

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

SEPTEMBER 30, 2012 AND 2011

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

CONTENTS

Independent Auditors' Report..... 1

Financial Statements

Consolidated Balance Sheets..... 2-3
Consolidated Statements of Operations and Changes in Net Assets..... 4-5
Consolidated Statements of Cash Flows 6-7

Notes to Consolidated Financial Statements 8-44

Independent Auditors' Report on Other Financial Information 45

Other Financial Information

Consolidating Balance Sheets..... 46-49
Consolidating Statements of Operations 50-51

INDEPENDENT AUDITORS' REPORT

Board of Directors
Greater Waterbury Health Network, Inc.

We have audited the accompanying consolidated balance sheets of Greater Waterbury Health Network, Inc. (the Network) as of September 30, 2012 and 2011, 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 Network's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Network'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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Greater Waterbury Health Network, Inc. as of September 30, 2012 and 2011, and the consolidated results of their operations and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Network has restated its 2011 financial statements during the current year to include the inventory of certain departments that previously had been excluded and to correct the overstatement of accounts receivable. Our opinion is not modified with respect to these matters.

Marcum LLP

Hartford, CT
January 28, 2013



**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2012 AND 2011

	2012	2011 (Restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 29,267,992	\$ 16,661,759
Short-term investments	1,089,172	1,034,841
Accounts receivable, less allowance (\$17,101,000 in 2012 and \$15,162,000 in 2011)		
Patients	32,367,012	29,584,627
Grants and other	2,977,504	4,228,499
	35,344,516	33,813,126
Inventories	3,305,079	3,258,762
Prepaid insurance and other expenses	1,525,890	1,784,333
Due from third-party reimbursement agencies	--	2,634,481
Due from affiliates	195,978	205,399
Total Current Assets	70,728,627	59,392,701
Other Assets		
Under bond indenture agreements	30,070	29,288
Construction fund	661,338	3,958,301
	691,408	3,987,589
Property, Plant and Equipment		
Land	287,549	287,549
Buildings and improvements	95,206,351	92,064,340
Furniture, fixtures and equipment	185,958,291	181,753,747
Construction in progress (estimated additional cost to complete: 2012 - \$970,000)	2,473,015	3,023,126
Accumulated depreciation	(232,453,154)	(225,120,225)
	51,472,052	52,008,537
Funds held in trust by others	42,218,163	37,339,264
Goodwill	1,813,567	1,813,567
CHEFA obligations issue expense, less amortization	321,666	360,656
Long-term investments	23,280,651	29,021,464
Board-designated endowment funds	2,974,503	2,615,009
Other investments	55,000	55,000
Loans and other receivables	521,906	230,070
Accrued interest and dividends receivable	22,017	29,563
	71,207,473	71,464,593
	\$ 194,099,560	\$ 186,853,420

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

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2012 AND 2011

	2012	2011 (Restated)
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 37,244,812	\$ 40,605,088
Current portion of CHEFA obligations	506,444	488,779
Current portion of notes payable	666,376	584,216
Due to third-party reimbursement agencies	771,288	--
Due to affiliates	--	9,984
	39,188,920	41,688,067
Total Current Liabilities	39,188,920	41,688,067
CHEFA Obligations - less current portion and discount	26,140,656	26,647,100
Notes Payable - less current portion	1,426,291	1,499,034
Other Noncurrent Liabilities	21,853,067	19,806,617
Net Assets		
Unrestricted	49,687,465	47,421,696
Temporarily restricted	7,645,420	6,477,454
Permanently restricted	45,010,199	40,131,275
	102,343,084	94,030,425
Total Net Assets Excluding Noncontrolling Interests	102,343,084	94,030,425
Noncontrolling Interests	3,147,542	3,182,177
Total Net Assets	105,490,626	97,212,602
	\$ 194,099,560	\$ 186,853,420

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

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

	2012	2011 (Restated)
Revenues		
Net revenues from services to patients	\$ 273,484,098	\$ 270,732,398
Investment related income	1,245,481	1,534,896
Other operating revenues	5,905,372	3,791,137
Services, sales and rental income	1,713,317	1,596,854
Unrestricted gifts and bequests	123,699	312,248
Net assets released from restrictions	5,609,005	5,919,545
	288,080,972	283,887,078
Expenses		
Salaries, wages and benefits	164,634,664	174,319,493
Supplies, utilities and other	100,249,125	92,609,309
Bad debt expense	10,966,628	13,882,243
Depreciation	9,421,603	9,490,443
Operations improvement	--	285,998
Interest and amortization	1,237,849	1,303,514
	286,509,869	291,891,000
Excess (Deficiency) of Revenues over Expenses Before Net Unrealized Gains (Losses) on Investments and Other Losses	1,571,103	(8,003,922)
Loss on Extinguishment of Debt	--	(1,149,155)
Changes in Net Unrealized Gains (Losses) on Investments	1,715,547	(1,720,752)
Excess (Deficiency) of Revenues Over Expenses	3,286,650	(10,873,829)
Less Excess of Revenues over Expenses Attributable to Noncontrolling Interests	(997,139)	(1,111,268)
Excess (Deficiency) of Revenues Over Expenses Attributable to Controlling Interest	2,289,511	(11,985,097)

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

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

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

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011 (Restated)
Unrestricted Net Assets, Controlling Interest		
Excess (deficiency) of revenues over expenses	\$ 2,289,511	\$ (11,985,097)
Net assets released from restrictions used for purchase of property and equipment	134,036	1,207,613
Interest rate swap adjustment	(524,547)	(2,414,415)
Pension liability adjustments	366,769	(1,816,446)
Increase (Decrease) in Unrestricted Net Assets, Controlling Interest	2,265,769	(15,008,345)
Unrestricted Net Assets, Noncontrolling Interest		
Excess of revenues over expenses	997,139	1,111,268
Distributions and other	(1,031,774)	(859,144)
(Decrease) Increase in Unrestricted Net Assets, Noncontrolling Interest	(34,635)	252,124
Temporarily Restricted Net Assets		
Gifts and bequests	444,830	446,319
Income from investments	476,299	481,072
Net realized and unrealized gains (losses) on investments	1,255,981	(347,727)
Grants	4,733,897	4,709,075
Net assets released from restrictions	(5,743,041)	(7,127,158)
Increase (Decrease) in Temporarily Restricted Net Assets	1,167,966	(1,838,419)
Permanently Restricted Net Assets		
Increase (decrease) in funds held in trust by others	4,878,924	(2,221,826)
Increase (Decrease) in Permanently Restricted Net Assets	4,878,924	(2,221,826)
Increase (Decrease) in Net Assets	8,278,024	(18,816,466)
Net Assets - Beginning	97,212,602	116,029,068
Net Assets - End	\$ 105,490,626	\$ 97,212,602

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

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
		(Restated)
Cash Flows from Operating Activities		
Change in net assets	\$ 8,278,024	\$ (18,816,466)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	10,966,628	13,882,243
Depreciation and amortization	9,529,602	9,620,785
Loss on extinguishment of debt	--	1,082,212
Pension liability adjustments	(366,769)	1,816,446
Distributions to noncontrolling interests	1,031,774	859,144
Net realized and unrealized (gains) and losses and change in fair value of funds held in trust by others	(6,959,218)	3,345,411
Restricted gifts, bequests and income from investments	(921,129)	(927,391)
Change in market value of interest rate swap	524,547	2,414,415
	<u>22,083,459</u>	<u>13,276,799</u>
 Change in operating working capital, other than cash and cash equivalents and short-term investments:		
Patient accounts receivable, net	(13,749,013)	(16,021,423)
Grants and other receivables	1,406,813	(738,772)
Inventories	(46,317)	(46,402)
Prepaid insurance and other expenses	258,443	(360,817)
Other assets that are required for current liabilities	--	582,693
Accounts payable and accrued expenses	(3,385,387)	10,094,182
Due to third-party reimbursement agencies	3,405,769	(3,049,027)
Increase in other noncurrent liabilities	1,819,663	908,338
	<u>(10,290,029)</u>	<u>(8,631,228)</u>
 Net Cash Provided by Operating Activities	<u>11,793,430</u>	<u>4,645,571</u>

