



AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

The Danbury Hospital and Subsidiary
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP



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

Years Ended September 30, 2011 and 2010

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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, 2011 and 2010, 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 Western Connecticut Network Insurance Co., Ltd. (the Company), a subsidiary of the Hospital, which statements reflect total assets of 7% and 9% as of September 30, 2011 and 2010, respectively, and total revenues of 2%, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the 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, 2011 and 2010, 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 27, 2012

The Danbury Hospital and Subsidiary

Consolidated Balance Sheets

	September 30	
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 36,610,270	\$ 26,488,364
Assets limited as to use	1,273,013	1,679,707
Accounts receivable, less allowance for uncollectible accounts of \$11,261,000 in 2011 and \$10,140,000 in 2010	53,313,528	51,429,630
Current portion of due from related parties	6,009,891	5,341,743
Inventories	8,853,966	7,538,558
Prepaid expenses and other	15,544,259	9,655,767
Total current assets	<u>121,604,927</u>	<u>102,133,769</u>
Assets limited as to use:		
Construction funds	125,248,424	–
Investments	202,361,192	226,190,145
Prepaid pension and other assets	–	30,864,385
Due from related parties	5,905,152	15,865,954
Interest in Western Connecticut Health Network Foundation, Inc.	73,125,721	77,105,507
Property, plant and equipment:		
Land and land improvements	8,458,354	7,228,710
Buildings and building improvements	265,771,375	234,120,405
Equipment and other	218,310,465	196,721,202
Construction in progress (estimated cost to complete at September 30, 2011: \$137,977,000)	27,578,848	19,811,944
	<u>520,119,042</u>	<u>457,882,261</u>
Less accumulated depreciation	299,833,683	274,705,979
	<u>220,285,359</u>	<u>183,176,282</u>
Bond issuance costs, net	5,779,765	3,117,386
Total assets	<u>\$ 754,310,540</u>	<u>\$ 638,453,428</u>

	September 30	
	2011	2010
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 27,363,171	\$ 20,722,686
Payroll-related accruals	12,263,559	14,821,485
Due to third-party payors	11,107,547	11,079,973
Interest payable	1,803,683	1,057,389
Other accrued expenses	4,070,796	2,929,346
Current portion of long-term debt	2,515,000	2,545,000
Long-term debt subject to short-term remarketing agreements	—	30,870,000
Total current liabilities	<u>59,123,756</u>	<u>84,025,879</u>
Self-insurance liabilities	39,197,898	34,983,997
Other long-term liabilities	15,647,308	14,178,425
Long-term debt, less current portion and long-term debt subject to short-term remarketing agreement	252,100,000	81,260,000
Net assets:		
Unrestricted	332,255,763	368,034,236
Temporarily restricted	27,787,449	28,224,280
Permanently restricted	28,198,366	27,746,611
Total net assets	<u>388,241,578</u>	<u>424,005,127</u>

Total liabilities and net assets

\$ 754,310,540 \$ 638,453,428

See accompanying notes.

The Danbury Hospital and Subsidiary

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2011	2010
Unrestricted revenues:		
Net patient service revenue	\$ 497,720,490	\$ 473,298,383
Other operating revenues	19,846,375	12,329,835
	<u>517,566,865</u>	<u>485,628,218</u>
Expenses:		
Salaries, benefits and fees	308,540,688	290,962,055
Supplies and other	130,649,238	121,925,292
Insurance	8,742,635	8,026,756
Provision for uncollectible accounts	18,183,085	10,687,109
Depreciation and amortization	27,369,949	25,703,935
Interest	4,587,742	4,557,278
	<u>498,073,337</u>	<u>461,862,425</u>
Income from operations	19,493,528	23,765,793
Nonoperating gains:		
Investment income, net	6,100,396	6,894,477
Change in unrealized gains and losses on investments	(1,979,439)	10,679,998
Change in equity interest in unrestricted net assets of the Western Connecticut Health Network Foundation, Inc.	71,435	3,239,430
	<u>4,192,392</u>	<u>20,813,905</u>
Excess of revenues over expenses	23,685,920	44,579,698

Continued on next page.

