

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

**INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
**The Waterbury Hospital**

We have audited the accompanying consolidated balance sheet of The Waterbury Hospital (the Hospital) as of September 30, 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Hospital as of and for the year ended September 30, 2009 were audited by other auditors, whose report dated January 25, 2010, expressed an unqualified opinion on those financial statements.

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

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of The Waterbury Hospital as of September 30, 2010, and the consolidated results of their operations and changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Marcum LLP*

Hartford, CT  
January 27, 2011

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

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# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

**SEPTEMBER 30, 2010 AND 2009**

	2010	2009
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 21,406,848	\$ 18,606,510
Short-term investments	391,878	359,823
Other assets required for current liabilities	582,693	573,887
Patient accounts receivable, less allowance (\$7,925,000 in 2010 and \$9,448,000 in 2009)	31,845,438	32,375,764
Grants and other receivables	1,728,061	1,101,738
Inventories of supplies	812,360	584,339
Prepaid insurance and other expenses	1,376,780	1,374,738
Due from affiliates	--	862,615
<b>Total Current Assets</b>	<b>58,144,058</b>	<b>55,839,414</b>
<b>Other Assets</b>		
Funds held by trustee:		
Certificates of deposit and money market funds	--	14,570
U.S. Government obligations and other bonds	--	2,273
	--	16,843
Funds held in escrow by agreement with the State of Connecticut Health and Educational Facilities Authority (CHEFA) and trustee:		
Debt service fund	582,693	557,044
Debt service reserve fund	2,020,082	2,020,082
	2,602,775	2,577,126
	2,602,775	2,593,969
Less other assets required for current liabilities	582,693	573,887
	2,020,082	2,020,082
Funds held in trust by others	39,561,090	37,864,978
Long-term investments	10,067,386	9,602,827
Board-designated endowment funds	2,787,502	2,673,155
Other receivables	136,573	732,690
Due from affiliates, less current portion	5,695,627	4,939,861
CHEFA obligations issue expense, less amortization	575,582	606,280
	58,823,760	56,419,791
Property, plant and equipment:		
Land	287,549	287,549
Buildings and improvements	86,741,575	84,040,718
Equipment	168,836,349	165,827,291
Construction in progress (estimated additional cost to complete: 2010 - \$11,334,885)	1,688,586	93,916
	257,554,059	250,249,474
Less accumulated depreciation	(214,263,664)	(204,484,124)
	43,290,395	45,765,350
	<b>\$ 162,278,295</b>	<b>\$ 160,044,637</b>

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

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

	2010	2009
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 18,963,920	\$ 15,818,725
Salaries, wages, payroll taxes and amounts withheld from employees	9,204,942	8,192,458
Due to third-party reimbursement agencies	230,310	1,023,178
Current portion of CHEFA obligations	865,000	820,000
Current portion of notes payable	472,875	296,974
Due to affiliates	179,137	--
<b>Total Current Liabilities</b>	<u>29,916,184</u>	<u>26,151,335</u>
<b>Other Noncurrent Liabilities</b>	<u>14,667,421</u>	<u>14,365,164</u>
<b>CHEFA Obligations - less current portion and discount</b>	<u>18,142,716</u>	<u>18,984,928</u>
<b>Notes Payable - less current portion</b>	<u>736,885</u>	<u>317,584</u>
<b>Minority Interest in Net Assets of Consolidated Affiliates</b>	<u>2,930,053</u>	<u>2,530,345</u>
<b>Net Assets</b>		
Unrestricted	45,216,062	49,273,360
Temporarily restricted	8,315,873	7,764,952
Permanently restricted	42,353,101	40,656,969
	<u>95,885,036</u>	<u>97,695,281</u>
	<u>\$ 162,278,295</u>	<u>\$ 160,044,637</u>

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

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	2010	2009
<b>Unrestricted Revenues</b>		
Net revenues from services to patients	\$ 254,787,935	\$ 253,538,766
Other operating revenues	6,638,378	3,287,728
Net assets released from restrictions	<u>5,405,414</u>	<u>5,108,393</u>
	<u>266,831,727</u>	<u>261,934,887</u>
<b>Operating Expenses</b>		
Salaries	120,504,090	111,550,893
Employee benefits	32,692,483	31,209,295
Supplies and other	87,611,221	82,048,470
Bad debts	15,699,588	14,428,863
Depreciation	9,597,526	9,595,813
Operations improvement	2,695,434	12,908,481
Interest and amortization	<u>1,803,577</u>	<u>1,484,698</u>
	<u>270,603,919</u>	<u>263,226,513</u>
<b>Loss from Operations Before Minority Interest in Income of Consolidated Affiliates</b>	(3,772,192)	(1,291,626)
<b>Minority Interest in Income of Consolidated Affiliates</b>	<u>(1,030,015)</u>	<u>(1,317,466)</u>
<b>Loss from Operations</b>	<u>(4,802,207)</u>	<u>(2,609,092)</u>
<b>Nonoperating Revenues (Losses)</b>		
Unrestricted gifts and bequests	157,191	431,346
Investment income	1,641,803	1,628,376
Net realized gains (losses) on sales of investments	4,056	(219)
Other nonoperating expenses	<u>(946,925)</u>	<u>--</u>
	<u>856,125</u>	<u>2,059,503</u>
<b>Deficiency of Revenues over Expenses Before Changes in Net Unrealized Gains on Investments</b>	(3,946,082)	(549,589)
<b>Changes in Net Unrealized Gains on Investments</b>	<u>145,455</u>	<u>1,034,052</u>
<b>(Deficiency) Excess of Revenues Over Expenses</b>	<u>(3,800,627)</u>	<u>484,463</u>

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

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)

**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	2010	2009
<b>Unrestricted Net Assets</b>		
(Deficiency) excess of revenues over expenses	\$ (3,800,627)	\$ 484,463
Net assets released from restrictions used for purchase of property and equipment	135,818	69,902
Transfer of net assets	1,327,462	2,175,872
Pension liability adjustments	<u>(1,719,951)</u>	<u>(5,526,450)</u>
<b>Decrease in Unrestricted Net Assets Before Effect of Change in Accounting Principles</b>	(4,057,298)	(2,796,213)
Adjustment to adopt measurement date provisions of FASB ASC 715-30	<u>--</u>	<u>(343,000)</u>
<b>Decrease in Unrestricted Net Assets</b>	<u>(4,057,298)</u>	<u>(3,139,213)</u>
<b>Temporarily Restricted Net Assets</b>		
Gifts and bequests	571,957	654,754
Income from investments	427,309	320,237
Net realized and unrealized gains (losses) on investments	568,896	(662,430)
Grants	4,523,991	4,103,736
Net assets transferred and released from restrictions	<u>(5,541,232)</u>	<u>(7,354,167)</u>
<b>Increase (Decrease) in Temporarily Restricted Net Assets</b>	<u>550,921</u>	<u>(2,937,870)</u>
<b>Permanently Restricted Net Assets</b>		
Gifts and bequests	20	560
Increase (decrease) in fair value of funds held in trust by others	<u>1,696,112</u>	<u>(683,717)</u>
<b>Increase (Decrease) in Permanently Restricted Net Assets</b>	<u>1,696,132</u>	<u>(683,157)</u>
<b>Decrease in Net Assets</b>	(1,810,245)	(6,760,240)
<b>Net Assets - Beginning</b>	<u>97,695,281</u>	<u>104,455,521</u>
<b>Net Assets - End</b>	<u>\$ 95,885,036</u>	<u>\$ 97,695,281</u>

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

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	2010	2009
<b>Operating Activities and Nonoperating Revenues</b>		
Change in net assets	\$ (1,810,245)	\$ (6,760,240)
Adjustments to reconcile change in net assets to net cash provided by operating activities and nonoperating revenues:		
Provision for bad debts	15,699,588	14,428,863
Depreciation and amortization	10,160,576	9,763,783
Pension liability adjustments	1,719,951	5,526,450
Adjustment to adopt measurement date provisions of ASC 715-30	--	343,000
Net realized and unrealized (gains) and losses and change in fair value of funds held in trust by others	(2,414,519)	312,314
Restricted gifts, bequests and income from investments	(999,286)	(975,551)
Increase in minority interest in net assets of consolidated affiliates	399,708	113,250
Net transfer of property, plant and equipment and debt from GWMRI	(1,157,286)	--
	<u>21,598,487</u>	<u>22,751,869</u>
Changes in operating working capital other than cash and cash equivalents:		
Other assets required for current liabilities	(8,806)	2,163,290
Patient accounts receivable, net	(15,169,262)	(11,109,176)
Grants and other receivables	(626,323)	(299,624)
Inventories of supplies	(228,021)	23,873
Prepaid insurance and other expenses	(2,042)	405,010
Accounts payable and accrued expenses	3,145,195	(4,483,700)
Salaries, wages, payroll taxes and amounts withheld from employees	1,012,484	(1,035,402)
Due to third-party reimbursement agencies	(792,868)	1,833,583
Increase in other noncurrent liabilities	302,257	6,538,806
	<u>(12,367,386)</u>	<u>(5,963,340)</u>
<b>Net Cash Provided by Operating Activities and Nonoperating Revenues</b>	<u>9,231,101</u>	<u>16,788,529</u>