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

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011 (Restated)
Cash Flows from Investing Activities		
Due from affiliates	\$ (131,270)	\$ (1,925)
Other assets	3,011,891	(4,272,509)
Additions to property, plant and equipment	(8,885,118)	(15,660,885)
Purchases of investments	(40,779,607)	(22,927,089)
Sales of investments	<u>48,186,914</u>	<u>25,133,033</u>
Net Cash Provided by (Used in) Investing Activities	<u>1,402,810</u>	<u>(17,729,375)</u>
Cash Flows from Financing Activities		
Restricted gifts, bequests and income from investments	921,129	927,391
Distributions to noncontrolling interests	(1,031,774)	(859,144)
Net proceeds from issuance of debt	616,571	27,373,773
Principal payments on debt obligations	<u>(1,095,933)</u>	<u>(19,966,271)</u>
Net Cash (Used in) Provided by Financing Activities	<u>(590,007)</u>	<u>7,475,749</u>
Net Increase (Decrease) in Cash and Cash Equivalents	12,606,233	(5,608,055)
Cash and Cash Equivalents - Beginning	<u>16,661,759</u>	<u>22,269,814</u>
Cash and Cash Equivalents - End	<u>\$ 29,267,992</u>	<u>\$ 16,661,759</u>

Supplemental Cash Flow Information

Cash paid during the year for interest on borrowings was \$1,396,529 and \$1,281,045 for the years ended September 30, 2012 and 2011, respectively.

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

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

ORGANIZATION

Greater Waterbury Health Network, Inc. (the Corporation or Network) was incorporated on September 27, 1984 as a not-for-profit organization under the Non-Stock Corporation Act of the State of Connecticut. The Corporation's subsidiaries are The Waterbury Hospital (the Hospital), Greater Waterbury Health Services, Inc., Greater Waterbury Management Resources, Inc. (GWMRI), VNA Health at Home, Inc. (VNA), and the Children's Center of Greater Waterbury Health Network, Inc. (Children's Center). The accompanying financial statements also include Access Rehab Centers LLC (Access), Greater Waterbury Imaging Center Limited Partnership (GWIC), Imaging Partners, LLC, Alliance Medical Group, Inc. (AMG) and Cardiology Associates of Greater Waterbury, LLC to the extent of the Hospital's ownership interest in these affiliated entities.

On August 17, 2011, the Network entered into a nonbinding letter of intent to enter into a joint venture known as Southwest Connecticut Health System, LLC being formed among LHP Hospital Group, Inc. and Saint Mary's Health System, Inc. which anticipated combining the two health systems in Waterbury, Connecticut and constructing a replacement hospital. This agreement was terminated on August 31, 2012.

During November, 2010, the Hospital established a new limited liability company by the name of Cardiology Associates of Greater Waterbury, LLC (CAGW) to operate a cardiology practice. CAGW acquired the assets of Cardiology Associates of Waterbury (CAW) that were used by CAW physicians in the performance of their professional services.

Waterbury Hospital also acquired the assets of CAW that were used by CAW to perform diagnostic ancillary services. The Hospital converted these ancillary services to provider-based services, which are provided at a diagnostic center located near the Hospital. The goodwill recorded on the consolidated balance sheets relates to the purchase of CAW.

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 Corporation's consolidated financial statements in long-term investments.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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 Cancer Center is not included in the Corporation's consolidated financial statements.

The accounting policies that affect significant elements of the consolidated financial statements are summarized below and in Note 2.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Recognition has been given to noncontrolling interests in the Hospital's affiliates which is reflected as a component of unrestricted net assets. 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 reported amounts of revenues and expenses during the reporting 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.

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 Corporation in perpetuity or in funds held in trust by others.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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.

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 Corporation 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 Corporation. 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 net patient service revenue and third-party payor programs.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

INVENTORIES

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

RISKS AND UNCERTAINTIES

The Corporation 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 Corporation's September 30, 2012 financial statements, in addition to the funded status of the Hospital's defined benefit pension plan.

INVESTMENTS

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that the Corporation holds limited partnership interests, are stated at fair value as estimated in an inactive 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 Corporation'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. 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 Corporation 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 Corporation's risk with respect to such transactions is limited to its capital balance in each investment. Reference is made to Note 4 for fair value disclosures.

Realized and unrealized gains and losses, interest and dividends are included in the excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law. The changes in net unrealized gains and losses on alternative investments are included in the excess (deficiency) of revenues over expenses.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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 Corporation'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 held by trustees under indenture agreements relating to financing activities with the State of Connecticut Health and Educational Facilities Authority. The portion of these amounts required for funding current liabilities is included in current assets.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. The Corporation and its subsidiaries provide for depreciation of property, plant and equipment and amortization of assets 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 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 \$2,785,468 and \$2,716,459 as of September 30, 2012 and 2011, respectively, are recorded in other noncurrent liabilities. During 2012 and 2011, there were no retirement obligations incurred or settled.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

GOODWILL

Goodwill, which has an indefinite life, is not amortized and is evaluated for impairment whenever events or business conditions indicate that the carrying values of such assets may not be fully recoverable.

IMPAIRMENT OF LONG-LIVED ASSETS

The Corporation 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 no impairment losses recorded in 2012 and 2011.

NONOPERATING GAINS (LOSSES)

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating gains (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.

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), pension liability adjustments and interest rate swap adjustments.

Operations improvement expenses represent consulting and other costs incurred by the Hospital in 2011 to improve the revenue cycle, increase cash flows, and improve the Hospital's overall financial performance. These costs did not recur in 2012.

INCOME TAXES

The Corporation and its subsidiaries, with the exception of GWMRI, Access, GWIC, CAGW, and Imaging Partners LLC, are not-for-profit organizations and are exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. GWMRI has no current federal tax liability due to net operating losses since its date of incorporation. The Corporation is also exempt from state income tax.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

Access, GWIC, CAGW 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. AMG is tax exempt under Section 501(c)(3) of the Code.

GWMRI has approximately \$6,800,000 in net operating losses. This results in a deferred tax asset of \$2,720,000 which is offset by a corresponding valuation allowance of the same amount.

Management has analyzed the tax positions taken and has concluded that as of September 30, 2012, there are no uncertain tax positions taken or expected to be taken in that would require recognition of a liability (or asset) or disclosure in the financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Corporation is no longer subject to income tax examinations prior to 2009.

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 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 at September 30, 2012 and 2011.

Management records its best estimate of losses as they occur. The accrued workers' compensation self-insurance liabilities of \$9,871,633 and \$7,763,172 at September 30, 2012 and 2011, respectively, have been discounted at 2.25%.

Effective October 1, 2006, the Corporation became a member of Healthcare Alliance Insurance Company, Ltd (HAIC). HAIC is a multi-provider captive, domiciled in the Cayman Islands, which provides medical malpractice insurance coverage to its members, which include two other local hospital networks. The Corporation owns 120,000 shares of Class C stock, which entitles it to appoint three members of HAIC's Board of Directors. The other two hospital networks own 120,000 shares of Class A stock and 120,000 shares of Class B stock, respectively, which entitles them to appoint seven and three members of HAIC's Board of Directors, respectively. The Corporation has recorded its investment in HAIC at September 30, 2012 and 2011 in other investments on the consolidated balance sheets under the equity method of accounting. The Corporation has obtained "claims-made" medical malpractice insurance coverage with HAIC up to \$1,500,000 per occurrence and

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

\$5,000,000 in the aggregate. In addition to the coverage provided by HAIC, the Corporation recorded reserves of approximately \$2,104,554 and \$2,174,777 at September 30, 2012 and 2011, respectively, related to claims that were incurred subsequent to October 1, 2006, but not yet reported. These reserves were discounted at 2.25% at September 30, 2012 and 2011.

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 \$25,000,000 total limit for all policy years. These aggregate limits are eroded by claims previously paid by the Hospital or other insurance.

