CLIFTON-FINE HEALTH CARE CORPORATION

Financial Statements
and Supplementary Information

December 31, 2010 and 2009

CLIFTON-FINE HEALTH CARE CORPORATION

Financial Statements and Supplementary Information

Years ended December 31, 2010 and 2009

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Fust Charles Chambers LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Clifton-Fine Health Care Corporation:

We have audited the accompanying balance sheets of Clifton-Fine Health Care Corporation (Hospital) as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clifton-Fine Health Care Corporation as of December 31, 2010 and 2009 and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Fust Charles Chambers LLP

May 27, 2011

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CLIFTON-FINE HEALTH CARE CORPORATION

Management's Discussion and Analysis
as of and for the year ended December 31, 2010

(Unaudited)

Our discussion and analysis of Clifton-Fine Health Care Corporation's (Hospital) financial performance provides an overview of the Hospital's financial activities for the year ended December 31, 2010. The financial activity of the Wilderness Health Care Foundation, Inc. (Foundation) is blended within the Hospital's financial statements as described further in note 1. Please read this information in conjunction with the Hospital's financial statements.

Overview of the Financial Statements

The Hospital presents three basic financial statements: a balance sheet, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

The balance sheet reports our financial position and is measured in terms of resources (assets) we own and obligations (liabilities) we owe on a given date. This information reflects the Hospital's assets in relation to its debts to suppliers, lessors, employees and other creditors. The excess of our assets over liabilities is our equity, or net assets. Increases and decreases in net assets over time indicate whether our entity's financial operation has improved or deteriorated.

The statement of revenues, expenses and changes in net assets reports the results of our operations (revenues less expenses) for the period presented. This statement shows how much our overall net assets increased or decreased during the years as a result of our operations and for other reasons (for example, capital contributions we receive.)

The statement of cash flows discloses the flow of cash resources into and out of the Hospital during the year. It reflects all the cash flows we received during the year (from operations, contributions and other sources) and how we applied those funds (for example, payment of expenses, repayment of leases, purchases of new property and equipment.)

Financial Highlights

- The Hospital's net assets increased by $543,145 or 14% in 2010, which includes a contribution of interest in net assets of the Foundation of $293,349 to account for the restructuring of the Foundation. There was a decrease of $38,909 or 1.0% in 2009.

- The Hospital reported an operating loss of $632,970 in 2010 and $616,537 in 2009. The loss in 2010 was a $16,433 change from 2009.

- Nonoperating revenues increased by $22,432 or 18% in 2010 compared to 2009.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheets on page 8. The Hospital's net assets increased in 2010 by $543,145 (14%), as presented in Table 1.

Table 1: Assets, Liabilities and Net Assets (in thousands)

		2010	2009
Assets:			
Current assets	$	3,239	2,969
Capital assets, net		3,562	1,801
Other noncurrent assets		296	-
Total assets	$	7,097	4,770
Liabilities:			
Current liabilities		881	566
Long-term liabilities		1,861	392
Total liabilities	$	2,742	958
Net assets:			
Invested in capital assets, net of related debt		1,566	1,317
Restricted expendable net assets		63	55
Unrestricted		2,726	2,440
Total net assets	$	4,355	3,812

CLIFTON-FINE HEALTH CARE CORPORATION

Management's Discussion and Analysis
as of and for the year ended December 31, 2010

(Unaudited)

Operating Results and Changes in the Hospital's Net Assets

In 2010, the Hospital's net assets increased by $543,145 (14%) as presented in Table 2.

Table 2: Operating Results and Changes in Net Assets (in thousands)

	2010	2009
Operating revenues:		
Net patient service revenue	$ 6,428	6,087
Other operating revenue	52	101
Total operating revenues	6,480	6,188
Operating expenses:		
Salaries and benefits	5,178	5,108
Depreciation and amortization	347	272
Other operating expenses	1,587	1,424
Total operating expenses	7,112	6,804
Operating loss	(632)	(616)
Nonoperating revenues and expenses:		
Noncapital subsidies from municipalities	200	200
Noncapital grants and contributions	56	161
Loss on disposal of capital assets	(8)	(158)
Decrease in interest in net assets of Wilderness Health Care Foundation, Inc.	(88)	-
Other nonoperating revenues and expenses, net	(16)	(82)
Total nonoperating revenues	144	121
Deficiency of revenues over expenses before capital grants, contributions for long-lived assets and insurance proceeds	(488)	(495)
Capital grants	134	56
Contributions for long-lived assets	626	7
Insurance proceeds, net	(22)	393
Contributions of interest in net assets of Wilderness Health Care Foundation, Inc.	293	-
Increase (decrease) in net assets	543	(39)
Net assets at beginning of year	3,812	3,851
Net assets at end of year	$ 4,355	3,812

