

AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

The Danbury Hospital and Subsidiary
Years ended September 30, 2009 and 2008
With Report of Independent Auditors

The Danbury Hospital and Subsidiary
Audited Consolidated Financial Statements
and Other Financial Information

Years ended September 30, 2009 and 2008

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Report of Independent Auditors

Board of Directors
The Danbury Hospital

We have audited the accompanying consolidated balance sheets of The Danbury Hospital and Subsidiary (the Hospital) as of September 30, 2009 and 2008, and the related consolidated statements of operations 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 did not audit the financial statements of Danbury Health Insurance Co. Ltd (the Company), a subsidiary of the Hospital, for the year ended September 30, 2009, which statements reflect total assets and revenues constituting 10% and 3%, respectively, of the related consolidated totals. These statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Company, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller 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 audits 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 audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Danbury Hospital and Subsidiary at September 30, 2009 and 2008, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

January 19, 2010

The Danbury Hospital and Subsidiary
Consolidated Balance Sheets

	September 30	
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 39,023,177	\$ 30,134,312
Assets limited as to use	1,756,854	1,777,234
Accounts receivable, less allowance for uncollectible accounts of \$16,321,000 in 2009 and \$15,605,000 in 2008	41,637,724	47,038,786
Current portion of due from related parties	3,662,991	17,140,576
Inventories	7,249,038	7,241,633
Prepaid expenses and other	9,658,593	9,782,186
Total current assets	<u>102,988,377</u>	<u>113,114,727</u>
Investments	196,407,798	158,287,487
Prepaid pension and other assets	35,410,004	52,445,404
Due from related parties	12,947,858	14,922,412
Interest in Danbury Hospital Development Fund, Inc.	74,439,678	72,748,004
Property, plant and equipment:		
Land and land improvements	7,105,504	6,929,568
Buildings and building improvements	223,364,649	215,768,192
Equipment and other	179,865,401	160,278,254
Construction in progress (estimated cost to complete at September 30, 2009: \$11,412,000)	12,550,101	13,442,247
	<u>422,885,655</u>	<u>396,418,261</u>
Less accumulated depreciation	251,993,763	229,167,870
	<u>170,891,892</u>	<u>167,250,391</u>
Bond issuance costs, net	3,274,927	3,452,377
Total assets	<u>\$ 596,360,534</u>	<u>\$ 582,220,802</u>

	September 30	
	2009	2008
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 19,989,643	\$ 18,485,557
Payroll-related accruals	14,142,886	11,911,101
Due to third-party payors	8,646,835	2,891,698
Interest payable	1,057,389	1,169,609
Other accrued expenses	3,365,463	3,148,154
Current portion of long-term debt	2,460,000	2,425,000
Total current liabilities	<u>49,662,216</u>	<u>40,031,119</u>
Self-insurance liabilities	36,867,859	32,232,942
Other long-term liabilities	14,488,471	16,419,555
Long-term debt, less current portion	114,675,000	117,135,000
Net assets:		
Unrestricted	325,008,268	348,481,186
Temporarily restricted	28,552,625	11,956,452
Permanently restricted	27,106,095	15,964,548
Total net assets	<u>380,666,988</u>	<u>376,402,186</u>
Total liabilities and net assets	<u><u>\$ 596,360,534</u></u>	<u><u>\$ 582,220,802</u></u>

See accompanying notes.

The Danbury Hospital and Subsidiary

Consolidated Statements of Operations and Changes in Net Assets

	Year ended September 30	
	2009	2008
Unrestricted revenues:		
Net patient service revenue	\$ 460,095,922	\$ 430,505,970
Other operating revenues	11,772,747	11,316,433
	471,868,669	441,822,403
Expenses:		
Salaries, benefits and fees	272,649,656	253,108,466
Supplies and other	117,914,134	112,448,578
Insurance	9,473,436	11,193,891
Provision for uncollectible accounts	16,695,481	15,597,793
Depreciation and amortization	23,125,624	20,324,444
Interest	4,667,920	5,680,738
	444,526,251	418,353,910
Income from operations	27,342,418	23,468,493
Nonoperating gains (losses):		
Investment income, net	6,466,684	7,209,837
Change in unrealized gains and losses on investments	4,492,089	(28,243,677)
Loss on early extinguishment of debt	-	(904,724)
Change in equity interest in unrestricted net assets of the Danbury Hospital Development Fund, Inc.	213,448	(8,808,260)
	11,172,221	(30,746,824)
Excess (deficiency) of revenues over expenses	38,514,639	(7,278,331)

Continued on next page.