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

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

	2010	2009
<b>Cash Flows from Investing Activities</b>		
Short-term investments	\$ (32,055)	\$ (29,933)
Long-term investments	(5,954)	799,561
Due from affiliates	285,986	(6,508,017)
Other assets	(1,510,731)	(3,231,867)
Additions to property, plant and equipment, net	<u>(5,488,470)</u>	<u>(1,990,313)</u>
<b>Net Cash Used in Investing Activities</b>	<u>(6,751,224)</u>	<u>(10,960,569)</u>
<b>Cash Flows from Financing Activities</b>		
Restricted gifts, bequests and income from investments	999,286	975,551
Proceeds from issuance of debt	550,194	186,322
Principal payments on debt obligations	<u>(1,229,019)</u>	<u>(2,011,890)</u>
<b>Net Cash Provided by (Used in) Financing Activities</b>	<u>320,461</u>	<u>(850,017)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	2,800,338	4,977,944
<b>Cash and Cash Equivalents - Beginning</b>	<u>18,606,510</u>	<u>13,628,566</u>
<b>Cash and Cash Equivalents - End</b>	<u>\$ 21,406,848</u>	<u>\$ 18,606,510</u>

**Supplemental Cash Flow Information**

Cash paid during the year for interest on borrowings was \$1,199,837 and \$1,257,036 for the years ended September 30, 2010 and 2009, respectively.

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

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

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**Supplemental Cash Flow Information**

Cash paid during the year for interest on borrowings was \$1,199,837 and \$1,257,036 for the years ended September 30, 2010 and 2009, respectively.

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

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

#### *ORGANIZATION*

The Waterbury Hospital (the Hospital), a voluntary association incorporated under the General Statutes of the State of Connecticut, is a wholly-owned subsidiary of Greater Waterbury Health Network, Inc. (sole member) (the Network). The Board of the Hospital, which is appointed by the Network, controls the operations of the Hospital. In addition to the Hospital, the accompanying financial statements include Access Rehab Centers LLC (Access), Greater Waterbury Imaging Center Limited Partnership (GWIC), Imaging Partners, LLC and Alliance Medical Group, Inc. (AMG) to the extent of the Hospital's ownership interest in these affiliated entities.

Effective January 1, 2010, net assets totaling \$1,327,462 were transferred from Greater Waterbury Management Resources, Inc. (GWMRI) and Alliance Medical Group of Greater Waterbury, P.C. (Alliance) to AMG as part of the capitalization of AMG. AMG is a tax exempt 501(c)(3) medical foundation formed to provide health care services in a variety of specialties.

During June 2010, the Hospital entered into an arrangement with certain gastroenterology physician-members of the Hospital's medical staff to form Waterbury Gastroenterology Co-Management Company, LLC (GI Co-Management Company), a Connecticut limited liability company. This company was formed as a collaborative effort between the Hospital and the physicians for the purpose of improving the quality and efficiency of the gastroenterology service line at the Hospital. The Hospital's investment of \$50,000 in the GI Co-Management Company is included in the Hospital's consolidated financial statements in long-term investments.

The Hospital entered into a members' agreement, making it an equal member with St. Mary's Hospital, located in Waterbury, Connecticut, in a joint venture to form The Harold Leever Regional Cancer Center, Inc. (the Cancer Center). The Cancer Center is a Connecticut non-stock corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The purpose of the joint venture is to develop, construct, own and operate the Cancer Center. Both member hospitals transferred the revenue and related expenses of their respective radiation oncology services to the Cancer Center in October 2002. Both member hospitals made working capital advances to the Cancer Center. The total amount of advances by the Hospital of \$1,277,492 was converted into a promissory note which bears interest at the prime rate adjusted every six months. The balance remaining on this note was \$125,449 at September 30, 2009 and it has been repaid as of September 30, 2010. The Cancer Center is not included in the Hospital's consolidated financial statements.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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

#### *PRINCIPLES OF CONSOLIDATION*

The consolidated financial statements include the accounts of the Hospital and the affiliated entities. Recognition has been given to minority ownership interest in the affiliates. All significant intercompany accounts and transactions are eliminated in consolidation.

#### *USE OF ESTIMATES*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectible accounts receivable for services to patients, and liabilities, including estimated net settlements with third-party reimbursement agencies and professional liabilities, and disclosure of contingent assets and contingent liabilities at the date of the financial statements. Estimates also affect the amounts of revenues and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

#### *REGULATORY MATTERS*

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

#### *TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS*

Temporarily restricted net assets are available to provide grant related services, free care, and educational seminars. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity or in funds held in trust by others.

#### *DONOR RESTRICTED GIFTS*

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

#### *PROMISES TO GIVE*

Unconditional promises to give are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises to give are received. Amortization of the discounts is included in gifts and bequests on the statements of operations and changes in net assets.

#### *CASH AND CASH EQUIVALENTS*

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

#### *ACCOUNTS RECEIVABLE*

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for uncollectible accounts result from the provision for bad debts. 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.

#### *INVENTORIES*

Inventories are stated at the lower of cost or market. The Hospital values its inventories using the first in first out method.

#### *INVESTMENTS*

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

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

Unrealized gains and losses on investments related to permanently restricted net assets and certain temporarily restricted net assets are included in temporarily restricted net assets under State law which allows the Board of Trustees to appropriate as much of the net appreciation of investments as is prudent considering the Hospital's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Reference is made to Note 5.

#### ***OTHER ASSETS***

Other assets include assets set aside by the Board of Trustees to fund the deductible portion of medical malpractice insurance coverage and workers' compensation claims, for the established purpose of providing for future improvement, expansion and replacement of plant and equipment and assets held by trustees under indenture agreements relating to financing activities with the State of Connecticut Health and Education Facilities Authority. The portion of these amounts required for funding current liabilities is included in current assets. Effective in 2009, the Hospital is no longer funding these accounts to pay future malpractice and workers' compensation claims. Instead, the Hospital maintains a \$3.5 million (\$4.0 million as of September 30, 2009) letter of credit with a bank in support of its self-insured workers' compensation program. In addition, the Hospital purchased a loss transfer insurance policy which provides coverage for general and medical malpractice liability claims incurred prior to October 1, 2006. Effective October 1, 2006, the Hospital obtained "claims-made" medical malpractice insurance coverage, through the Network, from Healthcare Alliance Insurance Company, Ltd. (HAIC). HAIC is a multi-provider insurance company domiciled in the Cayman Islands.

#### ***PROPERTY, PLANT AND EQUIPMENT***

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

Financial Accounting Standards Board (FASB) ASC 410-20, *Accounting for Asset Retirement Obligations* (ASC 410-20), provides guidance on accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Asset retirement obligations include, but are not limited to, certain types of environmental issues which are legally required to be remediated upon an asset's retirement as well as contractually required asset retirement obligations. ASC 410-20 provides clarifying guidance on conditional asset retirement obligations. Conditional asset retirement obligations are obligations whose settlement may be uncertain. ASC 410-20's

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

guidance requires such conditional asset retirement obligations to be estimated and recognized. Application of these pronouncements affects the Hospital with respect to required future asbestos remediation.

Conditional asset retirement obligations of \$2,639,365 and \$2,129,801 as of September 30, 2010 and 2009, respectively, are recorded in other noncurrent liabilities. During 2010, \$82,000 of retirement obligations were incurred and \$58,175 were settled. There were no retirement obligations incurred or settled during 2009.

#### *IMPAIRMENT OF LONG-LIVED ASSETS*

The Hospital records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There were \$291,731 of impairment losses in 2010. There were no impairment losses in 2009.

#### *NONOPERATING REVENUES (LOSSES)*

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating revenues (losses) consist primarily of income on invested funds, gains and losses on sales of securities, changes in unrestricted unrealized gains and losses and unrestricted gifts and bequests.

Start up costs of \$946,925 related to investments in medical practices are included with other nonoperating expenses in the consolidated statements of operations and changes in net assets for the year ended September 30, 2010, as these costs did not meet the criteria for capitalization and were considered nonoperating due to the fact that the expenses related to investing activities rather than providing health care services.

