipment using the half-year convention method in amounts sufficient to amortize the cost of its assets over their estimated useful lives.

Real Estate - Assets received as donations or bequests are recorded at their fair value as of the date received and depreciated using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives.

Other Income - Activities other than those in connection with providing healthcare services are considered to be non-operating. Non-operating gains primarily consist of income on invested funds and unrestricted donations and contributions.

Excess of Revenues Over (Under) Expenses - The consolidated statements of operations includes excess of revenues over (under) expenses. Changes in unrestricted net assets which are excluded from excess of revenues over (under) expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and 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.

Professional Liability Insurance - Professional liability insurance coverage was provided under claims-made policies. There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. Management estimates and records a liability for incurred but not reported incidents (IBNR). The total reserve, including IBNR, for September 30, 2010 and 2009 was \$1,217,769 and \$1,282,735, respectively, and has been accrued within accrued expenses on the consolidated balance sheets.

Income Taxes - The Hospital, the Foundation, and the VNA are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC.

The New Milford Hospital, Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2010 and 2009

Note 2 - Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets - Temporarily restricted net assets are those whose use has been limited by donors to a specific time frame or purpose and are included within investments. Temporarily restricted net assets are available primarily for health care services, including cancer programs and capital replacement.

Permanently restricted net assets consist of permanently restricted endowments, which are included in assets held by trustees - restricted to use. Permanently restricted net assets are restricted primarily for investments to be held in perpetuity, the income from which is expendable to support health care services.

Donor Restricted Gifts - Unconditional promises to give cash and other assets to the Foundation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift 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 statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

The income earned on restricted funds is generally available for operations of the Hospital and is recorded as revenue in unrestricted net assets, unless restricted by the donor at which time the income is added to the appropriate restricted net asset balance. Administration of restricted funds is subject to the general provisions of the Uniform Management of Institutional Funds Act (UMIFA) as updated by the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

Under the provisions of this law, a governing board may appropriate for expenditure, for the uses and purposes for which an endowment fund is established, so much of the net appreciation as is deemed prudent based on standards established by UMIFA and UPMIFA. While a governing board must exercise ordinary business care in the appropriation of such appreciation, the general provisions of UMIFA and UPMIFA do not mandate that institutions retain endowment gains permanently. Accordingly, institutions that are subject to general UMIFA and UPMIFA provisions report gains on endowment assets as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Trustees. However, if a specific gift instrument explicitly requires the reinvestment of appreciation, or a portion thereof, such reinvested amounts shall be classified within permanently restricted net assets. In addition, the Board of Directors and management of the VNA have determined that the VNA's investment portfolio, included within long-term investments, with a fair market value of \$2,200,117 and \$1,539,224 as of September 30, 2010 and 2009, respectively, does not meet the definition of an endowment under FASB ASC 958-205 "*Presentation of Financial Statements.*"

Reclassifications - Certain 2009 amounts have been reclassified to conform to the 2010 presentation. These reclassifications are not material to the overall consolidated financial statements.

The New Milford Hospital, Incorporated and Subsidiaries
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Note 3 - Current Economic Conditions

The current economic environment presents health care entities with unprecedented circumstances and challenges, which, in some cases, have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The consolidated financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the State may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Note 4 - Revenues from Services to Patients and Charity Care

The following table summarizes net revenues from services to patients by the Hospital:

	<u>2010</u>	<u>2009</u>
Gross revenues from patients	\$ 242,984,611	\$ 234,112,010
Deductions and exclusions:		
Allowances	149,136,383	138,119,122
Uncompensated care pool	(351,378)	(319,679)
Charity care	2,594,793	3,386,224
	<u>151,379,798</u>	<u>141,185,667</u>
Net patient service revenues	<u>\$ 91,604,813</u>	<u>\$ 92,926,343</u>

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

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Note 4 - Revenues from Services to Patients and Charity Care (continued)

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. 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. However, during May 2010 the Hospital received two subpoenas from the Department of Mental Health and Human Services' Office of Inspector General (OIG) related to an investigation involving billing, coding and reimbursement of a specific drug. The Hospital has responded to both subpoenas and is fully cooperating with the OIG. Due to the early stages of the investigation management is unable to determine the outcome of the investigation including the exact amount of overpayments received, interest or penalties. Compliance with 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 Medicaid and Medicare programs and the reduction in funding levels could have an adverse effect on the Hospital.

The Hospital has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under certain 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 care patient by reference to the established policies of the Hospital. Essentially, these policies define charity care services as those services for which no payment is anticipated.

In assessing a patient's inability to pay, the Hospital and the VNA utilize the generally recognized poverty income levels for the federal government, but also consider certain cases where incurred charges are significant when compared to incomes. Charges related to charity care services are not included in net patient service revenues for consolidated financial reporting purposes.

Note 5 - Retirement Benefit Plans

Retirement Defined Benefit Plan - The Hospital has a defined benefit pension plan (the Plan) covering substantially all employees. The Plan benefits are based on years of service and the employees' compensation during the last five years of covered employment. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

During November 2009, the Hospital approved to freeze its defined benefit pension plan effective January 31, 2010 for all employees. Provisions have been made to "grandfather" those participants in the plan that are fifty-six years old and have at least ten years of service. All other participants have their accrued pension benefit frozen. New employees are not allowed to participate in the pension plan.