Operating Loss

The first component of the overall change in the Hospital's net assets is its operating loss - generally, the difference between operating revenues and the expenses incurred to perform these services. In 2010, the Hospital has reported an operating loss of approximately $633,000. A significant reason for the operating loss is due to emergency department costs, an increase in operating expenses and depreciation and amortization expenses.

A. Emergency Department Costs

The Hospital's emergency department serves a relatively small population which results in a low volume of patients serviced. Given the requirement to provide constant emergency department coverage and the low volume of patients along with the payor base, the majority of whom are non-Medicare, the cost of operating the emergency department is substantially higher than the revenue generated.

B. Operating Expenses Increase

Increase in operating expenses can be attributed to an increase in employee benefits. The Hospital's employee benefits expense increase can be attributed mostly to an increase in the New York State and Local Employees' Retirement System funding requirements. The increase in funding resulted in an increase in pension expense of approximately 38.6%.

C. Depreciation and Amortization Increase

The increase in depreciation and amortization expense is attributed to the completion of the construction of the clinic during November 2010. The project resulted in an increase of approximately $2.3 million in assets that were placed into serviced during the year.

Operating revenues are comprised of volume in the available services and the reimbursement methodologies that are in effect. Operating revenues in 2010 increased compared to the prior year by 4.7%.

Operating Expenses

Overall, our operating expenses increased by 4.5%. This increase is due primarily to:

- Employee benefits due to increases in pension funding requirements; and
- Increases in depreciation expense due to the completion of the construction of the clinic.

Operating Expenses, Continued

In summary, operational performance during 2010 continued to be at a deficit. A cautionary note is required that summarizes the true financial operating levels and identifies management actions to address this ongoing deficit.

- Net patient service revenue increased by approximately $37,000 in 2010 and decreased by approximately $71,000 in 2009 related to either settlement of prior year issues or changes in estimates associated with third-party issues. Excluding the effect of prior year issues and changes in estimates yields the true financial operating levels during 2010 and 2009 which would reflect a 2010 and 2009 operating loss of $669,970 and $545,537, respectively, and a 2010 and 2009 increase in net assets of $506,145 and $32,091, respectively.

- Nonoperating revenues consist mostly of noncapital subsidies from municipalities, noncapital grants and contributions and interest in net assets of Wilderness Health Care Foundation, Inc. The noncapital subsidies from municipalities will be discontinued if the Hospital's application to convert from a public benefit corporation to a private not-for-profit corporation is successful. If converted, the Hospital will no longer be receiving the municipalities' subsidies and will no longer be participating in the New York State and Local Employees' Retirement System. The Hospital would anticipate an overall cost savings as a result of this conversion.

Other Changes in Net Assets

The change in net assets is attributed to the operating loss, offset by an increase in nonoperating revenues, capital grants and contributions for long lived assets. The capital grants and contributions for long lived assets increased by approximately $288,000 from 2009, which includes an increase of capital grants and contributions for long-lived assets offset by a decrease in insurance proceeds. This increase is mainly due to the contributions received by the Foundation for the Capital Campaign to aid in the rebuilding of the clinic. The remaining increase in net assets of the Hospital is attributed to the contribution of interest in net assets of the Foundation. The Hospital recorded a contribution in net assets of the Foundation due to the restructuring of the Foundation that occurred in March 2010.

Cash Flows

Changes in the Hospital's cash flows is attributed to the blending of the Foundation's activity for 2010 offset by an increase in capital and related financing activities due to the clinic construction costs.

Capital Asset and Debt Administration

Capital Assets

At December 31, 2010, the Hospital had approximately $3,562,000 invested in capital assets, net of accumulated depreciation. During 2010, the Hospital received advances on the construction commitment loan resulting in debt of $1,600,000 for the clinic construction project that was completed during the year.