#### *EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES*

The statements of operations and changes in net assets include the excess (deficiency) of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the excess (deficiency) of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), cumulative effect of change in accounting principle, pension liability adjustments, and net asset transfers.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

Operations improvement expenses represent consulting and other costs incurred by the Hospital in 2009 and 2010 to improve the revenue cycle, increase cash flows, and improve the Hospital's overall financial performance. The majority of these costs are not expected to recur in 2011.

#### *INCOME TAXES*

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital is also exempt from state income taxes. Access, GWIC and Imaging Partners LLC are partnerships. For tax purposes, these partnerships are pass-through entities. Taxation does not occur at the partnership level. Accordingly, no provision for taxes is included. Alliance Medical is tax exempt under Section 501 (c)(3) of the code.

#### *MEDICAL MALPRACTICE AND WORKERS' COMPENSATION INSURANCE*

The Hospital has a policy of self-insuring the deductible portion of its workers' compensation claims. The deductible limit is \$400,000 per claim. The Hospital established an irrevocable trust for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreement, the trust fund assets could only be used for payment of workers' compensation claims, related expenses, and the cost of administering the trust from the respective funds. In 2009, the Hospital terminated the trust fund. Instead, the Hospital maintains a letter of credit with a bank in support of its self-insured workers' compensation program. This letter of credit limit was \$3.5 million and \$4.0 million at September 30, 2010 and 2009, respectively. The assets of the trust fund were reported as other assets in the consolidated balance sheets; income from the trust fund assets and administrative costs were reported in the consolidated statements of operations and changes in net assets. In 2009, the majority of the trust assets were utilized to pay claims and related expenses. There is no remaining balance at September 30, 2010. The remaining balance at September 30, 2009 was \$12,703. Management accrues its best estimate of losses as they occur. The accrued workers' compensation self-insurance liabilities of \$6,815,650 and \$6,173,116 at September 30, 2010 and 2009, respectively, have been discounted at 2.5%.

Effective October 1, 2006, the Hospital obtained "claims-made" medical malpractice insurance coverage, through the Network, from Healthcare Alliance Insurance Company, Ltd. (HAIC). HAIC is a multi-provider captive insurance company domiciled in the Cayman Islands. The Network is a one third owner of the HAIC with two other local hospitals that each hold one third ownership. The Hospital's insurance coverage is \$1,500,000 per occurrence and \$4,500,000 in the aggregate. In addition to the coverage from HAIC, the

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

Hospital recorded reserves of approximately \$1,818,858 and \$1,891,000 at September 30, 2010 and 2009, respectively, related to claims that were incurred subsequent to October 1, 2006, but not yet reported. These reserves were discounted at 2.5% at September 30, 2010 and 2009.

The Hospital also obtains excess insurance coverage for professional and general liability, through the Network, from HAIC. These policies have limits of \$25,000,000 per claim and \$25,000,000 aggregate, in excess of the underlying limits in the primary layer, for both professional and general liability.

The Hospital also purchased a loss transfer insurance policy which provides \$1,000,000 of coverage for each medical incident that was incurred between October 1, 2003 and October 1, 2006 and specifically reported to the insurance company on the effective date of the transfer policy (February 7, 2008) in addition to medical incidents incurred during the aforementioned period which are first reported after the effective date of the policy. This policy also provides \$1,000,000 of coverage for general liability incurred but not reported claims that occurred after October 1, 2003 through October 1, 2006 and were first reported after the effective date of the policy.

The policy has annual aggregate limits of \$4,500,000 for medical incidents and \$3,000,000 for general liability cases with a combined \$16,500,000 total limit for all policy years. These aggregate limits are eroded by claims previously paid by the Hospital or other insurance.

#### ***RETIREMENT BENEFIT PLANS***

The Hospital maintains a defined benefit pension plan for eligible individuals. Reference is made to Note 9.

#### ***RISKS AND UNCERTAINTIES***

The Hospital invests in a variety of investment securities which are exposed to various risks, such as interest rate risk, financial market risk, currency risk and credit risk. Due to the level of risk associated with investment securities, coupled with the economic events, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Hospital's September 30, 2010 financial statements, in addition to the funded status of its defined benefit pension plan.

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

***RECLASSIFICATIONS***

Certain 2009 amounts have been reclassified to conform to the 2010 presentation. These reclassifications had no impact on the deficiency of revenues over expenses or net assets previously reported.

***SUBSEQUENT EVENTS***

The Hospital evaluates the impact of subsequent events, events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date or for disclosure in the notes to the financial statements. The Hospital evaluated events occurring subsequent to September 30, 2010 through January 27, 2011, the date on which the accompanying consolidated financial statements were available to be issued. During this period, except for the CHEFA debt refinancing (refer to Note 7), there were no subsequent events that required disclosure or recognition in the consolidated financial statements.

***ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS***

In December 2008, the FASB issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in ASC Topic 715 (formerly FSP FAS 132(R)-1). This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within the plan assets. See Note 9 for these additional disclosures for the year ended September 30, 2010. The adoption of this guidance did not have a significant impact on the Hospital's consolidated financial statements for the year ended September 30, 2010.

In January 2010, the FASB issued ASC Accounting Standards Update (ASU) No. 2010-06 (ASU 2010-06), which guidance clarifies certain existing fair value measurement disclosure requirements of ASC Topic 820 (formerly SFAS 157) and also requires additional fair value measurement disclosures. Specifically, ASU 2010-06 clarifies that assets and liabilities must be leveled by major class of assets or liability, and provides guidance regarding the identification of such major classes. Additionally, disclosures are required about valuation techniques and the inputs to those techniques, for those assets or liabilities designated as level 2 or level 3 instruments. Disclosures regarding transfers between level 1 and level 2 assets

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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#### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

and liabilities are required, as well as deeper level of disaggregation of activity within existing rollforwards of the fair value of level 3 assets and liabilities. The adoption of this guidance did not have a significant impact on the Hospital's consolidated financial statements for the year ended September 30, 2010.

#### NOTE 2 – REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE

The following table summarizes net revenues from services to patients:

	2010	2009
Gross revenues from services to patients	<u>\$ 867,081,831</u>	<u>\$ 869,347,653</u>
Deductions (additions)		
Allowances	612,466,449	615,860,345
Free care	3,081,466	3,273,671
Regulatory	<u>(3,254,019)</u>	<u>(3,325,129)</u>
	<u>612,293,896</u>	<u>615,808,887</u>
Net revenues from services to patients	<u>\$ 254,787,935</u>	<u>\$ 253,538,766</u>

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from most payors are different from the established billing rates of the Hospital, and these differences are accounted for as allowances. Gross revenues have been affected by the State of Connecticut Disproportionate Share program in 2010 and 2009.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For the years ended September 30, 2010 and 2009, the Hospital recorded approximately \$700,000 and \$1,660,760, respectively, as an increase to net revenue from services to patients as changes in estimates related to third-party payor settlements and adjustments to accruals recorded in the prior year.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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#### NOTE 2 – REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE (CONTINUED)

During 2010 and 2009, approximately 43% and 44%, respectively, of net revenue from services to patients was received under the Medicare program, 10% and 10%, respectively, under the state Medicaid program, and 40% and 37%, respectively, from contracts with other third-parties.

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

The significant concentrations of net accounts receivable for services to patients include 40% from Medicare, 11% from Medicaid, 34% from commercial insurance carriers and 15% from others at September 30, 2010 (36%, 9%, 31% and 24%, respectively, in 2009).

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Hospital believes that it is in compliance with all applicable laws and regulations. Cost reports for the Hospital, which serve as a basis for final settlement with government payors, have been settled by final settlement through 2006 for Medicare and 1995 for Medicaid. Other years remain open for settlement.