The Danbury Hospital and Subsidiary

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

	Year ended September 30	
	2009	2008
Unrestricted net assets:		
Excess (deficiency) of revenues over expenses (continued)	\$ 38,514,639	\$ (7,278,331)
Change in equity interest of the Danbury Hospital Development Fund, Inc.	(26,259,494)	(3,604,531)
Transfers from the Danbury Hospital Development Fund, Inc.	5,185,066	3,850,604
Transfers to Danbury Health Systems, Inc.	(40,913,129)	-
Decrease in unrestricted net assets	<u>(23,472,918)</u>	<u>(7,032,258)</u>
Temporarily restricted net assets:		
Change in equity interest of the Danbury Hospital Development Fund, Inc.	16,596,173	(345,527)
Increase (decrease) in temporarily restricted net assets	<u>16,596,173</u>	<u>(345,527)</u>
Permanently restricted net assets:		
Change in equity interest of the Danbury Hospital Development Fund, Inc.	11,141,547	1,674,952
Increase in permanently restricted net assets	<u>11,141,547</u>	<u>1,674,952</u>
Increase (decrease) in net assets	<u>4,264,802</u>	<u>(5,702,833)</u>
Net assets at beginning of year	<u>376,402,186</u>	<u>382,105,019</u>
Net assets at end of year	<u>\$ 380,666,988</u>	<u>\$ 376,402,186</u>

See accompanying notes.

The Danbury Hospital and Subsidiary
Consolidated Statements of Cash Flows

	Year ended September 30	
	2009	2008
Operating activities and other income		
Increase (decrease) in net assets	\$ 4,264,802	\$ (5,702,833)
Adjustments to reconcile increase in net assets to net cash provided by operating activities and other income:		
Depreciation and amortization	23,125,624	20,324,444
Change in unrealized gains and losses on investments	(4,492,089)	28,243,677
(Increase) decrease in equity interest in net assets of the Danbury Hospital Development Fund, Inc.	(1,691,674)	11,083,366
Transfers from the Danbury Hospital Development Fund, Inc.	(5,185,066)	(3,850,604)
Transfers to Danbury Health Systems, Inc.	36,061,534	-
Provision for uncollectible accounts	16,695,481	15,597,793
Loss on early extinguishment of debt	-	904,724
Decrease in other long-term liabilities	(1,931,084)	(29,028)
Increase (decrease) in self-insurance liabilities	4,634,917	(2,334,016)
Changes in operating assets and liabilities (See Note 11)	(145,055)	(33,795,834)
Net cash provided by operating activities and other income	71,337,390	30,441,689
Investing activities		
Additions to property, plant and equipment, net	(26,767,125)	(32,205,954)
Increase in due from related parties	(4,990,694)	(12,618,385)
(Increase) decrease in investments, net	(33,628,222)	20,402,874
Decrease in noncurrent assets limited as to use, net	-	13,420,291
Net cash used in investing activities	(65,386,041)	(11,001,174)
Financing activities		
Proceeds of issuance of bonds, net of change in issuance costs	177,450	35,632,916
Payments of long-term debt	(2,425,000)	(37,569,724)
Transfers from the Danbury Hospital Development Fund, Inc.	5,185,066	3,850,604
Net cash provided by financing activities	2,937,516	1,913,796
Net increase in cash and cash equivalents	8,888,865	21,354,311
Cash and cash equivalents at beginning of year	30,134,312	8,780,001
Cash and cash equivalents at end of year	\$ 39,023,177	\$ 30,134,312

See accompanying notes.

The Danbury Hospital and Subsidiary
Notes to Consolidated Financial Statements

September 30, 2009

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

The Danbury Hospital (the Hospital) is a voluntary, nonprofit association incorporated under the General Statutes of the State of Connecticut, and is a wholly owned subsidiary of Danbury Health Systems, Inc. (DHS). The Board of the Hospital is appointed by DHS.

The accompanying consolidated financial statements include the accounts of the Hospital and the Hospital's wholly owned subsidiary, Danbury Health Systems Insurance Company, Ltd. (DHSIC, Ltd.). All material intercompany transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the 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 include highly liquid investments with maturities 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.

Investments

The Hospital's unrestricted portion of the investment portfolio reported in the accompanying balance sheets is designated as trading, with realized and unrealized gains and losses included in the excess (deficiency) of revenues over expenses.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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

Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that the Hospital holds limited partnership interests, are stated at fair value as estimated in an unquoted market. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, the Hospital's holdings, may be determined by the investment manager or general partner, and for "fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Hospital to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts, and other derivative products. While these financial instruments may contain varying degrees of risk, the Hospital's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors.

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 primarily consist of contributions restricted for certain health care services. Permanently restricted net assets, which are primarily endowment gifts and assets held in trusts by others, have been restricted by donors and are to be maintained in perpetuity.

Assets Limited as to Use

Assets limited as to use represent assets held by trustees under indenture agreements related to financing activities with the State of Connecticut Health and Educational Facilities Authority (CHEFA). The portion of amounts required for funding current liabilities is included in current assets.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Patient Accounts Receivable

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for 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 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 32% and 14%, and 29% and 12%, for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2009 and 2008, respectively.