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Notes to the Consolidated Financial Statements
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Note 5 - Retirement Benefit Plans (continued)

The following tables set forth the change in benefit obligations, changes in Plan assets and components of net periodic benefit cost for the Plan:

	<u>2010</u>	<u>2009</u>
Changes in benefit obligations:		
Benefit obligations at beginning of year	\$ 56,516,102	\$ 41,381,796
Service cost	887,156	1,304,155
Interest cost	2,736,210	3,034,241
Assumption changes	969,445	-
Actuarial (gain) loss	(5,033,268)	12,260,425
Curtailment	(4,126,972)	-
Benefits paid	(1,701,633)	(1,464,515)
	<u>\$ 50,247,040</u>	<u>\$ 56,516,102</u>
Changes in plan assets:		
Fair value of plan assets at beginning of year	\$ 36,089,940	\$ 36,536,416
Actual return on plan assets	3,919,089	1,018,039
Benefits paid	(1,701,633)	(1,464,515)
	<u>\$ 38,307,396</u>	<u>\$ 36,089,940</u>
Accrued pension liability	<u>\$ (11,939,644)</u>	<u>\$ (20,426,162)</u>
Components of net periodic benefit cost:		
Service cost	\$ 887,156	\$ 1,304,155
Interest cost	2,736,210	3,034,241
Expected return on plan assets	(2,862,834)	(2,902,452)
Recognized net loss	1,317,004	1,003,365
	<u>\$ 2,077,536</u>	<u>\$ 2,439,309</u>
Weighted-average assumptions used to determine benefit obligations:		
	<u>2010</u>	<u>2009</u>
Discount rate	5.55%	5.54%
Future cost of living increase	3.00%	4.00%
Expected return on plan assets	8.00%	8.00%
Weighted-average assumptions used to determine net periodic benefit cost:		
	<u>2010</u>	<u>2009</u>
Discount rate	6.00%	7.50%
Future cost of living increase	4.00%	4.00%
Expected long-term return on plan assets	8.00%	8.00%

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Note 5 - Retirement Benefit Plans (continued)

Amounts recorded in unrestricted net assets and not yet amortized as components of net periodic benefit costs total \$19,129,366 as of September 30, 2010. The amortization of these components expected to be recognized in net periodic costs for the year ended September 30, 2011 is \$1,250,413.

The accumulated benefit obligation was \$49,965,860 and \$47,946,048 as of September 30, 2010 and 2009, respectively. The Plan's measurement date was September 30, 2010 and 2009.

The fair values of the Hospital's pension plan assets, which are all held in mutual funds, as of September 30, 2010 are classified as Level 2, as defined in Note 2.

Management expects to contribute \$1,000,000 to the Plan during fiscal year 2011.

Information about the expected cash flows from the Plan is as follows:

Estimated future benefit payments:		
2011	\$	2,263,481
2012	\$	2,354,472
2013	\$	2,647,022
2014	\$	2,779,489
2015	\$	2,932,258
Years 2016-2020	\$	17,952,916

Tax Sheltered Annuity - Effective September 30, 1988, the Hospital restated its defined benefit pension plan. The restated pension plan provides for benefits, which are, on average, 6% lower than under the previous plan. Participants were given the option of receiving a pay increase equal to one-half of their calculated reduction in benefits, or contributing that portion into a Tax Sheltered Annuity (TSA) plan. For participants who elected to contribute to the TSA, the Hospital will match the contribution at a rate equal to that contributed by the participant on an annual basis.

The TSA is available to substantially all employees. New participants may elect to contribute up to 20% of pretax compensation not to exceed \$16,500 and \$15,500 in calendar year 2010 and 2009, respectively, with certain "catch-up" provisions for employees over fifty years of age. The participants are fully vested in their contributions from the date of contribution. Effective January 1, 2003, employees with hire dates after October 1, 1988 are eligible to receive a Hospital TSA matching contribution equal to 1% of their salary provided the employee deposits at least that same amount to their TSA account. This percentage increased to 2% in calendar year 2004 and to 3% beginning in calendar year 2005. Employer contributions to the TSA during fiscal year 2010 and 2009 amounted to \$626,233 and \$651,522 respectively.

Defined Contribution Plan - The VNA sponsors a defined contribution pension plan. Contributions are based on a percentage of employee compensation, as defined by the plan. Total pension expense for the year ended June 30, 2010 and June 30, 2009 amounted to \$46,348 and \$43,326, respectively.

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Note 5 - Retirement Benefit Plans (continued)

Supplemental Executive Retirement Plan - Effective December 21, 2007, the Hospital adopted a SERP under section 457(b) of the Internal Revenue Code of 1986, as amended. The Hospital adopted a second SERP, effective June 30, 2008 under section 457(f) of the Internal Revenue Code of 1986, as amended. The SERP is pursuant to the Employee Retirement Income Security Act of 1974. The SERP has been established to supplement the retirement benefits of eligible employees designated by the Hospital's Board of Directors. The accrued liability relating to the SERP, which is funded annually, amounted to \$922,589 and \$1,095,852 as of September 30, 2010 and 2009, respectively. The expenses incurred related to the SERP amounted to \$15,125 and \$1,105,105 for the years ended September 30, 2010 and 2009, respectively. Effective October 1, 2009, the SERP was frozen. Provisions have been made to "grandfather" those participants in the plan that are sixty years old and have at least ten years of service.

Note 6 - Investments

The composition of investments, carried at fair value, is set forth in the following table:

	2010		2009	
	Cost	Market	Cost	Market
Cash and cash equivalents	\$ 102,615	\$ 102,615	\$ 2,939,236	\$ 2,939,236
Certificates of deposit	1,862,432	1,862,432	4,397,611	4,397,611
Marketable equity securities	235,261	258,787	201,882	130,537
Corporate and foreign bonds	2,728,996	2,836,249	1,571,335	1,603,233
Mutual funds	735,727	786,796	735,727	662,038
Unit investment trust	-	-	60,155	34,805
	\$ 5,665,031	\$ 5,846,879	\$ 9,905,946	\$ 9,767,460

The composition of assets held by trustees restricted to use, carried at fair value, is set forth in the following table:

	2010		2009	
	Cost	Market	Cost	Market
Cash and cash equivalents	\$ 57,591	\$ 57,591	\$ 78,453	\$ 78,453
Marketable equity securities	2,229,295	2,379,747	1,752,608	1,715,900
Corporate and foreign bonds	1,134,397	1,194,223	1,805,145	1,860,096
Asset-backed mutual funds	304,221	319,003	-	-
	\$ 3,725,504	\$ 3,950,564	\$ 3,636,206	\$ 3,654,449

The Hospital held no investments in an unrealized loss position as of September 30, 2010.