The Hospital has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

The Hospital accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is possible. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized Federal poverty income levels, but also includes certain cases where incurred charges are significant when compared to incomes and assets. These charges are not included in net patient service revenues for financial reporting purposes.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

#### NOTE 3 – INVESTMENTS

The composition of investments, including other assets and funds held in escrow is set forth in the following table. Investments are stated at fair value:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
<b>Funds held by trustee:</b>				
Certificates of deposit and money market funds	\$ --	\$ --	\$ 14,570	\$ 14,570
U.S. Government obligations and other bonds	--	--	4,994	2,273
	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 19,564</u>	<u>\$ 16,843</u>
<b>Escrow funds for long-term debt:</b>				
U.S. Government obligations	\$ 580,868	\$ 580,016	\$ 555,577	\$ 554,776
Guaranteed investment contract	2,020,082	2,020,082	2,020,082	2,020,082
Cash and money market funds	2,677	2,677	2,268	2,268
	<u>\$ 2,603,627</u>	<u>\$ 2,602,775</u>	<u>\$ 2,577,927</u>	<u>\$ 2,577,126</u>
<b>Investments of funds held in trust by others</b>	<u>\$ 35,233,635</u>	<u>\$ 39,561,090</u>	<u>\$ 35,476,750</u>	<u>\$ 37,864,978</u>
<b>Long-term investments and Board-designated funds:</b>				
Certificates of deposit and money market funds	\$ 856,170	\$ 856,170	\$ 927,817	\$ 927,817
Marketable equity securities	23,464	63,210	23,464	52,854
U.S. Government obligations	1,799,023	1,895,973	1,964,004	2,050,949
Corporate bonds	2,243,881	2,433,338	1,370,085	1,404,248
Mutual funds	6,485,454	7,283,361	7,187,329	7,563,802
Other investments	322,836	322,836	276,312	276,312
	<u>\$ 11,730,828</u>	<u>\$ 12,854,888</u>	<u>\$ 11,749,011</u>	<u>\$ 12,275,982</u>

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 3 – INVESTMENTS (CONTINUED)

Unrestricted investment income, including income on funds held in trust by others, and gains and (losses) are comprised of the following for the years ended September 30, 2010 and 2009:

	2010	2009
Income		
Investment income	\$ 1,641,803	\$ 1,628,376
Realized gains (losses) on sales of investments	4,056	(219)
Changes in net unrealized gains on investments	<u>145,455</u>	<u>1,034,052</u>
	<u>\$ 1,791,314</u>	<u>\$ 2,662,209</u>

A summary of interest cost and investment income on borrowed funds held by the trustee under revenue bond indentures during the years ended September 30, 2010 and 2009 follows:

	2010	2009
Interest charged to operations	<u>\$ 1,156,778</u>	<u>\$ 1,192,730</u>
Investment income credited to other operating revenues	<u>\$ 116,842</u>	<u>\$ 133,317</u>

### NOTE 4 – FAIR VALUE MEASUREMENTS

The Hospital adopted ASC 820, *Fair Value Measurements*, on October 1, 2008. Assets recorded at fair value in the financial statements are categorized, for disclosure purposes, based upon whether the inputs used to determine their fair values are observable or unobservable utilizing a three-level fair value hierarchy that prioritizes the inputs used to measure assets at fair value. Level inputs are as follows:

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

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

Level 3 – Inputs that are unobservable for the asset.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

#### NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 21,406,848	\$ --	\$ --	\$ 21,406,848
Short-term investments	391,878	--	--	391,878
Debt service fund	582,693	--	--	582,693
Debt service reserve fund	--	2,020,082	--	2,020,082
Funds held in trust by others	29,227,042	10,334,048	--	39,561,090
Long-term investments	6,061,567	3,724,270	281,549	10,067,386
Board-designated endowment funds	<u>2,787,502</u>	<u>--</u>	<u>--</u>	<u>2,787,502</u>
	<u>\$ 60,457,530</u>	<u>\$ 16,078,400</u>	<u>\$ 281,549</u>	<u>\$ 76,817,479</u>

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

	Long-term Investments
Balance, as of September 30, 2009	\$ 231,549
Purchases	<u>50,000</u>
Balance, as of September 30, 2010	<u>\$ 281,549</u>

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

#### NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

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

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 18,606,510	\$ --	\$ --	\$ 18,606,510
Short-term investments	359,823	--	--	359,823
Funds held by trustee	16,843	--	--	16,843
Debt service fund	557,044	--	--	557,044
Debt service reserve fund	--	2,020,082	--	2,020,082
Funds held in trust by others	28,545,134	9,319,844	--	37,864,978
Long-term investments	6,910,633	2,460,645	231,549	9,602,827
Board-designated endowment funds	<u>2,673,155</u>	<u>--</u>	<u>--</u>	<u>2,673,155</u>
	<u>\$ 57,669,142</u>	<u>\$ 13,800,571</u>	<u>\$ 231,549</u>	<u>\$ 71,701,262</u>

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

	Long-term Investments
Balance, as of September 30, 2008	\$ 132,904
Purchases	<u>98,645</u>
Balance, as of September 30, 2009	<u>\$ 231,549</u>

#### NOTE 5 – RESTRICTED ENDOWMENTS

The Hospital's endowments consist of donor-restricted endowment funds and Board designated endowment funds. Net assets associated with endowment funds are classified and reported based on donor-imposed restrictions.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

The Hospital's Board of Directors has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and, if applicable (c) accumulations to the permanent endowment made in accordance with the related gift's donor instructions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard for expenditure as proscribed by UPMIFA. In accordance with UPMIFA, the Hospital considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment funds:

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

#### ***RETURN OBJECTIVES AND RISK PARAMETERS***

For the permanently restricted endowment funds, the bank, acting in its capacity as trustee, determines and directs the investment policy and asset allocation. For the unrestricted and temporarily restricted endowment funds, the Hospital's Board of Directors has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Hospital expects these endowment funds, over time, to provide an average rate of return that exceeds the rate of inflation by 3.5% annually. Actual returns in any given year may vary from this amount.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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#### NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

##### *STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES*

To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

The Hospital has a policy of evaluating the spending decisions for each endowment fund based upon the intentions of the donors and specific contractual agreements. In determining the annual amount to be spent, the Hospital considers the long-term expected return on its endowment. The spending policy is designed to limit spending to the expected long-term real rate of return. The annual distribution from the endowment funds is expected to be contained within a range of 4-6% of the trusts' market value. This is consistent with the Hospital's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

##### *ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2010*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ --	\$ 6,317,021	\$ 42,353,101	\$ 48,670,122
Board-designated endowment funds	<u>2,787,502</u>	<u>--</u>	<u>--</u>	<u>2,787,502</u>
	<u>\$ 2,787,502</u>	<u>\$ 6,317,021</u>	<u>\$ 42,353,101</u>	<u>\$ 51,457,624</u>

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

**NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)**

***CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ 2,673,155	\$ 5,978,741	\$ 40,656,969	\$ 49,308,865
Investment return				
Investment income	65,913	211,422	--	277,335
Net appreciation (realized and unrealized)	<u>180,036</u>	<u>575,876</u>	<u>1,696,112</u>	<u>2,452,024</u>
Total investment return	245,949	787,298	1,696,112	2,729,359
Appropriation of endowment assets for expenditure	(131,602)	(449,018)	--	(580,620)
Contributions	<u>--</u>	<u>--</u>	<u>20</u>	<u>20</u>
Endowment net assets, ending balance	<u>\$ 2,787,502</u>	<u>\$ 6,317,021</u>	<u>\$ 42,353,101</u>	<u>\$ 51,457,624</u>

***ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2009***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ --	\$ 5,978,741	\$ 40,656,969	\$ 46,635,710
Board-designated endowment funds	<u>2,673,155</u>	<u>--</u>	<u>--</u>	<u>2,673,155</u>
	<u>\$ 2,673,155</u>	<u>\$ 5,978,741</u>	<u>\$ 40,656,969</u>	<u>\$ 49,308,865</u>

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

#### NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

##### *CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ -	\$ 9,139,586	\$ 41,340,126	\$ 50,479,712
Investment return				
Investment income	41,596	427,613	--	469,209
Net appreciation (depreciation) (realized and unrealized)	<u>455,687</u>	<u>(753,841)</u>	<u>(683,717)</u>	<u>(981,871)</u>
Total investment return	497,283	(326,228)	(683,717)	(512,662)
Transfers	2,175,872	(2,175,872)	--	--
Appropriation of endowment assets for expenditure	--	(668,745)	--	(668,745)
Contributions	<u>--</u>	<u>10,000</u>	<u>560</u>	<u>10,560</u>
Endowment net assets, ending balance	<u>\$ 2,673,155</u>	<u>\$ 5,978,741</u>	<u>\$ 40,656,969</u>	<u>\$ 49,308,865</u>

#### NOTE 6 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at September 30, 2010 and 2009, are restricted amounts which are to be held in perpetuity, the income from which is expendable to provide free care, scholarships for the children of the Hospital's employees, and for the operations of the Hospital. Also included in permanently restricted net assets are funds held in trust by others. The Hospital is the restricted income beneficiary of funds held in trust by others. The total trust assets, as reported by the trustee, had an aggregate quoted market value at September 30, 2010 and 2009 of \$39,561,090 and \$37,864,978, respectively. Income of \$1,597,759 and \$1,429,877 earned on these assets for the years ended September 30, 2010 and 2009, respectively, is included in investment income.