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 the assets over their estimated useful lives.

Conditional asset retirement obligations recorded under the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 410-20, *Asset Retirement Obligations*, amounted to \$726,537 as of September 30, 2009 and 2008. These obligations are recorded in other long-term liabilities in the accompanying balance sheet. There are no assets that are legally restricted for purposes of setting asset retirement obligations. During 2009 and 2008, retirement obligations incurred and settled were minimal.

Bond Issuance Costs

Discounts and deferred costs related to the issuance of bonds are amortized over the period the obligation is outstanding, using the bonds outstanding method. Accumulated amortization of discounts and deferred costs were \$1,092,389 and \$894,770 at September 30, 2009 and 2008, respectively.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost (last in, first out method) or market.

Excess (deficiency) of Revenues over Expenses

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

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities as of September 30, 2009 and 2008 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.

Pension Plan

The Hospital participates in a noncontributory defined benefit pension plan sponsored by DHS covering substantially all of its employees. Contributions are made to the plan in amounts sufficient to meet the Employee Retirement Income Security Act's minimum funding requirements. Net periodic pension expense allocated to the Hospital was \$10,022,856 and \$6,311,882 for 2009 and 2008, respectively. The Hospital has a prepaid pension on the consolidated balance sheets that represents additional funding the Hospital has made to the defined benefit pension plan. Prepaid pension was \$32,567,775 and \$48,186,483 at September 30, 2009 and 2008, respectively.

DHS's defined benefit pension plan had estimated projected benefit obligations of \$362,762,642 and \$279,449,297 at September 30, 2009 and 2008, respectively, and the fair value of those plan assets were \$251,961,341 and \$252,705,819 at September 30, 2009 and 2008, respectively. The discount rate was 5.78% and 6.56% for the years ended September 30, 2009 and 2008, respectively.

During 2009, the Hospital transferred net assets of \$40,913,129 to DHS relating to the Hospital's funding of DHS pension plans.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. DHSIC Ltd. is a foreign corporation exempt from U.S. taxation.

The Hospital has losses from unrelated business activities of approximately \$33,676,000, which began expiring in 2009. A deferred tax asset for these losses of approximately \$13,470,000 is offset by a corresponding valuation allowance of the same amount.

Interest in the Danbury Hospital Development Fund, Inc.

The interest in the Danbury Hospital Development Fund, Inc. represents the Hospital's interest in the restricted net assets of the Danbury Hospital Development Fund, Inc. and is accounted for in accordance with ASC 958-20, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* (See Note 10).

Adoption of New Accounting Standards

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

On October 1, 2008, the Hospital adopted ASC 820-10, *Fair Value Measurements* (ASC 820-10), which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The Hospital's adoption of ASC 820-10 did not significantly affect its consolidated financial statements (See Note 4).

On October 1, 2008, the Hospital adopted ASC 825-10, *The Fair Value Option for Financial Assets and Financial Liabilities* (ASC 825-10) which, among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. As a result of adopting ASC 825-10, the Hospital did not elect fair value accounting for any asset or liability not currently required to be measured at fair value. Consequently, the adoption of ASC 825-10 did not have an impact on its consolidated financial statements.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

On October 1, 2008, the Hospital adopted ASC 958-205: *Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (ASC 958-205), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The adoption of ASC 958-205 did not have a material effect on the Hospital's consolidated balance sheet at September 30, 2009. See Note 10 for disclosures related to the Hospital's endowment funds.

During 2009, the Hospital adopted ASC 855-10, *Subsequent Events* (ASC 855-10). ASC 855-10 establishes general standards of accounting and disclosure requirements for subsequent events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date under the requirements of ASC 855-10. The Hospital adopted the provisions of ASC 855-10 as of September 30, 2009, and evaluated the impact of subsequent events through January 19, 2010, representing the date at which the consolidated financial statements were issued.

Reclassifications

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

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

2. Net Patient Service Revenue and Charity Care

The following summarizes net patient service revenue:

	Year ended September 30	
	2009	2008
Gross patient service revenue	\$ 1,002,343,396	\$ 895,354,474
Deductions:		
Allowances	529,980,769	455,190,739
Charity care (at charges)	12,266,705	9,657,765
	542,247,474	464,848,504
Net patient service revenue	\$ 460,095,922	\$ 430,505,970

During 2009 and 2008, approximately 34% and 6%, and 32% and 6%, respectively, of net patient service revenue was received under the Medicare and Medicaid program, 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 Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. During 2009 and 2008, the Hospital recorded changes in estimates of approximately \$500,000 and \$1,900,000, respectively, related to better than previously estimated third party payor settlements.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

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

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

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 established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized 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.