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Notes to the Consolidated Financial Statements
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Note 6 - Investments (continued)

The unrealized losses and market value of fixed maturity securities in an unrealized loss position for less than twelve months and greater than twelve months as of September 30, 2009, are shown below:

	Less than 12 Months		12 Months or Longer	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Corporate and foreign bonds	\$ -	\$ -	\$ 126,751	\$ (4,582)
Marketable equity securities	-	-	201,882	(79,712)
Mutual funds	327,467	(56,356)	-	-
Unit investment trust	-	-	34,805	(25,350)
Total	\$ 327,467	\$ (56,356)	\$ 363,438	\$ (109,644)

Note 7 - Endowments and Assets Restricted to Use

The Hospital's endowment consists of funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor restrictions.

Effective October 1, 2008, the Hospital adopted FASB Staff Position No. 117-1 (FSP 117-1), "Endowments of Not-for-Profit Organizations: 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", which was superseded by FASB ASC 958-205, "Presentation of Financial Statements." The standards provide guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to the UPMIFA and requires additional disclosures for all assets whose use is limited.

The Hospital has interpreted the relevant laws 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. 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 Board of Directors. The Hospital considers the following factors in making a determination 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; and (7) the investment policies of the Hospital.

The New Milford Hospital, Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
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Note 7 - Endowments and Assets Restricted to Use (continued)

Temporarily restricted net assets are available for the following purposes as of September 30, 2010 and 2009:

	2010	2009
General purpose	\$ 3,134,479	\$ 3,899,436
Capital expenditures	2,189,128	6,635,184
	\$ 5,323,607	\$ 10,534,620

Permanently restricted net assets as of September 30, 2010 and 2009 are restricted amounts, which are to be held in perpetuity, and held in trust by others.

The Hospital is the restricted income beneficiary of assets held by trustee, the income of which is used for general purposes of the Hospital. The total trust assets, as reported by the trustee, had an aggregate market value, based on quoted market prices, at September 30, 2010 and 2009 of \$3,950,564 and \$3,654,449, respectively. These assets have been included in the permanently restricted net assets. Income of \$148,893 and \$143,528 earned on these assets for the years ended September 30, 2010 and 2009, respectively, is included in the consolidated statements of operations and changes in net assets within other income.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2010 and 2009, there were no funds that were below the level required by donor or law.

Return Objectives and Risk Parameters - The Hospital's investment and spending policies for endowment assets attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Hospital's investment and spending policies for endowment assets attempts to provide preservation of capital, growth after inflation, capital appreciation and compliance with debt covenants. In addition, the objectives include adequate liquidity with limited volatility.

Spending Policy - During its annual budgeting process, the Foundation appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The Foundation has appropriated \$897,007 and \$1,022,024 of funds for expenditure from its temporarily restricted endowment funds for the years ended September 30, 2010 and 2009, respectively.

The New Milford Hospital, Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
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Note 7 - Endowments and Assets Restricted to Use (continued)

Changes in endowment and other donor restricted net assets for the year ended September 30, 2010 and 2009 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2008	\$ 10,559,944	\$ 3,760,930	\$ 14,320,874
Investment return:			
Investment income	309,502	-	309,502
Loss on land held for sale	(400,000)	-	(400,000)
Realized losses on investments	(391,384)	-	(391,384)
Net change in market value	136,132	(106,481)	29,651
Contributions	1,409,753	-	1,409,753
Released for capital acquisitions	(67,303)	-	(67,303)
Expenditures	<u>(1,022,024)</u>	<u>-</u>	<u>(1,022,024)</u>
Balance at September 30, 2009	10,534,620	3,654,449	14,189,069
Investment return:			
Investment income	272,264	-	272,264
Loss on land held for sale	(400,000)	-	(400,000)
Net change in market value	40,448	296,115	336,563
Contributions	792,547	-	792,547
Released for capital acquisitions	(5,019,265)	-	(5,019,265)
Expenditures	<u>(897,007)</u>	<u>-</u>	<u>(897,007)</u>
Balance at September 30, 2010	<u>\$ 5,323,607</u>	<u>\$ 3,950,564</u>	<u>\$ 9,274,171</u>

The New Milford Hospital, Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
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Note 8 - Long-Term Debt and Capital Leases

The composition of long-term debt and capital leases of the Hospital is as follows:

	<u>2010</u>	<u>2009</u>
Bank term loan, payable in monthly installments of \$122,067 amortized over ten years due September 28, 2015; variable interest based on LIBOR plus 1.30% (capped at 5.99% as of September 30, 2010 and 2009)	\$ 6,315,524	\$ 7,367,576
Bank term loan, payable in monthly installments of \$34,025 with a balloon payment of \$516,563 due July 1, 2011; interest fixed at 5.40%	799,116	1,153,803
Promissory note, payable in monthly installments of \$2,844 with a balloon payment of \$415,000 due December 11, 2012; interest fixed at 6.50%	429,338	435,348
Promissory note, no interest, payable on December 11, 2009	-	250,000
Capital lease, payable in quarterly installments of \$56,993 amortized over five years, interest 4.8%, due July 1, 2015	956,254	-
Term loan, payable in monthly installments of \$13,092 amortized over five years, interest 4.63%, due October 1, 2015	<u>700,000</u>	<u>-</u>
	9,200,232	9,206,727
Less: current maturities	<u>(2,256,042)</u>	<u>(1,662,730)</u>
	<u>\$ 6,944,190</u>	<u>\$ 7,543,997</u>

On September 21, 2005, the Hospital entered into an agreement with TD Bank, N.A. to provide a term loan in the amount of \$11,000,000 to fund the Hospital's defined benefit pension plan. This loan bears interest at a variable rate, which is reset monthly and is based on LIBOR plus 1.3%. Commencing on October 15, 2005 and continuing on the 15th day of each month through August 15, 2015 and on September 28, 2015, principal and interest of approximately \$122,000 shall be paid in monthly installments.