Temporarily restricted net assets are available to provide psychiatric services, free care and educational seminars.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 6 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

During 2010, net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes in providing grant related services, free care, and various miscellaneous services in the amounts of \$4,497,224, \$521,983 and \$386,207, respectively in 2010 and \$4,103,736, \$620,838 and \$384,619, respectively in 2009. In addition, \$135,818 and \$69,902 were released for the purchase of property and equipment in 2010 and 2009, respectively.

Based on a current review of donor intentions and further donor clarification obtained in 2009, the Hospital transferred \$2,175,872 from temporarily restricted net assets to unrestricted net assets. This transfer has been included in the net assets transferred and released from restrictions in the 2009 consolidated statement of operations and changes in net assets.

### NOTE 7 - DEBT

#### *SERIES C BOND FINANCING*

On December 1, 1999, the Hospital entered into Series C financing arrangements with CHEFA under a Master Indenture for the financing of, among other things, renovations, equipment purchases or replacements, and the defeasance of the Series B Bonds. To finance the above, CHEFA sold \$27,140,000 of Series C revenue bonds, maturing serially from 2000 through 2029, with interest at a net average annual rate of approximately 5.48%. The scheduled payment of principal and interest on the Series C Bonds when due is guaranteed by an insurance policy issued by a commercial insurer. This noncancelable insurance policy has been paid for by the Hospital and is included in CHEFA obligations issue expense, less amortization, on the consolidated balance sheets.

Under the terms of the financing arrangements between the Hospital and CHEFA, the proceeds of the revenue bonds were loaned to the Hospital. Pursuant to the loan agreement, the Hospital is obligated to provide amounts which will be sufficient to enable CHEFA to pay the principal of and interest on the proceeds of the Series C Bonds.

Concurrently with the issuance and delivery of the Series C Bonds, the Hospital and U.S. Bank NA, as Trustee, entered into the Master Indenture and Supplemental Master Indenture Number 1 pursuant to which the Hospital is obligated to pay the amount due under the loan agreement with CHEFA. The Master Indenture and Supplemental Master Indenture provide for, among other things, the establishment and maintenance of a Debt Service Reserve Fund and a pledge of the gross receipts, as defined, of the Hospital, restriction on the incurrence of

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 7 – DEBT (CONTINUED)

certain indebtedness of the Hospital and provide for covenants regarding the Hospital's debt service coverage ratios, minimum levels of cash on hand, the ratio of long term debt to total capitalization, sale and lease of assets and other covenants similar in financings of this type.

During the year ended September 30, 2008, the Obligated Group (Hospital and Network) violated certain debt covenants, including the debt service coverage ratio and minimum level of cash on hand. As required under the Master Trust Indenture, the Hospital retained an independent consultant to make recommendations regarding rates, fees, charges, or methods of operations to increase the debt service coverage ratio. On February 26, 2009, the Hospital and Network entered into a forbearance agreement with the bond insurer which waived the consequences of these defaults and modified future financial and other covenants. The Obligated Group was in compliance with the terms of the forbearance agreement as of September 30, 2010 and 2009.

Future minimum payments by year and in the aggregate, subject to early redemption provisions discussed above, under the Series C bond financing are as follows at September 30, 2010:

2011	\$ 865,000
2012	910,000
2013	965,000
2014	1,025,000
2015	1,085,000
Aggregate thereafter	<u>14,585,000</u>
	<u>\$ 19,435,000</u>

Effective December 22, 2010, the Hospital refinanced its Series C bond financing and financed an additional \$8,000,000 for various capital projects to be completed over a two year period. The par amount of the new debt is \$25,918,000. The new bonds require monthly principal and interest payments, based upon a 10 year amortization schedule, from 2011 through 2020 with the remaining principal balance due in 2020. The terms of this refinancing arrangement provide for, among other things, a pledge of gross receipts of the Hospital, restriction on the incurrence of certain indebtedness of the Hospital and provide for covenants regarding the Hospital's debt service coverage ratios, minimum levels of cash on hand, sale and lease of assets and other covenants similar in financings of this type. In connection with this refinancing, the Hospital entered into an interest rate swap with a bank which allowed it to convert its variable interest rate liability to a fixed interest rate liability of 4.475% without changing the structure of the underlying debt.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 7 – DEBT (CONTINUED)

Access has a \$250,000 line of credit with a bank. There were no borrowings under this line of credit at September 30, 2010 and 2009.

The Hospital obtained an equipment loan through CHEFA during 2004. The total loan commitment was \$9,361,036 and was drawn in unequal periodic amounts through December 2005. The loan was repayable in installments of principal plus interest at a fixed rate of 4.446% totaling \$170,745 per month through March 2009. The loan was repaid in full in March 2009.

The Hospital had a \$3.5 million and \$4.0 million letter of credit with a bank available at September 30, 2010 and September 30, 2009, respectively, to support its self-insured workers' compensation program that is collateralized by certain investments held by the bank. As of September 30, 2010 and 2009, there were no borrowings on this letter of credit.

The Hospital entered into an equipment lease during 2009. The lease calls for equal monthly payments of \$7,278 through June 2011 and is secured by the equipment. The balance of the capital lease liability was \$64,625 and \$148,379 at September 30, 2010 and 2009, respectively.

Imaging Partners, LLC entered into a master equipment lease during 2006. The lease calls for unequal periodic payments through October 2011 and is secured by the equipment. The balance of the capital lease liability was \$252,959 and \$466,179 at September 30, 2010 and 2009, respectively.

AMG has a capital lease for equipment that calls for monthly payments of \$1,485 through April 2013 and is secured by the equipment. The balance of the capital lease liability at September 30, 2010 was \$41,549.

AMG has a capital lease for equipment that calls for monthly payments of \$593 through January 2014 and is secured by the equipment. The balance of the capital lease liability at September 30, 2010 was \$18,600.

AMG entered into an equipment lease during 2010. The lease calls for monthly payments of \$353 through March 2015 and is secured by the equipment. The balance of the capital lease liability at September 30, 2010 was \$15,976.

AMG entered into an equipment lease during 2010. The lease calls for monthly payments of \$447 through May 2015 and is secured by the equipment. The balance of the capital lease liability at September 30, 2010 was \$20,853.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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#### NOTE 7 – DEBT (CONTINUED)

AMG entered into a term note during 2010 at an interest rate of 9.8%. The note calls for monthly payments of \$13,216 through November 2014 and is secured by the assets of AMG. The balance of the term note liability at September 30, 2010 was \$536,950.

AMG assumed a note payable during 2009 for the fit-up of office space. The original amount of the note was \$320,000 and is repayable in installments of principal plus interest at 7.50% totaling \$4,908 per month through January 2014. In addition, this note calls for a final payment of principal and interest of \$113,981 in February 2014. The balance of this note at September 30, 2010 was \$258,248.

Future minimum payments by year and in the aggregate for all obligations other than the CHEFA Series C bonds were as follows at September 30, 2010:

2011	\$ 472,875
2012	213,549
2013	206,651
2014	284,372
2015	32,313
	<hr/>
	\$ 1,209,760

The fair value of the debt, using the discounted cash flow analyses, was approximately \$21,320,000 at September 30, 2010.

#### NOTE 8 – RENTAL EXPENSE AND LEASE COMMITMENTS

The Hospital has entered into operating leases for office space and office equipment. Rental expense for the years ended September 30, 2010 and 2009 was \$4,252,891 and \$3,051,411, respectively. The minimum rental commitments under all noncancellable operating leases with initial or remaining terms of more than one year are as follows:

2011	\$ 3,518,356
2012	3,334,216
2013	3,425,960
2014	3,195,039
2015	1,533,897
Thereafter	2,294,142
	<hr/>
	\$ 17,301,610

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 9 – EMPLOYEE BENEFIT PLANS

The Hospital has a noncontributory defined benefit cash balance plan (the Plan). Under the Plan, each participant who elected to transfer their balances to the Plan from the former defined contribution plan receives a credit of 6% of compensation allocated to their cash balance accounts. All other participants receive a 3% credit. Additionally, each participant receives an interest credit to their cash balance account based on the yield to maturity on three-year treasury bills. The Plan covers substantially all non-union employees age 21 and older with one year of service. It is the Hospital's policy to make contributions to the Plan sufficient to meet the minimum funding requirements of applicable laws and regulations.

The Hospital adopted the measurement date provision of ASC 715-30 as of September 30, 2009. The increase to the benefit obligation and deferred pension cost for the effect of moving the measurement date from June 30 to September 30 ("gap period") was \$343,000. The effect on the Hospital's consolidated balance sheet has been recognized as an adjustment to unrestricted net assets in the accompanying 2009 consolidated statements of operations and changes in net assets, representing the net periodic benefit cost attributable to the period July 1, 2008 through September 30, 2008.

