

AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

The Danbury Hospital and Subsidiary  
Years Ended September 30, 2013 and 2012  
With Report of Independent Auditors

Table of Contents

Table of Contents

Financial Statements	1
Notes to Financial Statements	10
Supplementary Information	15
Report of Independent Auditors	16

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

Years Ended September 30, 2013 and 2012

**Contents**

Report of Independent Auditors.....	1
Audited Consolidated Financial Statements	
Consolidated Balance Sheets.....	3
Consolidated Statements of Operations and Changes in Net Assets.....	5
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8
Supplementary Information	
Report of Independent Auditors on Supplementary Information.....	31
Years Ended September 30, 2013 and 2012	
Consolidating Balance Sheets.....	32
Consolidating Statements of Operations.....	34



Ernst & Young  
Global Limited  
111 South Street  
New York, NY 10038-5800  
USA

Ernst & Young  
Global Limited  
111 South Street  
New York, NY 10038-5800  
USA

## Report of Independent Auditors

Board of Directors  
The Danbury Hospital

We have audited the accompanying consolidated financial statements of The Danbury Hospital and Subsidiary, which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Western Connecticut Health Network Insurance Co., Ltd. (the Company), a wholly-owned subsidiary, which statements reflect total assets constituting 8% in 2013 and 2012, and total revenues constituting 3% in 2013 and 2% in 2012, of the consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Company, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not



for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Danbury Hospital and Subsidiary at September 30, 2013 and 2012, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

*Ernst + Young LLP*

January 21, 2014

# The Danbury Hospital and Subsidiary

## Consolidated Balance Sheets

	September 30	
	2013	2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 59,531,409	\$ 54,460,115
Current portion of assets limited as to use	4,989,827	900,896
Accounts receivable, less allowance for uncollectible accounts of approximately \$14.833.000 in 2013 and \$12.322.000 in 2012	57,504,970	60,038,935
Current portion of due from related parties	7,022,757	8,730,837
Inventories	9,521,995	9,333,372
Prepaid expenses and other	13,488,041	14,940,018
Total current assets	152,058,999	148,404,173
Assets limited as to use:		
Construction funds	45,694,876	100,552,317
Investments held by WCHNIC	58,410,610	59,508,868
Total noncurrent assets limited as to use	104,105,486	160,061,185
Investments	199,169,615	173,599,412
Other assets	195,559	156,415
Due from related parties	5,739,847	8,172,413
Interest in Western Connecticut Health Network Foundation, Inc.	106,193,031	78,906,136
Property, plant and equipment:		
Land and land improvements	9,964,052	9,904,877
Buildings and building improvements	293,253,282	286,763,195
Equipment and other	222,804,495	229,444,069
Construction in progress (estimated cost to complete at September 30, 2013: \$57.268,000)	105,866,676	39,100,951
	631,888,505	565,213,092
Less accumulated depreciation	328,300,919	322,977,997
	303,587,286	242,235,095
Bond issuance costs, net	5,099,525	5,436,933
Total assets	\$ 876,149,648	\$ 816,971,762

	September 30	
	2013	2012
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 33,744,172	\$ 25,455,839
Payroll-related accruals	28,385,032	20,868,119
Due to third-party payors	8,710,030	9,985,351
Interest payable	1,706,774	1,624,480
Other accrued expenses	2,933,157	3,553,987
Current portion of long-term debt	2,880,000	1,555,000
Total current liabilities	<u>78,359,165</u>	<u>63,042,776</u>
Self-insurance liabilities	46,380,935	42,317,667
Other long-term liabilities	18,062,437	17,410,220
Long-term debt, less current portion	246,700,000	249,580,000
Total liabilities	<u>389,502,537</u>	<u>372,350,663</u>
Net assets:		
Unrestricted	400,930,008	386,002,265
Temporarily restricted	56,603,735	29,794,088
Permanently restricted	29,113,368	28,824,746
Total net assets	<u>486,647,111</u>	<u>444,621,099</u>

Total liabilities and net assets

<u>\$ 876,149,648</u>	<u>\$ 816,971,762</u>
-----------------------	-----------------------

*See accompanying notes.*

The Danbury Hospital and Subsidiary

Consolidated Statements of Operations and Changes in Net Assets

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
Unrestricted revenues:		
Net patient service revenue	\$ 518,977,309	\$ 521,836,000
Provision for bad debt	17,114,070	19,413,218
Net patient service revenue less provision for bad debt	<u>501,863,239</u>	502,422,782
Net assets released from restrictions	5,221,901	3,156,468
Other operating revenues	<u>18,529,750</u>	24,153,997
	<u>525,614,890</u>	529,733,247
Expenses:		
Salaries, benefits and fees	298,251,765	313,980,347
Supplies and other	149,182,119	139,049,312
Insurance	15,709,626	11,680,311
Depreciation and amortization	30,033,213	31,663,499
Interest	<u>3,984,131</u>	4,156,059
	<u>497,160,854</u>	500,529,528
Income from operations	<u>28,454,036</u>	29,203,719
Nonoperating income:		
Investment income, net	4,782,118	1,690,407
Change in unrealized gains and losses on investments	5,199,125	19,910,410
Change in equity interest in unrestricted net assets of the Western Connecticut Health Network Foundation, Inc.	<u>206,244</u>	2,571,725
	<u>10,187,487</u>	24,172,542
Excess of revenues over expenses	<u>38,641,523</u>	53,376,261