Debt

The Hospital's long-term debt and capital lease obligations is approximately $1,996,000 that is made up of three equipment leases and the construction loan previously mentioned.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Hospital Finance Office, at Clifton-Fine Health Care Corporation, 1014 Oswegatchie Trail, Star Lake, New York 13690.

CLIFTON-FINE HEALTH CARE CORPORATION

Balance Sheets

December 31, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents	$ 1,103,950	966,965
Investments	758,233	746,852
Patient accounts receivable, net of allowance for doubtful accounts of approximately $98,000 in 2010 and $91,000 in 2009	766,283	477,565
Prepaid expenses and other current assets	262,302	175,718
Inventories	178,121	196,373
Pledges receivable, net	116,821	-
Other receivables	-	102,057
Estimated third-party payor settlements, net	-	180,030
Grants receivable restricted for specific operating activities	53,796	123,985
Total current assets	3,239,506	2,969,545
Capital assets:		
Land	2,222	2,222
Depreciable capital assets, net of accumulated depreciation	3,548,599	1,589,120
Construction-in-progress	11,393	209,412
Total capital assets, net of accumulated depreciation	3,562,214	1,800,754
Pledges receivable, net	203,737	-
Grants receivable restricted for capital acquisitions	10,360	-
Debt issuance costs	80,943	-
Total assets	$ 7,096,760	4,770,299
Liabilities and Net Assets		
Current liabilities:		
Current maturities of long-term debt and capital lease obligations	134,540	91,125
Accounts payable and accrued expenses	621,739	474,704
Estimated third-party payor settlements, net	124,106	-
Total current liabilities	880,385	565,829
Long-term debt and capital lease obligations, net of current maturities	1,861,271	392,511
Total liabilities	2,741,656	958,340
Net assets:		
Invested in capital assets, net of related debt	1,566,403	1,317,118
Restricted:		
Expendable for capital acquisitions	7,755	9,100
Expendable for specific operating activities	55,000	46,000
Unrestricted	2,725,946	2,439,741
Total net assets	4,355,104	3,811,959
Commitments and contingencies (note 12)		
Total liabilities and net assets	$ 7,096,760	4,770,299

See accompanying notes to financial statements.

CLIFTON-FINE HEALTH CARE CORPORATION

Statements of Revenues, Expenses and Changes in Net Assets

Years ended December 31, 2010 and 2009

	2010	2009
Operating revenues:		
Net patient service revenue (net of provision for bad debts of approximately $157,000 in 2010 and $101,000 in 2009)	$ 6,427,892	6,087,092
Other	51,605	100,549
Total operating revenues	6,479,497	6,187,641
Operating expenses:		
Salaries and wages	3,995,977	4,001,277
Employee benefits	1,182,303	1,106,814
Professional fees and contracted services	433,551	471,591
Supplies and other	921,869	781,689
Utilities	128,982	97,420
Insurance	102,109	73,434
Depreciation and amortization	347,676	271,953
Total operating expenses	7,112,467	6,804,178
Operating loss	(632,970)	(616,537)
Nonoperating revenues (expenses):		
Interest income	27,489	9,638
Interest expense	(23,388)	(82,848)
Loss of disposal of capital assets	(7,748)	(157,609)
Decrease in the fair market value of investments	(19,441)	(7,948)
Noncapital subsidies from municipalities	200,000	200,000
Noncapital grants and contributions	56,180	161,412
Forfeited noncapital grants	(1,000)	(794)
Decrease in interest in net assets of Wilderness Health Care Foundation, Inc.	(87,809)	-
Total nonoperating revenues	144,283	121,851
Deficiency of revenues over expenses before capital grants, contributions for long-lived assets and insurance proceeds	(488,687)	(494,686)
Capital grants	133,950	55,990
Contributions for long lived assets	626,138	6,600
Insurance proceeds (unreimbursed expenditures), net	(21,605)	393,187
Contribution of interest in net assets of Wilderness Health Care Foundation, Inc.	293,349	-
Increase (decrease) in net assets	543,145	(38,909)
Net assets at beginning of year	3,811,959	3,850,868
Net assets at end of year	$ 4,355,104	3,811,959

See accompanying notes to financial statements.