The New Milford Hospital, Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
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Note 8 - Long-Term Debt and Capital Leases (continued)

Effective September 28, 2005, the Hospital entered into an interest rate swap contract which effectively converts the variable rate on the \$11,000,000 term loan to a fixed rate of 5.99%. This interest rate swap has been designated as a cash flow hedge of the base interest rate. Management has determined that the interest rate swap is highly effective and reflects the changes in the effective portion of the hedge as a change in unrestricted net assets on the accompanying statement of changes in net assets. The ineffective portion of the interest rate swap, if any, is recorded as a non-operating item in the accompanying statement of operations.

Effective June 29, 2004, the Hospital entered into an agreement with TD Bank, N.A. (formerly Banknorth) to provide a term loan in the amount of \$2,724,825. In connection with the term loan, the Hospital has a revolving credit facility of \$5,250,000. The credit facility with TD Bank, N.A. bears interest at the bank's prime lending rates plus 1%. The revolving credit facility may be revoked at the bank's option. There was \$0 outstanding under this line of credit as of September 30, 2010 and 2009.

On December 11, 2006, the Hospital entered into a mortgage agreement in the amount of \$450,000 for the purchase of land and a building. Principal and interest are paid monthly in the amount of \$2,844. This loan bears interest at 6.50%. All amounts outstanding on December 11, 2012, which approximate \$415,000, are due to be paid in full.

In conjunction with the above mortgage, the Hospital entered into a demand note in the amount of \$250,000, which was paid in full on December 11, 2009. No interest was charged on the loan. The note has not been discounted for the imputed interest as it is immaterial to the overall consolidated financial statements.

On June 11, 2010, the Hospital entered into a leasing agreement with First Litchfield Leasing Corporation to lease a 64-slice CT Scanner in the amount of \$1,008,023. Lease payments of \$56,993 are due quarterly beginning July 1, 2010 through July 1, 2015, at which point the Hospital has the option to purchase the machine for \$1. The equipment lease agreement bears interest at 4.8%.

On June 9, 2010, New Milford MRI JV, LLC entered into a loan agreement with Siemens Financial Services, Inc. in the amount of \$700,000 to help finance the construction and legal costs associated with the joint venture MRI project. Principal and interest are paid monthly in the amount of \$13,092 beginning in October 2010 through October 2015. The loan agreement bears interest at 4.63%.

Substantially, all assets owned by the Hospital are pledged as collateral for the term loans and revolving credit facility.

The New Milford Hospital, Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
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Note 8 - Long-Term Debt and Capital Leases (continued)

The aggregate annual maturities of long-term debt and capital leases for the next five fiscal years and thereafter are as follows:

Maturities of long-term debt and capital leases:		
2011	\$	2,256,042
2012		1,934,330
2013		1,601,700
2014		1,697,461
2015		<u>1,710,699</u>
	\$	<u><u>9,200,232</u></u>

Interest paid in 2010 and 2009 amounted to \$545,080 and \$701,705, respectively.

Note 9 - Promises to Give

Promises to give as of September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Unconditional promises to give before discount and allowance for uncollectible pledges	\$ 452,099	\$ 646,352
Less: discount and allowance for uncollectible pledges	<u>(37,163)</u>	<u>(71,606)</u>
	<u><u>\$ 414,936</u></u>	<u><u>\$ 574,746</u></u>
Amounts due in:		
Less than one year	\$ 217,911	\$ 223,358
One to five years	<u>234,188</u>	<u>422,994</u>
Total	<u><u>\$ 452,099</u></u>	<u><u>\$ 646,352</u></u>

A discount rate of 5% was used in 2010 and 2009.

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Note 10 - Functional Expenses

The Hospital and its subsidiaries provide healthcare services to residents within its geographic location. Expenses related to providing these services are as follows:

	2010	2009
Patient care services	\$ 66,894,871	\$ 72,901,215
General and administrative	28,665,115	29,794,950
Fundraising	772,781	794,641
	\$ 96,332,767	\$ 103,490,806

Note 11 - Commitments and Contingencies

Litigation - The Hospital is a defendant in various legal actions arising during the normal course of its operations, the final outcome of which cannot presently be determined. Hospital management is of the opinion that eventual liability, if any, with respect to all of these matters will not have a material adverse effect on the Hospital's consolidated financial position.

Union Membership - Approximately 20% of the Hospital's employees are union employees who are covered under the terms of a collective bargaining agreement which expires on December 31, 2011.

Workers' Compensation Insurance - The Hospital is self-insured for workers' compensation benefits. In connection with being self-insured, the Hospital has an outstanding unused letter of credit aggregating approximately \$250,000 as of September 30, 2010 and 2009. Liabilities have been accrued as of September 30, 2010 and 2009 based on expected future payments pertaining to such years.

Operating Leases - The Hospital leases various equipment and facilities under operating leases expiring at various dates through 2014 and thereafter. Total rental expense charged to operations amounted to \$764,227 and \$1,250,544 in 2010 and 2009, respectively.

Future minimum payments required under noncancellable operating leases with initial or remaining terms of one year or more consisted of the following as of September 30, 2010:

	Operating Leases	Building Rentals
For the year ended September 30:		
2011	\$ 337,709	\$ 324,437
2012	210,589	197,389
2013	173,148	136,900
2014	133,287	63,300
Total minimum lease payments	\$ 854,733	\$ 722,026

The New Milford Hospital, Incorporated and Subsidiaries
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Note 12 - Fair Values

As further described in Note 2, the Hospital accounts for fair value in accordance with the provisions of FASB ASC 820. Financial assets carried at fair value as of September 30, 2010 are classified as follows:

	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	\$ 2,053,540	\$ 2,053,540	\$ -
Certificates of deposit	1,332,354	1,332,354	-
Marketable equity securities	2,638,535	2,638,535	-
Corporate and foreign bonds	2,667,214	1,287,075	1,380,139
Mutual funds	786,797	786,797	-
Asset-backed mutual funds	319,003	319,003	-
	<u>\$ 9,797,443</u>	<u>\$ 8,417,304</u>	<u>\$ 1,380,139</u>