3. Investments

The composition of investments is set forth in the following table:

	September 30			
	2009		2008	
	Cost	Market	Cost	Market
Fixed income investments:				
Cash and cash equivalents	\$ 124,785	\$ 124,785	\$ 123,970	\$ 123,970
United States Treasury obligations	36,054,162	36,271,805	14,250,290	14,182,363
Corporate bonds	22,917,780	22,638,150	17,064,574	15,692,779
Mutual funds	152,930,630	137,373,058	146,960,301	128,288,375
	<u>\$ 212,027,357</u>	<u>\$ 196,407,798</u>	<u>\$ 178,399,135</u>	<u>\$ 158,287,487</u>
Assets limited as to use:				
Money market funds	\$ 1,756,854	\$ 1,756,854	\$ 1,777,234	\$ 1,777,234
	<u>\$ 1,756,854</u>	<u>\$ 1,756,854</u>	<u>\$ 1,777,234</u>	<u>\$ 1,777,234</u>

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

3. Investments (continued)

Investment income, net within non-operating gains (losses) as of September 30, 2009 consists of:

Interest and dividend income	\$ 6,623,650
Realized gains and losses	<u>(156,966)</u>
	<u>\$ 6,466,684</u>

4. Fair Values of Financial Instruments

As described in Note 1, on October 1, 2008, the Hospital adopted the methods of fair value as described in ASC 820-10 to value its financial assets and liabilities, where applicable. As defined in ASC 820-10, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase consistency and comparability in fair value measurements, ASC 820-10 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described 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 are used when little or no market data are available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

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

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

4. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value as of September 30, 2009 are classified in the table below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 39,023,177	\$ —	\$ —	\$ 39,023,177
Investments:				
Cash and cash equivalents	124,785	—	—	124,785
United States Treasury obligations	36,271,805	—	—	36,271,805
Corporate bonds	22,638,150	—	—	22,638,150
Mutual Funds	89,094,823	48,278,235	—	137,373,058
Assets limited as to use:				
Money Market Funds	1,756,854	—	—	1,756,854
	<u>\$ 188,909,594</u>	<u>\$ 48,278,235</u>	<u>\$ —</u>	<u>\$ 237,187,829</u>

Fair value for Level 1 is based upon quoted market prices while fair value for Level 2 securities is primarily determined through prices obtained from third party pricing sources as quoted market prices for such securities are not readily available.

5. Long-Term Debt and Credit Facility

Long-term debt consists of the following:

	September 30	
	<u>2009</u>	<u>2008</u>
Hospital revenue bonds financed with CHEFA:		
Series G	\$ 41,555,000	\$ 42,420,000
Series H	41,560,000	41,560,000
Series J	34,020,000	35,580,000
	<u>117,135,000</u>	119,560,000
Less current portion	2,460,000	2,425,000
	<u>\$114,675,000</u>	<u>117,135,000</u>

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt and Credit Facility (continued)

The following is a summary of the combined aggregate amount of maturities and sinking fund requirements of the aforementioned obligations at September 30, 2009:

2010	\$ 2,460,000
2011	2,545,000
2012	2,635,000
2013	2,730,000
2014	2,835,000
Thereafter	<u>103,930,000</u>
	<u>\$ 117,135,000</u>

The fair value of the bonds, as determined by the Hospital's investment advisor, was approximately \$107,325,000 at September 30, 2009.

The Hospital paid interest of \$4,659,173 and \$5,413,175 in 2009 and 2008, respectively.

The Series G revenue bonds (Series G Bonds) mature from 2008 through 2029 at an average coupon rate of 5.63%. The proceeds of the Series G Bonds were used to construct a new Cancer Center and to reimburse the Hospital for equipment purchases made during fiscal year 1999. The scheduled payment of principal and interest on the Series G Bonds is guaranteed by an insurance policy issued by a commercial insurer.

The Series H revenue bonds (Series H Bonds) mature from 2030 through 2036 at an average coupon rate of 4.425%. The proceeds of the Series H Bonds were used for the construction, renovation and equipping of an outpatient diagnostic building with approximately 28,000 square feet of medical office space, a 381-space parking garage, a 264-space surface parking lot and to fund capitalized interest. The scheduled payment of principal and interest on the Series H Bonds when due is guaranteed by an insurance policy issued by a commercial insurer.

The Series I revenue bonds (Series I Bonds) were issued as variable rate debt to initially bear interest at an Auction Rate and are scheduled to mature and be called from 2007 to 2036. During fiscal year 2008, the Hospital refunded the Series I Bonds that were outstanding and was legally discharged from the obligation.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

5. Long-Term Debt and Credit Facility (continued)

The Series J Revenue bonds (Series J Bonds) were issued as variable rate debt to initially bear interest at a weekly rate (ranging from 0.2% to 7.5%) and are scheduled to mature from 2009 through 2036. The proceeds of Series J Bonds were used to advance refund all of the Series I bonds outstanding. The scheduled payment of principal and interest on the Series J Bonds is guaranteed by an irrevocable, direct-pay letter of credit issued by Wachovia Bank. The Series J Bonds may be converted from the weekly rate to a daily rate, short-term rate, long-term rate, auction rate or fixed rate.