The Danbury Hospital and Subsidiary

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

	Year Ended September 30	
	2011	2010
Unrestricted net assets:		
Excess of revenues over expenses (continued)	\$ 23,685,920	\$ 44,579,698
Change in equity interest of the Western Connecticut Health Network Foundation, Inc.	(4,066,145)	(885,772)
Transfers from the Western Connecticut Health Network Foundation, Inc.	9,075,863	6,032,042
Transfers to Western Connecticut Health Network, Inc.	(64,474,111)	(6,700,000)
(Decrease) increase in unrestricted net assets	<u>(35,778,473)</u>	43,025,968
Temporarily restricted net assets:		
Change in equity interest of the Western Connecticut Health Network Foundation, Inc.	(436,831)	(328,345)
Decrease in temporarily restricted net assets	<u>(436,831)</u>	(328,345)
Permanently restricted net assets:		
Change in equity interest of the Western Connecticut Health Network Foundation, Inc.	451,755	640,516
Increase in permanently restricted net assets	<u>451,755</u>	640,516
(Decrease) increase in net assets	<u>(35,763,549)</u>	43,338,139
Net assets at beginning of year	<u>424,005,127</u>	380,666,988
Net assets at end of year	<u>\$ 388,241,578</u>	<u>\$ 424,005,127</u>

See accompanying notes.

The Danbury Hospital and Subsidiary
Consolidated Statements of Cash Flows

	Year Ended September 30	
	2011	2010
Operating activities and other income		
(Decrease) increase in net assets	\$ (35,763,549)	\$ 43,338,139
Adjustments to reconcile change in net assets to net cash provided by operating activities and other income:		
Depreciation and amortization	27,369,949	25,703,935
Change in unrealized gains and losses on investments	1,979,439	(10,679,998)
Decrease (increase) in equity interest in net assets of the Western Connecticut Health Network Foundation, Inc.	3,979,786	(2,665,829)
Transfers from the Western Connecticut Health Network Foundation, Inc.	(9,075,863)	(6,032,042)
Transfers to Western Connecticut Health Network, Inc.	64,474,111	6,700,000
Provision for uncollectible accounts	18,183,085	10,687,109
Increase (decrease) in other long-term liabilities	1,468,883	(310,046)
Increase (decrease) in self-insurance liabilities	4,213,901	(1,883,862)
Changes in operating assets and liabilities (<i>See Note 11</i>)	(17,222,009)	(12,811,427)
Net cash provided by operating activities and other income	59,607,732	52,045,979
Investing activities		
Additions to property, plant and equipment, net	(64,479,026)	(37,988,325)
Increase in due from related parties	(28,368,069)	(11,296,848)
Increase in investments, net and assets limited as to use	(102,992,216)	(19,025,202)
Net cash used in investing activities	(195,839,311)	(68,310,375)
Financing activities		
Proceeds of issuance of bonds, net of change in issuance costs	172,402,621	157,541
Payments of long-term debt	(35,125,000)	(2,460,000)
Transfers from the Western Connecticut Health Network Foundation, Inc.	9,075,863	6,032,042
Net cash provided by financing activities	146,353,484	3,729,583
Net increase (decrease) in cash and cash equivalents	10,121,906	(12,534,813)
Cash and cash equivalents at beginning of year	26,488,364	39,023,177
Cash and cash equivalents at end of year	\$ 36,610,270	\$ 26,488,364

See accompanying notes.

The Danbury Hospital and Subsidiary
Notes to Consolidated Financial Statements

September 30, 2011

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 Western Connecticut Health Network, Inc. The Board of the Hospital is appointed by Western Connecticut Health Network, Inc.

The accompanying consolidated financial statements include the accounts of the Hospital and the Hospital's wholly owned subsidiary, Western Connecticut Health Network Insurance Co., Ltd. (WCHNIC). All material intercompany transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with U. S. generally accepted accounting principles (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 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 consolidated balance sheets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income 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 set aside by the Board of Directors for the purpose of providing for future improvement, expansion and replacement of plant and equipment; and 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. During 2010, the Hospital recorded positive changes in estimate of approximately \$2,570,000 related to the allowance for doubtful accounts. 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 30% and 13%, and 33% and 10%, for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2011 and 2010, 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 amounted to \$464,904 and \$469,148 as of September 30, 2011 and 2010, respectively. These obligations are recorded in other long-term liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2011 and 2010, 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 \$1,347,238 and \$1,283,533 at September 30, 2011 and 2010, respectively.

The Danbury Hospital and Subsidiary
Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Inventories

The Hospital uses the first in, first out method, in the valuation of its inventory.

Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the excess 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 Western Connecticut Health Network Foundation, Inc.

Fair Value of Financial Instruments

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

Pension Plan

The Hospital participates in a noncontributory defined benefit pension plan sponsored by Western Connecticut Health Network, Inc. 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 \$20,984,556 and \$20,317,263 for 2011 and 2010, respectively. For the fiscal year ended September 30, 2010, the Hospital had a prepaid pension on the consolidated balance sheet that represented additional funding the Hospital made to the defined benefit pension plan of \$30,229,958. During 2011, the Hospital transferred net assets of \$26,813,388 to Western Connecticut Health Network, Inc relating to this amount.