REGULATORY MATTERS

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

RETIREMENT BENEFIT PLANS

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

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

NEW ACCOUNTING PRONOUNCEMENTS

PRESENTATION OF INSURANCE CLAIMS AND RELATED INSURANCE RECOVERIES

Effective October 1, 2011 and retrospectively for all periods presented, the Hospital adopted the provisions of ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which further clarifies that health care entities should not net insurance recoveries against the related claim liabilities. In connection with the Hospital's adoption of ASU 2010-24, the Hospital recorded increases of \$1,761,666 to grants and other receivables and accounts payable and accrued expenses in the accompanying consolidated balance sheet as of September 30, 2011. The increase as of September 30, 2011 represents the Hospital's workers' compensation claims covered by insurance for losses in excess of the deductible under the Hospital's insurance policy.

The adoption of ASU 2010-24 had no impact on net assets or the excess (deficiency) of revenues over expenses.

MEASURING CHARITY CARE FOR DISCLOSURE

Self-pay revenues are derived primarily from patients who do not have any form of health care coverage. The revenues associated with self-pay patients are generally reported at the Hospital's gross charges. The Hospital evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other governmental assistance programs, as well as the Hospital's policy for charity care. The Hospital provides care without charge to certain patients that qualify under its charity care policy. For the years ended September 30, 2012 and 2011, the Hospital estimates that its costs of care provided under its charity care programs approximated \$369,888 and \$806,987, respectively.

The Hospital's management estimates its costs of care provided under its charity care programs utilizing a calculated ratio of costs to gross charges multiplied by the Hospital's gross charity care charges provided. The Hospital's gross charity care charges include only services provided to patients who are unable to pay and qualify under the Hospital's charity care policy. To the extent the Hospital receives reimbursement through the various governmental assistance programs in which it participates to subsidize its care of indigent patients, the Hospital does not include these patients charges in its cost of care provided under its charity care program. Additionally, the Hospital does not report a charity care patient's charges in revenues or in the provision for uncollectible accounts as it is the Hospital's policy not to pursue collection of amounts related to these patients.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

Previously, the Hospital reported its estimates of services provided under its charity care program based on gross charges. In connection with the Hospital's adoption of ASU 2010-23, *Measuring Charity Care for Disclosure*, amounts previously reported for care provided under its charity care programs have been restated to reflect the Hospital's estimates of its direct and indirect costs of providing these services. This change had no impact on the Hospital's results of operations.

BAD DEBTS

In July 2011, the FASB issued ASU 2011-07, *Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*, which requires health care entities to present the bad debt expense associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than as an operating expense with enhanced footnote disclosures on the policies for recognizing revenue and assessing bad debts, in addition to qualitative and quantitative information about changes in the allowance for doubtful accounts. The pronouncement will be adopted during the fiscal year ending September 30, 2013. The Corporation is evaluating the effect of the pronouncement on its financial statements.

ELECTRONIC HEALTH RECORD INCENTIVE PAYMENTS

The American Recovery and Reinvestment Act of 2009 (ARRA) included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are also available to providers that adopt, implement or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

Income from Medicare incentive payments is recognized as revenue after the Hospital has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period. The Hospital recognized revenue from Medicaid incentive payments after it adopted certified EHR technology. Incentive payments totaling \$3,392,498 for the year ended September 30, 2012, are included in other operating revenues in the accompanying consolidated statements of operations and changes in net assets. Income from

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Hospital's compliance with the meaningful use criteria is subject to audit by the federal government.

PRIOR PERIOD ADJUSTMENTS

During 2012, the Hospital determined that inventory of certain departments, previously believed to be immaterial, should be recorded. In order for the financial statements to be comparative, the Hospital recorded a \$2,400,000 increase to the inventory balance previously recorded in the September 30, 2011 balance sheet.

During 2012, the Hospital also determined that patient accounts receivable was overstated by \$5,160,000 as of September 30, 2010 and bad debt expense was understated by \$2,210,000 for the year ended September 30, 2011, primarily resulting from patient accounts receivable balances due from workers' compensation insurance companies and self-pay patients.

Corrections of these errors have been reflected in the accompanying consolidated financial statements as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets Excluding Noncontrolling Interests
Previously reported net assets excluding noncontrolling interests at September 30, 2010	\$ 65,190,041	\$ 8,315,873	\$ 42,353,101	\$ 115,859,015
Adjustment to decrease accounts receivable	(5,160,000)	--	--	(5,160,000)
Adjustment to increase inventory	2,400,000	--	--	2,400,000
Restated net assets excluding noncontrolling interests at September 30, 2010	<u>62,430,041</u>	<u>8,315,873</u>	<u>42,353,101</u>	<u>113,099,015</u>
Previously reported decrease in net assets, controlling interest, for the year ended September 30, 2011	(12,798,345)	(1,838,419)	(2,221,826)	(16,858,590)
Adjustment to increase 2011 bad debt expense	(2,210,000)	--	--	(2,210,000)
Restated decrease in net assets, controlling interest, for the year ended September 30, 2011	<u>(15,008,345)</u>	<u>(1,838,419)</u>	<u>(2,221,826)</u>	<u>(19,068,590)</u>
Restated net assets excluding noncontrolling interests at September 30, 2011	<u>\$ 47,421,696</u>	<u>\$ 6,477,454</u>	<u>\$ 40,131,275</u>	<u>\$ 94,030,425</u>

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

The following summarizes the effect of the error corrections on the September 30, 2011 consolidated balance sheet:

	Previously Reported	Restated
Patient accounts receivable, net of allowances	\$ 36,954,627	\$ 29,584,627
Inventories of supplies	858,762	3,258,762

NOTE 2 – REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE

The following summarizes net revenues from services to patients:

	2012	2011
Gross revenues from services to patients	<u>\$ 971,551,590</u>	<u>\$ 902,890,388</u>
Deductions (additions):		
Allowances	699,498,848	634,760,401
Regulatory	<u>(1,431,356)</u>	<u>(2,602,411)</u>
	<u>698,067,492</u>	<u>632,157,990</u>
Net revenues from services to patients	<u>\$ 273,484,098</u>	<u>\$ 270,732,398</u>

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

Amounts received from most payors are different from established billing rates, and these differences are accounted for as allowances. Net revenues have been affected by the State of Connecticut Disproportionate Share program in 2012 and 2011, which is reflected in the regulatory amounts in the table above.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

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

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, 2012 and 2011, the Corporation recorded approximately \$2,066,000 and \$3,900,000, respectively, as an increase to net revenues from services to patients as changes in estimates related to third-party payor settlements and adjustments to accruals in prior years.

During 2012 and 2011 approximately 43% and 45% , respectively, of net patient service revenue was received under the Medicare program, 11% and 14%, respectively, under the state Medicaid program, and 41% and 35%, 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 Network. The State of Connecticut has announced reductions in the State's Disproportionate Share Reimbursement Program for fiscal year 2013. Based on estimates provided by the State, these reductions will reduce net patient service revenue by approximately \$1,300,000 during the year ending September 30, 2013.

The significant concentrations of net accounts receivable for services to patients include 47% from Medicare, 13% from Medicaid, 25% from commercial insurance carriers and 15% from others at September 30, 2012 (42%, 16%, 27% and 15%, respectively, in 2011).

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 Corporation 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 Corporation 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 Corporation for certain covered services based upon discounted fee schedules.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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

The Corporation 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 Corporation. Essentially, these policies define charity services as those services for which no payment is possible. In assessing a patient's inability to pay, the Corporation 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.