Financial assets carried at fair value as of September 30, 2009 are classified as follows:

	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)
Cash and cash equivalents	\$ 3,017,689	\$ 3,017,689	\$ -
Certificates of deposit	4,397,611	4,397,611	-
Marketable equity securities	1,846,437	1,846,437	-
Corporate and foreign bonds	3,463,329	1,618,675	1,844,654
Mutual funds	662,038	662,038	-
Unit investment trusts	34,805	-	34,805
	<u>\$ 13,421,909</u>	<u>\$ 11,542,450</u>	<u>\$ 1,879,459</u>

The New Milford Hospital, Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2010 and 2009

Note 12 - Fair Values (continued)

The following table provides a summary of changes in the fair value of the Hospital's interest rate swap liability classified as Level 3 and carried within accounts payable and accrued expenses within the consolidated balance sheets, as of September 30, 2010 and 2009:

	2010	2009
Beginning balance at October 1	\$ 586,578	\$ 226,260
Total realized and unrealized losses:		
Included in net assets	37,312	360,318
Ending balance at September 30	\$ 623,890	\$ 586,578

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash Equivalents - The carrying amount reported in the accompanying consolidated balance sheets for cash and cash equivalents approximates its fair value.

Restricted Cash - The carrying amount reported in the accompanying consolidated balance sheets for restricted cash approximates its fair value.

Long-Term Debt - Fair values of the Hospital's long-term debt, are based on current borrowing rates for similar types of debt, using discounted cash flow analyses.

Interest Rate Swap Liability - The Hospital has classified its swap contract liability as of September 30, 2010 as a Level 3 instrument and measures the fair value using information provided by TD Securities. The fair value estimate considers the underlying notional debt principal amounts and the current interest rates paid by the Hospital and TD Securities under the swap contract.

Note 13 - Derivatives

The Hospital uses derivative instruments, specifically an interest rate swap, to manage its exposure to changes in the interest rate on its TD Bank loan to fund the pension liability. The use of derivative instruments exposes the Hospital to additional risks related to the derivative instrument, including market risk, credit risk and termination risk as described below, and the Hospital has defined risk management practices to mitigate these risks, as appropriate.

The New Milford Hospital, Incorporated and Subsidiaries
Notes to the Consolidated Financial Statements
As of and for the Years Ended September 30, 2010 and 2009

Note 13 - Derivatives (continued)

Market risk represents the potential adverse effect on the fair value and cash flow of a derivative instrument due to changes in interest rates or rate spreads. Market risk is managed through ongoing monitoring of interest rate exposure based on set parameters regarding the type and degree of market risk that the Hospital will accept. Credit risk is the risk that the counterparty on a derivative instrument may be unable to perform its obligation during the term of the contract. When the fair value of a derivative contract is positive, the counterparty owes the Hospital, which creates credit risk. Credit risk is managed by setting stringent requirements for qualified counterparties at the date of execution of a derivative transaction and requiring counterparties to post collateral in the event of a credit rating downgrade or if the fair value of the derivative contract exceeds a negotiated threshold.

Termination risk represents the risk that the Hospital may be required to make a significant payment to the counterparty, if the derivative contract is terminated early. Termination risk is assessed at onset by performing a statistical analysis of the potential for a significant termination payment under various scenarios designed to encompass expected interest rate changes over the life of the proposed contract. The test measures the ability to make a termination payment without a significant impairment to the Hospital's ability to meet its debts or liquidity covenants.

In connection with loan from TD Bank N.A., the Hospital entered into an interest rate swap agreement to synthetically fix the interest payment. Under the swap agreement, the Hospital makes fixed payments equal to 5.99% to the swap counterparty and receives variable rate payments equal to LIBOR plus 1.3%. The difference between the actual variable rate on the debt and the LIBOR plus 1.3% rate paid by the counterparty will be recorded by the Hospital as an increase or decrease of the swap liability depending on the relationship of the index to the actual variable rate on the debt. The fair value of the interest rate swap (a liability of \$623,890 and \$586,578 as of September 30, 2010 and 2009, respectively) has been recorded in the accompanying consolidated balance sheets within other long-term liabilities. The counterparty to the swap agreement is TD Bank N.A. The swap agreement expires on September 28, 2015 and is secured by obligations issued under the Master Indenture.

Management has designated the swap agreement as a hedging instrument. The decrease in fair value of the interest rate swap of \$37,312 and \$360,318 for the years ended September 30, 2010 and 2009, respectively, is recorded in the consolidated statements operations and of changes in net assets.

Note 14 - Subsequent and Other Events

Subsequent events have been evaluated through December 9, 2010, the date through which procedures were performed to prepare the consolidated financial statements for issuance.

The New Milford Hospital, Incorporated and Subsidiaries
Consolidating Balance Sheet
September 30, 2010

