

CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

The New Milford Hospital, Incorporated and Subsidiaries
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP



The New Milford Hospital, Incorporated and Subsidiaries

Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2011 and 2010

Contents

Independent Auditors' Report.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Changes in Net Assets	5
Consolidated Statements of Cash Flows.....	7
Notes to the Consolidated Financial Statements.....	8
Other Financial Information	
Report of Independent Auditors on Other Financial Information	30
Years Ended September 30, 2011 and 2010	
Consolidating Balance Sheets.....	31
Consolidating Statements of Operations.....	33



Ernst & Young LLP
Goodwin Square
225 Asylum Street
Hartford, CT 06103-1506
Tel: +1 860 247 3100
Fax: +1 860 725 6040
www.ey.com

Report of Independent Auditors

Board of Directors
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) as of September 30, 2011, and the related consolidated statements of operations and changes in net assets, and cash flows for the year 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 audit. The consolidated financial statements of the Hospital for the year ended September 30, 2010, were audited by other auditors whose report dated December 9, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The New Milford Hospital, Incorporated and Subsidiaries at September 30, 2011, and the consolidated results of their operations and changes in net assets, and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

February 3, 2012

The New Milford Hospital, Incorporated and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,675,086	\$ 7,581,902
Accounts receivable, less allowance for uncollectible accounts of approximately \$2,311,000 in 2011 and \$3,047,000 in 2010	10,457,444	10,587,187
Current portion of assets limited as to use	1,507,266	2,122,589
Current portion of pledges receivable	117,660	217,911
Inventories	1,944,478	2,043,790
Prepaid expenses and other	1,415,605	2,498,889
Total current assets	28,117,539	25,052,268
Investments	2,755,954	2,200,117
Assets limited as to use:		
Funds restricted by donor	525,763	3,646,762
Trusts held by others	3,686,841	3,950,564
Total noncurrent assets limited as to use	4,212,604	7,597,326
Other assets	1,095,567	1,009,712
Property, plant, and equipment:		
Land and land improvements	1,546,857	1,546,857
Buildings and building improvements	50,178,336	48,167,495
Equipment and other	54,763,793	47,608,978
Construction in progress	—	2,034,805
	106,488,986	99,358,135
Less accumulated depreciation	71,743,955	66,345,362
	34,745,031	33,012,773
Pledges receivable, less current portion	156,148	197,025
Total assets	\$ 71,082,843	\$ 69,069,221

	September 30	
	2011	2010
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 4,262,947	\$ 3,307,401
Payroll-related accruals	2,329,129	1,350,121
Due to third-party payors	4,184,788	3,703,516
Current portion of due to related parties	4,028,167	—
Other accrued expenses	2,322,418	2,327,723
Current portion of long-term debt and capital lease obligations	509,773	2,256,042
Total current liabilities	17,637,222	12,944,803
Accrued pension liabilities and other	16,438,757	14,475,624
Due to related parties, less current portion	5,203,150	—
Long-term debt and capital lease obligations, less current portion	1,414,718	6,944,190
Net assets:		
Unrestricted	26,176,392	25,430,433
Temporarily restricted	525,763	5,323,607
Permanently restricted	3,686,841	3,950,564
Total net assets	30,388,996	34,704,604
 Total liabilities and net assets	 \$ 71,082,843	 \$ 69,069,221

See accompanying notes.

The New Milford Hospital, Incorporated and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2011	2010
Unrestricted revenues:		
Net patient service revenue	\$ 90,588,107	\$ 91,604,813
Net assets released from restriction	204,673	897,007
Other operating revenue	2,623,754	3,713,825
	<u>93,416,534</u>	<u>96,215,645</u>
Expenses:		
Salaries, benefits and fees	52,253,080	52,344,838
Supplies and other	31,034,625	33,469,254
Insurance	1,611,492	1,407,439
Provision for uncollectible accounts	2,545,989	3,084,305
Depreciation and amortization	5,855,136	5,488,727
Interest	511,926	538,204
	<u>93,812,248</u>	<u>96,332,767</u>
Loss from operations	(395,714)	(117,122)
Nonoperating gains (loss):		
Contributions	1,536,643	201,836
Investment income, net	235,285	105,533
Operating expenses of the New Milford Hospital Foundation, Inc.	(538,988)	—
	<u>1,232,940</u>	<u>307,369</u>
Excess of revenues over expenses	837,226	190,247

Continued on next page.

The New Milford Hospital, Incorporated and Subsidiaries

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

	Year Ended September 30	
	2011	2010
Unrestricted net assets:		
Excess of revenues over expenses (continued)	837,226	190,247
Change in fair value of interest rate swap	156,640	72,939
Net assets released from restrictions for property, plant and equipment	569,726	5,019,265
Transfers from temporarily restricted net assets	4,870,661	—
Change in pension funding obligation	(2,579,273)	10,568,649
Termination of New Milford Visiting Nurse Association, Inc. affiliation	(3,005,447)	—
Other	(103,574)	—
Increase in unrestricted net assets	745,959	15,851,100
Temporarily restricted net assets:		
Contributions	775,018	792,547
Investment income (loss), net	209,512	(127,736)
Change in unrealized gains and losses on investments	(137,314)	40,448
Net assets released from restriction	(204,673)	(897,007)
Net assets released from restrictions for property, plant and equipment	(569,726)	(5,019,265)
Transfer (to) unrestricted net assets	(4,870,661)	—
Decrease in temporarily restricted net assets	(4,797,844)	(5,211,013)
Permanently restricted net assets:		
(Decrease) increase in trusts held by others	(263,723)	296,115
(Decrease) increase in permanently restricted net assets	(263,723)	296,115
(Decrease) increase in net assets	(4,315,608)	10,936,202
Net assets at beginning of year	34,704,604	23,768,402
Net assets at end of year	\$ 30,388,996	\$ 34,704,604

See accompanying notes.

The New Milford Hospital, Incorporated and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2011	2010
Operating activities and other income		
(Decrease) increase in net assets	\$ (4,315,608)	\$ 10,936,202
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and other income:		
Depreciation and amortization	5,855,136	5,488,727
Change in unrealized gains and losses on investments	137,314	(40,448)
Change in fair value of interest rate swap	(156,640)	(72,939)
Change in pension funding obligation	2,579,273	(10,568,649)
Restricted contributions and investment income	(984,530)	(664,811)
Change in trusts held by others	263,723	(296,115)
Provision for uncollectible accounts	2,545,989	3,084,305
Change in other	103,574	—
Changes in operating assets and liabilities (<i>See Note 11</i>)	772,644	(2,611,910)
Net cash provided by operating activities and other income	6,800,875	5,254,362
Investing activities		
Additions to property, plant, and equipment, net	(7,587,394)	(6,604,081)
Change in due to related parties	9,231,317	—
Decrease in investments, net and assets limited as to use	2,939,597	4,607,231
Net cash provided by (used in) investing activities	4,583,520	(1,996,850)
Financing activities		
Proceeds from long-term debt	40,000	1,708,023
Payments of long-term debt and capital lease obligations	(7,315,741)	(1,714,518)
Restricted contributions and investment income	984,530	664,811
Net cash (used in) provided by financing activities	(6,291,211)	658,316
Net increase in cash and cash equivalents	5,093,184	3,915,828
Cash and cash equivalents at beginning of year	7,581,902	3,666,074
Cash and cash equivalents at end of year	\$ 12,675,086	\$ 7,581,902

See accompanying notes.