CLIFTON-FINE HEALTH CARE CORPORATION

Statements of Cash Flows

Years ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 6,056,424	5,626,418
Third-party payor settlements, net	198,980	775,679
Payments to suppliers and contractors	(1,443,138)	(1,715,305)
Payments to employees	(5,200,350)	(4,960,330)
Other receipts and payments, net	196,911	421,344
Net cash provided by (used in) operating activities	(191,173)	147,806
Cash flows from noncapital financing activities:		
Noncapital grants and contributions	126,369	207,061
Noncapital subsidies from municipalities	200,000	250,000
Other	(119,631)	-
Net cash provided by noncapital financing activities	206,738	457,061
Cash flows from capital and related financing activities:		
Capital grants	429,170	135,482
Purchase of capital assets	(2,100,371)	(312,341)
Insurance proceeds, net	80,452	590,780
Proceeds on long-term debt	1,519,057	-
Principal payments on capital lease obligations	(87,825)	(215,675)
Interest payments on capital lease obligations	(39,901)	(82,848)
Contribution of interest in net assets of Wilderness Health Care Foundation, Inc.	293,349	-
Net cash provided by capital and related financing activities	93,931	115,398
Cash flows from investing activities:		
Interest income	27,489	9,638
Purchase of investments	-	(750,000)
Net cash provided by (used in) investing activities	27,489	(740,362)
Net increase (decrease) in cash and cash equivalents	136,985	(20,097)
Cash and cash equivalents at beginning of year	966,965	987,062
Cash and cash equivalents at end of year	$ 1,103,950	966,965

(Continued)

CLIFTON-FINE HEALTH CARE CORPORATION

Statements of Cash Flows, Continued

Years ended December 31, 2010 and 2009

	2010	2009
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	(632,970)	(616,537)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	347,676	271,953
Provision for bad debts	157,067	101,255
Changes in operating assets and liabilities:		
Patient accounts receivable	(445,785)	56,667
Prepaid expenses and other current assets	(86,584)	45,451
Inventories	18,252	(36,728)
Accounts payable and accrued expenses	147,035	(151,066)
Estimated third-party payor settlements	304,136	476,811
Net cash provided by (used in) operating activities	$ (191,173)	147,806

Noncash Investing, Capital and Financing Activities:

The Hospital entered into capital lease obligations of $531,179 for new equipment in 2009. The Hospital did not enter into any capital lease obligations during 2010.

See accompanying notes to financial statements.

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

(a) Reporting Entity

Clifton-Fine Health Care Corporation (Hospital), a public benefit corporation, operates a critical access hospital providing services to residents and visitors of the Star Lake, New York, area. The Hospital Board of Directors is appointed by the Town Supervisors of the Towns of Clifton and Fine. As a public benefit corporation, the Hospital is not subject to federal or state income taxes.

Wilderness Health Care Foundation, Inc. (Foundation), a 501(c)(3) not-for-profit corporation, was established to solicit, receive and administer contributions on behalf of the Hospital. In March 2010, the Hospital became the sole member of the Foundation. The financial activity of the Foundation is blended within the Hospital's financial statements with all intercompany activity eliminated for 2010. Prior to March 2010, the Foundation was organized and operated to provide financial assistance to the Town of Clifton and the Town of Fine in their operation of the Hospital for the provision or support of health care and/or related services in northern New York State. This restructuring resulted in a contribution in net assets of the Foundation of $293,349 during 2010 as described in note 11.

(b) Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

(c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less at the date of purchase.

(1) Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

(e) Investments

Investments primarily consist of cash equivalents and fixed income securities. Fixed income securities are stated at fair value based on quoted market prices. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is reported as nonoperating revenue (expenses).

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is at least possible that changes in risks in the near term would materially affect the net assets of the Hospital.

(f) Inventories

Inventories are reported at the lower of cost or market on the first-in, first-out method.

(g) Capital Assets

Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using asset lives ranging from 3 to 40 years. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

(h) Debt Issuance Costs

Debt issuance costs are amortized on a straight-line basis over the terms of the related debt. The costs relate to the financing of the Hospital's debt. Amortization of these costs will begin in May 2011, upon the closing of the debt with the bank. Amortization expense will be approximately $3,400 for 2011 and $5,400 for years 2012 through 2015.