Western Connecticut Health Network, Inc.'s defined benefit pension plan had estimated projected benefit obligations of \$406,545,972 and \$420,464,422 at September 30, 2011 and 2010, respectively, and the fair value of those plan assets were \$315,609,522 and \$297,328,592 at September 30, 2011 and 2010, respectively. The discount rate was 5.58% and 5.55% for the years ended September 30, 2011 and 2010, respectively.

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. WCHNIC is a foreign corporation exempt from U.S. taxation.

The Hospital has net operating loss carryforwards from unrelated business activities of approximately \$41,000,000, which began expiring in 2009. A deferred tax asset for these losses of approximately \$16,400,000 is offset by a corresponding valuation allowance of the same amount.

Interest in the Western Connecticut Health Network Foundation, Inc.

The interest in the Western Connecticut Health Network Foundation, Inc. represents the Hospital's interest in the net assets of the Western Connecticut Health Network Foundation, 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).

Reclassifications

Certain 2010 amounts have been reclassified to conform with current year presentation.

Adoption of New Accounting Standards

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

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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

New Accounting Pronouncements

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

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

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	
	2011	2010
Gross patient service revenue	\$ 1,113,153,089	\$ 1,042,814,917
Deductions:		
Allowances	604,072,976	556,748,702
Charity care (at charges)	11,359,623	12,767,832
	615,432,599	569,516,534
Net patient service revenue	\$ 497,720,490	\$ 473,298,383

During 2011 and 2010, approximately 33% and 6%, and 34% 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 2011 and 2010, the Hospital recorded increases in net patient service revenue of approximately \$2,300,000 and \$2,484,000, respectively, related to changes in 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 and Assets Limited as to Use

The composition of investments and assets limited as to use is set forth in the following table:

	September 30			
	2011		2010	
	Cost	Market	Cost	Market
Investments:				
Cash and cash equivalents	\$ 1,426,331	\$ 1,426,331	\$ 124,884	\$ 124,884
Common collective funds	67,287,988	59,126,371	85,636,874	76,209,964
Fixed income securities	50,743,089	50,738,895	76,036,453	76,414,324
Mutual funds	81,120,215	81,244,459	69,331,495	73,440,973
Alternative investments	8,702,569	9,825,136	-	-
	<u>\$ 209,280,192</u>	<u>\$ 202,361,192</u>	<u>\$ 231,129,706</u>	<u>\$ 226,190,145</u>
Assets limited as to use:				
Money market funds	<u>\$ 126,521,437</u>	<u>\$ 126,521,437</u>	<u>\$ 1,679,707</u>	<u>\$ 1,679,707</u>

The Danbury Hospital and Subsidiary
Notes to Consolidated Financial Statements (continued)

3. Investments (continued)

Investment income included in non-operating gains for the year ended September 30 consists of:

	2011	2010
Interest and dividend income	\$ 4,520,294	\$ 7,220,516
Realized gains and losses	1,580,102	(326,039)
	\$ 6,100,396	\$ 6,894,477

4. Fair Values of Financial Instruments

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

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

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

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

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

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

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

4. Fair Values of Financial Instruments (continued)

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

	September 30, 2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 36,610,270	\$ —	\$ —	\$ 36,610,270
Investments:				
Cash and cash equivalents	1,426,331	—	—	1,426,331
Large cap equity:				
Common collective funds	—	40,885,353	—	40,885,353
International equity:				
Common collective funds	—	11,418,043	—	11,418,043
Fixed income:				
Mutual funds	81,244,459	—	—	81,244,459
Securities	50,738,895	—	—	50,738,895
Other:				
Common collective funds	—	6,822,975	—	6,822,975
Assets limited as to use:				
Money market funds	126,521,437	—	—	126,521,437
	<u>\$ 296,541,392</u>	<u>\$ 59,126,371</u>	<u>\$ —</u>	<u>\$ 355,667,763</u>

The amounts reported in the table above do not include alternative investments totaling \$9,825,136 that are accounted for under the equity method of accounting.