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

**NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

Following is a summary of the Plan's funded status using the measurement dates of September 30, 2010 and 2009 and amounts recognized in the Hospital's consolidated financial statements.

	2010	2009
<b>Change in benefit obligation</b>		
Benefit obligation beginning of year	\$ (34,676,258)	\$ (33,567,569)
Service cost	(1,150,693)	(1,065,635)
Service and interest costs during gap period	--	(782,683)
Interest cost	(1,830,619)	(2,065,099)
Actuarial (loss) gain	(1,326,106)	1,094,303
Benefits paid	1,258,212	1,271,159
Benefit payments during gap period	--	439,266
Benefit obligation, end of year	<u>\$ (37,725,464)</u>	<u>\$ (34,676,258)</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	\$ 26,914,181	\$ 31,692,647
Actual return on plan assets	2,102,750	(3,505,041)
Employer contributions	914,000	437,000
Benefits paid	(1,258,212)	(1,271,159)
Benefit payments during gap period	--	(439,266)
Fair value of plan assets, end of year	<u>\$ 28,672,719</u>	<u>\$ 26,914,181</u>
Funded status	<u>\$ (9,052,745)</u>	<u>\$ (7,762,077)</u>
Accrued pension liability	<u>\$ (9,052,745)</u>	<u>\$ (7,762,077)</u>
<b>Components of net periodic pension cost</b>		
Service cost	\$ 1,150,693	\$ 1,065,635
Interest cost	1,830,619	2,065,099
Expected return on plan assets	(2,661,262)	(2,702,674)
Amortization of actuarial loss	129,140	--
Amortization of prior service cost	35,527	35,527
Net periodic pension cost	<u>\$ 484,717</u>	<u>\$ 463,587</u>
Accumulated benefit obligation	<u>\$ 36,479,923</u>	<u>\$ 33,404,451</u>

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

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**NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic cost:

	<u>2010</u>	<u>2009</u>
Unrecognized prior service cost	\$ (263,040)	\$ (298,567)
Unrecognized actuarial losses	<u>(14,120,108)</u>	<u>(12,364,630)</u>
Benefit obligation, end of year	<u>\$ (14,383,148)</u>	<u>\$ (12,663,197)</u>

Changes in benefit obligations recognized in unrestricted net assets include:

	<u>2010</u>	<u>2009</u>
Prior service cost	\$ --	\$ (266,409)
Current year actuarial losses	(1,884,618)	(5,295,568)
Change in measurement date	--	(343,000)
Amortization of prior service cost	35,527	35,527
Amortization of net loss	<u>129,140</u>	<u>--</u>
	<u>\$ (1,719,951)</u>	<u>\$ (5,869,450)</u>

The prior service cost and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic cost during the year ending September 30, 2011 are \$35,527 and \$431,281, respectively.

***ASSUMPTIONS***

The weighted-average assumptions used to determine benefit obligations at September 30 are as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	4.83%	5.50%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	2% for 5 year select period, 3% ultimate	3.00%

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

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

	2010	2009
Discount rate	5.50%	6.85%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%

#### *EXPECTED LONG-TERM RETURN ON PLAN ASSETS*

To develop the expected long-term rate of return on assets assumptions, the Hospital considered the historical returns and the future expectations of returns for each asset class, as well as target asset allocations of the pension portfolio. This resulted in the selection of the 8.0% long-term rate of return.

#### *INVESTMENT POLICY*

The Plan's weighted-average asset allocation at September 30, 2010 and 2009, by asset category are as follows:

Asset Category	Plan Assets at September 30		Asset Allocation Policy	
	2010	2009	Target	Range
Equity securities	71%	64%	70%	60% -80%
Debt securities	25%	26%	30%	20% -40%
Cash and cash equivalents	4%	10%		

The Pension Committee of the Board of Directors (the Committee) is responsible for employee benefit program policies with respect to plan assets and the retention of qualified managers, consultants and trustee/custodians. The purpose of the Committee is to ensure the Plan assets accumulate monies required to meet the anticipated benefit payments of the Plan; contributions are made by the Hospital on a basis determined by the Plan's actuary to be adequate to fund the benefits. The investment objective of the Committee is to maximize total return after inflation within the limits of prudent risk taking by diversifying across asset classes and multiple managers. The Committee has established an asset allocation policy that sets a target and range for each asset class, as shown in the table above.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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#### NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

##### *CONTRIBUTIONS*

The Hospital expects to make \$1,082,000 in contributions to the Plan in 2011.

##### *ESTIMATED FUTURE BENEFIT PAYMENTS*

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

2011		\$ 3,316,689
2012		2,458,860
2013		2,585,154
2014		2,645,146
2015		2,549,851
2016 - 2020		<u>13,643,834</u>
		<u>\$ 27,199,534</u>

The following tables set forth by level within the fair value hierarchy the investment assets and investment liabilities at fair value, as of September 30, 2010. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total
Equities	\$ 8,434,030	\$ --	\$ --	\$ 8,434,030
BSDT Reserve				
Deposit Accounts	--	126	--	126
Commingled Funds and Private Equity	--	--	12,956,286	12,956,286
U.S. Government Obligations	3,881,847	680,950	--	4,562,797
Corporate Bonds	--	2,656,597	--	2,656,597
Interest and Dividends	<u>62,883</u>	<u>--</u>	<u>--</u>	<u>62,883</u>
	<u>\$12,378,760</u>	<u>\$ 3,337,673</u>	<u>\$12,956,286</u>	<u>\$28,672,719</u>

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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### NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

The following is a reconciliation of Level 3 assets, collective investments and common trust funds, for which significant unobservable inputs were used to determine fair value:

Balance as of September 30, 2009	\$ 13,390,946
Change in unrealized appreciation	1,242,813
Net sales	<u>(1,677,473)</u>
Balance as of September 30, 2010	<u>\$ 12,956,286</u>

### *OTHER BENEFIT PLANS*

The Hospital also makes contributions for substantially all union employees to pension plans sponsored by the union. Contributions are based on a percentage of each participant's total salary. Total pension expense charged to operations during the years ended September 30, 2010 and 2009 was \$3,865,343 and \$3,920,506, respectively.

In addition, the Hospital has a supplemental employee retirement plan for certain executives. The plan provides for a total benefit and is partially funded. As of September 30, 2010 and 2009, liabilities of \$1,211,615 and \$1,133,531, respectively, have been reflected in the consolidated balance sheets.

### NOTE 10 – SELF-INSURANCE CLAIMS

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

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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#### NOTE 11 – CONTINGENCIES

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

#### NOTE 12 – DUE FROM (TO) AFFILIATES

The amounts due from affiliates of \$5,516,490 and \$5,802,476 at September 30, 2010 and 2009, respectively, represent receivables from and (payables) to affiliates that do not eliminate in consolidation. These balances are comprised of the following:

	2010	2009
Greater Waterbury Health Network, Inc.	\$ 5,695,627	\$ 4,939,861
Alliance Medical Group of Greater Waterbury, P.C.	(10,409)	1,014,665
Greater Waterbury Management Resources, Inc.	(168,728)	(152,050)
	<u>\$ 5,516,490</u>	<u>\$ 5,802,476</u>

#### NOTE 13 – FUNCTIONAL EXPENSES

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

	2010	2009
Health care services	\$ 200,583,835	\$ 203,540,626
General and administrative	69,679,789	59,276,398
Fundraising	340,295	409,489
	<u>\$ 270,603,919</u>	<u>\$ 263,226,513</u>

**INDEPENDENT AUDITORS' REPORT  
ON OTHER FINANCIAL INFORMATION**

Board of Trustees  
**The Waterbury Hospital**

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

The 2009 consolidating information was subjected to the auditing procedures applied by the other auditors in their audit of the 2009 basic consolidated financial statements whose report on other financial information expressed an opinion that the 2009 consolidating information was fairly stated in all material respects in relation to the 2009 basic consolidated financial statements taken as a whole.