(1) Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

(i) Net Patient Service Revenue and Patient Accounts Receivable

The Hospital is designated as a Critical Access Hospital by Medicare and Medicaid. These third-party payors reimburse the Hospital on a cost basis. The Hospital also has agreements with other third-party payors. Payment arrangements include prospectively determined rates per discharge, cost-based reimbursement, discounted charges and per diem payments. Net patient service revenue and the related patient accounts receivable are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive 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 adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

An allowance for doubtful accounts receivable is estimated by management based on periodic reviews of the collectibility of accounts receivable considering historical experience and prevailing economic conditions.

Revenue from the Medicare and Medicaid programs accounted for approximately 63% and 68% of the Hospital's net patient service revenue for the years ended December 31, 2010 and 2009, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue increased by approximately $37,000 in 2010 and decreased by approximately $71,000 in 2009, relating to either settlement of prior year issues or changes in estimates associated with third-party issues.

The Hospital grants unsecured credit to its patients, most of whom are local residents and are insured under third-party payor agreements. The concentration of receivables from patients and third-party payors at December 31 was as follows:

	2010	2009
Medicare	25%	21%
Medicaid	25%	26%
Private payors	17%	23%
Insurance and all others	33%	30%
	100%	100%

(Continued)

(1) Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

(j) Pledges Receivable

Pledges receivable mainly represent promises to give toward the Hospital's clinic construction project. The Foundation records pledges receivable at their present value using an average discount rate of 1.75% in 2010. At December 31, 2010, aggregate discounts and reserve for uncollectible pledges totalled $4,449 and $30,000, respectively. The net present value of pledges receivable due to be collected during 2011 is $116,821 and during fiscal years 2012 - 2014 is $238,186.

(k) Grants and Contributions

The Hospital receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

(l) Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

(m) Net Assets

Net assets of the Hospital are classified in three components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted.*

(1) Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

(n) Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

(o) Charity Care and Community Benefit

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. In addition, the Hospital provided a community benefit that consisted of unreimbursed charges from a school-based clinic that it operated through September 2009. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy and the school-based clinic were approximately $51,000 and $93,000 in 2010 and 2009, respectively.

(p) Estimated Health Insurance Costs

The provision for estimated employee health insurance claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(q) Credit Concentration

The Hospital maintains funds on deposit in excess of amounts insured by the Federal Depository Insurance Corporation limits.

(r) Subsequent Events

Subsequent events have been evaluated through May 27, 2011, which is the date the financial statements were available to be issued.

(2) Operating Considerations

The Hospital has incurred operating losses of approximately $633,000 and $617,000 in 2010 and 2009, respectively. These losses are primarily related to low patient volume combined with fixed costs.

Currently, the Towns of Clifton and Fine each provide $100,000 of financial support per year to the Hospital which is used to support general operations. In 2010, the Hospital submitted an application with the New York State Department of Health to convert from a public benefits corporation to a private not-for-profit corporation. If the application is successful, the financial support from the Towns of Clifton and Fine will be discontinued, and the Hospital will no longer be able to participate in the New York State and Local Employees' Retirement System as described in note 8. The Hospital anticipates a cost savings as a result of this corporate structure conversion. The approval for the conversion is expected in late 2011 or early 2012.

During March 2010, the Hospital became the sole member of the Foundation which initiated a capital fundraising campaign to support the construction of the new medical clinic that was completed during November 2010. The support received will be used to pay down the debt associated with construction of the clinic. The Hospital also became enrolled in the 340B Discount Drug Program effective January 1, 2011. It is anticipated that the efforts undertaken, including continued marketing efforts, will provide future financial benefit to the Hospital.

(3) Investments

Investments held at December 31 consist of the following:

		2010	2009
Cash equivalents	$	35,595	80,444
Common stock		6,362	-
Fixed income securities		716,276	666,408
Total	$	758,233	746,852

Investment income, included in interest income reported in the statements of revenues, expenses and changes in net assets, amounted to $26,658 and $6,387 for the years ended December 31, 2010 and 2009, respectively.