	September 30, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 26,488,364	\$ —	\$ —	\$ 26,488,364
Investments:				
Cash and cash equivalents	124,884	—	—	124,884
Large cap equity:				
Common collective funds	—	59,464,733	—	59,464,733
International equity:				
Common collective funds	7,825,249	—	—	7,825,249
Fixed income:				
Mutual funds	73,440,973	—	—	73,440,973
Securities	76,414,324	—	—	76,414,324
Other:				
Common collective funds	—	8,919,982	—	8,919,982
Assets limited as to use:				
Money market funds	1,679,707	—	—	1,679,707
	<u>\$ 185,973,501</u>	<u>\$ 68,384,715</u>	<u>\$ —</u>	<u>\$ 254,358,216</u>

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

4. Fair Values of Financial Instruments (continued)

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

5. Long-Term Debt and Credit Facility

Long-term debt consisted of the following:

	September 30	
	2011	2010
Hospital revenue bonds financed with CHEFA:		
Series G	\$ 39,700,000	\$ 40,650,000
Series H	41,560,000	41,560,000
Series J	–	32,465,000
Intercompany debt with Western Connecticut Health Network, Inc.	<u>173,355,000</u>	–
	254,615,000	114,675,000
Less current portion	2,515,000	2,545,000
Less long-term debt subject to short-term remarketing agreements	–	30,870,000
	<u>\$ 252,100,000</u>	<u>\$ 81,260,000</u>

The following is a summary of the combined aggregate amount of maturities and sinking fund requirements of the aforementioned obligations at September 30, 2011 according to their long-term amortization schedule:

2012	\$ 2,515,000
2013	2,610,000
2014	2,735,000
2015	4,570,000
2016	5,145,000
Thereafter	<u>237,040,000</u>
	<u>\$ 254,615,000</u>

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

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

The fair value of the bonds, as determined by the Hospital's investment advisor using a discounted cash flow analysis, was approximately \$248,699,000 at September 30, 2011. The Hospital paid interest of \$4,282,932 and \$4,256,083 in 2011 and 2010, respectively. Debt service funds held under bond indenture agreements for Series G Bonds, Series H Bonds and Series J Bonds were \$1,273,013 and \$1,679,707 at September 30, 2011 and 2010, respectively.

The Series G revenue bonds (Series G Bonds) mature from 2012 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.

In November 2011, the Series G bonds were refunded by Western Connecticut Health Network Issue, Series N CHEFA revenue bonds (Series N Bonds) issued in the amount of \$39,880,000. The Series N Bonds bear interest at rates between 3.0% and 5.0% and are scheduled to mature from July 1, 2014 to July 1, 2029.

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 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 mature from 2009 through 2036. The Series J Bonds were guaranteed by an irrevocable, direct pay letter of credit with Wells Fargo which expired on June 24, 2011. As a result, Series J Bonds were included in current liabilities at September 30, 2010. The Series J Bonds were subsequently refinanced during 2011.

Under the terms of the Series H Bonds, Series G Bonds and Series J Bonds financing arrangements between the Hospital and the Western Connecticut Health Network Foundation, Inc. (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 G 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 establish a debt service coverage ratio requirement and restricts the incurrence of certain indebtedness by the Obligated Group.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

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

In 2011, Western Connecticut Health Network, Inc. issued three series of bonds. The Obligated Group was expanded to also include Western Connecticut Health Network, Inc., New Milford Hospital, New Milford Hospital Foundation, Inc. and Western Connecticut Medical Group, P.C. All proceeds from the bonds were used to finance Hospital capital projects. All members of the Obligated Group are jointly and severally liable under the Master Indenture to make all payments required with respect to obligations under the Master Indenture. The bonds are reflected as intercompany debt in the schedule above, and include:

The Series K revenue bonds (Series K Bonds) were issued in the amount of \$33,035,000. The proceeds were used to refund, on a current basis, the Series J Bonds. The Series K Bonds bear interest at the bank purchase rate (1.972% at September 30, 2011) and mature serially from September 30, 2011 to September 30, 2036.

The Series M revenue bonds (Series M Bonds) were issued in the aggregate principle of \$46,030,000, with interest payable initially on January 1, 2012 and semiannually on each January 1 and July 1 thereafter. The Series M Bonds will bear interest at rates ranging from 5.000% to 5.375% and are scheduled to mature from July 1, 2031 to July 1, 2041. The Series M Bonds are also subject to annual sinking fund installments commencing in 2024 through scheduled maturity. The Series L Revenue Bonds (Series L Bonds) of \$96,000,000 were issued concurrently with Series M Bonds and are subject to annual sinking fund installments commencing July 1, 2015 and continuing through final maturity on July 1, 2041. The Series L Bonds bear interest at the bank purchase rate (1.348% at September 30, 2011) The proceeds of the Series L Bonds and Series M Bonds will be used for funding the planning, design, acquisition, construction, equipping and furnishing of the Hospital's new patient tower, expansion of a parking garage, capital improvements and to fund capitalized interest.