*Marcum LLP*

Hartford, CT  
January 27, 2011

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2010

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Eliminations	Consolidated
<b>Assets</b>							
<b>Current Assets</b>							
Cash and cash equivalents	\$ 16,243,349	\$ 3,220,789	\$ 1,017,272	\$ 245,555	\$ 679,883	\$ --	\$ 21,406,848
Short-term investments	--	--	391,878	--	--	--	391,878
Other assets required for current liabilities	582,693	--	--	--	--	--	582,693
Patient accounts receivable, net	27,764,677	809,415	1,707,121	58,429	2,104,542	(598,746)	31,845,438
Grants and other receivables	1,773,357	--	--	--	210,027	(255,323)	1,728,061
Inventories of supplies	634,324	--	--	--	178,036	--	812,360
Prepaid insurance and other expenses	1,161,757	--	58,652	4,999	151,372	--	1,376,780
<b>Total Current Assets</b>	<u>48,160,157</u>	<u>4,030,204</u>	<u>3,174,923</u>	<u>308,983</u>	<u>3,323,860</u>	<u>(854,069)</u>	<u>58,144,058</u>
<b>Other Assets</b>							
Certificates of deposit and money market funds	--	--	--	--	--	--	--
U.S. Government obligations and other bonds	--	--	--	--	--	--	--
Funds held in escrow by agreement with the State of Connecticut Health and Educational Facilities Authority (CHEFA) and trustee:							
Debt service fund	582,693	--	--	--	--	--	582,693
Debt service reserve fund	2,020,082	--	--	--	--	--	2,020,082
<b>Less assets that are required for current liabilities</b>							
	<u>2,602,775</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,602,775</u>
	<u>582,693</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>582,693</u>
	<u>2,020,082</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,020,082</u>
Funds held in trust by others	39,561,090	--	--	--	--	--	39,561,090
Long-term investments	12,235,187	41,287	--	--	--	(2,209,088)	10,067,386
Board-designated endowment funds	2,787,502	--	--	--	--	--	2,787,502
Other receivables	136,573	--	--	--	--	--	136,573
Due from affiliates, less current portion	5,695,627	--	--	--	--	--	5,695,627
CHEFA obligations issue expense, less amortization	575,582	--	--	--	--	--	575,582
	<u>60,991,561</u>	<u>41,287</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(2,209,088)</u>	<u>58,823,760</u>
Property, plant and equipment:							
Land	287,549	--	--	--	--	--	287,549
Buildings and improvements	83,784,947	789,888	380,170	4,022	1,782,548	--	86,741,575
Equipment	159,689,260	6,818,886	623,216	1,089,651	615,336	--	168,836,349
Construction in progress	1,070,830	--	--	--	617,756	--	1,688,586
Accumulated depreciation	(206,294,646)	(6,249,246)	(536,917)	(962,623)	(220,232)	--	(214,263,664)
	<u>38,537,940</u>	<u>1,359,528</u>	<u>466,469</u>	<u>131,050</u>	<u>2,795,408</u>	<u>--</u>	<u>43,290,395</u>
	<u>\$ 149,709,740</u>	<u>\$ 5,431,019</u>	<u>\$ 3,641,392</u>	<u>\$ 440,033</u>	<u>\$ 6,119,268</u>	<u>\$ (3,063,157)</u>	<u>\$ 162,278,295</u>

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**CONSOLIDATING BALANCE SHEET (CONTINUED)**

**SEPTEMBER 30, 2010**

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>							
<b>Current Liabilities</b>							
Accounts payable and accrued expenses	\$ 18,516,046	\$ 370,949	\$ 434,840	\$ 57,787	\$ 438,367	\$ (854,069)	\$ 18,963,920
Salaries, wages, payroll taxes and amounts withheld from employees	7,688,690	--	95,025	--	1,421,227	--	9,204,942
Due to third-party reimbursement agencies	230,310	--	--	--	--	--	230,310
Current portion of CHEFA obligations	865,000	--	--	--	--	--	865,000
Current portion of notes payable	64,625	--	--	232,641	175,609	--	472,875
Due to affiliates	(752,190)	--	--	--	931,327	--	179,137
<b>Total Current Liabilities</b>	<u>26,612,481</u>	<u>370,949</u>	<u>529,865</u>	<u>290,428</u>	<u>2,966,530</u>	<u>(854,069)</u>	<u>29,916,184</u>
<b>Other Noncurrent Liabilities</b>	<u>14,200,723</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>466,698</u>	<u>--</u>	<u>14,667,421</u>
<b>CHEFA Obligations - less current portion and discount</b>	<u>18,142,716</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>18,142,716</u>
<b>Notes Payable - less current portion</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>20,318</u>	<u>716,567</u>	<u>--</u>	<u>736,885</u>
<b>Minority Interest in Net Assets of Consolidated Affiliates</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,930,053</u>	<u>2,930,053</u>
<b>Net Assets</b>							
Unrestricted	40,084,846	5,060,070	3,111,527	129,287	1,969,473	(5,139,141)	45,216,062
Temporarily restricted	8,315,873	--	--	--	--	--	8,315,873
Permanently restricted	42,353,101	--	--	--	--	--	42,353,101
	<u>90,753,820</u>	<u>5,060,070</u>	<u>3,111,527</u>	<u>129,287</u>	<u>1,969,473</u>	<u>(5,139,141)</u>	<u>95,885,036</u>
	<u>\$ 149,709,740</u>	<u>\$ 5,431,019</u>	<u>\$ 3,641,392</u>	<u>\$ 440,033</u>	<u>\$ 6,119,268</u>	<u>\$ (3,063,157)</u>	<u>\$ 162,278,295</u>

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2009

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Eliminations	Consolidated
<b>Assets</b>							
<b>Current Assets</b>							
Cash and cash equivalents	\$ 14,657,330	\$ 2,349,662	\$ 1,365,966	\$ 231,057	\$ 2,495	\$ --	\$ 18,606,510
Short-term investments	--	--	359,823	--	--	--	359,823
Other assets required for current liabilities	573,887	--	--	--	--	--	573,887
Patient accounts receivable, net	30,390,471	677,165	1,256,878	51,250	--	--	32,375,764
Grants and other receivables	1,208,850	--	--	--	--	(107,112)	1,101,738
Inventories of supplies	584,339	--	--	--	--	--	584,339
Prepaid insurance and other expenses	1,248,474	--	86,041	3,218	37,005	--	1,374,738
Due from affiliates	902,115	--	--	--	(39,500)	--	862,615
<b>Total Current Assets</b>	<b>49,565,466</b>	<b>3,026,827</b>	<b>3,068,708</b>	<b>285,525</b>	<b>--</b>	<b>(107,112)</b>	<b>55,839,414</b>
<b>Other Assets</b>							
Certificates of deposit and money market funds	14,570	--	--	--	--	--	14,570
U.S. Government obligations and other bonds	2,273	--	--	--	--	--	2,273
	16,843	--	--	--	--	--	16,843
Funds held in escrow by agreement with the State of Connecticut Health and Educational Facilities Authority (CHEFA) and trustee:							
Debt service fund	557,044	--	--	--	--	--	557,044
Debt service reserve fund	2,020,082	--	--	--	--	--	2,020,082
	2,593,969	--	--	--	--	--	2,593,969
	573,887	--	--	--	--	--	573,887
	2,020,082	--	--	--	--	--	2,020,082
Funds held in trust by others	37,864,978	--	--	--	--	--	37,864,978
Long-term investments	9,558,064	44,763	--	--	--	--	9,602,827
Board-designated endowment funds	2,673,155	--	--	--	--	--	2,673,155
Other receivables	732,690	--	--	--	--	--	732,690
Due from affiliates, less current portion	4,939,861	--	--	--	--	--	4,939,861
CHEFA obligations issue expense, less amortization	606,280	--	--	--	--	--	606,280
	56,375,028	44,763	--	--	--	--	56,419,791
<b>Property, plant and equipment:</b>							
Land	287,549	--	--	--	--	--	287,549
Buildings and improvements	82,901,649	783,430	355,639	--	--	--	84,040,718
Equipment	157,434,226	6,686,393	617,021	1,089,651	--	--	165,827,291
Construction in progress	93,916	--	--	--	--	--	93,916
Accumulated depreciation	(197,380,797)	(5,895,531)	(452,861)	(754,935)	--	--	(204,484,124)
	43,336,543	1,574,292	519,799	334,716	--	--	45,765,350
	\$ 151,297,119	\$ 4,645,882	\$ 3,588,507	\$ 620,241	\$ --	\$ (107,112)	\$ 160,044,637

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**CONSOLIDATING BALANCE SHEET (CONTINUED)**