NOTE 3 - INVESTMENTS

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

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Short-term investments:				
U.S. Treasury notes and other bonds	\$ 87,136	\$ 93,454	\$ 110,220	\$ 115,740
Marketable equity securities	231,802	344,945	233,675	301,504
Mutual funds	604,927	619,383	446,738	589,329
Certificates of deposit and money market funds	31,390	31,390	28,268	28,268
	<u>\$ 955,255</u>	<u>\$ 1,089,172</u>	<u>\$ 818,901</u>	<u>\$ 1,034,841</u>

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 3 – INVESTMENTS (CONTINUED)

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Escrow funds for long-term debt:				
Cash and money market funds	\$ 691,408	\$ 691,408	\$ 3,987,589	\$ 3,987,589
	<u>\$ 691,408</u>	<u>\$ 691,408</u>	<u>\$ 3,987,589</u>	<u>\$ 3,987,589</u>
Investments of funds				
held in trust by others	\$35,730,956	\$42,218,163	\$35,350,210	\$37,339,264
Long-term investments and				
Board-designated endowment funds:				
Certificates of deposit and				
money market funds	\$ 2,099,343	\$ 2,099,343	\$ 949,927	\$ 949,927
Marketable equity securities	73,760	116,754	23,919	73,307
U.S. Government obligations	2,462,365	2,553,684	4,227,139	4,335,046
Corporate bonds	5,215,186	5,475,931	4,485,718	4,516,494
Annuity contract	100,000	178,878	100,000	165,923
Mutual funds	14,395,273	15,038,953	12,005,206	10,839,327
Alternative investments	164,929	37,758	11,385,293	10,433,613
	<u>\$24,510,856</u>	<u>\$25,501,301</u>	<u>\$33,177,202</u>	<u>\$31,313,637</u>

The Corporation had long-term investments in partnerships and joint ventures that were recorded at cost of \$753,853 and \$322,836 as of September 30, 2012 and 2011, respectively, as it was not practicable to estimate fair value.

Unrestricted investment (loss) income, including income on funds held in trust by others, and (losses) and gains are comprised of the following for the years ended September 30, 2012 and 2011:

	2012	2011
Income:		
Investment income	\$ 2,136,690	\$ 590,002
Realized gains on sales of investments	(891,209)	944,894
Changes in unrealized gains (losses) on investments	<u>1,715,547</u>	<u>(1,720,752)</u>
	<u>\$ 2,961,028</u>	<u>\$ (185,856)</u>

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 3 – INVESTMENTS (CONTINUED)

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, 2012 and 2011 follows:

	<u>2012</u>	<u>2011</u>
Interest cost charged to operations	<u>\$ 929,633</u>	<u>\$ 945,210</u>
Investment income	<u>\$ 233</u>	<u>\$ 26,989</u>

NOTE 4 – FAIR VALUE MEASUREMENTS

The Corporation categorizes assets and liabilities for disclosure purposes based on whether the inputs used to determine their fair values are observable or unobservable. The Corporation utilizes 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 or liabilities that the Corporation 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 or liability, either directly or indirectly. If the asset or liability 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 or liability.

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 assets and liabilities, as information on which these fair values are based is generally not readily available in the market.

The fair value of the interest rate swap was determined by the counterparty based on an estimate of the net present value of the expected cash flows using relevant mid-market data inputs and based on the assumptions of no unusual market conditions or forced liquidation.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

Reference is made to Note 1 regarding the determination of the fair value of private equity and commingled funds classified as alternative investments.

The following table summarizes fair value measurements, by level, at September 30, 2012, for all assets and liabilities which are measured at fair value on a recurring basis in the financial statements:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 34,288,297	\$ --	\$ --	\$ 34,288,297
Common stock-Insurance	64,739	--	--	64,739
Mutual funds:				
U.S. large cap	23,242,440	--	--	23,242,440
U.S. mid cap	2,972,585	--	--	2,972,585
U.S. small cap	2,025,227	--	--	2,025,227
International developed	7,683,020	--	--	7,683,020
Emerging markets	2,394,768	--	--	2,394,768
Bonds	345,802	--	--	345,802
Fixed income securities:				
Investment grade taxable	2,934,382	10,423,958	--	13,358,340
International developed bonds	--	2,559,686	--	2,559,686
Global high yield taxable	399,340	2,977,811	--	3,377,151
U.S. Government obligations	3,661,481	--	--	3,661,481
Mortgage backed securities	--	873,732	--	873,732
Other investments:				
Commingled funds real estate	--	--	37,758	37,758
Real estate investment trusts	1,844,510	--	--	1,844,510
Other	38,500	--	--	38,500
Total investments at fair value	<u>\$ 81,895,091</u>	<u>\$ 16,835,187</u>	<u>\$ 37,758</u>	<u>\$ 98,768,036</u>
Liabilities:				
Interest rate swap	<u>\$ --</u>	<u>\$ 2,938,962</u>	<u>\$ --</u>	<u>\$ 2,938,962</u>

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

For the year ended September 30, 2012, the changes in fair value of assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	<u>Long-term Investments</u>
Balance, as of September 30, 2011	\$ 10,433,613
Net realized and unrealized gains on investments	832,476
Sales	<u>(11,228,331)</u>
Balance, as of September 30, 2012	<u>\$ 37,758</u>

The following table summarizes fair value measurements, by level, at September 30, 2011, for all assets and liabilities which are measured at fair value on a recurring basis in the financial statements:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 27,169,326	\$ --	\$ --	\$ 27,169,326
Common stock-Insurance	73,307	--	--	73,307
Mutual funds:				
U.S. large cap	18,394,401	--	--	18,394,401
U.S. mid cap	2,815,051	--	--	2,815,051
U.S. small cap	1,771,662	--	--	1,771,662
International developed	3,671,285	--	--	3,671,285
Emerging markets	1,841,832	--	--	1,841,832
Bonds	451,851	--	--	451,851
Fixed income securities:				
Investment grade taxable	3,267,222	11,704,481	--	14,971,703
International developed bonds	5,829	638,299	--	644,128
Global high yield taxable	237,905	1,794,477	--	2,032,382
U.S. Government obligations	3,860,525	590,261	--	4,450,786
Mortgage backed securities	--	863,883	--	863,883

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

	Level 1	Level 2	Level 3	Total
Other investments:				
Commingled funds U.S. equity	\$ --	\$ --	\$ 4,006,202	\$ 4,006,202
Commingled funds real estate	--	--	142,556	142,556
Private equity funds	--	--	6,284,855	6,284,855
Real estate investment trusts	598,921	137,515	--	736,436
Other	15,444	--	--	15,444
Total investments at fair value	<u>\$ 64,174,561</u>	<u>\$ 15,728,916</u>	<u>\$ 10,433,613</u>	<u>\$ 90,337,090</u>
Liabilities:				
Interest rate swap	<u>\$ --</u>	<u>\$ 2,414,415</u>	<u>\$ --</u>	<u>\$ 2,414,415</u>

For the year ended September 30, 2011, the changes in fair value of assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	Long-term Investments
Balance, as of September 30, 2010	\$ 10,870,197
Net realized and unrealized losses on investments	(488,268)
Purchases	51,684
Balance, as of September 30, 2011	<u>\$ 10,433,613</u>

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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 Hospital's Board of Trustees 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 Trustees 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.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ --	\$ 6,806,683	\$ 45,010,199	\$ 51,816,882
Board-designated endowment funds	<u>2,974,503</u>	--	--	<u>2,974,503</u>
Total funds	<u>\$ 2,974,503</u>	<u>\$ 6,806,683</u>	<u>\$ 45,010,199</u>	<u>\$ 54,791,385</u>

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ 2,615,009	\$ 5,696,591	\$ 40,131,275	\$ 48,442,875
Investment return:				
Investment income	72,000	259,851	--	331,851
Net appreciation	406,963	1,266,934	4,878,924	6,552,821
Total investment return	478,963	1,526,785	4,878,924	6,884,672
Appropriation of endowment assets for expenditure	(119,469)	(416,693)	--	(536,162)
Endowment net assets, ending balance	<u>\$ 2,974,503</u>	<u>\$ 6,806,683</u>	<u>\$ 45,010,199</u>	<u>\$ 54,791,385</u>

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ --	\$ 5,696,591	\$ 40,131,275	\$ 45,827,866
Board-designated endowment funds	2,615,009	--	--	2,615,009
Total funds	<u>\$ 2,615,009</u>	<u>\$ 5,696,591</u>	<u>\$ 40,131,275</u>	<u>\$ 48,442,875</u>

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ 2,787,502	\$ 6,317,021	\$ 42,353,101	\$ 51,457,624
Investment return:				
Investment income (loss)	70,866	(175,906)	--	(105,040)
Net depreciation	<u>(119,892)</u>	<u>(338,055)</u>	<u>(2,221,826)</u>	<u>(2,679,773)</u>
Total investment return	(49,026)	(513,961)	(2,221,826)	(2,784,813)
Appropriation of endowment assets for expenditure	<u>(123,467)</u>	<u>(106,469)</u>	<u>--</u>	<u>(229,936)</u>
Endowment net assets, ending balance	<u>\$ 2,615,009</u>	<u>\$ 5,696,591</u>	<u>\$ 40,131,275</u>	<u>\$ 48,442,875</u>

NOTE 6 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at September 30, 2012 and 2011, are restricted amounts which are to be held in perpetuity, the income from which is expendable to provide free care, scholarships for Waterbury Hospital employee's children, and for the operations of the Hospital. Also included in permanently restricted net assets are funds held in trust by others. The Corporation is the restricted income beneficiary of funds held in trust by others. The total trust assets, as reported by the trustee, had an aggregate fair value at September 30, 2012 and 2011 of \$42,218,163 and \$37,339,264, respectively. Income of \$1,759,075 and \$1,742,185 earned on these assets for the years ended September 30, 2012 and 2011, respectively, is included in investment related income in the statements of operations.