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

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 \$5,857,937 and \$4,971,176 for the years ended September 30, 2011 and 2010, respectively.

The Danbury Hospital and Subsidiary
Notes to Consolidated Financial Statements (continued)

6. Commitments and Contingencies (continued)

The future minimum lease payments for the years ending September 30 are as follows:

2012	\$ 4,399,483
2013	3,657,842
2014	3,609,811
2015	3,260,309
2016	2,889,881
Thereafter	10,261,302
	<u>\$ 28,078,628</u>

7. Related Party Transactions

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

	September 30	
	2011	2010
Western Connecticut Health Network, Inc.	\$ —	\$ 2,013,898
Western Connecticut Health Network Affiliates, Inc.	408,534	1,710,392
New Milford Hospital	8,315,822	—
Business Systems, Inc.	1,543,248	943,902
Western Connecticut Health Network Foundation, Inc.	765,775	327,998
Western Connecticut Home Care, Inc.	74,202	152,089
Regional Hospice of Western Connecticut	—	83,896
Western Connecticut Medical Group, P.C.	807,462	15,975,522
	<u>\$ 11,915,043</u>	<u>\$ 21,207,697</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	
	2011	2010
Western Connecticut Health Network Affiliates, Inc.	\$ 139,850	\$ 161,983
Western Connecticut Medical Group, P.C.	1,764,159	1,769,880
Western Connecticut Health Network Foundation, Inc.	71,915	78,132
The New Milford Hospital, Inc.	493,259	—
Business Systems, Inc.	265,365	270,146
	\$ 2,734,548	\$ 2,280,141

Western Connecticut Medical Group, P.C. (WCMG) is a nonprofit professional corporation which provides medical services to the Hospital. Charges for physician services provided to the Hospital by WCMG were \$40,419,666 and \$34,844,237 for the years ended September 30, 2011 and 2010, respectively.

During 2011, the Hospital transferred net assets of \$64,474,111 to Western Connecticut Health Network, Inc. relating to funding the Hospital made to the defined benefit pension plan, benefits paid on their behalf and to forgive intercompany debt of WCMG and other affiliates. During 2010, the Hospital transferred net assets of \$6,700,000 to Western Connecticut Health Network, Inc. relating to benefits and other expenses paid on their behalf.

8. Professional Liability Self-Insurance

Effective October 1, 2004, the Hospital formed a captive insurance company, WCHNIC, domiciled in the Cayman Islands, to provide alternative professional liability insurance to the Hospital and WCMG, 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 \$20,000,000 per claim and \$20,000,000 in the aggregate. The Hospital has recorded a liability of \$7,991,000 and \$8,500,000 at September 30, 2011 and 2010, respectively, based on a discount rate of 3.5% for incurred-but-not-reported claims, which is included in other long-term liabilities on the accompanying consolidated balance sheets.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

8. Professional Liability Self-Insurance (continued)

Assets held by WCHNIC approximate \$56,572,000 and \$58,806,000 as of September 30, 2011 and 2010, respectively, of which a majority is reflected as investments in the accompanying consolidated balance sheets. Liabilities recorded by WCHNIC approximate \$39,372,000 and \$35,179,000 as of September 30, 2011 and 2010, respectively, of which a majority is reflected as self-insurance liabilities in the accompanying consolidated balance sheets.

The reserve for losses and loss adjustment expenses for WCHNIC are included in self-insurance liabilities in the accompanying consolidated balance sheets. Activity in the reserve for losses and loss adjustment expenses for the years ended September 30, 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 32,294,365	\$ 30,434,952
Incurred related to:		
Current period	8,782,963	10,203,734
Prior period	<u>(2,689,921)</u>	<u>(3,934,625)</u>
Total incurred	6,093,042	6,269,109
Paid related to:		
Current period	(92,030)	(85,731)
Prior period	<u>(2,619,811)</u>	<u>(4,323,965)</u>
Total paid	<u>(2,711,841)</u>	<u>(4,409,696)</u>
Balance at end of year	<u>\$ 35,675,566</u>	<u>\$ 32,294,365</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. Accordingly, a portion of WCHNIC’s activity is recorded using deposit accounting on the Hospital’s consolidated balance sheets.