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2011

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

The New Milford Hospital, Incorporated (the New Milford Hospital) 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. (collectively, the Hospital).

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 and other Section 501(c)(3) organizations affiliated with the New Milford 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. During 2011, the affiliation with the VNA was terminated.

Effective October 28, 2009, the New Milford 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 New Milford Hospital owns a 51% share of New Milford MRI JV, LLC with the remaining 49% owned by Radcorp of New Milford, LLC, which is recorded as a minority interest. The New Milford MRI JV, LLC had a net deficit in net assets for the year ended September 30, 2011, and therefore, there is no minority interest recorded in the consolidated balance sheet.

The accompanying consolidated financial statements include the accounts of the New Milford Hospital, the Foundation, and the VNA. All material intercompany accounts and transactions have been eliminated in consolidation.

The Hospital became a member of the Western Connecticut Health Network, Inc. (WCHN) effective September 30, 2010. Through this affiliation, WCHN became the sole member of the Hospital. The affiliation allows Danbury Hospital and the Hospital 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 adjacent eastern New York.

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related footnotes. 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.

Cash and Cash Equivalents

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

Patient Accounts Receivable

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

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

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The Hospital's primary concentration of credit risk is patient accounts receivable, which consists of amounts owed by various governmental agencies, insurance companies and private patients. The Hospital manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable include 35% and 5%, and 36% and 9%, for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2011 and 2010, respectively.

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities as of September 30, 2011 and 2010 approximate fair value based on current market conditions. The fair values of other financial instruments are disclosed in the respective notes and/or in Note 4.

Investments and Assets Limited as to Use

Investments, including funds restricted by donor, are measured at fair value at the balance sheet dates. Investment income (including realized gains and losses on investments, interest and dividends) is included in nonoperating income unless the income or loss is restricted by donor or law. The cost of securities sold is based on the specific identification method. Unrealized gains and losses on investments are excluded from excess of revenue over expenses unless the loss is considered to be other than temporary. Other than temporary losses are included in nonoperating income which is a component of excess of revenues over expenses. Based on recently improving market conditions, as well as the Hospital's ability and intent to hold impaired assets to recovery, no other than temporary losses were recorded.

Inventories

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

Property, Plant and Equipment

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

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Nonoperating 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 Expenses

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from excess 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, change in pension funding obligation, transfer to other entity for the termination of the VNA effective August 29, 2011, and change in the fair value of interest rate swap.

Professional Liability Insurance

Professional liability insurance coverage was provided under claims-made policies. The coverage limits are \$5,000,000 per claim and \$25,000,000 in the aggregate. The excess indemnity coverage is \$20,000,000 per claim and \$20,000,000 in the aggregate. 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 Hospital has recorded \$1,120,700 and \$1,217,769 based on a discount rate of 3.0% as of September 30, 2011 and 2010, respectively. The actuarially determined present value of the IBNR is included within accrued pension liabilities and other on the consolidated balance sheets.

Income Taxes

The Hospital and the Foundation 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 Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time frame or purpose. Temporarily restricted net assets consist of contributions restricted for certain health care services.

Permanently restricted net assets consist of assets held in trusts by others, which are to be maintained in perpetuity.

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 consolidated statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Reclassifications

Certain 2010 amounts have been reclassified to conform to the 2011 presentation. These reclassifications are not material to the overall consolidated financial statements.

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Adoption of New Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*, (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and requires a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each “class” of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements.

In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2012, the guidance in ASU 2010-06 became effective for reporting periods beginning after December 15, 2009. The Hospital’s adoption of ASU 2010-06 did not have an impact on the consolidated financial statements.

New Accounting Standards

In August 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosure* (ASU 2010-23). ASU 2010-23 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASU 2010-23 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASU 2010-23 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Hospital is evaluating the effect of ASU 2010-23 on its consolidated financial statements.

In August 2010, the FASB also issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24). Under ASU 2010-24, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the balance sheet. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Hospital is evaluating the effect of ASU 2010-24 on its consolidated financial statements.

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

In July 2011, the FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07). Under ASU 2011-07, provision for bad debts related to patient service revenue will be presented as a deduction from patient service revenue (net of contractual allowances and discounts) on the statement of operations with enhanced footnote disclosure on the policies for recognizing revenue and assessing bad debts, and qualitative and quantitative information about changes in the allowance for doubtful accounts. The standard is effective for the first annual period ending after December 15, 2011. The Hospital will adopt the presentation changes to the consolidated statement of operations and changes in net assets for periods beginning after December 15, 2011.

2. Net Patient Service Revenue and Charity Care

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

	2011	2010
Gross patient service revenue	\$ 238,485,898	\$ 242,984,611
Deductions and exclusions:		
Allowances	145,904,773	149,136,383
Uncompensated care pool	(591,628)	(351,378)
Charity care	2,584,646	2,594,793
	<u>147,897,791</u>	<u>151,379,798</u>
Net patient service revenues	<u>\$ 90,588,107</u>	<u>\$ 91,604,813</u>

Patient accounts receivable and revenues are recorded when patient services are performed.

During 2011 and 2010, approximately 29.3% and 29.2% and 6.5% and 5.0%, respectively, of net patient service revenue was received under the Medicare and Medicaid programs, respectively. 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 it is in compliance with all applicable laws and regulations. Changes in the Medicaid and Medicare programs and the reduction in funding levels could have an adverse impact on the Hospital.

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue and Charity Care (continued)

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for service, discounted charges and per diem payments.

Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

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

It is the policy of the Hospital to provide necessary care to all persons seeking treatment without discrimination on the grounds of age, race, creed, national origin or any other grounds unrelated to an individual's need for the service or the availability of the needed service at the Hospital. 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 utilizes the generally recognized Federal poverty income guidelines, but also includes certain cases where incurred charges are significant when compared to a responsible party's income. Those charges are not included in net patient service revenue for financial reporting purposes.