(Continued)

(4) Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Hospital at December 31 consisted of the following:

		2010	2009
Patient Accounts Receivable			
Receivable from patients and their insurance carriers	$	437,908	334,609
Receivable from Medicare		298,305	119,259
Receivable from Medicaid		127,706	114,453
Total patient accounts receivable		863,919	568,321
Less allowance for doubtful accounts		(97,636)	(90,756)
Patient accounts receivable, net	$	766,283	477,565
Accounts Payable and Accrued Expenses			
Payable to employees (including payroll taxes)		356,236	341,207
Payable to suppliers		265,503	133,497
Total accounts payable and accrued expenses	$	621,739	474,704

(Continued)

(5) Capital Assets

Capital asset additions, transfers and retirements, and balances for the years ended December 31, 2010 and 2009 were as follows:

	December 31, 2009	Additions	Transfers and retirements	December 31, 2010
Land	$ 2,222	-	-	2,222
Buildings and land improvements	1,369,953	1,518,996	756,152	3,645,101
Moveable equipment	2,299,329	29,299	(50,537)	2,278,091
Fixed equipment	277,126	-	-	277,126
Construction-in-progress	209,412	568,589	(766,608)	11,393
Totals at historical cost	4,158,042	2,116,884	(60,993)	6,213,933
Less accumulated depreciation for:				
Building and land improvements	(824,107)	(118,397)	2,708	(939,796)
Moveable equipment	(1,404,395)	(217,137)	50,537	(1,570,995)
Fixed equipment	(128,786)	(12,142)	-	(140,928)
Total accumulated depreciation	(2,357,288)	(347,676)	53,245	(2,651,719)
Capital assets, net	$ 1,800,754	1,769,208	(7,748)	3,562,214

(Continued)

(5) Capital Assets, Continued

	December 31, 2008	Additions	Transfers and retirements	December 31, 2009
Land	$ 4,205	-	(1,983)	2,222
Buildings and land improvements	1,344,313	494	25,146	1,369,953
Moveable equipment	2,441,779	576,395	(718,845)	2,299,329
Fixed equipment	338,211	-	(61,085)	277,126
Construction-in-progress	36,643	266,631	(93,862)	209,412
Totals at historical cost	4,165,151	843,520	(850,629)	4,158,042
Less accumulated depreciation for:				
Building and land improvements	(797,874)	(58,689)	32,456	(824,107)
Moveable equipment	(1,826,951)	(199,949)	622,505	(1,404,395)
Fixed equipment	(152,530)	(13,315)	37,059	(128,786)
Total accumulated depreciation	(2,777,355)	(271,953)	692,020	(2,357,288)
Capital assets, net	$ 1,387,796	571,567	(158,609)	1,800,754

(6) Long-Term Debt and Capital Lease Obligations

A schedule of changes in the Hospital's long-term debt and capital lease obligations for 2010 and 2009 is as follows:

	December 31, 2009	Additions	Reductions	December 31, 2010
Long-term debt	$ -	1,600,000	-	1,600,000
Capital lease obligations	483,636	-	(87,825)	395,811
Total long-term debt and capital lease obligations	$ 483,636	1,600,000	(87,825)	1,995,811

(Continued)

(6) Long-Term Debt and Capital Lease Obligations, Continued

	December 31, 2008	Additions	Reductions	December 31, 2009
Capital lease obligations	$ 168,132	531,179	(215,675)	483,636

The terms, due dates and balances of the Hospital's long-term debt and capital lease obligations at December 31 is as follows:

	2010	2009
Construction/mortgage loans payable	$ 1,600,000	-
Philips Medical Capital, LLC, payable in monthly installments of $6,933 including principal and interest of 4.6% through May 2014. This obligation is secured by equipment with a net book value of $258,254 as of December 31, 2010	262,586	331,965
Philips Medical Capital, LLC, payable in monthly installments of $1,514 including principal and interest of 4.6% through May 2014. This obligation is secured by equipment with a net book value of $56,693 as of December 31, 2010	57,325	72,471
Siemens Healthcare Diagnostics, Inc., non-interest bearing and payable in monthly installments of $1,650 beginning September 2010 through September 2014. This obligation is secured by equipment with a net book value of $77,786 as of December 31, 2010	75,900	79,200
	1,995,811	483,636
Less current maturities	(134,540)	(91,125)
	$ 1,861,271	392,511

(Continued)

(6) Long-Term Debt and Other Noncurrent Liabilities, Continued

Construction/Mortgage Loan Payable

In March 2010, the Hospital entered into a construction loan in the sum of $1,936,000 in which draws were made throughout 2010 as needed with a bank with interest at a rate equal to the prime rate plus two percent (2%), with a floor of five percent (5%). Interest-only payments were made on the sum of the outstanding draws until the construction loan period expired. On May 12, 2011, the amount outstanding was converted into two mortgage loans. A mortgage loan in the amount of $1,150,000 was entered into with Community Bank, N.A. This loan is payable over twenty years, bearing interest at 7.12%. This loan is subject to a mortgage and security agreement that provides that the entire balance is secured by a first position in the Hospital's property. The remaining amount due on the mortgage loan of $450,000 was financed with the North Country Alliance Local Development Corporation. Under the terms of this agreement, $300,000 of this loan is financed at an interest rate of 5% and $150,000 is financed at a rate of 2.625% over a term of fifteen years. This loan is subordinate to the mortgage loan with Community Bank, N.A. At December 31, 2010, there was $1,600,000 outstanding on the construction loan at an interest rate of 5.25%.

In connection with the loans, the Hospital is required to comply with certain restrictive covenants beginning in 2011.

Scheduled principal and interest repayments on long-term debt and capital lease obligations are as follows:

	Long-term debt		Capital lease obligations	
Year ending December 31	Principal	Interest	Principal	Interest
2011	$ 26,244	58,582	108,297	12,865
2012	50,134	99,300	112,454	8,707
2013	53,378	96,057	116,808	4,354
2014	56,597	92,835	58,252	481
2015	60,031	89,403	-	-
2016 - 2020	359,681	382,213	-	-
2021 - 2025	487,096	260,070	-	-
2026 - 2030	462,281	102,292	-	-
2031	44,558	797	-	-
Total	$ 1,600,000	1,181,549	395,811	26,407

(Continued)

(7) Restricted Net Assets

Restricted, expendable net assets are available for the following purposes at December 31:

	2010	2009
Purchase of capital equipment	$ 7,755	9,100
Community development projects, worker training and other	55,000	46,000
Total expendable, restricted net assets	$ 62,755	55,100

(8) Retirement Plan

Substantially all employees are covered by a retirement plan of the New York State and Local Employees' Retirement System (Retirement System). This is a cost-sharing, multi-employer defined benefit retirement plan. The retirement plan provides retirement, death and disability benefits. Obligations of employers and employees to contribute, and benefits to employees, are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Retirement System. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Retirement System and for the custody and control of its funds. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244-0001.

The retirement plan is noncontributory, except for those employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. The State Legislature passed legislation in 2000 that suspended the 3% contribution for employees who have attained ten years or more of credited service. In addition, members who meet certain eligibility requirements will receive one month's additional service credit for each completed year of service up to a maximum of two additional years of service credit. Under the authority of the NYSRSSL, the Comptroller shall annually certify the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by the employers to the pension accumulation fund.

The Hospital funding policy to the Retirement System is financed on a pay-as-you-go basis. The Hospital contributions to the Retirement System for the years ending December 31, 2010, 2009 and 2008 were $436,857, $298,797 and $295,869, respectively, equal to the required contributions for each year.

Pension expense amounted to $411,216, $296,688 and $285,452 for the years ended December 31, 2010, 2009 and 2008, respectively.

(Continued)

(9) Insurance Proceeds

On October 11, 2008, a fire caused extensive damage to the Hospital Clinic causing the building and its contents to be permanently impaired. During 2010, the remaining proceeds were received and final costs were incurred related to the final settlement to cover the contents and reimbursement for costs incurred to establish and operate a clinic in a temporary location. The Hospital incurred unreimbursed expenditures related to this event amounting to approximately $22,000 during 2010.

(10) Fair Value of Financial Instruments

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification provides a definition for fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Hospital adopted these provisions for financial assets and liabilities that are re-measured and reported at fair value each reporting period. The financial assets recorded at fair value on a recurring basis primarily relate to cash equivalents and investments.