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

During 2012, 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 \$4,733,897, \$625,195 and \$249,913, respectively, in 2011, \$4,709,075, \$695,241 and \$515,229, respectively. In addition, \$134,036 and \$1,207,613 were released for the purchase of property and equipment in 2012 and 2011, respectively.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 7 - DEBT

HOSPITAL 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, with interest at a net average annual rate of approximately 5.48%.

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 was obligated to provide amounts which will be sufficient to enable CHEFA to pay the principal 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 was obligated to pay the amount due under the loan agreement with CHEFA. The Master Indenture and Supplemental Master Indenture provided 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 certain indebtedness of the Hospital and provided 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.

HOSPITAL SERIES D BOND FINANCING

In December 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 Series D debt was \$25,918,000 and interest is variable at the interest rate that is equal to the product of (i) sixty-eight percent (68%) and (ii) the sum of the LIBOR Rate and three hundred basis points (2.19% at September 30, 2012). 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 the bonds 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.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 7 – DEBT (CONTINUED)

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 Hospital uses the interest rate swap agreement to manage interest rate risk associated with its outstanding debt. At September 30, 2012 and 2011, the notional value of outstanding interest rate swap was \$25,207,100 and \$25,630,879, respectively.

The Hospital recognizes the fair value of its interest rate swap in the consolidated balance sheet as a liability, recorded in other noncurrent liabilities. At September 30, 2012 and 2011, the fair value of interest rate swap was in a liability position of \$2,938,962 and \$2,414,415, respectively.

The Hospital designated its interest rate swap as a cash flow hedge for accounting purposes, and accordingly defers gains or losses associated with the swap in net assets.

CHILDREN’S CENTER SERIES D BOND FINANCING

On August 1, 2000, the Children’s Center of Greater Waterbury Health Network, Inc. entered into Series D financing arrangements with CHEFA under a Master Indenture for the financing of the construction of a new child care center building. To finance the above, CHEFA sold \$1,945,000 of Series D revenue bonds.

Under the terms of the financing arrangements between the Children’s Center and CHEFA, the proceeds of the revenue bonds were loaned to the Children’s Center. Pursuant to the loan agreement, the Children’s Center was obligated to provide amounts which will be sufficient to enable CHEFA to pay the principal of and interest on the proceeds of the Series D Bonds.

Concurrently with the issuance and delivery of the Series D Bonds, the Children’s Center and U.S. Bank NA, as Trustee, entered into the Master Indenture and Supplemental Master Indentures Numbers 1 and 2, pursuant to which the Children’s Center was obligated to pay the amount due under the loan agreement with CHEFA. The Master Indenture and Supplemental Master Indentures provide for, among other things, the establishment and maintenance of a Debt Service Reserve Fund (which has been funded by the State of Connecticut as discussed below) and a pledge of the gross receipts, as defined, of the Children’s Center, restriction on the incurrence of certain indebtedness of the Children’s Center and covenants regarding the Children’s Center’s debt service coverage ratios, sale and lease of assets and other covenants similar in financings of this type.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 7 – DEBT (CONTINUED)

CHILDREN’S CENTER SERIES 2011 BONDS

In August 2011, CHEFA sold \$28,840,000 of Series 2011 revenue bonds, the proceeds of which were used to redeem a number of bond series, including the Children’s Center Series D bonds described above. As a result of the sale of the Series 2011 bonds, the Children’s Center’s loan with CHEFA was refinanced and reduced from \$1,560,000 to \$1,505,000. The Series 2011 bonds mature serially from 2012 through 2030, with interest rates ranging from 1% to 5%.

Pursuant to Public Act No. 97-259 (the School Readiness Act), the State of Connecticut has encouraged the development of a network of school readiness programs that meet the standards developed by the State Department of Education. To encourage such development, the School Readiness Act established, among other things, the Child Care Facilities Program to finance low interest loans for the purpose of new construction of child care centers. The State of Connecticut, acting through the Commissioner of the Department of Social Services, may allow actual debt service on such loans and a debt service reserve fund to be paid by the State of Connecticut provided that such debt service terms are determined by the Commissioner to be reasonable. The State of Connecticut has funded the debt service reserve fund and has agreed to fund, subject to available appropriations, 80.5% of the debt service on the Series 2011 Bonds and to replenish any deficiencies in the debt service reserve fund. During 2012 and 2011, the total debt service funded by the State of Connecticut was \$109,009 and \$100,492, respectively.

Future minimum payments by year and in the aggregate, subject to early redemption provisions discussed above, under the CHEFA bonds are as follows at September 30, 2012:

2013	\$ 506,444
2014	532,136
2015	548,776
2016	576,408
2017	600,080
Aggregate thereafter	<u>23,883,256</u>
	<u>\$ 26,647,100</u>

Access has a \$250,000 line of credit with a bank. There were no borrowings under this line of credit at September 30, 2012 and 2011.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011**

NOTE 7 – DEBT (CONTINUED)

The Hospital had a \$3.5 million letter of credit with a bank available at September 30, 2012 and 2011, to support its self-insured workers' compensation program that is collateralized by certain investments held by the bank. As of September 30, 2012 and 2011, there were no borrowings on this letter of credit.

In April 2005, the VNA established a \$500,000 line of credit with Webster Financial Advisors. The scheduled maturity date is November 1, 2013. The interest rate at June 30, 2012 and 2011 was 4.25% and 5%, respectively. The line of credit is secured by the Association's investments held by Webster Financial Advisors and a first lien on all business assets located at 27 Siemon Company Drive, Watertown, Connecticut. There were no advances on the line of credit at September 30, 2012 and 2011.

AMG entered into an equipment lease during 2008. The lease calls for monthly payments of \$1,485 through April 2013 and is secured by the equipment. The balances of the capital lease liability at September 30, 2012 and 2011 were \$10,054 and \$25,987, respectively.

AMG entered into an equipment lease during 2009. The lease calls for monthly payments of \$593 through January 2014 and is secured by the equipment. The balances of the capital lease liability at September 30, 2012 and 2011 were \$9,037 and \$14,365, respectively.

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 September 30, 2012 and 2011 was \$9,445 and \$12,724, respectively.

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, 2012 and 2011 was \$13,095 and \$17,140, respectively.

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, 2012 and 2011 was \$307,277 and \$427,917, respectively.

AMG assumed a note payable 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, 2012 and 2011 was \$177,038 and \$220,858, respectively.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 7 – DEBT (CONTINUED)

The Hospital entered into a capital lease for equipment during 2011. The lease calls for equal monthly payments of \$20,885 through May 2016 and is secured by the equipment. The balance of the capital lease liability was \$835,685 and \$1,048,436 at September 30, 2012 and 2011, respectively.

The Hospital entered into a capital lease for equipment during 2011. The lease calls for equal monthly payments of \$14,031 through July 2013 and is secured by the equipment. The balance of the capital lease liability was \$137,403 and \$295,505 at September 30, 2012 and 2011, 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 \$0 and \$232,641 at September 30, 2012 and 2011, respectively.