Under the terms of the Series H Bonds, Series I Bonds and Series J Bonds financing arrangements between the Hospital and the Development Fund (the Obligated Group) and CHEFA, the proceeds of the revenue bonds were loaned to the Hospital. The Hospital is obligated to provide amounts sufficient to pay the principal and interest due on the Series H Bonds, Series I Bonds and Series J Bonds. The Master Indentures and Supplemental Master Indentures provide for the potential establishment and maintenance of a Debt Service Reserve Fund, a pledge of gross receipts, as defined, and parity with the Series G Bonds that remain outstanding. The Master Indentures also establishes a debt service coverage ratio requirement and restricts the incurrence of certain indebtedness by the Obligated Group.

Debt service funds held under bond indenture agreements for Series G Bonds, Series H Bonds and Series J Bonds were \$1,756,854 and \$1,777,234 at September 30, 2009 and 2008, respectively.

6. Commitments and Contingencies

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 the opinion of counsel, the outcome of these actions will not have a significant effect on the financial position or the results of operations of the Hospital.

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

In May 2008, Danbury Hospital received a subpoena from the U.S. Department of Health and Human Services, Office of Inspector General, requesting documentation relating to certain claims submitted to Medicare. A second subpoena was received in February 2009 requesting additional information. The Hospital has not received any detailed information about the basis of this subpoena and has fully cooperated with the government's request for information.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

6. Commitments and Contingencies (continued)

The Hospital has several operating lease agreements for certain real estate and equipment. Certain of these leases have renewal options for periods up to five years and escalation clauses. Rent is payable in equal monthly installments. Rent expense was \$3,980,458 and \$3,694,887 for the years ended September 30, 2009 and 2008, respectively.

The future minimum lease payments are as follows:

2010	\$ 3,944,647
2011	1,482,351
2012	1,187,486
2013	1,158,030
2014	1,204,252
Thereafter	4,390,573
	<u>\$ 13,367,339</u>

7. Related Party Transactions

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

	September 30	
	2009	2008
Danbury Health Systems, Inc.	\$ 1,908,977	\$ 13,782,033
Danbury Health Care Affiliates, Inc.	459,032	505,519
Business Systems, Inc.	964,266	1,079,959
The Danbury Hospital Development Fund, Inc.	123,066	1,599,695
Danbury Visiting Nurses Association, Inc.	153,932	119,571
Regional Hospice of Western Connecticut	53,718	53,798
Danbury Office of Physician Services, P.C.	12,947,858	14,922,413
	<u>\$ 16,610,849</u>	<u>\$ 32,062,988</u>

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

7. Related Party Transactions (continued)

The Hospital earned income from related parties as follows:

	Year ended September 30	
	2009	2008
Danbury Health Care Affiliates, Inc.	\$ 157,597	\$ 156,828
Business Systems, Inc.	276,065	303,641
	<u>\$ 433,662</u>	<u>\$ 460,469</u>

Danbury Office of Physician Services, P.C. (DOPS) is a nonprofit professional corporation which provides medical services to the Hospital. Charges for physician services provided to the Hospital by DOPS were \$31,954,001 and \$30,631,504 for the years ended September 30, 2009 and 2008, respectively. During 2003, the Hospital issued a note receivable for \$2,000,000 to DOPS, of which \$1,020,495 and \$1,194,045 was outstanding at September 30, 2009 and 2008, respectively. Other amounts due from DOPS represent cash advances from the Hospital.

8. Professional Liability Self-Insurance

Effective October 1, 2004, the Hospital formed a captive insurance company, Danbury Health Systems Insurance Company, Ltd. (DHSIC, Ltd.), domiciled in the Cayman Islands, to provide alternative professional liability insurance to the Hospital and DOPS, as well as providing community doctors with a competitive professional liability insurance option.

Coverage for medical malpractice insurance is on a claims-made basis. The coverage limits are \$5,000,000 per claim and \$25,000,000 in the aggregate. The excess indemnity coverage is \$15,000,000 per claim and \$15,000,000 in the aggregate. The Hospital has recorded a liability of \$9,700,000 at September 30, 2009 for incurred-but-not-reported claims, which is included in other long-term liabilities on the accompanying consolidated balance sheets.