The Danbury Hospital and Subsidiary
Notes to Consolidated Financial Statements (continued)

8. Professional Liability Self-Insurance (continued)

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

	2011	2010
Balance at beginning of year	\$ 2,533,888	\$ 6,262,910
Losses paid	(88,040)	(3,514,180)
Gain on deposit liability transferred to statement of income	909,661	(214,842)
Balance at end of year	\$ 3,355,509	\$ 2,533,888

Also included in self-insurance liabilities as of September 30, 2011 and 2010 are unearned premiums of \$166,823 and \$155,744, respectively.

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, 2011 and 2010; 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 \$27,787,449 and \$28,224,280 as of September 30, 2011 and 2010, respectively, are available to the Hospital for health care services. Permanently restricted net assets are \$28,198,366 and \$27,746,611 as of September 30, 2011 and 2010, respectively, and are investments to be held in perpetuity, the income which is expendable to support health care services.

10. Endowments

The Western Connecticut Health Network Foundation, Inc. (WCHNF) 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)

Leadership of WCHNF has interpreted the 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, WCHNF 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 (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, WCHNF 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 WCHNF 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 WCHNF
- (7) The investment policies of WCHNF

WCHNF 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 WCHNF must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Western Connecticut Health Network, Inc.'s 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, WCHNF 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). WCHNF targets a diversified asset allocation to achieve its long-term objective within prudent risk constraints. Each year, the WCHNF Board of Directors will approve an endowment and similar fund spending rate. The objectives of the portfolio are the enhancement of capital and real purchasing power while limiting exposure to risk of loss. The endowment spending rate will be calculated on the 13 quarter trailing average market value of each portfolio as of the prior May 31. The computed value may be adjusted for large contributions, withdrawals or market value swings as necessary. A default spending cap on appreciation of seven percent in any given year is currently in effect. The WCHNF Board abides by these regulations and will adjust this rate accordingly.

Endowment net asset composition by type of fund as of September 30, 2011, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 14,345,583	\$ 25,445,909	\$ 39,791,492
Board-designated endowment funds	7,218,125	-	-	7,218,125
Endowment net assets at end of year	<u>\$ 7,218,125</u>	<u>\$ 14,345,583</u>	<u>\$ 25,445,909</u>	<u>\$ 47,009,617</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, 2011, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of the year	\$ 12,020,250	\$ 18,999,710	\$ 24,796,155	\$ 55,816,115
Investment return:				
Investment income, net	1,156,098	3,898,117	–	5,054,215
Change in unrealized gains and losses	(513,521)	(2,459,072)	–	(2,972,593)
Total investment return	642,577	1,439,045	–	2,081,622
Contributions	–	274,835	47,145	321,980
Net asset reclassification - net change in loss on endowments	–	24,840	–	24,840
Appropriation of endowment assets for expenditures	(5,444,702)	(6,212,604)	–	(11,657,306)
Other changes:				
Transfers to permanently restricted endowment	–	(180,243)	602,609	422,366
Endowment net assets at end of year	<u>\$ 7,218,125</u>	<u>\$ 14,345,583</u>	<u>\$ 25,445,909</u>	<u>\$ 47,009,617</u>

Endowment net asset composition by type of fund as of September 30, 2010, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ –	\$ 18,999,710	\$ 24,796,155	\$ 43,795,865
Board-designated endowment funds	12,020,250	–	–	12,020,250
Endowment net assets at end of year	<u>\$ 12,020,250</u>	<u>\$ 18,999,710</u>	<u>\$ 24,796,155</u>	<u>\$ 55,816,115</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, 2010, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at beginning of the year	\$ 12,517,572	\$ 16,347,547	\$ 24,305,688	\$ 53,170,807
Investment return:				
Investment income, net	317,842	1,075,797	–	1,393,639
Change in unrealized gains and losses	966,964	3,207,427	–	4,174,391
Total investment return	1,284,806	4,283,224	–	5,568,030
Contributions	–	186,918	393,104	580,022
Net asset reclassification- net change in loss on endowments	–	(298,159)	–	(298,159)
Appropriation of endowment assets for expenditures	(1,782,128)	(1,422,457)	–	(3,204,585)
Other changes:				
Transfers to permanently restricted endowment	–	(97,363)	97,363	–
Endowment net assets at end of year	<u>\$ 12,020,250</u>	<u>\$ 18,999,710</u>	<u>\$ 24,796,155</u>	<u>\$ 55,816,115</u>

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 WCHNF 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 were \$28,482 and \$3,642 in deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2011 and 2010, respectively.

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	
	2011	2010
(Increase) decrease in operating assets:		
Accounts receivable, net	\$ (20,066,983)	\$ (16,424,647)
Inventories	(1,315,408)	(289,520)
Prepaid expenses and other	(1,837,495)	4,548,445
	<u>(23,219,886)</u>	<u>(12,165,722)</u>
Increase (decrease) in operating liabilities:		
Accounts payable	6,640,485	733,043
Interest payable	746,294	-
Payroll-related accruals	(2,557,926)	678,599
Due to third-party payors	27,574	(1,621,230)
Other accrued expenses	1,141,450	(436,117)
	<u>5,997,877</u>	<u>(645,705)</u>
Change in working capital other than cash and cash equivalents	<u>\$ (17,222,009)</u>	<u>\$ (12,811,427)</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	
	2011	2010
Health care services	\$ 423,780,458	\$ 393,885,428
General and administrative	74,292,879	67,976,997
	<u>\$ 498,073,337</u>	<u>\$ 461,862,425</u>

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

13. Subsequent Events

Subsequent events have been evaluated through January 27, 2012, which represents the date in which the consolidated financial statements were issued. In December 2011, the Hospital entered into a letter of intent to sell its outpatient renal dialysis center to a for profit provider. The proposed sale is subject to regulatory approval. The Hospital is still evaluating the impact this will have to the consolidated financial statements.

See Note 5 for the discussion of the refunding of Series G Bonds in November 2011. No other events have occurred that require disclosure or adjustment of the financial statements.



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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 27, 2012

The Danbury Hospital and Subsidiary
Consolidating Balance Sheets

	September 30, 2011				September 30, 2010			
	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total
Assets								
Current assets								
Cash and cash equivalents	\$ 36,603,282	\$ 6,988	\$ -	\$ 36,610,270	\$ 26,334,940	\$ 153,424	\$ -	\$ 26,488,364
Assets limited as to use	1,273,013	-	-	1,273,013	1,679,707	-	-	1,679,707
Accounts receivable, less allowance for uncollectible accounts of \$11,261,000 in 2011 and \$10,140,000 in 2010	53,313,528	-	-	53,313,528	51,429,630	-	-	51,429,630
Current portion of due from related parties	6,177,652	-	(167,761)	6,009,891	5,489,150	-	(147,407)	5,341,743
Inventories	8,853,966	-	-	8,853,966	7,538,558	-	-	7,538,558
Prepaid expenses and other	9,816,103	5,728,156	-	15,544,259	4,607,286	5,648,481	-	9,655,767
Total current assets	116,037,544	5,735,144	(167,761)	121,604,927	96,379,271	5,801,905	(147,407)	102,133,769
Assets limited as to use								
Construction funds	125,248,424	-	-	125,248,424	-	-	-	-
Investments	151,523,870	50,837,322	-	202,361,192	173,186,305	53,003,840	-	226,190,145
Prepaid pension and other assets					30,864,385	-	-	30,864,385
Due from related parties	5,905,152	-	-	5,905,152	15,865,954	-	-	15,865,954
Investment in Western Connecticut Health Care Insurance Co., Ltd.	17,200,124	-	(17,200,124)	-	23,626,734	-	(23,626,734)	-
Interest in Western Connecticut Health Network Foundation, Inc.	73,125,721	-	-	73,125,721	77,105,507	-	-	77,105,507
Property, plant and equipment								
Land and land improvements	8,458,354	-	-	8,458,354	7,228,710	-	-	7,228,710
Buildings and building improvements	265,771,375	-	-	265,771,375	234,120,405	-	-	234,120,405
Equipment and other	218,310,465	-	-	218,310,465	196,721,202	-	-	196,721,202
Construction in progress (estimated cost to complete at September 30, 2011 - \$137,977,000)	27,578,848	-	-	27,578,848	19,811,944	-	-	19,811,944
	520,119,042	-	-	520,119,042	457,882,261	-	-	457,882,261
Less accumulated depreciation	299,833,683	-	-	299,833,683	274,705,979	-	-	274,705,979
	220,285,359	-	-	220,285,359	183,176,282	-	-	183,176,282
Bond issuance costs, net	5,779,765	-	-	5,779,765	3,117,386	-	-	3,117,386
Total assets	\$ 715,105,959	\$ 56,572,466	\$ (17,367,885)	\$ 754,310,540	\$ 603,421,824	\$ 58,805,745	\$ (23,774,141)	\$ 638,453,428

Continued on next page.