The Hospital entered into a capital lease for equipment during 2012. The lease calls for equal monthly payments of \$11,469 through August 2017 and is secured by the equipment. The balance of the capital lease liability was \$593,633 at September 30, 2012.

Future minimum payments by year and in the aggregate for all non-CHEFA obligations were as follows at September 30, 2012:

2013	\$ 666,376
2014	633,406
2015	395,685
2016	273,670
2017	<u>123,530</u>
	<u>\$ 2,092,667</u>

The fair value of the debt, using the discounted cash flow analyses, was approximately \$30,750,000 and \$29,200,000 at September 30, 2012 and 2011, respectively.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 8 – RENTAL EXPENSE AND LEASE COMMITMENTS

The Hospital, VNA and GWMRI have entered into operating leases for office space and office equipment. Rental expense for the years ended September 30, 2012 and 2011 was \$4,710,265 and \$4,321,003, respectively. The minimum rental commitments under all noncancellable operating leases with initial or remaining terms of more than one year are as follows:

2013	\$ 4,121,453
2014	4,016,077
2015	3,302,125
2016	3,172,341
2017	2,459,221
Thereafter	<u>1,748,046</u>
	<u>\$ 18,819,263</u>

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 Hospital 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.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Following is a summary of the Plan's funded status using the measurement dates of September 30, 2012 and 2011 and amounts recognized in the Corporation's consolidated financial statements.

	2012	2011
Change in benefit obligation		
Benefit obligation beginning of year	\$ (37,373,483)	\$ (37,725,464)
Service cost	(1,220,226)	(1,212,075)
Interest cost	(1,798,078)	(1,740,830)
Actuarial (loss) gain	(443,054)	311,362
Benefits paid	2,946,016	2,993,524
Benefit Obligation - end of year	\$ (37,888,825)	\$ (37,373,483)
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 26,540,513	\$ 28,672,719
Actual return on plan assets	2,716,897	79,583
Employer contributions	2,531,719	781,735
Benefits paid	(2,946,016)	(2,993,524)
Fair Value of Plan Assets - end of year	\$ 28,843,113	\$ 26,540,513
Funded status	\$ (9,045,712)	\$ (10,832,970)
Accrued Pension Liability	\$ (9,045,712)	\$ (10,832,970)

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

	2012	2011
Components of net periodic pension cost		
Service cost	\$ 1,220,226	\$ 1,212,075
Interest cost	1,798,078	1,740,830
Expected return on plan assets	(2,566,157)	(2,674,199)
Amortization of actuarial loss	623,556	431,281
Amortization of prior service cost	<u>35,527</u>	<u>35,527</u>
 Net periodic pension cost	 <u>\$ 1,111,230</u>	 <u>\$ 745,514</u>
 Accumulated benefit obligation	 <u>\$ 36,832,025</u>	 <u>\$ 35,847,835</u>

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

	2012	2011
Unrecognized prior service cost	\$ (191,986)	\$ (227,513)
Unrecognized actuarial losses	<u>(15,640,839)</u>	<u>(15,972,081)</u>
 Benefit obligation, end of year	 <u>\$ (15,832,825)</u>	 <u>\$ (16,199,594)</u>

Changes in benefit obligations recognized in unrestricted net assets include:

	2012	2011
Current year actuarial losses	\$ (292,314)	\$ (2,283,254)
Amortization of prior service cost	35,527	35,527
Amortization of net loss	<u>623,556</u>	<u>431,281</u>
	 <u>\$ 366,769</u>	 <u>\$ (1,816,446)</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, 2012 are \$35,527 and \$918,715, respectively.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

ASSUMPTIONS

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

	2012	2011
Discount rate	3.17%	5.07%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	2% for 4 year select period, 3% ultimate	2% for 5 year select period, 3% ultimate

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

	2012	2011
Discount rate	5.07%	4.83%
Expected return on assets	8.00%	8.00%
Rate of compensation increase	2.00% for 5 year select period, 3.00%	2.00% for 5 year select period, 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.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

INVESTMENT POLICY

The Plan's weighted-average asset allocation at September 30, 2012 and 2011, by asset category are as follows:

Asset Category	Plan Assets at September 30		Asset Allocation Policy	
	2012	2011	Target	Range
Equity securities	44%	40%	45%	40% - 50%
Debt securities	33%	36%	35%	25% - 45%
Multi-strategy hedge fund of funds	20%	21%	20%	15% - 25%
Cash and cash equivalents	3%	3%		

The Pension Committee of the Board of Directors (the Committee) is responsible for employee benefit program policies with respect to investments 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.

CONTRIBUTIONS

The Hospital expects to make \$1,800,000 in contributions to the Plan in 2013.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

ESTIMATED FUTURE BENEFIT PAYMENTS

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

2013		\$ 3,139,000
2014		3,103,000
2015		2,827,000
2016		3,171,000
2017		3,046,000
2018-2022		<u>13,327,000</u>
		<u>\$ 28,613,000</u>

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.

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, 2012.

	Level 1	Level 2	Level 3	Total
Equities	\$ 1,450,511	\$ --	\$ --	\$ 1,450,511
Commingled funds and private equity	--	--	19,307,214	19,307,214
U.S. Government obligations	4,463,951	--	--	4,463,951
Corporate bonds	--	3,210,511	--	3,210,511
Distribution receivable	363,345	--	--	363,345
Interest and dividends	<u>47,581</u>	<u>--</u>	<u>--</u>	<u>47,581</u>
	<u>\$ 6,325,388</u>	<u>\$ 3,210,511</u>	<u>\$19,307,214</u>	<u>\$28,843,113</u>

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

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, 2011.

	Level 1	Level 2	Level 3	Total
Equities	\$ 1,222,719	\$ --	\$ --	\$ 1,222,719
Commingled funds and private equity	--	--	17,038,042	17,038,042
U.S. Government obligations	3,807,059	--	--	3,807,059
Corporate bonds	--	3,804,741	--	3,804,741
Distribution receivable	610,079	--	--	610,079
Interest and dividends	57,873	--	--	57,873
	<u>\$ 5,697,730</u>	<u>\$ 3,804,741</u>	<u>\$ 17,038,042</u>	<u>\$ 26,540,513</u>

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:

	2012	2011
Balance as of September 30	\$ 17,038,042	\$ 12,956,286
Change in unrealized appreciation (depreciation)	2,362,257	(1,081,776)
Purchases	7,446,351	18,117,388
Sales	<u>(7,539,436)</u>	<u>(12,953,856)</u>
Balance as of September 30	<u>\$ 19,307,214</u>	<u>\$ 17,038,042</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. The Hospital is exploring the costs to withdraw from the union pension plans in the event that the Hospital enters into a joint venture (Refer to Note 14). Management does not have an estimate of such costs, however, the maximum cost would not exceed 20 years of the annual premium amounts.

The VNA has a defined contribution pension plan which covers substantially all full-time employees, in addition to a non-contributory discretionary pension plan for which contributions are made annually at the discretion of the VNA's Board of Directors.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Total pension expense for the above noted plans charged to operations during the years ended September 30, 2012 and 2011 was \$3,924,876 and \$3,950,256, 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, 2012 and 2011, liabilities of \$152,244 and \$76,031, 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 Corporation's partially self-insured programs, which have been asserted against the Corporation. In addition, there are known incidents that have occurred through September 30, 2012 that may result in the assertion of claims. Corporation 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. Corporation management has provided reserves for these contingent liabilities.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Corporation 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 \$195,978 and \$195,415 at September 30, 2012 and 2011, respectively, represent receivables from and (payables) to affiliates that do not eliminate in consolidation. These balances are comprised of the following:

	2012	2011
Greater Waterbury Management Resources	\$ 204,462	\$ 203,899
Alliance Medical Group	(9,984)	(9,984)
GI Co-Management Company	<u>1,500</u>	<u>1,500</u>
	<u>\$ 195,978</u>	<u>\$ 195,415</u>

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 13 – FUNCTIONAL EXPENSES

The Corporation through the Hospital and other subsidiaries provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 218,922,389	\$ 213,054,991
General and administrative	67,298,685	78,501,613
Fundraising	<u>288,795</u>	<u>334,396</u>
	<u>\$ 286,509,869</u>	<u>\$ 291,891,000</u>

NOTE 14 – SUBSEQUENT EVENTS

The Network 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 Network evaluated events occurring subsequent to September 30, 2012 through January 28, 2013, the date on which the accompanying consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements.