Assets held by DHSIC, Ltd. approximate \$57,682,000 as of September 30, 2009, of which a majority is reflected as investments in the accompanying consolidated balance sheets. Liabilities recorded by DHSIC, Ltd. approximate \$37,020,000 as of September 30, 2009, of which a majority is reflected as self-insurance liabilities in the accompanying consolidated balance sheets.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

8. Professional Liability Self-Insurance (continued)

The reserve for losses and loss adjustment expenses for DHSIC, Ltd. are included in self-insurance liabilities in the accompanying consolidating balance sheets. Activity in the reserve for losses and loss adjustment expenses for the years ended September 30, 2009 and 2008, is summarized as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of period	\$ 23,982,982	\$ 25,164,125
Incurred related to:		
Current period	11,221,862	11,157,928
Prior period	(3,428,073)	(1,327,600)
Total incurred	<u>7,793,789</u>	<u>9,830,328</u>
Paid related to:		
Current period	(315,022)	(36,500)
Prior period	(1,026,797)	(10,974,971)
Total paid	<u>(1,341,819)</u>	<u>(11,011,471)</u>
Balance at end of period	<u>\$ 30,434,952</u>	<u>\$ 23,982,982</u>

ASC 944, *Financial Services – Insurance*, requires the application of deposit accounting for any policies or agreements that do not transfer insurance risk. To the extent that an insurance contract or a reinsurance contract does not, despite its form, provide for indemnification of the insured or the ceding company by the insurer or reinsurer against loss or liability, the premium paid less the amount of the premium to be retained by the insurer or reinsurer shall be accounted for as a deposit by the insurer or ceding company.

Activity in the deposit liability, included in self-insurance liabilities on the consolidated balance sheets, is summarized as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of period	\$ 8,088,048	\$ 9,250,480
Losses paid	(1,257,975)	(597,467)
Gain on deposit liability transferred to statement of income	(567,163)	(564,965)
Balance at end of period	<u>\$ 6,262,910</u>	<u>\$ 8,088,048</u>

Also included in self-insurance liabilities as of September 30, 2009 and 2008 are unearned premiums of \$169,997 and \$161,912, respectively.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

8. Professional Liability Self-Insurance (continued)

The actuary estimated the liability for unpaid losses based on industry data, as well as entity-specific data. Management considers the liability to be adequate as of September 30, 2009 and 2008; however, no assurance can be given that the ultimate settlement of losses may not vary materially from the liability recorded. Future adjustments to the amounts recorded resulting from the continual review process, as well as differences between estimates and ultimate payments, will be reflected in the consolidated statements of operations and changes in net assets of future years when such adjustments, if any, become known.

9. Net Assets

Temporarily restricted net assets of \$28,552,625 and \$11,956,452 as of September 30, 2009 and 2008, respectively, are available to the Hospital for health care services. Permanently restricted net assets are \$27,106,095 and \$15,964,548 as of September 30, 2009 and 2008, respectively, and are investments to be held in perpetuity, the income which is expendable to support health care services.

10. Endowments

The Danbury Hospital Development Fund endowment consists of approximately 32 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

10. Endowments (continued)

The Leadership of the Danbury Hospital Development Fund has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Danbury Hospital Development Fund classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Danbury Hospital Development Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

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

The Danbury Hospital Development Fund has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Danbury Hospital Development Fund must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

10. Endowments (continued)

To satisfy its long-term rate-of-return objectives, the Danbury Hospital Development Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Danbury Hospital Development Fund targets a diversified asset allocation that places a greater emphasis on equity-based alternative investments to achieve its long-term objective within prudent risk constraints. The spending policy is that all expenditures associated with the endowment are reviewed and approved by the leadership of The Danbury Hospital Development Fund prior to appropriation for spending each year.

Endowment net asset composition by type of fund as of September 30, 2009, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 16,347,547	\$ 24,305,688	\$ 40,653,235
Board-designated endowment funds	12,517,572	-	-	12,517,572
Endowment net assets at end of year	<u>\$ 12,517,572</u>	<u>\$ 16,347,547</u>	<u>\$ 24,305,688</u>	<u>\$ 53,170,807</u>

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

10. Endowments (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of the year	\$ 39,155,330	\$ 1,222,224	\$ 13,107,885	\$ 53,485,439
Net asset reclassifications	(26,319,514)	15,947,255	10,372,259	-
Endowment net assets after reclassification	12,835,816	17,169,479	23,480,144	53,485,439
Investment return:				
Investment income, net	224,047	608,355	-	832,402
Change in unrealized gains and losses	257,709	499,050	-	756,759
Total investment return	481,756	1,107,405	-	1,589,161
Contributions	-	131,553	122,992	254,545
Net asset reclassification- net loss on endowments	-	290,127	-	290,127
Appropriation of Endowment assets for expenditures	(800,000)	(1,648,465)	-	(2,448,465)
Other changes:				
Transfers to create donor-designated endowment funds	-	(702,552)	702,552	-
Endowment net assets at end of year	\$ 12,517,572	\$ 16,347,547	\$ 24,305,688	\$ 53,170,807