**SEPTEMBER 30, 2009**

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>							
<b>Current Liabilities</b>							
Accounts payable and accrued expenses	\$ 14,976,895	\$ 437,552	\$ 458,345	\$ 53,045	\$ --	\$ (107,112)	\$ 15,818,725
Salaries, wages, payroll taxes and amounts withheld from employees	7,919,991	--	272,467	--	--	--	8,192,458
Due to third-party reimbursement agencies	1,023,178	--	--	--	--	--	1,023,178
Current portion of CHEFA obligations	820,000	--	--	--	--	--	820,000
Current portion of notes payable	83,754	--	--	213,220	--	--	296,974
<b>Total Current Liabilities</b>	<u>24,823,818</u>	<u>437,552</u>	<u>730,812</u>	<u>266,265</u>	<u>--</u>	<u>(107,112)</u>	<u>26,151,335</u>
<b>Other Noncurrent Liabilities</b>	<u>14,365,164</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>14,365,164</u>
<b>CHEFA Obligations - less current portion and discount</b>	<u>18,984,928</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>18,984,928</u>
<b>Notes Payable - less current portion</b>	<u>64,625</u>	<u>--</u>	<u>--</u>	<u>252,959</u>	<u>--</u>	<u>--</u>	<u>317,584</u>
<b>Minority Interest in Net Assets of Consolidated Affiliates</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,530,345</u>	<u>2,530,345</u>
<b>Net Assets</b>							
Unrestricted	44,636,663	4,208,330	2,857,695	101,017	--	(2,530,345)	49,273,360
Temporarily restricted	7,764,952	--	--	--	--	--	7,764,952
Permanently restricted	40,656,969	--	--	--	--	--	40,656,969
	<u>93,058,584</u>	<u>4,208,330</u>	<u>2,857,695</u>	<u>101,017</u>	<u>--</u>	<u>(2,530,345)</u>	<u>97,695,281</u>
	<u>\$ 151,297,119</u>	<u>\$ 4,645,882</u>	<u>\$ 3,588,507</u>	<u>\$ 620,241</u>	<u>\$ --</u>	<u>\$ (107,112)</u>	<u>\$ 160,044,637</u>

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Eliminations	Consolidated
<b>Revenues</b>							
Net revenues from services to patients	\$ 229,011,318	\$ 5,333,662	\$ 9,139,398	\$ 702,239	\$ 12,979,844	\$ (2,378,526)	\$ 254,787,935
Other operating revenues	2,460,675	7,648	(1,372)	5,419	4,806,872	(640,864)	6,638,378
Net assets released from restrictions	5,405,414	--	--	--	--	--	5,405,414
	<u>236,877,407</u>	<u>5,341,310</u>	<u>9,138,026</u>	<u>707,658</u>	<u>17,786,716</u>	<u>(3,019,390)</u>	<u>266,831,727</u>
<b>Expenses</b>							
Salaries	98,804,093	667,632	5,025,637	--	16,006,728	--	120,504,090
Employee benefits	28,853,399	146,782	1,058,833	--	2,633,469	--	32,692,483
Supplies and other	81,766,375	2,057,812	2,184,667	439,329	4,182,428	(3,019,390)	87,611,221
Bad debts	14,985,815	(15,848)	62,621	--	667,000	--	15,699,588
Depreciation	8,705,929	357,192	96,073	207,688	230,644	--	9,597,526
Operations improvement	2,695,434	--	--	--	--	--	2,695,434
Interest and amortization	1,708,531	--	--	32,371	62,675	--	1,803,577
	<u>237,519,576</u>	<u>3,213,570</u>	<u>8,427,831</u>	<u>679,388</u>	<u>23,782,944</u>	<u>(3,019,390)</u>	<u>270,603,919</u>
	<u>(642,169)</u>	<u>2,127,740</u>	<u>710,195</u>	<u>28,270</u>	<u>(5,996,228)</u>	<u>--</u>	<u>(3,772,192)</u>
<b>(Loss) Income from Operations Before Minority Interest</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(1,030,015)</u>	<u>(1,030,015)</u>
<b>Minority Interest in Income of Consolidated Affiliates</b>	<u>(642,169)</u>	<u>2,127,740</u>	<u>710,195</u>	<u>28,270</u>	<u>(5,996,228)</u>	<u>(1,030,015)</u>	<u>(4,802,207)</u>
<b>Nonoperating Revenues (Losses)</b>							
Unrestricted gifts and bequests	157,191	--	--	--	--	--	157,191
Investment income	1,631,835	--	9,968	--	--	--	1,641,803
Realized gains on sales of investments	--	--	4,056	--	--	--	4,056
Other nonoperating expenses	(946,925)	--	--	--	--	--	(946,925)
	<u>842,101</u>	<u>--</u>	<u>14,024</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>856,125</u>
<b>Excess (Deficiency) of Revenues Over Expenses Before Net Unrealized Gains on Investments</b>	199,932	2,127,740	724,219	28,270	(5,996,228)	(1,030,015)	(3,946,082)
<b>Net Unrealized Gains on Investments</b>	127,424	--	18,031	--	--	--	145,455
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<u>\$ 327,356</u>	<u>\$ 2,127,740</u>	<u>\$ 742,250</u>	<u>\$ 28,270</u>	<u>\$ (5,996,228)</u>	<u>\$ (1,030,015)</u>	<u>\$ (3,800,627)</u>

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**CONSOLIDATING STATEMENT OF OPERATIONS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	<u>Greater</u>	<u>Waterbury</u>	<u>Access</u>	<u>Imaging</u>	<u>Partners,</u>	<u>Eliminations</u>	<u>Consolidated</u>
	<u>The Waterbury</u>	<u>Imaging</u>	<u>Rehab</u>	<u>Center</u>	<u>LLC</u>		
	<u>Hospital</u>	<u>Center</u>	<u>Centers,</u>	<u>Limited</u>	<u>LLC</u>		
	<u>Partnership</u>	<u>Partners,</u>	<u>LLC</u>	<u>LLC</u>	<u>LLC</u>		
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Revenues</b>							
Net revenues from services to patients	\$239,928,524	\$ 6,209,797	\$ 9,070,024	\$ 787,117	\$ (2,456,696)	\$253,538,766	
Other operating revenues	3,509,420	7,125	2,457	4,924	(236,198)	3,287,728	
Net assets released from restrictions	5,108,393	--	--	--	--	5,108,393	
	<u>248,546,337</u>	<u>6,216,922</u>	<u>9,072,481</u>	<u>792,041</u>	<u>(2,692,894)</u>	<u>261,934,887</u>	
<b>Expenses</b>							
Salaries	105,995,287	767,436	4,788,170	--	--	111,550,893	
Employee benefits	30,095,663	98,741	1,014,891	--	--	31,209,295	
Supplies and other	79,874,500	2,255,744	2,144,903	469,282	(2,695,959)	82,048,470	
Bad debts	14,319,487	(15,160)	124,536	--	--	14,428,863	
Depreciation	8,904,648	390,508	89,347	211,310	--	9,595,813	
Operations improvement	12,908,481	--	--	--	--	12,908,481	
Interest and amortization	1,434,528	--	--	50,170	--	1,484,698	
	<u>253,532,594</u>	<u>3,497,269</u>	<u>8,161,847</u>	<u>730,762</u>	<u>(2,695,959)</u>	<u>263,226,513</u>	
<b>(Loss) Income from Operations Before Minority Interest</b>	<b>(4,986,257)</b>	<b>2,719,653</b>	<b>910,634</b>	<b>61,279</b>	<b>3,065</b>	<b>(1,291,626)</b>	
<b>Minority Interest in Income of Consolidated Affiliates</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(1,317,466)</b>	<b>(1,317,466)</b>	
<b>(Loss) Income from Operations</b>	<b>(4,986,257)</b>	<b>2,719,653</b>	<b>910,634</b>	<b>61,279</b>	<b>(1,314,401)</b>	<b>(2,609,092)</b>	
<b>Nonoperating Revenues</b>							
Unrestricted gifts and bequests	434,411	--	--	--	(3,065)	431,346	
Investment income	1,617,478	--	10,898	--	--	1,628,376	
Realized losses on sales of investments	--	--	(219)	--	--	(219)	
	<u>2,051,889</u>	<u>--</u>	<u>10,679</u>	<u>--</u>	<u>(3,065)</u>	<u>2,059,503</u>	
<b>(Deficiency) Excess of Revenues Over Expenses Before Net Unrealized Gains on Investments</b>	<b>(2,934,368)</b>	<b>2,719,653</b>	<b>921,313</b>	<b>61,279</b>	<b>(1,317,466)</b>	<b>(549,589)</b>	
<b>Net Unrealized Gains on Investments</b>	<b>1,014,797</b>	<b>--</b>	<b>19,255</b>	<b>--</b>	<b>--</b>	<b>1,034,052</b>	
<b>(Deficiency) Excess of Revenues Over Expenses</b>	<b>\$ (1,919,571)</b>	<b>\$ 2,719,653</b>	<b>\$ 940,568</b>	<b>\$ 61,279</b>	<b>\$ (1,317,466)</b>	<b>\$ 484,463</b>	