*Continued on next page.*

The Danbury Hospital and Subsidiary

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

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
Unrestricted net assets:		
Excess of revenues over expenses (continued)	\$ 38,641,523	\$ 53,376,261
Change in equity interest of the Western Connecticut Health Network Foundation, Inc.	(17,618)	575,671
Net assets released from restrictions for property, plant and equipment	4,908,000	4,705,608
Transfers to Western Connecticut Health Network, Inc.	(28,604,162)	(4,911,038)
Increase in unrestricted net assets	<u>14,927,743</u>	<u>53,746,502</u>
Temporarily restricted net assets:		
Change in equity interest of the Western Connecticut Health Network Foundation, Inc.	26,809,647	2,006,639
Transfers from Western Connecticut Health Network Foundation, Inc.	10,129,901	7,862,076
Net assets released from restrictions	(5,221,901)	(3,156,468)
Net assets released from restrictions for property, plant and equipment	(4,908,000)	(4,705,608)
Increase in temporarily restricted net assets	<u>26,809,647</u>	<u>2,006,639</u>
Permanently restricted net assets:		
Change in equity interest of the Western Connecticut Health Network Foundation, Inc.	288,622	626,380
Increase in permanently restricted net assets	<u>288,622</u>	<u>626,380</u>
Increase in net assets	<u>42,026,012</u>	<u>56,379,521</u>
Net assets at beginning of year	<u>444,621,099</u>	<u>388,241,578</u>
Net assets at end of year	<u>\$ 486,647,111</u>	<u>\$ 444,621,099</u>

*See accompanying notes.*

The Danbury Hospital and Subsidiary  
Consolidated Statements of Cash Flows

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Increase in net assets	\$ 42,026,012	\$ 56,379,521
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	30,033,213	31,663,499
Change in unrealized gains and losses on investments	(5,199,125)	(19,910,410)
Increase in equity interest in net assets of the Western Connecticut Health Network Foundation, Inc.	(27,286,895)	(5,780,415)
Transfers from the Western Connecticut Health Network Foundation, Inc.	(10,129,901)	(7,862,076)
Transfers to Western Connecticut Health Network, Inc.	28,604,162	4,911,038
Provision for bad debt	17,114,070	19,413,218
Increase in other long-term liabilities	652,217	1,762,912
Increase in self-insurance liabilities	4,063,268	3,119,769
Changes in operating assets and liabilities (see Note 11)	635,494	(21,291,185)
Net cash provided by operating activities	80,512,515	62,405,871
<b>Investing activities</b>		
Additions to property, plant and equipment, net	(91,048,296)	(53,613,235)
Increase in due from related parties and transfers to Western Connecticut Health Network, Inc.	(24,463,516)	(9,899,245)
Decrease in investments, net and assets limited as to use	31,495,690	14,231,546
Net cash used in investing activities	(84,016,122)	(49,280,934)
<b>Financing activities</b>		
Proceeds of issuance of bonds, net of change in issuance costs	–	40,222,832
Payments of long-term debt	(1,555,000)	(43,360,000)
Transfers from the Western Connecticut Health Network Foundation, Inc.	10,129,901	7,862,076
Net cash provided by financing activities	8,574,901	4,724,908
Net increase in cash and cash equivalents	5,071,294	17,849,845
Cash and cash equivalents at beginning of year	54,460,115	36,610,270
Cash and cash equivalents at end of year	\$ 59,531,409	\$ 54,460,115

*See accompanying notes.*

The Danbury Hospital and Subsidiary  
Notes to Consolidated Financial Statements

September 30, 2013

**1. Summary of Significant Accounting Policies**

**Organization and Basis of Presentation**

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

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

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related footnotes. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

**Regulatory Matters**

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

**Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with maturities of three months or less at date of purchase, other than amounts held in the investment portfolio and assets limited as to use. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Hospital's policy to monitor the financial strength of these institutions.

**Investments**

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

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

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

Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that the Hospital holds limited partnership interests, are reported based upon net asset value and derived from the application of the equity method of accounting. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, the Hospital's holdings, may be determined by the investment manager or general partner, and for "fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The Hospital accounts for these investments using the equity method of accounting and reports its share of the increase or decrease in the funds value as investment gain or loss. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Hospital's annual consolidated financial statement reporting.

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time frame or purpose. Temporarily restricted net assets primarily consist of contributions restricted for certain health care services. Permanently restricted net assets, which are primarily endowment gifts and assets held in trusts by others, have been restricted by donors and are to be maintained in perpetuity.

#### **Assets Limited as to Use**

Assets limited as to use represent assets set aside by the Board of Directors for the purpose of providing for future improvement, expansion and replacement of plant and equipment; assets held by trustees under indenture agreements related to financing activities with the State of Connecticut Health and Educational Facilities Authority (CHEFA); and investments held by WCHNIC. Assets limited as to use are reported at fair value based upon quoted market prices. The portion of amounts required for funding current liabilities is included in current assets.

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Patient Accounts Receivable**

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for uncollectible accounts result from the provision for bad debt. Accounts written off as uncollectible are deducted from the allowance for uncollectible accounts.

The Hospital's estimation of the allowance for uncollectible accounts is based primarily upon the type and age of the patient accounts receivable and the effectiveness of the Hospital's collection efforts. The Hospital's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. On a monthly basis, the Hospital reviews its accounts receivable balances and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

- Historical write-off and collection experience using a hindsight or look-back approach;
- Revenue and volume trends by payor, particularly the self-pay components;
- Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients;
- Cash collections as a percentage of net patient revenue less the provision for bad debt; and
- Trending of days revenue in accounts receivable

The Hospital regularly performs hindsight procedures to evaluate historical write-off and collection experience throughout the year to assist in determining the reasonableness of its process for estimating the allowance for uncollectible accounts.

The Hospital's primary concentration of credit risk is patient accounts receivable, which consists of amounts owed by various governmental agencies, insurance companies and private patients. The Hospital manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable include 32% and 13%, and 30% and 14%, for Medicare and Medicaid, respectively, at September 30, 2013 and 2012, respectively.

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Property, Plant and Equipment**

Property, plant and equipment are recorded at cost. The Hospital provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives. The useful lives range from 1 to 40 years.