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level fund of the corpus that UPMIFA requires the Danbury Hospital Development Fund to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There was \$290,127 in deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2009.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

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

	Year ended September 30	
	2009	2008
(Increase) decrease in operating assets:		
Assets limited as to use	\$ 20,380	\$ (232,893)
Accounts receivable, net	(11,294,419)	(18,889,744)
Inventories	(7,405)	(1,373,282)
Prepaid expenses and other	1,540,292	(15,565,261)
	<u>(9,741,152)</u>	<u>(36,061,180)</u>
Increase (decrease) in operating liabilities:		
Accounts payable	1,504,086	(27,997)
Interest payable	(112,220)	101,460
Payroll-related accruals	2,231,785	1,380,952
Due to third-party payors	5,755,137	970,114
Other accrued expenses	217,309	(159,183)
	<u>9,596,097</u>	<u>2,265,346</u>
Change in working capital other than cash and cash equivalents	<u>\$ (145,055)</u>	<u>\$ (33,795,834)</u>

12. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	Year ended September 30	
	2009	2008
Health care services	\$ 379,298,207	\$ 361,253,237
General and administrative	65,228,044	57,100,673
	<u>\$ 444,526,251</u>	<u>\$ 418,353,910</u>

Report of Independent Auditors on Other Financial Information

Board of Directors
The Danbury Hospital

Our audits were 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 audits 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.

Ernst & Young LLP

January 19, 2010

The Danbury Hospital and Subsidiary

Consolidating Balance Sheets

	September 30, 2009				September 30, 2008			
	The Danbury Hospital	Danbury Health Systems Insurance Co. LTD	Adjustments and Eliminations	Total	The Danbury Hospital	Danbury Health Systems Insurance Co. LTD	Adjustments and Eliminations	Total
Assets:								
Current assets:								
Cash and cash equivalents	\$ 38,643,022	\$ 380,155		\$ 39,023,177	\$ 29,827,344	\$ 306,968		\$ 30,134,312
Assets limited as to use	1,756,854			1,756,854	1,777,234			1,777,234
Accounts receivable, less allowance for uncollectible accounts of \$16,321,000 in 2009 and \$15,605,000 in 2008								
Current portion of due from related parties	41,637,724			41,637,724	47,038,786			47,038,786
Inventories	3,777,584		\$ (114,593)	3,662,991	18,149,728		\$ (1,009,152)	17,140,576
Prepaid expenses and other	7,249,038			7,249,038	7,241,633			7,241,633
Total current assets	3,805,773	5,852,820		9,658,593	3,901,143	5,881,043		9,782,186
Investments	96,869,995	6,232,975	(114,593)	102,988,377	107,935,868	6,188,011	(1,009,152)	113,114,727
Prepaid pension and other assets	144,958,291	51,449,507		196,407,798	113,069,804	45,217,683		158,287,487
Due from related parties	35,410,004			35,410,004	52,445,404			52,445,404
	12,947,858			12,947,858	14,922,412			14,922,412
Investment in Danbury Health Systems Insurance Co., LTD.	20,662,202		(20,662,202)		17,835,168		(17,835,168)	
Interest in Danbury Hospital Development Fund, Inc.	74,439,678			74,439,678	72,748,004			72,748,004
Property, plant and equipment:								
Land and land improvements	7,105,504			7,105,504	6,929,568			6,929,568
Buildings and building improvements	223,364,649			223,364,649	215,768,192			215,768,192
Equipment and other	179,865,401			179,865,401	160,278,254			160,278,254
Construction in progress (estimated cost to complete at September 30, 2009-\$11,412,000)	12,550,101			12,550,101	13,442,247			13,442,247
	422,885,655			422,885,655	396,418,261			396,418,261
Less accumulated depreciation	251,993,763			251,993,763	229,167,870			229,167,870
	170,891,892			170,891,892	167,250,391			167,250,391
Bond issuance costs, net	3,274,927			3,274,927	3,452,377			3,452,377
Total assets	\$ 559,454,847	\$ 57,682,482	\$ (20,776,795)	\$ 596,360,534	\$ 549,659,428	\$ 51,405,694	\$ (18,844,320)	\$ 582,220,802

Continued on next page.