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Investments and Assets Limited as to Use

The composition of investments, funds restricted by donor and current portion of assets limited as to use, carried at fair value, is set forth in the following table:

	2011		2010	
	Cost	Market	Cost	Market
Investments and funds restricted by donor:				
Cash and cash equivalents	\$ 2,027,550	\$ 2,027,550	\$ 3,328,305	\$ 3,328,305
Marketable equity securities	—	—	235,261	258,787
Corporate and foreign bonds	1,209,633	1,254,167	1,365,738	1,472,991
Mutual funds	—	—	735,727	786,796
	<u>\$ 3,237,183</u>	<u>\$ 3,281,717</u>	<u>\$ 5,665,031</u>	<u>\$ 5,846,879</u>
Current portion of assets limited as to use:				
Cash and cash equivalents	<u>\$ 307,266</u>	<u>\$ 307,266</u>	<u>\$ 922,589</u>	<u>\$ 922,589</u>

Also included within the current portion of assets limited as to use is \$1,200,000 of land held for sale as of September 30, 2011 and 2010.

The Hospital held no investments in an unrealized loss position as of September 30, 2011 and 2010. Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the market value has been less than cost along with the Hospital's intent and ability to hold the investments. During the years ended September 30, 2011 and 2010, the Hospital has not recorded any other-than-temporary declines in the fair value of investments, as the Hospital has the ability and intent to hold the securities to recovery.

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Investments and Assets Limited as to Use (continued)

Investment income included in non-operating gains at September 30 consists of:

	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 235,285	\$ 98,053
Realized gains and losses	—	7,480
	<u>\$ 235,285</u>	<u>\$ 105,533</u>

4. Fair Values of Financial Instruments

For assets and liabilities required to be measured at fair value, the Hospital measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Hospital's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

The Hospital follows a valuation hierarchy that is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

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

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

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value in the accompanying consolidated balance sheets are classified in the table below in one of the three categories described above:

	September 30, 2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 12,675,086	\$ —	\$ —	\$ 12,675,086
Investments and assets limited as to use:				
Cash and cash equivalents	2,334,816	—	—	2,334,816
Government and corporate bonds	1,254,167	—	—	1,254,167
Trusts held by others:				
Cash and cash equivalents	26,573	—	—	26,573
Mutual funds:				
Large cap equity	1,246,273	—	—	1,246,273
Mid cap equity	313,182	—	—	313,182
Small cap equity	163,566	—	—	163,566
International equity	301,338	—	—	301,338
Emerging markets	165,974	—	—	165,974
Fixed income	1,174,745	—	—	1,174,745
Other	295,190	—	—	295,190
	<u>\$ 19,950,910</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 19,950,910</u>

The above table does not include \$1,200,000 of land held for sale as of September 30, 2011 included within the current portion of assets limited as to use.

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Fair Values of Financial Instruments (continued)

	September 30, 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	\$ 7,581,902	\$ —	\$ —	\$ 7,581,902
Investments and assets limited as to use:				
Cash and cash equivalents	4,250,893	—	—	4,250,893
Mutual funds	786,796	—	—	786,796
Equities	258,787	—	—	258,787
U.S. government bonds	—	51,602	—	51,602
Municipal and corporate obligations	1,287,076	134,314	—	1,421,390
Trusts held by others:				
Cash and cash equivalents	57,594	—	—	57,594
Mutual funds:				
Large cap equity	1,376,830	—	—	1,376,830
Mid cap equity	262,308	—	—	262,308
Small cap equity	175,549	—	—	175,549
International equity	320,064	—	—	320,064
Emerging markets	244,994	—	—	244,994
Fixed income	1,194,223	—	—	1,194,223
Other	319,002	—	—	319,002
Liabilities				
Interest rate swap agreement	—	623,890	—	623,890
	\$ 18,116,018	\$ 809,806	\$ —	\$ 18,925,824

The above table does not include \$1,200,000 of land held for sale as of September 30, 2010 included within the current portion of assets limited as to use.

Financial assets carried at fair value included in the defined benefit pension plan are classified in the table below in one of the three categories described above:

	September 30, 2011			Total
	Level 1	Level 2	Level 3	
Mutual funds:				
Large cap equity	\$ 9,043,789	\$ —	\$ —	\$ 9,043,789
Mid cap equity	2,348,284	—	—	2,348,284
Small cap equity	1,208,321	—	—	1,208,321
Fixed income	21,643,729	—	—	21,643,729
International equity	1,995,582	—	—	1,995,582
Other	2,085,655	—	—	2,085,655
	<u>\$ 38,325,360</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 38,325,360</u>

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Fair Values of Financial Instruments (continued)

	September 30, 2010			
	Level 1	Level 2	Level 3	Total
Mutual funds:				
Large cap equity	\$ 10,437,323	\$ —	\$ —	\$ 10,437,323
Mid cap equity	2,752,789	—	—	2,752,789
Small cap equity	1,583,099	—	—	1,583,099
Fixed income	18,760,555	—	—	18,760,555
International equity	2,394,347	—	—	2,394,347
Other	2,379,283	—	—	2,379,283
	<u>\$ 38,307,396</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 38,307,396</u>

Fair value for Level 1 assets is based upon quoted market prices. Fair value for Level 2 assets is based upon model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers. Fair value for the interest rate swap agreement classified as Level 2 is determined 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.

5. Pledges Receivable

Pledges receivable include the following unconditional promises to give:

	September 30	
	2011	2010
Due within one year	\$ 117,660	\$ 217,911
Due within one to five years	179,400	234,188
	<u>297,060</u>	<u>452,099</u>
Discount and allowance	(23,252)	(37,163)
Present value of pledges receivable	<u>\$ 273,808</u>	<u>\$ 414,936</u>

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

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt and Capital Leases

Long-term debt and capital lease obligations consisted of the following:

	September 30	
	2011	2010
Term loans	\$ 607,285	\$ 7,814,640
Promissory note	—	429,338
Capital lease obligations	<u>1,317,206</u>	<u>956,254</u>
	<u>1,924,491</u>	<u>9,200,232</u>
Less: current portion	<u>(509,773)</u>	<u>(2,256,042)</u>
	<u>\$ 1,414,718</u>	<u>\$ 6,944,190</u>

On September 21, 2005, the Hospital entered into an agreement with TD Bank, N.A. (formerly Banknorth) to provide a term loan in the amount of \$11,000,000 to fund the Hospital's defined benefit pension plan. As of September 30, 2010, the outstanding balance of the term loan was \$6,315,524. This loan was paid in full in June 2011.

Effective September 28, 2005, the Hospital entered into an interest rate swap contract which effectively converted the variable rate on the \$11,000,000 term loan to a fixed rate of 5.99%. This interest rate swap had been designated as a cash flow hedge of the base interest rate. Management determined that the interest rate swap was highly effective and reflected the changes in the effective portion of the hedge as a change in unrestricted net assets on the accompanying consolidated statement of operations and changes in net assets. The ineffective portion of the interest rate swap, if any, was recorded as a non-operating item in the accompanying consolidated statement of operations and changes in net assets. The Hospital's interest rate swap liability recorded in other accrued expenses as of September 30, 2010 was \$623,890. The interest rate swap was terminated in June 2011 in connection with the term loan being paid in full.