The Danbury Hospital and Subsidiary
Consolidating Balance Sheets (continued)

	September 30, 2011				September 30, 2010			
	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total
Liabilities and net assets:								
Current liabilities								
Accounts payable	\$ 27,356,488	\$ 6,683	\$ -	\$ 27,363,171	\$ 20,675,079	\$ 47,607	\$ -	\$ 20,722,686
Payroll-related accruals	12,263,559	-	-	12,263,559	14,821,485	-	-	14,821,485
Due to affiliates	-	167,761	(167,761)	-	-	147,407	(147,407)	-
Due to third-party payors	11,107,547	-	-	11,107,547	11,079,973	-	-	11,079,973
Interest payable	1,803,683	-	-	1,803,683	1,057,389	-	-	1,057,389
Other accrued expenses	4,070,796	-	-	4,070,796	2,929,346	-	-	2,929,346
Current portion of long-term debt	2,515,000	-	-	2,515,000	2,545,000	-	-	2,545,000
Long-term debt subject to short-term remarketing agreements	-	-	-	-	30,870,000	-	-	30,870,000
Total current liabilities	59,117,073	174,444	(167,761)	59,123,756	83,978,272	195,014	(147,407)	84,025,879
Self-insurance liabilities	-	39,197,898	-	39,197,898	-	34,983,997	-	34,983,997
Other long-term liabilities	15,647,308	-	-	15,647,308	14,178,425	-	-	14,178,425
Long-term debt, less current portion, and long-term debt subject to short-term remarketing agreements	252,100,000	-	-	252,100,000	81,260,000	-	-	81,260,000
Net assets								
Share capital	-	12,000	(12,000)	-	-	12,000	(12,000)	-
Additional paid in capital	-	8,663,333	(8,663,333)	-	-	8,663,333	(8,663,333)	-
Unrestricted	332,255,763	8,524,791	(8,524,791)	332,255,763	368,034,236	14,951,401	(14,951,401)	368,034,236
Temporarily restricted	27,787,449	-	-	27,787,449	28,224,280	-	-	28,224,280
Permanently restricted	28,198,366	-	-	28,198,366	27,746,611	-	-	27,746,611
Total net assets	388,241,578	17,200,124	(17,200,124)	388,241,578	424,005,127	23,626,734	(23,626,734)	424,005,127
Total liabilities and net assets	\$ 715,103,959	\$ 56,572,466	\$ (17,367,885)	\$ 754,310,540	\$ 603,421,824	\$ 58,805,745	\$ (23,774,141)	\$ 638,453,428

The Danbury Hospital and Subsidiary
Consolidating Statements of Operations

	September 30, 2011			September 30, 2010		
	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations
Unrestricted revenues						
Net patient service revenue	\$ 497,720,490	\$ -	\$ 497,720,490	\$ 473,298,383	\$ -	\$ 473,298,383
Other operating revenues	13,930,894	12,289,002	(6,373,521)	7,805,933	11,216,278	(6,692,376)
	511,651,384	12,289,002	(6,373,521)	481,104,316	11,216,278	(6,692,376)
			517,566,865			485,628,218
Expenses						
Salaries, benefits and fees	308,540,688	-	308,540,688	290,962,055	-	290,962,055
Supplies and other	136,790,504	232,255	(6,373,521)	128,404,325	213,343	(6,692,376)
Insurance		8,742,635	8,742,635		8,026,756	
Provision for uncollectible accounts	18,183,085	-	18,183,085	10,687,109	-	10,687,109
Depreciation and amortization	27,369,949	-	27,369,949	25,703,935	-	25,703,935
Interest	4,587,742	-	4,587,742	4,557,278	-	4,557,278
	495,471,968	8,974,890	(6,373,521)	460,314,702	8,240,099	(6,692,376)
Income from operations	16,179,416	3,314,112	-	20,789,614	2,976,179	-
Nonoperating gains						
Investment income, net	14,482,744	1,617,652	(10,000,000)	9,146,945	2,747,532	(5,000,000)
Change in unrealized gains and losses on investments	(1,979,439)	(1,358,375)	1,358,375	10,679,998	2,240,820	(2,240,820)
Change in equity interest in unrestricted net assets of the Western Connecticut Health Network Foundation, Inc	71,435	-	-	3,239,430	-	-
Change in investment in WCHC	(5,068,236)	-	5,068,236	723,711	-	(723,711)
	7,506,504	259,277	(3,573,389)	23,790,084	4,988,352	(7,964,531)
	\$ 23,685,920	\$ 3,573,389	\$ (3,573,389)	\$ 44,579,698	\$ 7,964,531	\$ (7,964,531)
Excess of revenues over expenses			23,685,920			44,579,698