The Danbury Hospital and Subsidiary
 Consolidating Balance Sheets (continued)

	September 30, 2009				September 30, 2008			
	The Danbury Hospital	Danbury Health Systems Insurance Co. LTD	Adjustments and Eliminations	Total	The Danbury Hospital	Danbury Health Systems Insurance Co. LTD	Adjustments and Eliminations	Total
Liabilities and net assets:								
Current liabilities:								
Accounts payable	\$ 19,951,815	\$ 37,828	\$ -	\$ 19,989,643	\$ 18,157,125	\$ 328,432	\$ -	\$ 18,485,557
Payroll-related accruals	14,142,886	-	-	14,142,886	11,911,101	-	-	11,911,101
Due to affiliates	-	114,593	(114,593)	-	-	1,009,152	(1,009,152)	-
Due to third-party payors	8,646,835	-	-	8,646,835	2,891,698	-	-	2,891,698
Interest payable	1,057,389	-	-	1,057,389	1,169,609	-	-	1,169,609
Other accrued expenses	3,365,463	-	-	3,365,463	3,148,154	-	-	3,148,154
Current portion of long-term debt	2,460,000	-	-	2,460,000	2,425,000	-	-	2,425,000
Total current liabilities	49,624,388	152,421	(114,593)	49,662,216	39,702,687	1,337,584	(1,009,152)	40,031,119
Self-insurance liabilities	-	36,867,859	-	36,867,859	-	32,232,942	-	32,232,942
Other long-term liabilities	14,488,471	-	-	14,488,471	16,419,555	-	-	16,419,555
Long-term debt, less current portion	114,675,000	-	-	114,675,000	117,135,000	-	-	117,135,000
Net assets:								
Share capital	-	-	-	-	-	-	-	-
Additional paid in capital	-	12,000	(12,000)	-	-	12,000	(12,000)	-
Unrestricted	-	8,663,333	(8,663,333)	-	-	8,663,333	(8,663,333)	-
Temporarily restricted	325,008,268	11,986,869	(11,986,869)	325,008,268	348,481,186	9,159,835	(9,159,835)	348,481,186
Permanently restricted	28,552,625	-	-	28,552,625	11,956,452	-	-	11,956,452
Total net assets	27,106,095	-	-	27,106,095	15,964,548	-	-	15,964,548
Total liabilities and net assets	\$ 380,666,988	\$ 20,662,202	\$ (20,662,202)	\$ 380,666,988	\$ 376,402,186	\$ 17,835,168	\$ (17,835,168)	\$ 376,402,186
	\$ 559,454,847	\$ 57,682,482	\$ (20,776,795)	\$ 596,360,534	\$ 549,659,428	\$ 51,405,694	\$ (18,844,320)	\$ 582,220,802

The Danbury Hospital and Subsidiary
Consolidating Statements of Operations and Changes in Net Assets

	September 30, 2009				September 30, 2008			
	The Danbury Hospital	Danbury Health Systems Insurance Co. LTD	Adjustments and Eliminations	Total	The Danbury Hospital	Danbury Health Systems Insurance Co. LTD	Adjustments and Eliminations	Total
Unrestricted revenues:								
Net patient service revenue	\$ 460,095,922		\$	460,095,922	\$ 430,505,970		\$	430,505,970
Other operating revenues	7,344,217	\$ 12,145,828	\$ (7,717,298)	11,772,747	7,459,183	\$ 12,835,217	\$ (8,977,967)	11,316,433
	467,440,139	12,145,828	(7,717,298)	471,868,669	437,965,153	12,835,217	(8,977,967)	441,822,403
Expenses:								
Salaries, benefits and fees	272,649,656			272,649,656	253,108,466			253,108,466
Supplies and other	125,450,063	181,369	(7,717,298)	117,914,134	121,209,728	216,817	(8,977,967)	112,448,578
Insurance		9,473,436		9,473,436		11,193,891		11,193,891
Provision for uncollectible accounts	16,695,481			16,695,481	15,597,793			15,597,793
Depreciation and amortization	23,125,624			23,125,624	20,324,444			20,324,444
Interest	4,667,920			4,667,920	5,680,738			5,680,738
	442,588,744	9,654,805	(7,717,298)	444,526,251	415,921,169	11,410,708	(8,977,967)	418,353,910
Income from operations	24,851,395	2,491,023		27,342,418	22,043,984	1,424,509		23,468,493
Nonoperating gains (losses):								
Investment income, net	8,551,578	2,415,106	(4,500,000)	6,466,684	5,096,844	2,112,993		7,209,837
Change in unrealized gains and losses on investments	4,492,089	2,420,906	(2,420,906)	4,492,089	(28,243,677)	(5,694,874)	5,694,874	(28,243,677)
Loss on early extinguishment of debt					(904,724)			(904,724)
Change in equity interest in unrestricted net assets of the Danbury Hospital Development Fund, Inc.	213,448			213,448	(8,808,260)			(8,808,260)
Change in investment in DHSIC	406,129		(406,129)		3,537,502		(3,537,502)	
	13,663,244	4,836,012	(7,327,035)	11,172,221	(29,322,315)	(3,581,881)	2,157,372	(30,746,824)
Excess (deficiency) of revenues over expenses	\$ 38,514,639	\$ 7,327,035	\$ (7,327,035)	\$ 38,514,639	\$ (7,278,331)	\$ (2,157,372)	\$ 2,157,372	\$ (7,278,331)