Effective June 29, 2004, the Hospital entered into an agreement with TD Bank, N.A. to provide a term loan in the amount of \$2,724,825. In connection with the term loan, the Hospital had a revolving credit facility of \$5,250,000, which bears interest at TD Bank, N.A.'s prime lending rates plus 1%. As of September 30, 2010, the outstanding balance of the term loan and revolving credit facility was \$799,116. The term loan was paid in full in June 2011.

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt and Capital Leases (continued)

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. As of September 30, 2010, the outstanding balance of the promissory note was \$429,338. This loan was paid in full in June 2011.

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 1.33%. The outstanding balance of the capital lease was \$820,498 and \$956,254 as of September 30, 2011 and 2010, respectively.

On October 7, 2010, the Hospital entered into a leasing agreement with First Litchfield Leasing Corporation to lease a medical linear accelerator in the amount of \$722,405. Lease payments of \$40,845 are due quarterly beginning November 1, 2010 through November 1, 2015, at which point the Hospital has the option to purchase the machine for \$1. The equipment lease agreement bears interest at 1.33%. The outstanding balance of the capital lease was \$479,893 as of September 30, 2011.

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%. The outstanding balance as of September 30, 2011 and 2010 was \$572,631 and \$700,000, respectively. The carrying value of the loan approximates fair value as of September 30, 2011 and 2010.

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

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Long-Term Debt and Capital Leases (continued)

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

Maturities of long-term debt and capital leases:	
2012	\$ 509,773
2013	523,421
2014	537,523
2015	351,511
2016	2,263
	<u>\$ 1,924,491</u>

Interest paid in 2011 and 2010 amounted to \$497,187 and \$545,074, respectively.

7. Commitments and Contingencies

Litigation

Malpractice claims have been asserted against the Hospital by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. In addition, the Hospital is a party to various lawsuits incidental to its business. Management believes that the claims and lawsuits will not have a material adverse effect on the Hospital's financial position.

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. In November 2011, the Hospital settled the matter with the OIG. A liability for the settlement amount is recorded in due to third party payors in the consolidated balance sheet at September 30, 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 \$350,000 as of September 30, 2011 and 2010. Liabilities have been accrued as of September 30, 2011 and 2010 based on expected future payments pertaining to such years.

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Commitments and Contingencies (continued)

Operating Leases

The Hospital leases various equipment and facilities under operating leases expiring at various dates through 2016. Total rental expense charged to operations amounted to \$845,199 and \$764,227 in 2011 and 2010, 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, 2011:

	Operating Leases
For the year ended September 30:	
2012	\$ 840,691
2013	677,490
2014	479,228
2015	346,783
2016	44,982
Total minimum lease payments	<u>\$ 2,389,174</u>

8. Due To Related Party Transactions

The Hospital has recorded amounts due to related parties as follows:

	September 30	
	2011	2010
Danbury Hospital	\$ 8,315,822	\$ —
Western Connecticut Medical Group, P.C.	915,495	—
	<u>9,231,317</u>	—
Less: current portion	(4,028,167)	—
	<u>\$ 5,203,150</u>	<u>\$ —</u>

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Due To Related Party Transactions (continued)

Effective July 1, 2011, the Hospital entered into an agreement with Danbury Hospital to provide a term loan in the amount of \$6,640,229 for the payoff of the Hospital's term loans, interest rate swap, and promissory notes in June 2011. The term loan with Danbury Hospital bears interest at an annual rate of 4%. Payments of \$122,290 are due monthly beginning August 1, 2011 through July 1, 2016. The balance of the term loan was \$6,439,583 as of September 30, 2011. In addition, the Hospital has recorded a payable due to Danbury Hospital in the amount of \$1,876,239 as of September 30, 2011, for expenses, such as insurance, administrative, and other services provided by Danbury Hospital on behalf of New Milford Hospital.

9. Pension Plans

The Hospital has a defined benefit pension plan (the Plan) covering employees who meet certain eligibility requirements. 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. The Hospital makes contributions in amounts sufficient to meet the Employee Retirement Income Security Act of 1974 minimum funding requirements.

Effective January 31, 2010, the Hospital amended the Plan to close the Plan to new participants and to freeze accruals for all participants, other than those who were fifty-six years old and had at least ten years of service. These "grandfathered" participants continue to accrue benefits under the Plan.

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

	2011	2010
Changes in benefit obligations		
Benefit obligations at beginning of year	\$ 50,247,040	\$ 56,516,102
Service cost	361,224	887,156
Interest cost	2,853,227	2,736,210
Assumption changes	(64,119)	969,445
Actuarial loss (gain)	2,115,608	(5,033,268)
Curtailment	—	(4,126,972)
Benefits paid	(1,906,291)	(1,701,633)
Benefit obligations at end of year	<u>\$ 53,606,689</u>	<u>\$ 50,247,040</u>

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Pension Plans (continued)

	2011	2010
Changes in plan assets		
Fair value of plan assets at beginning of year	\$ 38,307,396	\$ 36,089,940
Actual return on plan assets	1,050,373	3,919,089
Employer contribution	873,882	—
Benefits paid	(1,906,291)	(1,701,633)
Fair value of plan assets at end of year	<u>38,325,360</u>	<u>38,307,396</u>
Underfunded status	<u>\$ (15,281,329)</u>	<u>\$ (11,939,644)</u>
Components of net periodic benefit cost		
Service cost	\$ 361,224	\$ 887,156
Interest cost	2,853,227	2,736,210
Expected return on plan assets	(3,022,986)	(2,862,834)
Recognized net loss	1,444,829	1,317,004
Net periodic benefit cost	<u>\$ 1,636,294</u>	<u>\$ 2,077,536</u>

Assumptions

	2011	2010
Weighted-average assumptions used to determine benefit obligations		
Discount rate	5.56%	5.55%
Rate of increase in compensation	3.00%	3.00%
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate	5.55%	6.00%
Rate of increase in compensation	3.00%	4.00%
Expected long-term return on plan assets	8.00%	8.00%

To develop the expected long-term rate of return on plan assets assumption, the Hospital considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Pension Plans (continued)

Amounts recorded in unrestricted net assets and not yet amortized as components of net periodic benefit costs total \$21,708,639 and \$19,129,366 as of September 30, 2011 and 2010, respectively. The amortization of these components expected to be recognized in net periodic costs for the year ended September 30, 2012 is \$1,621,822.

The accumulated benefit obligation was \$53,402,199 and \$49,965,860 as of September 30, 2011 and 2010, respectively. The Plan's measurement date was September 30, 2011 and 2010.

Plan Assets

The Plan's investment objectives are to achieve long-term growth in excess of long-term inflation and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets over a long-term time horizon. In order to minimize the risk, the Plan aims to minimize the variability in yearly returns. The Plan also aims to diversify its holding among sectors, industries and companies. The assets of the Plan are all held in mutual funds.