The Hospital is required to provide additional disclosures relative to fair value measurements. The following tables present information about assets that are measured at fair value on a recurring basis as of December 31 and indicate the fair value hierarchy of the valuation techniques utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices in active markets for identical assets or liabilities. The Hospital considers a security that trades at least weekly to have an active market. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

The following tables present the Hospital's assets measured at fair value on a recurring basis:

		Fair value measurements		
	Carrying amounts	(Level 1)	(Level 2)	(Level 3)
Financial assets at December 31, 2010:				
Cash equivalents	$ 259,427	259,427	-	-
Investments	758,233	41,957	716,276	-
Total	$ 1,017,660	301,384	716,276	-
Financial assets at December 31, 2009:				
Cash equivalents	143,646	143,646	-	-
Investments	746,852	80,444	666,408	-
Total	$ 890,498	224,090	666,408	-

(Continued)

(10) Fair Value of Financial Instruments, Continued

At December 31, 2010 and 2009, the recorded value approximates the fair value for all remaining financial assets and liabilities which are not measured at fair value on a recurring basis.

(11) Related-Party Transactions

Wilderness Health Care Foundation, Inc.

The financial activity of the Foundation is blended within the Hospital's financial statements as described in note 1 due to the restructuring of the Foundation during 2010. Revenues that are unrestricted or that are restricted to a specific operating purpose and all expenses are reported as nonoperating revenues and expenses. Revenues restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Summarized financial information is comprised of the following:

	December 31, 2010
Cash	$ 473,914
Investments	6,362
Pledges receivable, net	320,558
Other assets	42,600
Total assets	$ 843,434
Contributions due to Hospital	626,138
Accrued expenses	11,756
Total liabilities	$ 637,894
Unrestricted net assets	$ 205,540

	Year ended December 31, 2010
Total revenues	$ 626,250
Total expenses excluding contributions	(87,921)
Contributions to Hospital	(626,138)
Change in net assets	$ (87,809)

The restructuring of the Foundation has resulted in the blending of the Foundation's activity for 2010. As a result of blending the Foundation, the Hospital recorded a contribution of interest in net assets of the Foundation of $293,349.

(Continued)

(12) Commitments and Contingencies

Malpractice Insurance

The Hospital carries medical malpractice insurance under a claims-made policy with no deductible. Various medical malpractice claims against the Hospital are pending or may be asserted in the future. It is the opinion of management; however, that malpractice coverage is adequate to provide for potential losses resulting from pending or threatened litigation. Additional claims may be asserted against the Hospital arising from services provided to patients through December 31, 2010. The Hospital is unable to determine the ultimate cost of the resolution of such potential claims and, accordingly, no provision for loss, if any, which may result from such claims has been recorded in the accompanying financial statements.

Workers' Compensation Insurance

The Hospital participates in a self-insured trust (Trust) to provide workers' compensation coverage to its employees. Each member participating in the Trust is jointly and severally liable for the workers' compensation and employers' liability obligation of the Trust, irrespective of the subsequent termination of the Trust, the insolvency or bankruptcy of another member of the Trust or other facts or circumstances. Accordingly, the Hospital's financial liability in the Trust is contingent upon the financial viability of the individual members. The Trust uses reinsurance agreements to reduce its exposure to large losses with coverage provided in excess of $750,000 and aggregate indemnity limits of $2,000,000 for each year. In a report dated September 2010, the New York State Workers' Compensation Board (WCB) deemed the HONY Trust to be regulatory underfunded at December 31, 2009. To date, the regulatory underfunded position has not resulted in any formal action by the WCB, beyond additional financial and premium rate information requests and discussions to allow for closer monitoring by the WCB. At December 31, 2010, the Hospital has not been notified of any assessments resulting from participation in the HONY Trust. In addition, management of the Hospital monitors the financial stability of the Trust on an ongoing basis in order to mitigate the risk of joint and several liability.

Employee Health Insurance

The Hospital established a Health Reimbursement Arrangement to reimburse eligible employees a portion of the deductible and co-insurance amounts related to the Hospital's group health insurance plan. The Hospital has recorded an accrual that includes health insurance claims incurred but not reported.

(13) Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended December 31 are as follows:

	2010	2009
Health care services	$ 5,175,190	4,905,031
General and administrative	1,937,277	1,899,147
	$ 7,112,467	6,804,178