On October 29, 2012, the Network entered into a nonbinding letter of intent with Vanguard Health Systems, Inc. (Vanguard) to form a joint venture with a subsidiary of Vanguard. This joint venture would own and operate most of the assets of the Network. The obligations of the parties to close the transaction will be subject to the negotiation of definitive agreements, the receipt of all required regulatory approvals, licenses and permissions, the lack of a material adverse change to the condition or results of operations of the Network, the solvency of the parties and other customary closing obligations.

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

Board of Directors
Greater Waterbury Health Network, Inc.

Our report on our audits of the basic consolidated financial statements of Greater Waterbury Health Network, Inc. as of and for the years ended September 30, 2012 and 2011 appears on page 1. Our audits were performed for the purpose of forming an opinion on the 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Marcum LLP

Hartford, CT
January 28, 2013

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2012

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Assets								
Current Assets								
Cash and cash equivalents	\$ 2,545	\$ 28,119,173	\$ 741,121	\$ --	\$ 649	\$ 404,504	\$ --	\$ 29,267,992
Short-term investments	--	448,318	640,854	--	--	--	--	1,089,172
Accounts receivable - patients, net	--	31,771,976	383,216	--	--	232,184	(20,364)	32,367,012
Accounts receivable - grants and other	--	2,977,504	--	--	--	--	--	2,977,504
Inventories	--	3,305,079	--	--	--	--	--	3,305,079
Prepaid insurance and other expenses	--	1,493,512	9,109	--	--	23,269	--	1,525,890
Due from affiliates	2,709,566	(2,999,940)	--	(11,764)	498,116	--	--	195,978
Total Current Assets	2,712,111	65,115,622	1,774,300	(11,764)	498,765	659,957	(20,364)	70,728,627
Other Assets								
Under bond indenture agreements	--	--	--	--	--	30,070	--	30,070
Construction Fund	--	661,338	--	--	--	--	--	661,338
	--	661,338	--	--	--	30,070	--	691,408
Less assets that are required for current liabilities	--	--	--	--	--	--	--	--
	--	661,338	--	--	--	30,070	--	691,408
Property, Plant and Equipment								
Land	--	287,549	--	--	--	--	--	287,549
Buildings and improvements	--	92,117,304	20,776	--	--	3,068,271	--	95,206,351
Furniture, fixtures and equipment	--	184,952,035	845,948	--	--	160,308	--	185,958,291
Construction in progress	--	2,473,015	--	--	--	--	--	2,473,015
Accumulated depreciation	--	(230,695,459)	(719,863)	--	--	(1,037,832)	--	(232,453,154)
	--	49,134,444	146,861	--	--	2,190,747	--	51,472,052
Funds held in trust by others								
Goodwill	--	42,218,163	--	--	--	--	--	42,218,163
CHEFA obligations issue expense, less amortization	--	1,813,567	--	--	--	--	--	1,813,567
Long-term investments	--	321,666	--	--	--	--	--	321,666
Board-designated endowment funds	13,100,061	10,001,712	--	--	--	178,878	--	23,280,651
Other investments	--	2,974,503	--	--	--	--	--	2,974,503
Investment in subsidiary	55,000	--	--	--	--	--	--	55,000
Loans and other receivables	719,418	290,416	4,660	--	226,830	--	(719,418)	521,906
Accrued interest and dividends receivable	231,210	--	--	--	--	--	(231,210)	--
	22,017	--	--	--	--	--	--	22,017
	14,127,706	57,620,027	4,660	--	226,830	178,878	(950,628)	71,207,473
Total Assets	\$ 16,839,817	\$ 172,531,431	\$ 1,925,821	\$ (11,764)	\$ 725,595	\$ 3,059,652	\$ (970,992)	\$ 194,099,560

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2012

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Liabilities and Net Assets								
Current Liabilities								
Accounts payable and accrued expenses	\$ 82,599	\$ 36,745,815	\$ 297,140	\$ --	\$ --	\$ 139,623	\$ (20,365)	\$ 37,244,812
Due to third-party reimbursement agencies	--	601,271	170,017	--	--	--	--	771,288
Current portion of CHEFA obligations	--	451,444	--	--	--	55,000	--	506,444
Current portion of notes payable	--	666,376	--	--	--	8,295	(8,295)	666,376
Due to affiliates	--	--	--	--	--	--	--	--
Total Current Liabilities	<u>82,599</u>	<u>38,464,906</u>	<u>467,157</u>	<u>--</u>	<u>--</u>	<u>202,918</u>	<u>(28,660)</u>	<u>39,188,920</u>
CHEFA Obligations - less current portion and discount	<u>--</u>	<u>24,755,656</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,385,000</u>	<u>--</u>	<u>26,140,656</u>
Notes Payable - less current portion	<u>--</u>	<u>1,426,291</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>222,914</u>	<u>(222,914)</u>	<u>1,426,291</u>
Other Noncurrent Liabilities	<u>--</u>	<u>21,853,067</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>21,853,067</u>
Net Assets								
Unrestricted	16,757,218	30,228,350	1,458,664	(11,764)	725,595	1,248,820	(719,418)	49,687,465
Temporarily restricted	--	7,645,420	--	--	--	--	--	7,645,420
Permanently restricted	--	45,010,199	--	--	--	--	--	45,010,199
Total Net Assets Excluding Noncontrolling Interests	<u>16,757,218</u>	<u>82,883,969</u>	<u>1,458,664</u>	<u>(11,764)</u>	<u>725,595</u>	<u>1,248,820</u>	<u>(719,418)</u>	<u>102,343,084</u>
Noncontrolling Interests	<u>--</u>	<u>3,147,542</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>3,147,542</u>
Total Net Assets	<u>16,757,218</u>	<u>86,031,511</u>	<u>1,458,664</u>	<u>(11,764)</u>	<u>725,595</u>	<u>1,248,820</u>	<u>(719,418)</u>	<u>105,490,626</u>
	<u>\$ 16,839,817</u>	<u>\$ 172,531,431</u>	<u>\$ 1,925,821</u>	<u>\$ (11,764)</u>	<u>\$ 725,595</u>	<u>\$ 3,059,652</u>	<u>\$ (970,992)</u>	<u>\$ 194,099,560</u>

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2011 (RESTATED)

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Assets								
Current Assets								
Cash and cash equivalents	\$ 51,051	\$ 15,410,669	\$ 752,596	\$ --	\$ 869	\$ 446,574	\$ --	\$ 16,661,759
Short-term investments	--	401,931	632,910	--	--	--	--	1,034,841
Accounts receivable - patients, net	--	29,030,710	420,480	--	598	134,219	(1,380)	29,584,627
Accounts receivable - grants and other	--	4,228,499	--	--	--	--	--	4,228,499
Inventories	--	3,258,762	--	--	--	--	--	3,258,762
Prepaid insurance and other expenses	--	1,747,158	10,852	--	--	26,323	--	1,784,333
Due from third-party reimbursement agencies	--	2,858,086	(223,605)	--	--	--	--	2,634,481
Due from affiliates	(118,943)	3,848,949	--	(11,764)	497,298	--	(4,010,141)	203,399
Total Current Assets	(67,892)	60,784,764	1,593,233	(11,764)	498,765	607,116	(4,011,521)	59,392,701
Other Assets								
Under bond indenture agreements	--	--	--	--	--	29,288	--	29,288
Construction Fund	--	3,958,301	--	--	--	--	--	3,958,301
	--	3,958,301	--	--	--	29,288	--	3,987,589
Property, Plant and Equipment								
Land	--	287,549	--	--	--	--	--	287,549
Buildings and improvements	--	88,987,893	20,776	--	--	3,055,671	--	92,064,340
Furniture, fixtures and equipment	--	180,860,538	732,900	--	--	160,309	--	181,753,747
Construction in progress	--	3,023,126	--	--	--	--	--	3,023,126
Accumulated depreciation	--	(223,542,449)	(638,020)	--	--	(939,756)	--	(225,120,225)
	--	49,616,657	115,656	--	--	2,276,224	--	52,008,537
Funds held in trust by others								
Goodwill	--	37,339,264	--	--	--	--	--	37,339,264
CHEFA obligations issue expense, less amortization	--	1,813,567	--	--	--	--	--	1,813,567
Long-term investments	--	360,656	--	--	--	--	--	360,656
Board-designated endowment funds	20,094,914	8,760,627	--	--	--	165,923	--	29,021,464
Other investments	55,000	2,615,009	--	--	--	--	--	2,615,009
Investment in subsidiary	719,418	--	--	--	--	--	(719,418)	--
Loans and other receivables	239,181	3,240	--	--	226,830	--	(239,181)	230,070
Accrued interest and dividends receivable	29,563	--	--	--	--	--	--	29,563
	21,138,076	50,892,363	--	--	226,830	165,923	(958,599)	71,464,593
Total Assets	\$ 21,070,184	\$ 165,252,085	\$ 1,708,889	\$ (11,764)	\$ 725,595	\$ 3,078,551	\$ (4,970,120)	\$ 186,853,420