As discussed in Note 4, the Hospital follows a three-level hierarchy to categorize assets measured at fair value. In accordance with the hierarchy, as of September 30, 2011 and 2010, 100% of the Plans' assets which are measured at fair value on a recurring basis were categorized as Level 1 investments. Securities with readily determinable values are carried at fair value as determined based on independent public sources.

Contributions

Management expects to contribute \$2,798,114 to the Plan during fiscal year 2012.

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Pension Plans (continued)

Estimated Future Benefit Payments

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

2012	\$ 2,402,913
2013	\$ 2,472,082
2014	\$ 2,752,270
2015	\$ 2,892,765
2016	\$ 3,038,437
Years 2017-2021	\$ 18,476,091

Tax Sheltered Annuity

A Tax Shelter Annuity (TSA) is available to substantially all employees. New participants may elect to contribute up to 20% of pretax compensation not to exceed \$16,500 in calendar year 2011 and 2010, 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. In 2011, a new core contribution program was established. Employer contributions to the TSA during fiscal year 2011 and 2010 amounted to \$1,777,328 and \$626,233, respectively.

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Pension 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 amounted to \$307,266 and \$922,589 as of September 30, 2011 and 2010, respectively and is included within other accrued expenses on the consolidated balance sheets. The expenses incurred related to the SERP amounted to \$17,710 and \$15,125 for the years ended September 30, 2011 and 2010, 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.

10. Net Assets

Temporarily restricted net assets of \$525,763 and \$5,323,607 as of September 30, 2011 and 2010, respectively, are available to the Hospital for health care services. Permanently restricted net assets of \$3,686,841 and \$3,950,564 as of September 30, 2011 and 2010, respectively, are investments to be held in perpetuity, the income which is expendable to support health care services.

Temporarily restricted net assets are available for the following purposes as of September 30, 2011 and 2010:

	2011	2010
General purpose	\$ —	\$ 3,134,479
Capital expenditures	525,763	2,189,128
	<u>\$ 525,763</u>	<u>\$ 5,323,607</u>

The New Milford Hospital, Incorporated and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Changes in Components of Working Capital Other Than Cash and Cash Equivalents

	Year Ended September 30	
	2011	2010
(Increase) decrease in operating assets:		
Pledges receivable	\$ 141,128	\$ 159,810
Accounts receivable, net	(2,416,246)	(2,342,295)
Inventories	99,312	(8,713)
Prepaid expenses and other	997,429	848,538
	<u>(1,178,377)</u>	<u>(1,342,660)</u>
Increase (decrease) in operating liabilities:		
Accounts payable	955,546	(2,237,661)
Payroll-related accruals	979,008	(1,636,068)
Due to third-party payors	481,272	1,313,741
Other accrued expenses	151,335	(1,042,909)
Accrued pension liabilities and other	(616,140)	2,333,647
	<u>1,951,021</u>	<u>(1,269,250)</u>
Change in working capital other than cash and cash equivalents	<u>\$ 772,644</u>	<u>\$ (2,611,910)</u>

12. 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:

	Year Ended September 30	
	2011	2010
Patient care services	\$ 65,709,015	\$ 66,894,871
General and administrative	28,103,233	28,665,115
Fundraising	538,988	772,781
	<u>\$ 94,351,236</u>	<u>\$ 96,332,767</u>

13. Subsequent Events

Subsequent events have been evaluated through February 3, 2012, which represents the date in which the consolidated financial statements were issued.



Ernst & Young LLP
Goodwin Square
225 Asylum Street
Hartford, CT 06103-1506
Tel: +1 860 247 3100
Fax: +1 860 725 6040
www.ey.com

Report of Independent Auditors on Other Financial Information

Board of Directors
The New Milford Hospital, Incorporated and Subsidiaries

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating financial statements are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The consolidated financial statements of the Hospital for the year ended September 20, 2010, were audited by other auditors whose report dated December 9, 2010, expressed an unqualified opinion on those statements.

Ernst & Young LLP

February 3, 2012

The New Milford Hospital, Incorporated and Subsidiaries

Consolidating Balance Sheets

September 30, 2011

	The New Milford Hospital, Incorporated Total	New Milford Hospital Foundation, Inc.	Total	Eliminations	The New Milford Hospital, Incorporated and Subsidiaries
Assets					
Current assets:					
Cash and cash equivalents	\$ 10,710,102	\$ 1,964,984	\$ 12,675,086	\$ -	\$ 12,675,086
Accounts receivable, less allowance for uncollectible accounts of approximately \$2,311,000 in 2011	10,457,444	-	10,457,444	-	10,457,444
Current portion of assets limited as to use	307,266	1,200,000	1,507,266	-	1,507,266
Current portion of pledges receivable	-	117,660	117,660	-	117,660
Inventories	1,944,478	-	1,944,478	-	1,944,478
Prepaid expenses and other	1,415,038	567	1,415,605	-	1,415,605
Total current assets	24,834,328	3,283,211	28,117,539	-	28,117,539
Investments	199,742	2,556,212	2,755,954	-	2,755,954
Assets limited as to use:					
Funds restricted by donor	-	525,763	525,763	-	525,763
Trusts held by others	-	3,686,841	3,686,841	-	3,686,841
Total noncurrent assets limited as to use	-	4,212,604	4,212,604	-	4,212,604
Investment in New Milford Hospital Foundation	10,110,186	-	10,110,186	(10,110,186)	-
Other assets	1,095,567	-	1,095,567	-	1,095,567
Property, plant, and equipment:					
Land and land improvements	1,546,857	-	1,546,857	-	1,546,857
Buildings and building improvements	50,072,773	105,563	50,178,336	-	50,178,336
Equipment and other	54,763,793	-	54,763,793	-	54,763,793
	106,383,423	105,563	106,488,986	-	106,488,986
Less accumulated depreciation	(71,638,392)	(105,563)	(71,743,955)	-	(71,743,955)
	34,745,031	-	34,745,031	-	34,745,031
Pledges receivable, less current portion	-	156,148	156,148	-	156,148
Total assets	\$ 70,984,854	\$ 10,208,175	\$ 81,193,029	\$ (10,110,186)	\$ 71,082,843
Liabilities and net assets					
Current liabilities:					
Accounts payable	\$ 4,235,702	\$ 27,245	\$ 4,262,947	\$ -	\$ 4,262,947
Payroll-related accruals	2,329,129	-	2,329,129	-	2,329,129
Due to third-party payors	4,184,788	-	4,184,788	-	4,184,788
Current portion of due to related parties	3,957,423	70,744	4,028,167	-	4,028,167
Other accrued expenses	2,322,418	-	2,322,418	-	2,322,418
Current portion of long-term debt and capital lease obligation	509,773	-	509,773	-	509,773
Total current liabilities	17,539,233	97,989	17,637,222	-	17,637,222
Accrued pension liabilities and other	16,438,757	-	16,438,757	-	16,438,757
Due to related parties, less current portion	5,203,150	-	5,203,150	-	5,203,150
Long-term debt and capital lease obligation, less current portion	1,414,718	-	1,414,718	-	1,414,718
Net assets:					
Unrestricted	26,176,392	5,897,582	32,073,974	(5,897,582)	26,176,392
Temporarily restricted	525,763	525,763	1,051,526	(525,763)	525,763
Permanently restricted	3,686,841	3,686,841	7,373,682	(3,686,841)	3,686,841
Total net assets	30,388,996	10,110,186	40,499,182	(10,110,186)	30,388,996
Total liabilities and net assets	\$ 70,984,854	\$ 10,208,175	\$ 81,193,029	\$ (10,110,186)	\$ 71,082,843

The New Milford Hospital, Incorporated and Subsidiaries

Consolidating Balance Sheets

September 30, 2010

	The New Milford Hospital, Incorporated	New Milford Hospital Foundation, Inc.	New Milford Visiting Nurse Association, Inc.	Total	Eliminations	The New Milford Hospital, Incorporated and Subsidiaries
Assets						
Current assets						
Cash and cash equivalents	\$ 7,058,682	\$ 122,229	\$ 400,991	\$ 7,581,902	\$ -	\$ 7,581,902
Accounts receivable, less allowance for uncollectible accounts of approximately \$3,047,000 in 2010	10,247,728	-	339,459	10,587,187	-	10,587,187
Current portion of assets limited as to use	922,589	1,200,000	-	2,122,589	-	2,122,589
Current portion of pledges receivable	-	217,911	-	217,911	-	217,911
Current portion of due from related parties	43,668	-	-	43,668	(43,668)	-
Inventories	2,043,790	-	-	2,043,790	-	2,043,790
Prepaid expenses and other	2,560,799	-	76,852	2,637,651	(138,762)	2,498,889
Total current assets	22,877,256	1,540,140	817,302	25,234,698	(182,430)	25,052,268
Investments	-	-	2,200,117	2,200,117	-	2,200,117
Assets limited as to use						
Funds restricted by donor	-	3,646,762	-	3,646,762	-	3,646,762
Trusts held by others	-	3,950,564	-	3,950,564	-	3,950,564
Total noncurrent assets limited as to use	-	7,597,326	-	7,597,326	-	7,597,326
Investment in New Milford Hospital Foundation	9,274,171	-	-	9,274,171	(9,274,171)	-
Investment in New Milford Hospital VNA	3,005,447	-	-	3,005,447	(3,005,447)	-
Other assets	1,009,712	-	-	1,009,712	-	1,009,712
Property, plant, and equipment						
Land and land improvements	1,546,857	-	-	1,546,857	-	1,546,857
Buildings and building improvements	48,167,495	-	-	48,167,495	-	48,167,495
Equipment and other	46,930,579	-	678,399	47,608,978	-	47,608,978
Construction in progress (estimated cost to complete at September 30, 2010 \$2,145,000)	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)
	32,752,705	-	260,068	33,012,773	-	33,012,773
Pledges receivable, less current portion	-	197,025	-	197,025	-	197,025
Total assets	\$ 68,919,291	\$ 9,334,491	\$ 3,277,487	\$ 81,531,269	\$ (12,462,048)	\$ 69,069,221
Liabilities and net assets						
Current liabilities						
Accounts payable	\$ 3,223,174	\$ 16,652	\$ 67,575	\$ 3,307,401	\$ -	\$ 3,307,401
Payroll-related accruals	1,230,303	-	119,818	1,350,121	-	1,350,121
Due to third-party payors	3,618,869	-	84,647	3,703,516	-	3,703,516
Current portion of due to related parties	-	43,668	-	43,668	(43,668)	-
Other accrued expenses	2,327,723	-	-	2,327,723	-	2,327,723
Current portion of long-term debt and capital lease obligation	2,256,042	-	-	2,256,042	-	2,256,042
Total current liabilities	12,656,111	60,320	272,040	12,988,471	(43,668)	12,944,803
Accrued pension liabilities	14,614,386	-	-	14,614,386	(138,762)	14,475,624
Long-term debt and capital lease obligation, less current portion	6,944,190	-	-	6,944,190	-	6,944,190
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

The New Milford Hospital, Incorporated and Subsidiaries

Consolidating Statements of Operations

Year Ended September 30, 2011

	The New Milford Hospital, Incorporated Total	New Milford Hospital Foundation, Inc.	Total	Eliminations	The New Milford Hospital, Incorporated and Subsidiaries
Unrestricted revenues:					
Net patient service revenue	\$ 90,588,107	\$ --	\$ 90,588,107	\$ --	\$ 90,588,107
Net assets released from restriction	346,393	--	346,393	(141,720)	204,673
Other operating revenue	2,623,754	--	2,623,754	--	2,623,754
	93,558,254	--	93,558,254	(141,720)	93,416,534
Expenses:					
Salaries, benefits and fees	52,253,080	--	52,253,080	--	52,253,080
Supplies and other	31,034,625	--	31,034,625	--	31,034,625
Insurance	1,611,492	--	1,611,492	--	1,611,492
Provision for uncollectible accounts	2,545,989	--	2,545,989	--	2,545,989
Depreciation and amortization	5,855,136	--	5,855,136	--	5,855,136
Interest	511,926	--	511,926	--	511,926
	93,812,248	--	93,812,248	--	93,812,248
Loss from operations	(253,994)	--	(253,994)	(141,720)	(395,714)
Nonoperating gains (losses):					
Contributions	--	1,536,643	1,536,643	--	1,536,643
Investment income, net	64,299	170,986	235,285	--	235,285
Operating expenses of the New Milford Hospital Foundation, Inc.	--	(680,708)	(680,708)	141,720	(538,988)
	64,299	1,026,921	1,091,220	141,720	1,232,940
Excess (deficit) of revenues over expenses	\$ (189,695)	\$ 1,026,921	\$ 837,226	\$ --	\$ 837,226

The New Milford Hospital, Incorporated and Subsidiaries

Consolidating Statements of Operations

Year Ended September 30, 2010

	The New Milford Hospital, Incorporated	New Milford Hospital Foundation, Inc.	New Milford Visiting Nurse Association, Inc.	Total	Eliminations	The New Milford Hospital, Incorporated and Subsidiaries
Unrestricted revenues						
Net patient service revenue	\$ 88,396,564	\$ -	\$ 3,208,249	\$ 91,604,813	\$ -	\$ 91,604,813
Net assets released from restriction	150,000	897,007	-	1,047,007	(150,000)	897,007
Other operating revenue	3,373,767	-	340,058	3,713,825	-	3,713,825
	91,920,331	897,007	3,548,307	96,365,645	(150,000)	96,215,645
Expenses						
Salaries, benefits and fees	49,346,058	360,068	2,638,712	52,344,838	-	52,344,838
Supplies and other	32,007,691	386,939	1,074,624	33,469,254	-	33,469,254
Insurance	1,407,439	-	-	1,407,439	-	1,407,439
Provision for uncollectible accounts	3,065,190	-	19,115	3,084,305	-	3,084,305
Depreciation and amortization	5,437,648	-	51,079	5,488,727	-	5,488,727
Interest	538,204	-	-	538,204	-	538,204
Hospital program support	-	150,000	-	150,000	(150,000)	-
	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)
Nonoperating gains (losses):						
Contributions	-	-	201,836	201,836	-	201,836
Investment income, net	58,934	-	46,599	105,533	-	105,533
Change in equity of New Milford Hospital VNA	13,212	-	-	13,212	(13,212)	-
	72,146	-	248,435	320,581	(13,212)	307,369
Excess of revenues over expenses	\$ 190,247	\$ -	\$ 13,212	\$ 203,459	\$ (13,212)	\$ 190,247

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

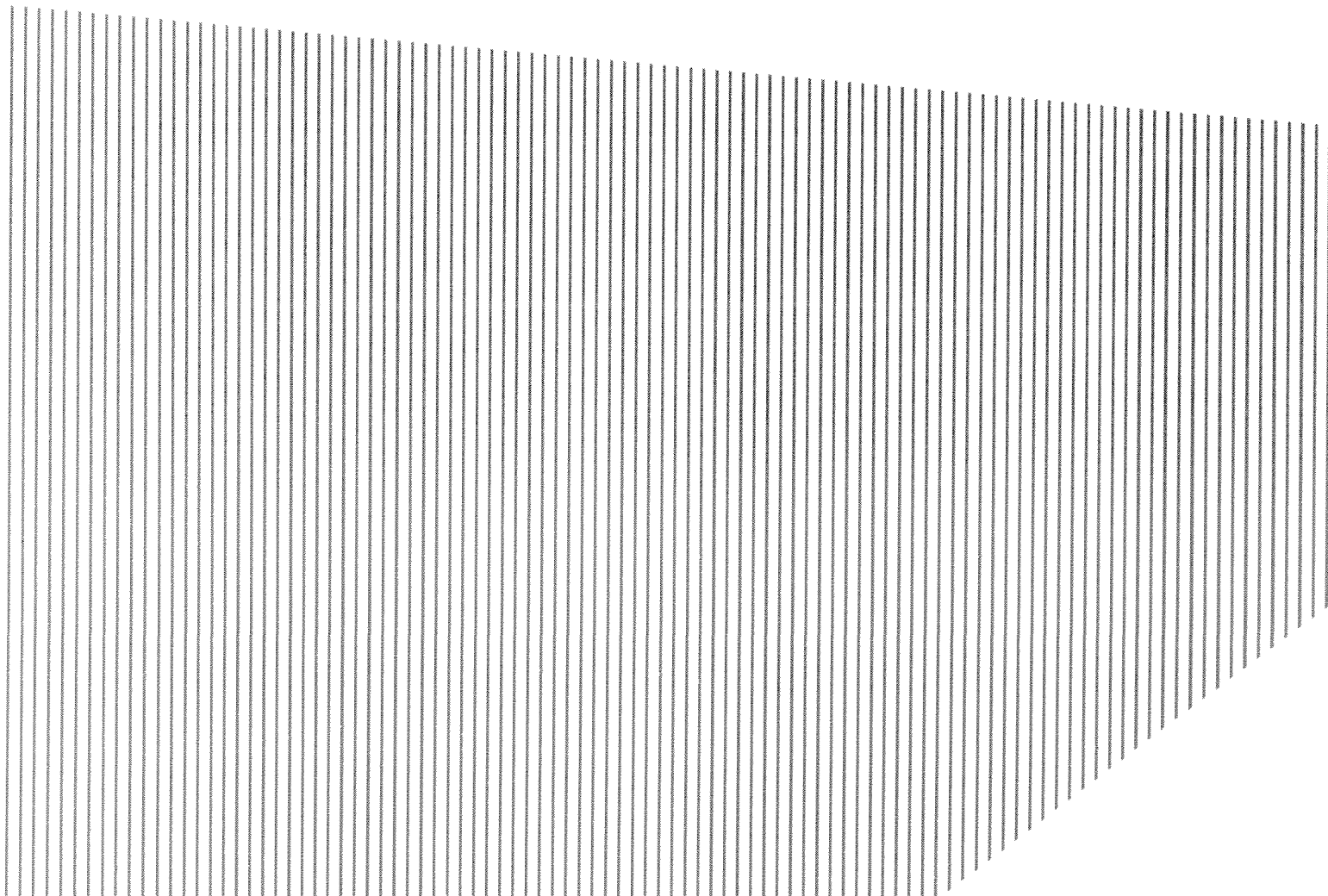
About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. We include over 152,000 people around the globe and we are an improving commitment to society. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, the parent company, in separate capacities.

Ernst & Young Limited is a UK company limited by guarantee. This Report has been prepared by Ernst & Young LLP, a non-soliciting member firm based in the United States.



New Milford Hospital Foundation, Inc.
Statement of Financial Position
As of September 30, 2011

	9/30/2011	9/30/2010
Assets		
Current assets:		
Cash	\$ 1,964,984	\$ 122,229
Current portion of assets limited as to use	1,200,000	1,200,000
Current portion of pledges receivable	117,660	217,911
Prepaid expenses and other	567	-
Total current assets	<u>3,283,211</u>	<u>1,540,140</u>
Investments	2,556,212	-
Assets limited as to use:		
Funds restricted by donor	525,763	3,646,762
Trusts held by others	3,686,841	3,950,564
Total non current assets limited as to use	<u>4,212,604</u>	<u>7,597,326</u>
Property, plant and equipment:		
Buildings and building improvements	<u>105,563</u>	<u>105,563</u>
	105,563	105,563
Less accumulated depreciation	<u>(105,563)</u>	<u>(105,563)</u>
	-	-
Pledges receivable, current portion	156,148	197,025
Total Assets	<u><u>\$ 10,208,175</u></u>	<u><u>\$ 9,334,491</u></u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 27,245	\$ 16,652
Current portion of due to related parties	70,744	43,668
	<u>97,989</u>	<u>60,320</u>
Net Assets		
Unrestricted	5,897,582	-
Temporarily restricted	525,763	5,323,607
Permanently restricted	3,686,841	3,950,564
Total net assets	<u>10,110,186</u>	<u>9,274,171</u>
Total Liabilities and Net Assets	<u><u>\$ 10,208,175</u></u>	<u><u>\$ 9,334,491</u></u>

New Milford Hospital Foundation, Inc.
Statement of Operations
As of September 30, 2011

	9/30/2011	9/30/2010
Unrestricted revenues:		
Net patient service revenue	\$ -	\$ -
Net assets released from restriction	-	897,007
Other operating revenue	-	-
	<u>-</u>	<u>897,007</u>
Expenses:		
Salaries, benefits and fees	-	360,068
Supplies and other	-	386,939
Insurance	-	-
Provision for uncollectible accounts	-	-
Depreciation and amortization	-	-
Interest	-	-
Hospital program support	-	150,000
	<u>-</u>	<u>897,007</u>
Income (loss) from operations	-	-
Income tax expense	-	-
Nonoperating gains (losses):		
Contributions	1,536,643	-
Investment income, net	170,986	-
Change in unrealized gains and losses on investments	-	-
Operating expenses of the New Milford Hospital Foundation, Inc.	<u>(680,708)</u>	<u>-</u>
	1,026,921	-
Excess (deficit) of revenues over expenses	<u>\$ 1,026,921</u>	<u>\$ -</u>

Continued on next page.