Conditional asset retirement obligations amounted to \$377,224 and \$396,262 as of September 30, 2013 and 2012, respectively. These obligations are recorded in other long-term liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2013 and 2012, retirement obligations incurred and settled were minimal.

##### **Bond Issuance Costs**

Premium discounts and deferred costs related to the issuance of bonds are amortized over the period the obligation is outstanding, using the bonds outstanding method. Accumulated amortization of discounts and deferred costs was \$1,019,449 and \$713,854 at September 30, 2013 and 2012, respectively.

##### **Inventories**

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

##### **Excess of Revenues over Expenses**

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, include permanent transfers of assets to and from affiliates for other than goods and services and changes in the equity interest of the Western Connecticut Health Network Foundation, Inc.

Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported within income from operations.

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Fair Value of Financial Instruments**

The carrying value of financial instruments classified as current assets and current liabilities as of September 30, 2013 and 2012 approximate fair value based on current market conditions. The fair values of other financial instruments are disclosed in the respective notes and/or in Note 4.

##### **Pension Plan**

The Hospital participates in a noncontributory defined benefit pension plan sponsored by Western Connecticut Health Network, Inc. covering substantially all of its employees. Contributions are made to the plan in amounts sufficient to meet the Employee Retirement Income Security Act's minimum funding requirements. Net periodic pension (income) expense allocated to the Hospital was \$(2,550,276) and \$16,688,567 for 2013 and 2012, respectively. In 2012, the defined benefit pension plan was frozen. As a result of the plan being frozen, the Network established a defined contribution plan for all employees. Pension expense related to the defined contribution plan was \$9,825,094 and \$5,721,897 for fiscal years 2013 and 2012, respectively.

Western Connecticut Health Network, Inc.'s defined benefit pension plan had estimated projected benefit obligations of \$470,766,653 and \$525,237,935 at September 30, 2013 and 2012, respectively, and the fair value of plan assets was \$432,861,058 and \$384,083,218 at September 30, 2013 and 2012, respectively. The discount rate used to determine the benefit obligation was 5.25% and 4.23% at September 30, 2013 and 2012, respectively.

##### **Income Taxes**

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital is also exempt from state and local taxes. WCHNIC is a foreign corporation exempt from U.S. taxation and is not subject to taxes under the Cayman Islands tax concessions law.

At September 30, 2013, the Hospital had net operating loss carryforwards from unrelated business activities of approximately \$44,057,000, which began expiring in 2009. A deferred tax asset for these losses of approximately \$17,622,800 is offset by a corresponding valuation allowance of the same amount due to the uncertainty of utilizing the deferred tax asset in future periods.

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Interest in the Western Connecticut Health Network Foundation, Inc.**

The interest in the Western Connecticut Health Network Foundation, Inc. (WCHNF) represents the Hospital's interest in the net assets of the Western Connecticut Health Network Foundation, Inc. and is accounted for in accordance with ASC 958-20, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* (see Note 10).

##### **Electronic Health Record Incentive Program**

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in calendar year 2011 for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology. The Hospital utilizes a grant accounting model to recognize EHR incentive revenues. Under this accounting policy, EHR incentive payments are recognized as revenues when attestation that the EHR meaningful use criteria for the required period of time was demonstrated. Accordingly, the Hospital recognized \$1,832,059 and \$3,630,256 of EHR revenues during its fiscal year ended September 30, 2013 and 2012, comprised of \$271,467 and \$1,096,831 of Medicaid revenues and \$1,560,592 and \$2,533,425 of Medicare revenues in 2013 and 2012, respectively. EHR revenues are included in other operating revenues in the accompanying consolidated statements of operations and changes in net assets.

The Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

##### **Reclassifications**

Certain 2012 amounts have been reclassified to conform to the 2013 presentation. These reclassifications are not material to the overall consolidated financial statements.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

**2. Net Patient Service Revenue and Charity Care**

The following summarizes net patient service revenue:

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
Gross patient service revenue	<b>\$ 1,231,890,672</b>	\$ 1,177,078,060
Deductions:		
Allowances	<b>699,965,012</b>	641,272,278
Charity care (at charges)	<b>12,948,351</b>	13,969,782
	<b>712,913,363</b>	655,242,060
Net patient service revenue	<b>518,977,309</b>	521,836,000
Provision for bad debt	<b>17,114,070</b>	19,413,218
Net patient service revenue less provision for bad debt	<b>\$ 501,863,239</b>	\$ 502,422,782

During 2013 and 2012, approximately 33% and 7%, and 32% and 7%, respectively, of net patient service revenue was received under the Medicare and Medicaid programs, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. The Hospital believes it is in compliance with all applicable laws and regulations. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

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

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

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

such audits, reviews and investigations. During 2013 and 2012, the Hospital recorded a (decrease) increase in net patient service revenue of approximately (\$890,000) and \$6,875,000, respectively, related to changes in previously estimated third party payor settlements.

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

Patient service revenue, net of contractual allowances and charity care and before the provision for bad debts, recognized in the period from major payor sources is as follows:

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
Third-party payors	<b>\$ 497,003,016</b>	\$ 497,896,827
Self-pay patients	<b>21,974,293</b>	23,939,173
	<b><u>\$ 518,977,309</u></b>	<u>\$ 521,836,000</u>

It is the policy of the Hospital to provide necessary care to all persons seeking treatment without discrimination on the grounds of age, race, creed, national origin or any other grounds unrelated to an individual's need for the service or the availability of the needed service at the Hospital. A patient is classified as a charity care patient by reference to established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized federal poverty income guidelines, but also includes certain cases where incurred charges are significant when compared to a responsible party's income. Those charges are not included in net patient service revenue for financial reporting purposes.

The estimated cost of charity care provided was approximately \$4,954,000 and \$5,700,000 for the years ended September 30, 2013 and 2012, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital specific data.

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 3. Investments and Assets Limited as to Use

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

	September 30	
	2013	2012
Cash and cash equivalents	\$ 8,203,924	\$ 427,998
Money market funds	46,884,703	101,453,213
Common collective funds	88,758,284	67,236,615
Fixed income securities	52,070,347	56,444,462
Mutual funds	94,394,175	91,392,277
Alternative investments (at equity method)	17,953,495	17,606,928
	\$ 308,264,928	\$ 334,561,493

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

	2013	2012
Interest and dividend income	\$ 2,961,745	\$ 1,833,787
Realized gains and losses, net and equity income on alternative investments	1,820,373	(143,380)
	\$ 4,782,118	\$ 1,690,407

#### 4. Fair Values of Financial Instruments

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

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 4. Fair Values of Financial Instruments (continued)

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

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

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

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

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

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

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 59,531,409	\$ —	\$ —	\$ 59,531,409
Investments and assets limited as to use:				
Cash and cash equivalents	8,203,924	—	—	8,203,924
Money market funds	46,884,703	—	—	46,884,703
Domestic equity:				
Common collective funds	—	70,068,379	—	70,068,379
International equity:				
Common collective funds	—	15,744,898	—	15,744,898
Fixed income:				
Mutual funds	94,394,175	—	—	94,394,175
Securities	39,965,010	12,105,337	—	52,070,347
Other:				
Common collective funds	—	2,945,007	—	2,945,007
	<u>\$ 248,979,221</u>	<u>\$ 100,863,621</u>	<u>\$ —</u>	<u>\$ 349,842,842</u>

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

**4. Fair Values of Financial Instruments (continued)**

The amounts reported in the table above do not include alternative investments totaling \$17,953,495 that are accounted for under the equity method of accounting.

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 54,460,115	\$ —	\$ —	\$ 54,460,115
Investments and assets limited as to use:				
Cash and cash equivalents	427,998	—	—	427,998
Money market funds	101,453,213	—	—	101,453,213
Domestic equity:				
Common collective funds	—	46,981,107	—	46,981,107
International equity:				
Common collective funds	—	17,531,854	—	17,531,854
Fixed income:				
Mutual funds	91,392,277	—	—	91,392,277
Securities	40,392,934	16,051,528	—	56,444,462
Other:				
Common collective funds	—	2,723,654	—	2,723,654
	<u>\$ 288,126,537</u>	<u>\$ 83,288,143</u>	<u>\$ —</u>	<u>\$ 371,414,680</u>

The amounts reported in the table above do not include alternative investments totaling \$17,606,928 that are accounted for under the equity method of accounting.

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based upon model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers. Many of the investments categorized in Level 2 consist of shares or units in investment funds, as opposed to direct interests in the funds' underlying holdings, which may be marketable.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

**5. Long-Term Debt and Credit Facility**

Long-term debt consisted of the following:

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
Hospital revenue bonds financed with CHEFA: Series H	\$ 39,615,000	\$ 39,615,000
Intercompany debt with Western Connecticut Health Network, Inc.	<b>209,965,000</b>	211,520,000
	<b>249,580,000</b>	251,135,000
Less current portion	<b>2,880,000</b>	1,555,000
	<b>\$ 246,700,000</b>	<b>\$ 249,580,000</b>

The following is a summary of the combined aggregate amount of maturities and sinking fund requirements of the aforementioned obligations at September 30, 2013 according to their long-term amortization schedule:

2014	\$ 2,880,000
2015	4,925,000
2016	5,485,000
2017	5,700,000
2018	5,930,000
Thereafter	224,660,000
	<u>\$ 249,580,000</u>

The fair value of the Hospital's long-term debt as determined by the Hospital's investment advisor using a discounted cash flow analysis was approximately \$250,296,000 and \$263,780,000 at September 30, 2013 and 2012, respectively. These fair values are categorized as Level 2 in the fair value hierarchy described in Note 4. The Hospital paid interest of \$7,661,698 and \$8,210,188 in 2013 and 2012, respectively. The Hospital has capitalized interest of approximately \$3,760,000 and \$3,746,000 in September 30, 2013 and 2012, respectively. Debt service funds held under bond indenture agreements for Series H Bonds and Series N Bonds were \$1,189,827 and \$900,896 at September 30, 2013 and 2012, respectively.

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

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

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

Under the terms of the Series H Bonds financing arrangements between the Hospital and the Western Connecticut Health Network Foundation, Inc. (the Obligated Group) and CHEFA, the proceeds of the revenue bonds were loaned to the Hospital. The Hospital is obligated to provide amounts sufficient to pay the principal and interest due on the Series H Bonds. The Master Indentures and Supplemental Master Indentures provide for the potential establishment and maintenance of a Debt Service Reserve Fund and a pledge of gross receipts, as defined. The Master Indentures also establish a debt service coverage ratio requirement and restricts the incurrence of certain indebtedness by the Obligated Group. No violations of financial covenants existed as of September 30, 2013 or 2012.

Western Connecticut Health Network, Inc. holds four series of bonds. In 2011, the Obligated Group was expanded to include Western Connecticut Health Network, Inc., New Milford Hospital, New Milford Hospital Foundation, Inc. and Western Connecticut Medical Group, P.C. In 2013, New Milford Hospital Foundation, Inc. was dissolved. All proceeds from the bonds were used to finance Hospital capital projects. All members of the Obligated Group are jointly and severally liable under the Master Indenture to make all payments required with respect to obligations under the Master Indenture. The bonds are reflected as intercompany debt in the schedule above, and include:

The Series K 2011 revenue bonds (Series K Bonds) were issued in the amount of \$33,035,000. The Series K Bonds bear interest at the bank purchase rate (1.410% and 1.446% at September 30, 2013 and 2012, respectively) and mature serially from September 30, 2011 to September 30, 2036.

The Series M 2011 revenue bonds (Series M Bonds) were issued in the aggregate principle of \$46,030,000, with interest payable initially on January 1, 2012 and semiannually on each January 1 and July 1 thereafter. The Series M Bonds bear interest at rates ranging from 5.000% to 5.375% and are scheduled to mature from July 1, 2031 to July 1, 2041. The Series M Bonds are also subject to annual sinking fund installments commencing in 2024 through

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

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

scheduled maturity. The Series L 2011 Revenue Bonds (Series L Bonds) of \$96,000,000 were issued concurrently with Series M Bonds and are subject to annual sinking fund installments commencing July 1, 2015 and continuing through final maturity on July 1, 2041. The Series L Bonds bear interest at the bank purchase rate (1.319% and 1.355% at September 30, 2013 and 2012, respectively). The proceeds of the Series L Bonds and Series M Bonds are being used for funding the planning, design, acquisition, construction, equipping and furnishing of the Hospital's new patient tower, expansion of a parking garage, capital improvements and to fund capitalized interest.

In 2012, Western Connecticut Health Network, Inc. issued Series N Bonds in the amount of \$39,880,000 and bear interest at rates between 3% and 5%. The Series N Bonds mature serially from July 1, 2014 to July 1, 2029. The proceeds of the Series N Bonds were used to refund the Hospital's Series G Bonds.

#### **6. Commitments and Contingencies**

##### **Litigation**

Malpractice claims have been asserted against the Hospital by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. In addition, the Hospital is a party to various lawsuits incidental to its business. Management believes that the claims and lawsuits will not have a material adverse effect on the Hospital's financial position.

##### **Workers' Compensation Insurance**

The Hospital is self-insured for workers' compensation benefits. Liabilities of \$6,468,000 and \$6,268,000, using a discount rate of 5.6%, have been accrued as of September 30, 2013 and 2012, respectively, based on expected future payments pertaining to such years.

##### **Operating Leases**

The Hospital has several operating lease agreements for certain real estate and equipment. Certain of these leases have renewal options for periods up to five years and escalation clauses. Rent is payable in equal monthly installments. Rent expense was \$7,987,900 and \$7,062,202 for the years ended September 30, 2013 and 2012, respectively.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

**6. Commitments and Contingencies (continued)**

The future minimum lease payments are as follows:

2014	\$ 7,468,819
2015	5,966,862
2016	5,477,477
2017	5,377,239
2018	5,136,710
Thereafter	12,768,505
	<u>\$ 42,195,612</u>

**7. Related Party Transactions**

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

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
Western Connecticut Health Network Affiliates, Inc.	\$ 240,591	\$ 627,583
The New Milford Hospital, Inc.	8,136,248	8,258,912
Business Systems, Inc.	(8,466)	2,740,137
Western Connecticut Health Network Foundation, Inc.	660,932	463,421
Western Connecticut Home Care, Inc.	303,991	346,733
Western Connecticut Health Network, Inc.	141,178	-
Western Connecticut Medical Group, P.C.	3,288,130	4,466,464
	<u>\$ 12,762,604</u>	<u>\$ 16,903,250</u>

The Hospital earned income from related parties as follows:

	<b>Year Ended</b>	
	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
Western Connecticut Health Network Affiliates, Inc.	\$ 93,470	\$ 138,352
Western Connecticut Medical Group, P.C.	1,842,891	1,988,697
Western Connecticut Health Network Foundation, Inc.	77,528	75,269
The New Milford Hospital, Inc.	283,094	609,784
Business Systems, Inc.	-	198,257
	<u>\$ 2,296,983</u>	<u>\$ 3,010,359</u>

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **7. Related Party Transactions (continued)**

Western Connecticut Medical Group, P.C. (WCMG) is a tax exempt professional corporation which provides medical services to the Hospital. Charges for physician services provided to the Hospital by WCMG were \$51,824,177 and \$49,768,640 for the years ended September 30, 2013 and 2012, respectively.

In 2013 and 2012, respectively, the Hospital transferred net assets of \$28,604,162 and \$4,911,038 to Western Connecticut Health Network, Inc. relating to funding the Hospital made to the defined benefit pension plan, and benefits paid on their behalf.

In 2013 and 2012, respectively, WCHNF transferred net assets of \$10,129,901 and \$7,862,076 to the Hospital relating to restricted funds appropriated for spending.

#### **8. Professional Liability Self-Insurance**

Effective October 1, 2004, the Hospital formed a captive insurance company, WCHNIC, domiciled in the Cayman Islands, to provide alternative professional liability insurance to the Hospital, New Milford Hospital, as of October 1, 2010, and WCMG, as well as providing community doctors with a competitive professional liability insurance option.

Coverage for medical malpractice insurance is on a claims-made basis. The coverage limits are \$5,000,000 per claim and \$25,000,000 in the aggregate. The excess indemnity coverage is \$25,000,000 per claim and \$25,000,000 in the aggregate. The Hospital has recorded a liability of \$9,596,000 and \$9,049,000 at September 30, 2013 and 2012, respectively, based on a discount rate of 3.5% for incurred-but-not-reported claims, which is included in other long-term liabilities on the accompanying consolidated balance sheets.

Assets held by WCHNIC approximate \$68,030,000 and \$65,788,000 as of September 30, 2013 and 2012, respectively, of which a majority is reflected as assets limited as to use in the accompanying consolidated balance sheets. Total liabilities recorded by WCHNIC approximate \$46,411,000 and \$42,543,000 as of September 30, 2013 and 2012, respectively, of which a majority is reflected as self-insurance liabilities in the accompanying consolidated balance sheets.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

**8. Professional Liability Self-Insurance (continued)**

The reserve for losses and loss adjustment expenses for WCHNIC are included in self-insurance liabilities in the accompanying consolidated balance sheets. Activity in the reserve for losses and loss adjustment expenses for the years ended September 30, 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 39,513,628	\$ 35,675,566
Incurred related to:		
Current period	9,715,410	7,922,650
Prior period	4,608,067	960,245
Total incurred	<u>14,323,477</u>	<u>8,882,895</u>
Paid related to:		
Current period	(60,267)	(21,742)
Prior period	(7,482,318)	(5,023,091)
Total paid	<u>(7,542,585)</u>	<u>(5,044,833)</u>
Net provision for losses and loss adjustment expenses	<u>\$ 46,294,520</u>	<u>\$ 39,513,628</u>

Accounting Standards Codification 944, *Financial Services – Insurance*, requires the application of deposit accounting for any policies or agreements that do not transfer insurance risk. To the extent that an insurance contract or a reinsurance contract does not, despite its form, provide for indemnification of the insured or the ceding company by the insurer or reinsurer against loss or liability, the premium paid less the amount of the premium to be retained by the insurer or reinsurer shall be accounted for as a deposit by the insurer or ceding company. Accordingly, a portion of WCHNIC's activity is recorded using deposit accounting on the Hospital's consolidated balance sheets.

Activity in the deposit liability for the years ended September 30, 2013 and 2012, included in self-insurance liabilities on the consolidated balance sheets, is summarized as follows:

	<u>2013</u>	<u>2012</u>
Balance at beginning of year	\$ 2,635,432	\$ 3,355,509
Losses paid	(2,100,972)	(1,657,800)
(Loss) gain on deposit liability transferred to statement of income	(534,460)	937,723
Balance at end of year	<u>\$ –</u>	<u>\$ 2,635,432</u>

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **8. Professional Liability Self-Insurance (continued)**

Also included in self-insurance liabilities as of September 30, 2013 and 2012 are unearned premiums of \$86,415 and \$168,607, respectively.

The actuary estimated the liability for unpaid losses based on industry data, as well as entity-specific data. Management considers the liability to be adequate as of September 30, 2013 and 2012; however, no assurance can be given that the ultimate settlement of losses may not vary materially from the liability recorded. Future adjustments to the amounts recorded resulting from the continual review process, as well as differences between estimates and ultimate payments, will be reflected in the consolidated statements of operations and changes in net assets of future years when such adjustments, if any, become known.

#### **9. Net Assets**

Temporarily restricted net assets of \$56,603,735 and \$29,794,088 as of September 30, 2013 and 2012, respectively, are available to the Hospital for health care services. Permanently restricted net assets total \$29,113,368 and \$28,824,746 as of September 30, 2013 and 2012, respectively, and are investments to be held in perpetuity, the income from which is expendable to support health care services. The change in temporarily restricted net assets is mainly due to an unconditional pledge received by WCHNF of approximately \$30 million during fiscal year 2013.

#### **10. Endowments**

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

Leadership of WCHNF has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, WCHNF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### 10. Endowments (continued)

accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, WCHNF considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

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

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

To satisfy its long-term rate-of-return objectives, WCHNF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). WCHNF targets a diversified asset allocation to achieve its long-term objective within prudent risk constraints. Each year, the WCHNF Board of Directors will approve an endowment and similar fund spending rate. The objectives of the portfolio are the enhancement of capital and real purchasing power while limiting exposure to risk of loss. The endowment spending rate will be calculated on the 13 quarter trailing average market value of each portfolio as of the prior May 31. The computed value may be adjusted for large contributions, withdrawals or market value swings as necessary. A default spending cap on appreciation of seven percent in any given year is currently in effect. The WCHNF Board abides by these regulations and will adjust this rate accordingly.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

**10. Endowments (continued)**

Endowment net asset composition by type of fund as of September 30, 2013, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 15,272,502	\$ 25,789,214	\$ 41,061,716
Board-designated endowment funds	9,114,504	—	—	9,114,504
Endowment net assets at end of year	<u>\$ 9,114,504</u>	<u>\$ 15,272,502</u>	<u>\$ 25,789,214</u>	<u>\$ 50,176,220</u>

Changes in endowment funds for the fiscal year ended September 30, 2013, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of the year	\$ 8,357,137	\$ 13,820,607	\$ 25,696,434	\$ 47,874,178
Investment return:				
Investment income, net	658,488	2,955,473	—	3,613,961
Change in unrealized gains and losses	98,879	409,998	—	508,877
Total investment return	757,367	3,365,471	—	4,122,838
Contributions	—	299,260	167,635	466,895
Appropriation of endowment assets for expenditures	—	(2,148,914)	(138,777)	(2,287,691)
Other changes:				
Transfers to permanently restricted endowment	—	(63,922)	63,922	—
Endowment net assets at end of year	<u>\$ 9,114,504</u>	<u>\$ 15,272,502</u>	<u>\$ 25,789,214</u>	<u>\$ 50,176,220</u>

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

**10. Endowments (continued)**

Endowment net asset composition by type of fund as of September 30, 2012, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 13,820,607	\$ 25,696,434	\$ 39,517,041
Board-designated endowment funds	8,357,137	-	-	8,357,137
Endowment net assets at end of year	<u>\$ 8,357,137</u>	<u>\$ 13,820,607</u>	<u>\$ 25,696,434</u>	<u>\$ 47,874,178</u>

Changes in endowment funds for the fiscal year ended September 30, 2012, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at beginning of the year	\$ 7,218,125	\$ 14,345,583	\$ 25,445,909	\$ 47,009,617
Investment return:			-	
Investment income, net	210,135	1,000,507		1,210,642
Change in unrealized gains and losses	928,877	4,578,012	-	5,506,889
Total investment return	1,139,012	5,578,519	-	6,717,531
Contributions	-	266,310	115,180	381,490
Net asset reclassification - net change in loss on endowments	-	(28,482)	-	(28,482)
Appropriation of endowment assets for expenditures	-	(6,205,978)	-	(6,205,978)
Other changes:				
Transfers to permanently restricted endowment	-	(135,345)	135,345	-
Endowment net assets at end of year	<u>\$ 8,357,137</u>	<u>\$ 13,820,607</u>	<u>\$ 25,696,434</u>	<u>\$ 47,874,178</u>

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

**10. Endowments (continued)**

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level fund of the corpus that UPMIFA requires WCHNF to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There was no deficiencies of this nature which were reported in unrestricted net assets for 2013 or 2012.

Also included within permanently restricted net assets is \$3,324,154 and \$3,378,837 of beneficial interests in trusts held by others as of September 30, 2013 and 2012, respectively.

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

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
(Increase) decrease in operating assets:		
Accounts receivable, net	\$ (14,580,105)	\$ (26,138,625)
Inventories	(188,623)	(479,406)
Prepaid expenses and other	1,412,833	447,826
	<u>(13,355,895)</u>	<u>(26,170,205)</u>
Increase (decrease) in operating liabilities:		
Accounts payable	8,288,333	(1,907,332)
Interest payable	82,294	(179,203)
Payroll-related accruals	7,516,913	8,604,560
Due to third-party payors	(1,275,321)	(1,122,196)
Other accrued expenses	(620,830)	(516,809)
	<u>13,991,389</u>	<u>4,879,020</u>
Change in working capital other than cash and cash equivalents	<u>\$ 635,494</u>	<u>\$ (21,291,185)</u>

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements (continued)

**12. Functional Expenses**

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

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
Health care services	<b>\$ 414,765,513</b>	\$ 421,646,074
General and administrative	<b>82,395,341</b>	78,883,454
	<b><u>\$ 497,160,854</u></b>	<u>\$ 500,529,528</u>

**13. Subsequent Events**

Subsequent events have been evaluated through January 21, 2014, which represents the date the consolidated financial statements were issued.

No events have occurred that require disclosure in or adjustment to the consolidated financial statements.



Ernst & Young  
1111 Avenue of the Americas  
New York, NY 10020-1099  
Tel: 212.512.2000  
www.ey.com

## Report of Independent Auditors on Supplementary Information

Board of Directors  
The Danbury Hospital

We have audited the consolidated financial statements of The Danbury Hospital and Subsidiary (the Hospital) as of and for the years ended September 30, 2013 and 2012, and have issued our report thereon dated January 21, 2014, which contained an unqualified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and statements of operations are presented for the purposes of additional analysis and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, based on our audits and the report of other auditors, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Ernst & Young LLP*

January 21, 2014

The Danbury Hospital and Subsidiary  
Consolidating Balance Sheets

	September 30, 2013				September 30, 2012			
	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total
Assets:								
Current assets								
Cash and cash equivalents	\$ 58,568,767	\$ 962,642	\$ -	\$ 59,531,409	\$ 53,518,678	\$ 942,037	\$ -	\$ 54,460,715
Current portion of assets limited as to use	1,189,827	3,800,000	-	4,989,827	660,896	-	-	900,896
Accounts receivable, less allowance for uncollectible accounts of \$14,833,069 in 2013 and \$12,322,069 in 2012	-	-	-	-	-	-	-	-
Current portion of due from related parties	57,504,970	-	(13,367)	57,504,970	60,038,935	-	-	60,038,935
Investments	7,036,124	-	(13,367)	7,022,757	8,994,093	-	(203,250)	8,730,837
Prepaid expenses and other	9,521,995	-	-	9,521,995	9,333,372	-	-	9,333,372
Total current assets	8,631,701	4,856,340	-	13,488,041	9,603,409	5,336,609	-	14,940,018
	142,453,384	9,618,582	(13,367)	152,058,999	142,388,783	6,278,646	(203,250)	148,404,173
Assets limited as to use								
Construction funds	45,694,876	-	-	45,694,876	100,552,317	-	-	100,552,317
Investments held by WCLHC	-	58,410,610	-	58,410,610	-	50,508,868	-	50,508,868
Total noncurrent assets limited as to use	45,694,876	58,410,610	-	104,105,486	100,552,317	50,508,868	-	160,061,185
Investments	199,169,615	-	-	199,169,615	173,599,412	-	-	173,599,412
Other assets	195,559	-	-	195,559	156,415	-	-	156,415
Due from related parties	5,739,847	-	-	5,739,847	8,172,413	-	-	8,172,413
Investment in Western Connecticut Health Network Insurance Co., Ltd.	21,618,215	-	(21,618,215)	-	23,244,364	-	(23,244,364)	-
Interest in Western Connecticut Health Network Foundation, Inc.	166,193,031	-	-	166,193,031	78,966,136	-	-	78,966,136
Property, plant and equipment	-	-	-	-	-	-	-	-
Land and land improvements	9,964,052	-	-	9,964,052	9,904,877	-	-	9,904,877
Buildings and building improvements	293,253,282	-	-	293,253,282	286,763,195	-	-	286,763,195
Equipment and other	222,804,495	-	-	222,804,495	229,444,069	-	-	229,444,069
Construction in progress (estimated cost to complete at September 30, 2013 - \$57,268,000)	165,866,676	-	-	165,866,676	39,100,951	-	-	39,100,951
	631,888,505	-	-	631,888,505	565,213,092	-	-	565,213,092
Less accumulated depreciation	328,300,919	-	-	328,300,919	322,977,987	-	-	322,977,987
	303,587,586	-	-	303,587,586	242,235,095	-	-	242,235,095
Bond issuance costs, net	5,099,525	-	-	5,099,525	5,436,933	-	-	5,436,933
Total assets	\$ 829,751,638	\$ 68,029,592	\$ (21,631,582)	\$ 876,149,648	\$ 774,691,868	\$ 65,787,514	\$ (23,507,620)	\$ 816,971,762

Continued on next page

The Danbury Hospital and Subsidiary  
Consolidating Balance Sheets (continued)

	September 30, 2013				September 30, 2012			
	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total
<b>Liabilities and net assets:</b>								
Current liabilities								
Accounts payable	\$ 33,727,097	\$ 17,075	\$ -	\$ 33,744,172	\$ 25,493,612	\$ (37,773)	\$ -	\$ 25,455,839
Payroll-related accruals	28,385,032	-	-	28,385,032	20,868,119	-	-	20,868,119
Due to affiliates	-	13,367	(13,367)	-	-	265,256	(265,256)	-
Due to third-party payors	8,710,030	-	-	8,710,030	9,985,551	-	-	9,985,551
Interest payable	1,706,774	-	-	1,706,774	1,624,480	-	-	1,624,480
Other accrued expenses	2,933,157	-	-	2,933,157	3,553,987	-	-	3,553,987
Current portion of long-term debt	2,880,000	-	-	2,880,000	1,555,060	-	-	1,555,060
Total current liabilities	78,342,090	30,442	(13,367)	78,359,165	61,089,549	225,483	(265,256)	61,042,776
Self-insurance liabilities	18,062,437	46,380,935	-	46,380,935	42,317,667	-	-	42,317,667
Other long-term liabilities	246,700,000	-	-	246,700,000	17,410,220	-	-	17,410,220
Long-term debt, less current portion	343,104,527	46,411,377	(13,367)	389,502,537	249,580,000	42,543,150	(265,256)	249,580,000
Total liabilities	1,469,813,644	1,027,234,687	(27,034)	2,496,813,297	1,172,297,036	427,971,633	(530,512)	1,641,738,157
Net assets	486,647,111	21,618,215	(21,618,215)	486,647,111	444,621,099	53,244,364	(23,244,564)	444,621,099
Share capital	829,731,638	68,029,392	(21,631,582)	876,149,648	731,691,868	65,787,314	(23,567,630)	816,971,762
Additional paid in capital	-	12,000	(12,000)	-	-	12,000	(12,000)	-
Unrestricted	400,930,008	8,663,332	(8,663,332)	400,930,008	386,002,265	8,663,333	(8,663,333)	386,002,265
Temporarily restricted	56,663,755	12,942,883	(12,942,883)	56,663,735	29,794,688	14,569,031	(14,569,031)	29,794,688
Permanently restricted	29,113,368	-	-	29,113,368	28,824,746	-	-	28,824,746
Total net assets	486,647,111	21,618,215	(21,618,215)	486,647,111	444,621,099	53,244,364	(23,244,564)	444,621,099
Total liabilities and net assets	\$ 1,956,460,755	\$ 1,048,853,382	\$ (48,652,799)	\$ 2,956,460,755	\$ 1,616,918,135	\$ 500,215,997	\$ (263,756,676)	\$ 1,956,460,755

The Danbury Hospital and Subsidiary

Consolidating Statements of Operations and Changes in Net Assets

	Year Ended September 30, 2013				Year Ended September 30, 2012			
	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total
Unrestricted revenues								
Net patient service revenue	\$ 518,977,309	\$ -	\$ -	\$ 518,977,309	\$ 521,836,000	\$ -	\$ 521,836,000	
Provision for bad debt	17,114,070	-	-	17,114,070	19,413,218	-	19,413,218	
Net patient service revenue less provision for bad debt	501,863,239	-	-	501,863,239	502,422,782	-	502,422,782	
Net assets released from restriction	5,221,901	-	-	5,221,901	3,156,468	-	3,156,468	
Other operating revenues	10,038,904	13,846,966	(5,356,120)	18,529,750	18,970,115	(6,798,516)	24,153,997	
	517,124,044	13,846,966	(5,356,120)	525,614,890	524,349,365	(6,798,516)	529,733,247	
Expenses								
Salaries, benefits and fees	298,251,765	-	-	298,251,765	313,980,347	-	313,980,347	
Supplies and other	154,299,479	238,760	(5,356,120)	149,182,119	145,584,073	(6,798,516)	139,049,312	
Insurance	-	15,709,626	-	15,709,626	-	11,680,311	11,680,311	
Depreciation and amortization	30,033,213	-	-	30,033,213	31,663,499	-	31,663,499	
Interest	3,984,131	-	-	3,984,131	4,156,059	-	4,156,059	
Income (loss) from operations	486,568,588	15,948,386	(5,356,120)	497,160,854	495,583,978	(6,798,516)	500,529,528	
	30,555,456	(2,101,420)	-	28,454,036	29,165,387	38,332	29,203,719	
Nonoperating income (loss)	4,782,118	-	-	4,782,118	1,690,407	-	1,690,407	
Investment income, net	5,199,125	475,271	(475,271)	5,199,125	19,910,410	(6,005,908)	19,910,410	
Change in unrealized gains and losses on investments	-	-	-	-	-	-	-	
Change in equity interest in unregistered net assets of the Western Connecticut Health Network Foundation, Inc	206,244	-	-	206,244	2,571,725	-	2,571,725	
Change in investment in WCHHC	(2,101,420)	2,101,420	-	-	38,332	(38,332)	-	
	8,086,067	475,271	1,626,149	10,187,487	24,210,874	(6,044,240)	24,172,542	
Excess (deficiency) of revenues over expenses	\$ 38,641,523	\$ (1,626,149)	\$ 1,626,149	\$ 38,641,523	\$ 53,376,261	\$ (6,044,240)	\$ 53,376,261	