	The New Milford Hospital, Inc.	New Milford Hospital Foundation, Inc.	New Milford Visiting Nurse Association, Inc.	Total	Eliminations	The New Milford Hospital, Inc.
Assets						
Current assets:						
Cash and cash equivalents	\$ 6,859,877	\$ 122,229	\$ 400,991	\$ 7,383,097	\$ -	\$ 7,383,097
Restricted cash for SERP	922,589	-	-	922,589	-	922,589
Short-term investments	198,805	-	-	198,805	-	198,805
Accounts receivable, net	10,247,728	-	339,459	10,587,187	-	10,587,187
Pledges receivable, current	-	217,911	-	217,911	-	217,911
Land held for sale	-	1,200,000	-	1,200,000	-	1,200,000
Prepaid expenses	1,486,255	-	76,852	1,563,107	-	1,563,107
Other receivables	1,074,544	-	-	1,074,544	(138,762)	935,782
Inventories	2,043,790	-	-	2,043,790	-	2,043,790
Due from affiliates	43,668	-	-	43,668	(43,668)	-
Total current assets	22,877,256	1,540,140	817,302	25,234,698	(182,430)	25,052,268
Other assets:						
Investments (VNA)	-	-	2,200,117	2,200,117	-	2,200,117
Investments (Foundation)	-	3,646,762	-	3,646,762	-	3,646,762
Assets held by trustees - permanently restricted	-	3,950,564	-	3,950,564	-	3,950,564
Pledges receivable, long-term	-	197,025	-	197,025	-	197,025
Investment in Foundation	9,274,171	-	-	9,274,171	(9,274,171)	-
Investment in VNA	3,005,447	-	-	3,005,447	(3,005,447)	-
Other assets	1,009,712	-	-	1,009,712	-	1,009,712
	13,289,330	7,794,351	2,200,117	23,283,798	(12,279,618)	11,004,180
Property, plant and equipment:						
Land and land improvements	1,546,857	-	-	1,546,857	-	1,546,857
Buildings	48,167,495	-	-	48,167,495	-	48,167,495
Equipment	46,930,579	-	678,399	47,608,978	-	47,608,978
Construction in progress	2,034,805	-	-	2,034,805	-	2,034,805
	98,679,736	-	678,399	99,358,135	-	99,358,135
Less: accumulated depreciation	(65,927,031)	-	(418,331)	(66,345,362)	-	(66,345,362)
Net property, plant and equipment	32,752,705	-	260,068	33,012,773	-	33,012,773
Total assets	\$ 68,919,291	\$ 9,334,491	\$ 3,277,487	\$ 81,531,269	\$ (12,462,048)	\$ 69,069,221

See accompanying Independent Auditors' Report.

The New Milford Hospital, Incorporated and Subsidiaries
Consolidating Balance Sheet (continued)
September 30, 2010

	The New Milford Hospital, Inc.	New Milford Hospital Foundation, Inc.	New Milford Visiting Nurse Association, Inc.	Total	Eliminations	The New Milford Hospital, Inc.
Liabilities and Net Assets						
Current liabilities:						
Accounts payable and accrued expenses	\$ 4,628,308	\$ 16,652	\$ 67,575	\$ 4,712,535	\$ -	\$ 4,712,535
Accrued salaries, wages and fees	1,230,303	-	119,818	1,350,121	-	1,350,121
Amount due for SERP liability	922,589	-	-	922,589	-	922,589
Due to third party payers	3,618,869	-	84,647	3,703,516	-	3,703,516
Due to affiliates	-	43,668	-	43,668	(43,668)	-
Current portion of accrued pension liability	1,000,000	-	-	1,000,000	-	1,000,000
Current portion of long-term debt and capital leases	2,256,042	-	-	2,256,042	-	2,256,042
Total current liabilities	13,656,111	60,320	272,040	13,988,471	(43,668)	13,944,803
Other accrued expenses	2,674,742	-	-	2,674,742	(138,762)	2,535,980
Accrued pension liability	10,939,644	-	-	10,939,644	-	10,939,644
Long-term debt and capital leases, less current portion	6,944,190	-	-	6,944,190	-	6,944,190
Total liabilities	34,214,687	60,320	272,040	34,547,047	(182,430)	34,364,617
Net assets:						
Unrestricted	28,931,108	-	3,005,447	31,936,555	(6,506,122)	25,430,433
Temporarily restricted	1,822,932	5,323,607	-	7,146,539	(1,822,932)	5,323,607
Permanently restricted	3,950,564	3,950,564	-	7,901,128	(3,950,564)	3,950,564
Total net assets	34,704,604	9,274,171	3,005,447	46,984,222	(12,279,618)	34,704,604
Total liabilities and net assets	\$ 68,919,291	\$ 9,334,491	\$ 3,277,487	\$ 81,531,269	\$ (12,462,048)	\$ 69,069,221

See accompanying Independent Auditors' Report.

The New Milford Hospital, Incorporated and Subsidiaries
Consolidating Balance Sheet
September 30, 2009

	The New Milford Hospital, Inc.	New Milford Hospital Foundation, Inc.	New Milford Visiting Nurse Association, Inc.	Total	Eliminations	The New Milford Hospital, Inc.
Assets						
Current assets:						
Cash and cash equivalents	\$ 2,513,911	\$ 175,567	\$ 781,176	\$ 3,470,654	\$ -	\$ 3,470,654
Restricted cash for SERP	1,095,852	-	-	1,095,852	-	1,095,852
Short-term investments	195,420	-	-	195,420	-	195,420
Accounts receivable, net	10,792,628	-	536,569	11,329,197	-	11,329,197
Pledges receivable, current	-	223,358	-	223,358	-	223,358
Land held for sale	-	1,600,000	-	1,600,000	-	1,600,000
Prepaid expenses	2,935,422	-	72,028	3,007,450	-	3,007,450
Other receivables	515,117	30,128	-	545,245	-	545,245
Inventories	2,035,077	-	-	2,035,077	-	2,035,077
Due from affiliates	46,292	-	-	46,292	(46,292)	-
Total current assets	20,129,719	2,029,053	1,389,773	23,548,545	(46,292)	23,502,253
Other assets:						
Investments (VNA)	-	-	1,539,224	1,539,224	-	1,539,224
Investments (Foundation)	-	8,228,236	-	8,228,236	-	8,228,236
Assets held by trustees - permanently restricted	-	3,654,449	-	3,654,449	-	3,654,449
Pledges receivable, long-term	-	351,388	-	351,388	-	351,388
Investment in Foundation	14,189,069	-	-	14,189,069	(14,189,069)	-
Investment in VNA	2,881,984	-	-	2,881,984	(2,881,984)	-
Other assets	804,444	-	-	804,444	-	804,444
	17,875,497	12,234,073	1,539,224	31,648,794	(17,071,053)	14,577,741
Property, plant and equipment:						
Land and land improvements	1,546,857	-	-	1,546,857	-	1,546,857
Buildings	46,125,430	-	-	46,125,430	-	46,125,430
Equipment	43,856,432	-	556,658	44,413,090	-	44,413,090
Construction in progress	668,678	-	-	668,678	-	668,678
	92,197,397	-	556,658	92,754,055	-	92,754,055
Less: accumulated depreciation	(60,489,384)	-	(367,252)	(60,856,636)	-	(60,856,636)
Net property, plant and equipment	31,708,013	-	189,406	31,897,419	-	31,897,419
Total assets	\$ 69,713,229	\$ 14,263,126	\$ 3,118,403	\$ 87,094,758	\$ (17,117,345)	\$ 69,977,413

See accompanying Independent Auditors' Report.

The New Milford Hospital, Incorporated and Subsidiaries
Consolidating Balance Sheet (continued)
September 30, 2009

	The New Milford Hospital, Inc.	New Milford Hospital Foundation, Inc.	New Milford Visiting Nurse Association, Inc.	Total	Eliminations	The New Milford Hospital, Inc.
Liabilities and Net Assets						
Current liabilities:						
Accounts payable and accrued expenses	\$ 7,756,646	\$ 27,765	\$ 35,431	\$ 7,819,842	\$ -	\$ 7,819,842
Accrued salaries, wages and fees	2,869,848	-	116,341	2,986,189	-	2,986,189
Amount due for SERP liability	1,095,852	-	-	1,095,852	-	1,095,852
Due to third party payers	2,305,128	-	84,647	2,389,775	-	2,389,775
Due to affiliates	-	46,292	-	46,292	(46,292)	-
Current portion of long-term debt	1,662,730	-	-	1,662,730	-	1,662,730
Total current liabilities	15,690,204	74,057	236,419	16,000,680	(46,292)	15,954,388
Other accrued expenses	2,284,464	-	-	2,284,464	-	2,284,464
Accrued pension liability	20,426,162	-	-	20,426,162	-	20,426,162
Long-term debt, less current portion	7,543,997	-	-	7,543,997	-	7,543,997
Total liabilities	45,944,827	74,057	236,419	46,255,303	(46,292)	46,209,011
Net assets:						
Unrestricted	13,080,008	-	2,881,984	15,961,992	(6,382,659)	9,579,333
Temporarily restricted	7,033,945	10,534,620	-	17,568,565	(7,033,945)	10,534,620
Permanently restricted	3,654,449	3,654,449	-	7,308,898	(3,654,449)	3,654,449
Total net assets	23,768,402	14,189,069	2,881,984	40,839,455	(17,071,053)	23,768,402
Total liabilities and net assets	\$ 69,713,229	\$ 14,263,126	\$ 3,118,403	\$ 87,094,758	\$ (17,117,345)	\$ 69,977,413

See accompanying Independent Auditors' Report.

The New Milford Hospital, Incorporated and Subsidiaries
Consolidating Statement of Operations
For the Year Ended September 30, 2010

	The New Milford Hospital, Inc.	New Milford Hospital Foundation, Inc.	New Milford Visiting Nurse Association, Inc.	Total	Eliminations	The New Milford Hospital, Inc.
Operating revenues:						
Net patient revenues	\$ 88,396,564	\$ -	\$ 3,208,249	\$ 91,604,813	\$ -	\$ 91,604,813
Transfers from Foundation for program expenses	150,000	-	-	150,000	(150,000)	-
Other operating revenues	3,373,767	897,007	340,058	4,610,832	-	4,610,832
Total operating revenues	91,920,331	897,007	3,548,307	96,365,645	(150,000)	96,215,645
Operating expenses:						
Salaries and wages	37,652,884	298,693	2,638,712	40,590,289	-	40,590,289
Employee benefits	11,693,174	61,375	-	11,754,549	-	11,754,549
Supplies and other	33,415,130	386,939	1,074,624	34,876,693	-	34,876,693
Depreciation and amortization	5,437,648	-	51,079	5,488,727	-	5,488,727
Provision for bad debts	3,065,190	-	19,115	3,084,305	-	3,084,305
Interest	538,204	-	-	538,204	-	538,204
Hospital program support	-	150,000	-	150,000	(150,000)	-
Total operating expenses	91,802,230	897,007	3,783,530	96,482,767	(150,000)	96,332,767
Income (loss) from operations	118,101	-	(235,223)	(117,122)	-	(117,122)
Other income:						
Non-operating gains	58,934	-	46,599	105,533	-	105,533
Change in equity of VNA	13,212	-	-	13,212	(13,212)	-
Contributions	-	-	201,836	201,836	-	201,836
Excess of revenues over (under) expenses	\$ 190,247	\$ -	\$ 13,212	\$ 203,459	\$ (13,212)	\$ 190,247

See accompanying Independent Auditors' Report.

The New Milford Hospital, Incorporated and Subsidiaries
Consolidating Statement of Operations
For the Year Ended September 30, 2009

	The New Milford Hospital, Inc.	New Milford Hospital Foundation, Inc.	New Milford Visiting Nurse Association, Inc.	Total	Eliminations	The New Milford Hospital, Inc.
Operating revenues:						
Net patient revenues	\$ 89,665,455	\$ -	\$ 3,260,888	\$ 92,926,343	\$ -	\$ 92,926,343
Transfers from Foundation for program expenses	150,000	-	-	150,000	(150,000)	-
Other operating revenues	3,684,320	1,022,024	357,898	5,064,242	-	5,064,242
Total operating revenues	93,499,775	1,022,024	3,618,786	98,140,585	(150,000)	97,990,585
Operating expenses:						
Salaries and wages	39,922,131	360,412	2,588,937	42,871,480	-	42,871,480
Employee benefits	13,279,342	69,121	-	13,348,463	-	13,348,463
Supplies and other	36,963,767	442,491	960,912	38,367,170	-	38,367,170
Depreciation and amortization	4,946,076	-	42,446	4,988,522	-	4,988,522
Provision for bad debts	3,239,587	-	-	3,239,587	-	3,239,587
Interest	675,584	-	-	675,584	-	675,584
Hospital program support	-	150,000	-	150,000	(150,000)	-
Total operating expenses	99,026,487	1,022,024	3,592,295	103,640,806	(150,000)	103,490,806
Loss from operations	(5,526,712)	-	26,491	(5,500,221)	-	(5,500,221)
Other income:						
Non-operating gains	113,996	-	48,123	162,119	-	162,119
Change in equity of VNA	247,646	-	-	247,646	(247,646)	-
Contributions	-	-	173,032	173,032	-	173,032
Excess of revenues (under) over expenses	\$ (5,165,070)	\$ -	\$ 247,646	\$ (4,917,424)	\$ (247,646)	\$ (5,165,070)

See accompanying Independent Auditors' Report.

The New Milford Hospital, Incorporated and Subsidiaries
Consolidating Statement of Changes in Net Assets
For the Year Ended September 30, 2010

	The New Milford Hospital, Inc.	New Milford Hospital Foundation, Inc.	New Milford Visiting Nurse Association, Inc.	Total	Eliminations	The New Milford Hospital, Inc.
Unrestricted net assets:						
Excess of revenues over (under) expenses	\$ 190,247	\$ -	\$ 13,212	\$ 203,459	\$ (13,212)	\$ 190,247
Net assets released for capital acquisitions	5,019,265	-	-	5,019,265	-	5,019,265
Net unrealized losses on interest rate swap contract	(37,312)	-	-	(37,312)	-	(37,312)
Net unrealized gains on investments	110,251	-	110,251	220,502	(110,251)	110,251
Pension changes other than net periodic benefit costs	10,568,649	-	-	10,568,649	-	10,568,649
Change in unrestricted net assets	15,851,100	-	123,463	15,974,563	(123,463)	15,851,100
Temporarily restricted net assets:						
Transfers to The New Milford Hospital, Inc.	-	(5,019,265)	-	(5,019,265)	5,019,265	-
Contributions	-	792,547	-	792,547	-	792,547
Investment income	-	272,264	-	272,264	-	272,264
Loss on land held for sale	-	(400,000)	-	(400,000)	-	(400,000)
Net assets released for operations	-	(897,007)	-	(897,007)	-	(897,007)
Net assets released from restrictions - capital	-	-	-	-	(5,019,265)	(5,019,265)
Net unrealized gains on investments	-	40,448	-	40,448	-	40,448
Change in equity in net assets of the Foundation	(5,211,013)	-	-	(5,211,013)	5,211,013	-
Change in temporarily restricted net assets	(5,211,013)	(5,211,013)	-	(10,422,026)	5,211,013	(5,211,013)
Permanently restricted net assets:						
Net unrealized gains on investments held in trust by others	296,115	296,115	-	592,230	(296,115)	296,115
Change in permanently restricted net assets	296,115	296,115	-	592,230	(296,115)	296,115
Change in net assets	10,936,202	(4,914,898)	123,463	6,144,767	4,791,435	10,936,202
Net assets, beginning of year	23,768,402	14,189,069	2,881,984	40,839,455	(17,071,053)	23,768,402
Net assets, end of year	\$ 34,704,604	\$ 9,274,171	\$ 3,005,447	\$ 46,984,222	\$ (12,279,618)	\$ 34,704,604

See accompanying Independent Auditors' Report.

The New Milford Hospital, Incorporated and Subsidiaries
Consolidating Statement of Changes in Net Assets
For the Year Ended September 30, 2009

	The New Milford Hospital, Inc.	New Milford Hospital Foundation, Inc.	New Milford Visiting Nurse Association, Inc.	Total	Eliminations	The New Milford Hospital, Inc.
Unrestricted net assets:						
Excess of revenues (under) over expenses	\$ (5,165,070)	\$ -	\$ 247,646	\$ (4,917,424)	\$ (247,646)	\$ (5,165,070)
Net assets released for capital acquisitions	67,303	-	-	67,303	-	67,303
Net unrealized losses on interest rate swap contract	(360,318)	-	-	(360,318)	-	(360,318)
Net unrealized losses on investments	(188,554)	-	(188,554)	(377,108)	188,554	(188,554)
Pension changes other than net periodic benefit costs	(13,148,781)	-	-	(13,148,781)	-	(13,148,781)
Cumulative effect of a change in accounting principle	(869,254)	-	-	(869,254)	-	(869,254)
Change in unrestricted net assets	(19,664,674)	-	59,092	(18,736,328)	(59,092)	(19,664,674)
Temporarily restricted net assets:						
Transfers to The New Milford Hospital, Inc.	-	(67,303)	-	(67,303)	67,303	-
Contributions	-	1,385,404	-	1,385,404	-	1,385,404
Investment income	-	309,501	-	309,501	-	309,501
Loss on land held for sale	-	(400,000)	-	(400,000)	-	(400,000)
Net realized losses on investments	-	(391,384)	-	(391,384)	-	(391,384)
Net assets released for operations	-	(1,022,024)	-	(1,022,024)	-	(1,022,024)
Net assets released from restrictions - capital	-	-	-	-	(67,303)	(67,303)
Special events	-	24,350	-	24,350	-	24,350
Net unrealized gains on investments	-	136,132	-	136,132	-	136,132
Change in equity in net assets of the Foundation	(25,324)	-	-	(25,324)	25,324	-
Change in temporarily restricted net assets	(25,324)	(25,324)	-	(50,648)	25,324	(25,324)
Permanently restricted net assets:						
Net unrealized losses on investments held in trust by others	(106,481)	(106,481)	-	(212,962)	106,481	(106,481)
Change in permanently restricted net assets	(106,481)	(106,481)	-	(212,962)	106,481	(106,481)
Change in net assets	(19,796,479)	(131,805)	59,092	(19,869,192)	72,713	(19,796,479)
Net assets, beginning of year	43,564,881	14,320,874	2,822,892	60,708,647	(17,143,766)	43,564,881
Net assets, end of year	\$ 23,768,402	\$ 14,189,069	\$ 2,881,984	\$ 40,839,455	\$ (17,071,053)	\$ 23,768,402

See accompanying Independent Auditors' Report.