New Milford Hospital Foundation, Inc.
Statement of Operations and Changes in Net Assets
As of September 30, 2011

	<u>9/30/2011</u>	<u>9/30/2010</u>
Unrestricted net assets:		
Excess of revenues over expenses (continued)		
Change in unrealized gains and losses on investments	1,026,921	-
Net assets released from restrictions for property, plant and equipment	-	-
Transfers from (to) temporarily and permanently restricted net assets	-	-
Change in pension funding obligation	4,870,661	
Elimination of subsidiary no longer included in consolidation	-	-
Members Distribution		
Other		
Increase in unrestricted net assets	<u>5,897,582</u>	<u>-</u>
Temporarily restricted net assets:		
Contributions	775,018	792,547
Investment income (loss), net	209,512	(127,736)
Change in unrealized gains and losses on investments	(137,314)	40,448
Temporary operating expenses	(204,673)	-
Net assets released from restriction	-	(897,007)
Net assets released from restrictions for property, plant and equipment	(569,726)	(5,019,265)
Change in the equity interest of the Foundation	-	-
Transfer (to) from unrestricted and permanently restricted net assets	(4,870,661)	-
(Decrease) in temporarily restricted net assets	<u>(4,797,844)</u>	<u>(5,211,013)</u>
Permanently restricted net assets:		
Change in unrealized gains and losses on trusts held by others	(263,723)	296,115
Contributions		
Transfer from temporarily restricted net assets		
Increase in permanently restricted net assets	<u>(263,723)</u>	<u>296,115</u>
Increase (decrease) in net assets	836,015	(4,914,898)
Net assets at beginning of year	9,274,171	14,189,069
Net assets at end of year	<u>\$ 10,110,186</u>	<u>\$ 9,274,171</u>

The New Milford Hospital, Incorporated and Subsidiaries

Consolidating Balance Sheets

September 30, 2011

	The New Milford Hospital, Incorporated	New Milford MRI JV, LLC	Eliminations	The New Milford Hospital, Incorporated Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 10,253,805	364,697	\$ 91,600	\$ 10,710,102
Current portion of assets limited as to use	307,266	-	-	307,266
Current portion of pledges receivable	-	-	-	-
Accounts receivable, less allowance for uncollectible accounts of approximately \$2,311,000 in 2011	10,457,444	-	-	10,457,444
Inventories	1,944,478	-	-	1,944,478
Prepaid expenses and other	1,643,221	195,199	(423,382)	1,415,038
Total current assets	24,606,214	559,896	(331,782)	24,834,328
Investments	199,742	-	-	199,742
Assets limited as to use:				
Funds restricted by donor	-	-	-	-
Trusts held by others	-	-	-	-
Total noncurrent assets limited as to use	-	-	-	-
Investment in New Milford Hospital Foundation	10,110,186	-	-	10,110,186
Investment in New Milford Hospital MRI JV, LLC	(207,566)	-	207,566	(0)
Other assets	1,090,336	5,231	-	1,095,567
Property, plant, and equipment:				
Land and land improvements	1,546,857	-	-	1,546,857
Buildings and building improvements	50,072,773	-	-	50,072,773
Equipment and other	54,664,046	99,747	-	54,763,793
	106,283,676	99,747	-	106,383,423
Less accumulated depreciation	(71,616,611)	(21,781)	-	(71,638,392)
	34,667,065	77,966	-	34,745,031
Pledges receivable, less current portion	-	-	-	-
Total assets	\$ 70,465,977	\$ 643,093	\$ (124,216)	\$ 70,984,854
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 4,235,702	\$ -	\$ -	\$ 4,235,702
Payroll-related accruals	2,329,129	-	-	2,329,129
Due to third-party payors	4,184,788	-	-	4,184,788
Due to related parties	4,061,023	147,126	(250,726)	3,957,423
Other accrued expenses	2,161,341	161,077	-	2,322,418
Current portion of long-term debt and lease	364,817	144,956	-	509,773
Current portion of accrued pension liabilities	-	-	-	-
Total current liabilities	17,336,800	453,159	(250,726)	17,539,233
Accrued pension liabilities and other	16,402,029	36,728	-	16,438,757
Due to related parties, less current portion	5,203,150	81,056	(81,056)	5,203,150
Long-term debt and lease, less current portion	935,575	479,143	-	1,414,718
Net assets:				
Unrestricted	26,375,819	(406,993)	207,566	26,176,392
Temporarily restricted	525,763	-	-	525,763
Permanently restricted	3,686,841	-	-	3,686,841
Total net assets	30,588,423	(406,993)	207,566	30,388,996
Total liabilities and net assets	\$ 70,465,977	\$ 643,093	\$ (124,216)	\$ 70,984,854

The New Milford Hospital, Incorporated and Subsidiaries

Consolidating Statements of Operations

Year Ended September 30, 2011

	The New Milford Hospital, Incorporated	New Milford MRI JV, LLC	Eliminations	The New Milford Hospital, Incorporated Total
Unrestricted revenues:				
Net patient service revenue	\$ 90,588,107	\$ -	\$ -	\$ 90,588,107
Net assets released from restriction	346,393	-	-	346,393
Other operating revenue	2,889,896	1,188,400	(1,454,542)	2,623,754
	93,824,396	1,188,400	(1,454,542)	93,558,254
Expenses:				
Salaries, benefits and fees	52,253,080	116,975	(116,975)	52,253,080
Supplies and other	31,333,108	1,039,084	(1,337,567)	31,034,625
Insurance	1,611,492	-	-	1,611,492
Provision for uncollectible accounts	2,545,989	-	-	2,545,989
Depreciation and amortization	5,689,580	165,556	-	5,855,136
Interest	482,517	35,260	(5,851)	511,926
	93,915,766	1,356,875	(1,460,393)	93,812,248
Income (loss) from operations	(91,370)	(168,475)	5,851	(253,994)
Nonoperating gains (losses):				
Contributions	-	-	-	-
Investment income, net	70,150	-	(5,851)	64,299
Operating expenses of the New Milford Hospital Foundation, Inc.	-	-	-	-
Equity in income of New Milford MRI JV, LLC	(72,722)	-	72,722	-
	(2,572)	-	66,871	64,299
Excess (deficit) of revenues over expenses	\$ (93,942)	\$ (168,475)	\$ 72,722	\$ (189,695)