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2011 (RESTATED)

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Liabilities and Net Assets								
Current Liabilities								
Accounts payable and accrued expenses	\$ 1,006,587	\$ 39,177,429	\$ 292,430	\$ --	\$ --	\$ 130,022	\$ (1,380)	\$ 40,605,088
Current portion of CHEFA obligations	--	423,779	--	--	--	65,000	--	488,779
Current portion of notes payable	--	584,216	--	--	--	7,971	(7,971)	584,216
Due to affiliates	4,020,125	--	--	--	--	--	(4,010,141)	9,984
Total Current Liabilities	5,026,712	40,185,424	292,430	--	--	202,993	(4,019,492)	41,688,067
CHEFA Obligations - less current portion and discount	--	25,207,100	--	--	--	1,440,000	--	26,647,100
Notes Payable - less current portion	--	1,499,034	--	--	--	231,210	(231,210)	1,499,034
Other Noncurrent Liabilities	--	19,806,617	--	--	--	--	--	19,806,617
Net Assets								
Unrestricted	16,043,472	28,763,004	1,416,459	(11,764)	725,595	1,204,348	(719,418)	47,421,696
Temporarily restricted	--	6,477,454	--	--	--	--	--	6,477,454
Permanently restricted	--	40,131,275	--	--	--	--	--	40,131,275
Total Net Assets Excluding Noncontrolling Interests	16,043,472	75,371,733	1,416,459	(11,764)	725,595	1,204,348	(719,418)	94,030,425
Noncontrolling Interests	--	3,182,177	--	--	--	--	--	3,182,177
Total Net Assets	16,043,472	78,553,910	1,416,459	(11,764)	725,595	1,204,348	(719,418)	97,212,602
\$	21,070,184	\$ 165,252,085	\$ 1,708,889	\$ (11,764)	\$ 725,595	\$ 3,078,551	\$ (4,970,120)	\$ 186,853,420

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc	Eliminations	Consolidated
Revenues								
Net revenues from services to patients	\$ --	\$ 269,112,543	\$ 4,374,129	\$ --	\$ --	\$ --	\$ (2,574)	\$ 273,484,098
Investment related income (loss)	(405,735)	1,607,608	43,608	--	--	--	--	1,245,481
Other operating revenues	--	5,784,691	66,523	--	--	104,158	(50,000)	5,905,372
Services, sales and rental income	--	--	--	--	--	1,713,317	--	1,713,317
Unrestricted gifts and bequests	--	83,577	40,122	--	--	--	--	123,699
Net assets released from restrictions	--	5,609,005	--	--	--	--	--	5,609,005
	(405,735)	282,197,424	4,524,382	--	--	1,817,475	(52,574)	288,080,972
Expenses								
Salaries, wages and benefits	--	160,088,631	3,222,961	--	--	1,323,072	--	164,634,664
Supplies, utilities and other	232,867	98,648,364	1,145,929	--	--	274,539	(52,574)	100,249,125
Bad debt expense	--	10,964,528	2,100	--	--	--	--	10,966,628
Depreciation	--	9,241,684	81,843	--	--	98,076	--	9,421,603
Interest and amortization	--	1,160,533	--	--	--	77,316	--	1,237,849
	232,867	280,103,740	4,452,833	--	--	1,773,003	(52,574)	286,509,869
Excess (Deficiency) of Revenues Over Expenses Before Net Unrealized (Losses) Gains on Investments and Other Losses	(638,602)	2,093,684	71,549	--	--	44,472	--	1,571,103
Changes in Net Unrealized (Losses) Gains on Investments	1,352,348	392,543	(29,344)	--	--	--	--	1,715,547
Excess (Deficiency) of Revenues Over Expenses Less Excess of Revenues over Expenses Attributable to Noncontrolling Interests	713,746	2,486,227	42,205	--	--	44,472	--	3,286,650
	--	(997,139)	--	--	--	--	--	(997,139)
Excess (Deficiency) of Revenues Over Expenses Attributable to Controlling Interest	\$ 713,746	\$ 1,489,088	\$ 42,205	\$ --	\$ --	\$ 44,472	\$ --	\$ 2,289,511

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2011 (RESTATED)

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Revenues								
Net revenues from services to patients	\$ --	\$ 265,862,860	\$ 4,872,788	\$ --	\$ --	\$ --	\$ (3,250)	\$ 270,732,398
Investment related income	40,901	1,479,475	14,520	--	--	--	--	1,534,896
Other operating revenues	2,800	3,690,631	59,739	--	--	92,967	(55,000)	3,791,137
Services, sales and rental income	--	--	--	--	--	1,602,454	(5,600)	1,596,854
Unrestricted gifts and bequests	--	276,737	35,511	--	--	--	--	312,248
Net assets released from restrictions	--	5,919,545	--	--	--	--	--	5,919,545
	<u>43,701</u>	<u>277,229,248</u>	<u>4,982,558</u>	<u>--</u>	<u>--</u>	<u>1,695,421</u>	<u>(63,850)</u>	<u>283,887,078</u>
Expenses								
Salaries, wages and benefits	--	169,653,641	3,376,255	--	--	1,289,597	--	174,319,493
Supplies, utilities and other	347,527	90,852,318	1,204,066	--	--	269,248	(63,850)	92,609,309
Bad debt expense	--	13,868,167	14,076	--	--	--	--	13,882,243
Depreciation	--	9,313,313	79,109	--	--	98,021	--	9,490,443
Operations improvement	--	285,998	--	--	--	--	--	285,998
Interest and amortization	--	1,202,403	235	--	--	100,876	--	1,303,514
	<u>347,527</u>	<u>285,175,840</u>	<u>4,673,741</u>	<u>--</u>	<u>--</u>	<u>1,757,742</u>	<u>(63,850)</u>	<u>291,891,000</u>
(Deficiency) Excess of Revenues Over Expenses Before Net								
Unrealized (Losses) Gains on Investments and Other Losses	(303,826)	(7,946,592)	308,817	--	--	(62,321)	--	(8,003,922)
Loss on Extinguishment of Debt	--	(1,082,212)	--	--	--	(66,943)	--	(1,149,155)
Changes in Net Unrealized (Losses) Gains on Investments	(1,275,925)	(529,738)	82,531	--	--	2,380	--	(1,720,752)
(Deficiency) Excess of Revenues Over Expenses	(1,579,751)	(9,558,542)	391,348	--	--	(126,884)	--	(10,873,829)
Less Excess of Revenues over Expenses								
Attributable to Noncontrolling Interests	--	(1,111,268)	--	--	--	--	--	(1,111,268)
(Deficiency) Excess of Revenues Over Expenses	(1,579,751)	(10,669,810)	391,348	--	--	(126,884)	--	(11,985,097)
Attributable to Controlling Interest	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --