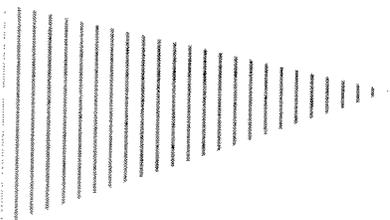


CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Western Connecticut Health Network, Inc. and Subsidiaries
Years Ended September 30, 2013 and 2012
with Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2013 and 2012

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EY
Ernst & Young LLP
GlobeView Square
175 Avenue of the
Americas, CT 06103-1506

Tel: +1 860 247 3100
Fax: +1 860 225 2040
ey.com

Report of Independent Auditors

The Board of Directors
Western Connecticut Health Network, Inc.

We have audited the accompanying consolidated financial statements of Western Connecticut Health Network, Inc. and Subsidiaries, 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 7% in 2013 and 2012, and total revenues constituting 2% in 2013 and 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 Western Connecticut Health Network, Inc. and Subsidiaries 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

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 71,777,507	\$ 74,083,960
Current portion of assets limited as to use	6,189,827	2,100,896
Current portion of pledges receivable	13,627,769	3,008,962
Accounts receivable, less allowance for uncollectible accounts of approximately \$20,592,000 in 2013 and \$19,119,000 in 2012	76,374,995	79,495,132
Inventories	11,258,609	11,357,589
Prepaid expenses and other	15,085,296	17,443,644
Total current assets	<u>194,314,003</u>	<u>187,490,183</u>
Investments	210,803,720	185,848,424
Assets limited as to use:		
Funds restricted by donor	47,560,728	48,645,413
Board designated funds	9,422,297	8,639,352
Beneficial interest in trusts held by others	7,593,627	7,262,631
Construction funds	45,694,876	100,552,317
Investments held by Western Connecticut Health Network Insurance Co., Ltd.	58,410,610	59,508,868
Total noncurrent assets limited as to use	<u>168,682,138</u>	<u>224,608,581</u>
Other assets	16,815,682	14,361,331
Property, plant, and equipment:		
Land and land improvements	11,897,212	11,920,666
Buildings and building improvements	352,295,400	347,385,812
Equipment and other	283,476,026	304,269,720
Construction in progress (estimated cost to complete at September 30, 2013: \$71,036,000)	110,954,585	39,399,365
	<u>758,623,223</u>	<u>702,975,563</u>
Less accumulated depreciation	408,828,028	417,555,078
	<u>349,795,195</u>	<u>285,420,485</u>
Pledges receivable, less current portion	27,663,400	8,803,496
Bond issuance costs, net	5,099,525	5,436,933
Total assets	<u>\$ 973,173,663</u>	<u>\$ 911,969,433</u>

	September 30	
	2013	2012
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 35,556,138	\$ 28,342,969
Payroll-related accruals	44,842,213	33,802,144
Due to third-party payors	10,798,195	12,492,073
Interest payable	1,706,774	1,624,480
Other accrued expenses	4,131,560	4,582,166
Current portion of long-term debt and capital lease obligations	2,880,000	2,050,090
Total current liabilities	99,914,880	82,893,922
Self-insurance liabilities	46,380,935	42,317,667
Accrued pension liabilities and other	79,978,708	192,289,498
Long-term debt and capital lease obligations, less current portion	246,700,000	250,593,765
Total liabilities	472,974,523	568,094,852
Net assets:		
Unrestricted	404,480,146	277,089,185
Temporarily restricted	62,336,151	33,826,104
Permanently restricted	33,382,843	32,959,292
Total net assets	500,199,140	343,874,581

Total liabilities and net assets

\$ 973,173,663 \$ 911,969,433

See accompanying notes.

Western Connecticut Health Network, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2013	2012
Unrestricted revenues:		
Net patient service revenue	\$ 715,654,985	\$ 736,921,369
Provision for bad debt	22,024,123	24,771,952
Net patient service revenue less provision for bad debt	693,630,862	712,149,417
Net assets released from restriction	5,514,055	3,324,588
Other operating revenue	13,364,145	24,054,372
	712,509,062	739,528,377
Expenses:		
Salaries, benefits and fees	435,608,640	462,975,344
Supplies and other	196,744,859	201,850,484
Insurance	15,709,626	11,680,311
Depreciation and amortization	37,300,840	39,029,252
Interest	4,067,031	4,322,562
	689,430,996	719,857,953
Operating income before pension curtailment charge	23,078,066	19,670,424
Pension curtailment charge	—	(1,306,064)
Operating income	23,078,066	18,364,360
Income tax credit (expense)	158,546	(501,000)
Nonoperating gains (losses):		
Contributions	653,873	1,936,206
Investment income, net	7,054,057	2,445,895
Change in unrealized gains and losses on investments	5,596,197	22,674,214
Operating expenses of the New Milford Hospital Foundation, Inc. and Western Connecticut Health Network Foundation, Inc.	(2,818,144)	(2,407,222)
	10,485,983	24,649,093
Excess of revenues over expenses	33,722,595	42,512,453

Continued on next page.

Western Connecticut Health Network, Inc. and Subsidiaries

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

	Year Ended September 30	
	2013	2012
Unrestricted net assets:		
Excess of revenues over expenses (continued)	\$ 33,722,595	\$ 42,512,453
Net assets released from restrictions for property, plant and equipment	6,015,256	4,723,875
Transfer (to) from temporarily restricted net assets	(17,619)	2,431,853
Change in pension funding obligations	87,663,133	(57,585,651)
Acquisition of non-controlling interest in joint venture	-	(1,176,149)
Other	7,596	(187,027)
Increase (decrease) in unrestricted net assets	127,390,961	(9,280,646)
Temporarily restricted net assets:		
Contributions	36,343,043	7,922,288
Investment income, net	3,216,913	1,362,975
Change in unrealized gains and losses on investments	409,999	5,007,098
Net assets released from restriction	(5,514,055)	(3,324,588)
Net assets released from restrictions for property, plant and equipment	(6,015,256)	(4,723,875)
Transfer from (to) unrestricted and permanently restricted net assets	92,474	(2,567,198)
Other	(23,071)	-
Increase in temporarily restricted net assets	28,510,047	3,676,700
Permanently restricted net assets:		
Increase in beneficial interest in trusts held by others	330,996	823,333
Contributions	167,410	115,407
Transfer (to) from temporarily restricted net assets	(74,855)	135,345
Increase in permanently restricted net assets	423,551	1,074,085
Increase (decrease) in net assets	156,324,559	(4,529,861)
Net assets at beginning of year	343,874,581	348,404,442
Net assets at end of year	\$ 500,199,140	\$ 343,874,581

See accompanying notes.

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2013	2012
Operating activities		
Increase (decrease) in net assets	\$ 156,324,559	\$ (4,529,861)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	37,300,840	39,029,252
Change in unrealized gains and losses on investments	(6,006,196)	(27,681,312)
Change in pension funding obligations	(87,663,133)	57,585,651
Other changes in net assets	15,475	187,027
Restricted contributions and investment income	(39,727,366)	(9,400,670)
Change in beneficial interest in trusts held by others	(330,996)	(823,333)
Provision for bad debt	22,024,123	24,771,952
Changes in operating assets and liabilities (<i>see Note 12</i>)	(52,773,061)	(27,935,357)
Net cash provided by operating activities	<u>29,164,245</u>	<u>51,203,349</u>
Investing activities		
Additions to property, plant, and equipment, net	(101,338,142)	(57,733,837)
Decrease in investments, net and assets limited as to use	33,203,933	17,978,713
Net cash used in investing activities	<u>(68,134,209)</u>	<u>(39,755,124)</u>
Financing activities		
Proceeds from issuance of bonds, net of change in issuance costs	-	40,222,832
Payments of long-term debt	(3,063,855)	(43,775,636)
Restricted contributions and investment income	39,727,366	9,400,670
Net cash provided by financing activities	<u>36,663,511</u>	<u>5,847,866</u>
Net (decrease) increase in cash and cash equivalents	<u>(2,306,453)</u>	<u>17,296,091</u>
Cash and cash equivalents at beginning of year	<u>74,083,960</u>	<u>56,787,869</u>
Cash and cash equivalents at end of year	<u>\$ 71,777,507</u>	<u>\$ 74,083,960</u>

See accompanying notes.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2013

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

Western Connecticut Health Network, Inc. (the Network) was established under the statutes of the State of Connecticut and is the parent company of the following subsidiaries: The Danbury Hospital and subsidiary (Danbury Hospital); Western Connecticut Health Network Foundation, Inc. (WCHNF); Western Connecticut Health Network Affiliates, Inc. (WCHNA); Business System, Inc. (BSI); Western Connecticut Home Care, Inc. (WCHC); the Foundation for Community Health Care (Foundation); The New Milford Hospital Inc. and Subsidiary (New Milford Hospital); Western Connecticut Medical Group, P.C. (WCMG) and Eastern New York Medical Services, P.C. (ENYMS).

The Network owns 100% of the capital stock of BSI. Western Connecticut Health Network, Inc. is the sole corporate member of Danbury Hospital, WCHNF, New Milford Hospital, WCHNA, and WCHC.

The Foundation is a corporation under the Nonstock Corporation Act of the State of Connecticut and requires contributions by the physician members. The Network is required to make contributions that match those made by the physician members. Effective October 1, 2012, the Foundation was legally dissolved. Prior to this date, no physicians had made contributions and the Foundation was inactive.

Danbury Hospital is a voluntary, nonprofit association incorporated under the General Statutes of the State of Connecticut, and is a wholly owned subsidiary of the Network. The Board of Danbury Hospital is appointed by the Network. The financial statements of Danbury Hospital include its wholly owned subsidiary, Western Connecticut Health Network Insurance Co., Ltd. (WCHNIC).

New Milford Hospital is a voluntary, not-for-profit, non-stock corporation established under the General Statutes of the State of Connecticut and is the sole corporate member of its subsidiary, New Milford Hospital Foundation, Inc.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

On October 1, 2012 the following New Milford Hospital Foundation, Inc. assets were transferred to the Network, which then transferred the assets to WCHNF:

Cash and cash equivalents	\$ 2,563,268
Land held for investment	1,200,000
Pledges receivable	3,502,824
Investments	2,706,138
Funds restricted by donor	421,160
Beneficial interest in trusts held by others	4,134,546
Other assets	182,638
	<u>\$ 14,710,574</u>

The transfer comprised the following:

Unrestricted net assets	\$ 6,652,044
Temporarily restricted net assets	3,923,984
Permanently restricted net assets	4,134,546
	<u>\$ 14,710,574</u>

Effective October 28, 2009, New Milford Hospital formed a strategic partnership with Radcorp of New Milford, LLC. The partnership, New Milford MRI JV, LLC, offers MRI services located at New Milford Hospital. New Milford Hospital owned a 51% share of New Milford MRI JV, LLC with the remaining 49% owned by Radcorp of New Milford, LLC. In September 2012, New Milford Hospital purchased Radcorp of New Milford, LLC's ownership share and New Milford MRI JV, LLC became a department of New Milford Hospital.

WCMG is established under the general statutes of the State of Connecticut and provides physician services to patients primarily from Western Connecticut and Southeastern New York. WCMG also provides physician support to various Network affiliates.

Effective April 1, 2013, Eastern New York Medical Services, P.C. a New York professional corporation established under the general statutes of the State of New York was formed. It provides medical services through physicians and other licensed health care providers to the general public from one or more offices located in Westchester County, New York.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The consolidated financial statements include the accounts of Western Connecticut Health Network, Inc., Danbury Hospital, WCHNF, New Milford Hospital, WCHNA, BSI, WCHC, WCMG, ENYMS and Foundation. All material intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated 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 Network 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 Network's policy to monitor the financial strength of these institutions.

Investments

The Network'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.

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 or loss is restricted by donor or by law.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that the Network 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 Network'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 Network accounts for these investments using the equity method of accounting, except for investments held by the defined benefit pension plan, and reports its share of the increase or decrease in the funds value as investment gain or loss. Alternative investments held by the defined benefit pension plan are reported at fair value as estimated in an unquoted market. 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 Network's annual consolidated financial statement reporting.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Network 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 beneficial interest in trusts held by others, have been restricted by donors, and are to be maintained in perpetuity.

Contributions

For financial statement purposes, the Network distinguishes between contributions of unrestricted assets, temporarily restricted assets, and permanently restricted assets.

Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions, but which are met within the same reporting period, are reported as unrestricted support. Contributions, for which donors have imposed restrictions which limit the use of the donated assets, are reported as temporarily restricted net assets if the restrictions are not met in the same reporting period. When such donor imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributions of

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

assets which donors have stipulated must be maintained in perpetuity, with only the income earned thereon available for current use, are classified as permanently restricted net assets.

Patient Accounts Receivable

Patient accounts receivable result from the health care services provided by the Network. 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 Network'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 Network's collection efforts. The Network'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 Network 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 Network 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.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

The Network'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 Network 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 33% and 12%, and 31% and 13%, for Medicare and Medicaid, respectively, at September 30, 2013 and 2012, respectively.

Assets Limited as to Use

Assets limited as to use represent investments with donor restrictions; 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); beneficial interest in trusts held by others in accordance with donor restrictions; and investments held by WCHNIC. Board designated funds represent unrestricted funds set aside for specific purposes. 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.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. The Network 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 remaining useful lives range from 1-40 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.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Bond Issuance Costs

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

Inventories

Danbury Hospital uses the first in, first out method, in the valuation of its inventory. Inventories, used in general operations of New Milford Hospital, are stated at average cost.

Nonoperating Gains (Losses)

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating gains (losses) primarily consist of contributions, income on invested funds, realized and unrealized gains and losses on investments, and the operating expenses of the WCHNF and the New Milford Hospital Foundation.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, include permanent transfers of assets for other than goods and services, contributions of long-lived assets, changes in pension funding obligations, and the acquisition of non-controlling interest in joint venture in fiscal year 2012.

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

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 the Network's financial instruments are disclosed in the respective notes and/or in Note 4.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Investments include certificates of deposit with original maturities in excess of three months.

Income Taxes

The Network comprises not-for-profit corporations, with the exception of BSI, WCHNIC and ENYMS, 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 Network is also exempt from state and local taxes. BSI and ENYMS are for-profit corporations and WCHNIC, a subsidiary of Danbury Hospital, is a foreign corporation exempt from US taxation and is not subject to taxes under the Cayman Islands tax concessions law.

At September 30, 2013, the Network has losses from unrelated business activities of approximately \$45,735,000 which began expiring in 2009. A deferred tax asset for these losses of approximately \$18,294,000 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 Network also has a receivable of approximately \$153,000 related to BSI for federal and state taxes. For ENYMS, the tax provision and any subsequent liability is not material to the consolidated financial statements.

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 Network 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 Network 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.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2012 balances previously reported in the consolidated balance sheets and consolidated statements of operations and changes in net assets in order to conform with the year ended September 30, 2013 presentation.

2. Net Patient Service Revenue and Charity Care

The following table summarizes net patient service revenue:

	Year Ended September 30	
	2013	2012
Gross patient service revenue	\$ 1,675,013,713	\$ 1,649,794,278
Deductions:		
Allowances	943,746,574	895,739,602
Charity care (at charges)	15,612,154	17,133,307
	959,358,728	912,872,909
Net patient service revenue	715,654,985	736,921,369
Provision for bad debt	22,024,123	24,771,952
Net patient service revenue less provision for bad debt	\$ 693,630,862	\$ 712,149,417

During 2013 and 2012, approximately 39% and 37%, 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 Network 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 Network.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

The Network has agreements with third-party payors that provide for payments 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 such audits, reviews and investigations. During 2013 and 2012, the Network recorded a (decrease) increase in net patient service revenue of approximately (\$490,000) and \$8,375,000, respectively, related to changes in previously estimated third-party payor settlements.

The Network 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 Network specific data. Such amounts are included in the accompanying consolidated balance sheets.

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

	Year Ended September 30	
	2013	2012
Third-party payors	\$ 688,202,926	\$ 706,083,388
Self-pay patients	27,452,059	30,837,981
	<u>\$ 715,654,985</u>	<u>\$ 736,921,369</u>

It is the policy of the Network 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 Network. A patient is classified as a charity care patient by reference to established policies of the Network. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Network utilizes the generally

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

recognized federal poverty income guidelines, but also includes certain cases where incurred charges are significant when compared to a responsible party's income. These charges are not included in net patient service revenues for financial reporting purposes.

The estimated cost of charity care provided was approximately \$7,192,000 and \$7,962,000 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 Network specific data.

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	\$ 57,474,645	\$ 103,851,929
Common collective funds	123,274,892	104,698,546
Fixed income securities	52,640,414	57,471,300
Mutual funds	110,145,986	109,736,400
Real estate/commodities	693,107	1,076,854
Alternative investments (at equity method)	32,653,014	27,260,241
	<u>\$ 376,882,058</u>	<u>\$ 404,095,270</u>

Also included within assets limited as to use is \$1,200,000 of land held for sale as of September 30, 2013 and 2012 and beneficial interest in trusts held by others of \$7,593,627 and \$7,262,631 as of September 30, 2013 and 2012, respectively.

Investment income included in non-operating gains (losses) for the year ended September 30, 2013 and 2012 consists of:

	2013	2012
Interest and dividend income	\$ 3,604,933	\$ 2,482,343
Realized gains and losses, net and equity income on alternative investments	3,449,124	(36,448)
	<u>\$ 7,054,057</u>	<u>\$ 2,445,895</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Fair Values of Financial Instruments

For assets and liabilities required to be measured at fair value, the Network 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 Network'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 Network 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 Network 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.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value in the accompanying consolidated balance sheets, excluding assets invested in the Network's defined benefit pension plans, 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	\$ 71,777,507	\$ —	\$ —	\$ 71,777,507
Investments and assets limited as to use:				
Cash and cash equivalents	57,474,645	—	—	57,474,645
Mutual funds:				
Fixed income	110,145,986	—	—	110,145,986
Common collective funds:				
Domestic equity	—	96,043,547	—	96,043,547
International equity	—	24,286,338	—	24,286,338
Other	—	2,945,007	—	2,945,007
Securities:				
Fixed income	39,965,010	12,675,404	—	52,640,414
Real estate/commodities	—	693,107	—	693,107
Beneficial interest in trusts held by others:				
Cash and cash equivalents	350,454	—	—	350,454
Mutual funds:				
Domestic equity	929,298	—	—	929,298
International equity	924,608	—	—	924,608
Fixed income	743,256	—	—	743,256
Common collective funds:				
Domestic equity	—	2,033,730	—	2,033,730
International equity	—	509,542	—	509,542
Fixed income	—	472,498	—	472,498
Corporate and foreign bonds	—	112,113	—	112,113
Real estate/commodities	—	674,598	—	674,598
Other	—	843,530	—	843,530
	<u>\$ 282,310,764</u>	<u>\$ 141,289,414</u>	<u>\$ —</u>	<u>\$ 423,600,178</u>

Western Connecticut Health Network, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (continued)

4. Fair Values of Financial Instruments (continued)

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 74,083,960	\$ -	\$ -	\$ 74,083,960
Investments and assets limited as to use:				
Cash and cash equivalents	103,851,929	-	-	103,851,929
Mutual funds:				
Fixed income	109,736,400	-	-	109,736,400
Common collective funds:				
Domestic equity	-	71,269,667	-	71,269,667
International equity	-	30,705,225	-	30,705,225
Other	-	2,723,654	-	2,723,654
Securities:				
Fixed income	40,496,405	16,974,895	-	57,471,300
Real estate/commodities	-	1,076,854	-	1,076,854
Beneficial interest in trusts held by others:				
Cash and cash equivalents	337,967	-	-	337,967
Mutual funds:				
Domestic equity	964,503	-	-	964,503
International equity	399,466	-	-	399,466
Fixed income	882,911	-	-	882,911
Common collective funds:				
Domestic equity	-	1,824,408	-	1,824,408
International equity	-	668,411	-	668,411
Fixed income	-	948,416	-	948,416
Corporate and foreign bonds	-	10,019	-	10,019
Real estate/commodities	-	626,718	-	626,718
Other	-	599,812	-	599,812
	<u>\$ 330,753,541</u>	<u>\$ 127,428,079</u>	<u>\$ -</u>	<u>\$ 458,181,620</u>

The amounts reported in the tables above do not include alternative investments totaling \$32,653,014 and \$27,260,241 as of September 30, 2013 and 2012, respectively, that are accounted for under the equity method of accounting.

The above tables do not include \$1,200,000 of land held for sale as of September 30, 2013 and 2012, which is included within assets limited as to use.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value included in the defined benefit pension plans (see Note 8) 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	\$10,515,747	\$ —	\$ —	\$ 10,515,747
Mutual funds:				
Domestic equity	23,505,440	—	—	23,505,440
International equity	3,214,773	—	—	3,214,773
Fixed income	116,344,574	—	—	116,344,574
Other	2,906,636	—	—	2,906,636
Common collective funds:				
Domestic equity	—	224,431,869	—	224,431,869
International equity	—	48,250,478	—	48,250,478
Alternative investments	—	—	54,142,557	54,142,557
	<u>\$156,487,170</u>	<u>\$ 272,682,347</u>	<u>\$ 54,142,557</u>	<u>\$ 483,312,074</u>
	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$1,147,463	\$ —	\$ —	\$ 1,147,463
Mutual funds:				
Domestic equity	21,149,836	—	—	21,149,836
International equity	2,710,892	—	—	2,710,892
Fixed Income	149,169,151	—	—	149,169,151
Other	2,713,995	—	—	2,713,995
Common collective funds:				
Domestic equity	—	160,036,331	—	160,036,331
International equity	—	40,913,821	—	40,913,821
Alternative investments	—	—	52,676,206	52,676,206
	<u>\$176,891,337</u>	<u>\$ 200,950,152</u>	<u>\$ 52,676,206</u>	<u>\$ 430,517,695</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Fair Values of Financial Instruments (continued)

Fair value for Level 1 assets is based upon quoted market prices. Fair value for Level 2 assets 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. Level 3 assets consist of alternative investments held by the defined benefit plans, the valuation for which is described in Note 1. Many of the investments classified in Levels 2 and 3 in the above tables consist of shares or units in investment funds, as opposed to direct interests in the funds' underlying holdings, which may be marketable. Fair value for alternative investments is determined by the Network's management for each investment using net asset value as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value. The classification of the alternative investments in Level 2 or 3 is based on the Network's ability to redeem its interest at or near the measurement date. If the interest can be redeemed in the near term, the investment is classified in Level 2. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Network believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The changes in the fair value of assets measured using significant unobservable inputs (Level 3) comprised the following:

	September 30	
	2013	2012
Beginning balance at October 1	\$ 52,676,206	\$ 27,947,917
Change in unrealized gains and losses	521,653	1,271,312
Purchases	944,698	23,456,977
Ending balance at September 30	<u>\$ 54,142,557</u>	<u>\$ 52,676,206</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Pledges Receivable

Pledges receivable include the following unconditional promises to give:

	September 30	
	2013	2012
Due within one year	\$ 13,857,802	\$ 3,142,311
Due within one to five years	28,799,196	9,626,656
Due within greater than five years	8,375	133,375
	<u>42,665,373</u>	<u>12,902,342</u>
Allowance and discount for uncollectible pledges	(1,374,204)	(1,089,884)
Present value of pledges receivable	<u>\$ 41,291,169</u>	<u>\$ 11,812,458</u>

The allowance recognizes the estimated uncollectible portion of pledges and the discount of pledges to net present value. Pledges are discounted using an average rate of 2% and 3% as of September 30, 2013 and 2012, respectively.

6. Long-Term Debt and Credit Facility

Long-term debt consisted of the following:

	September 30	
	2013	2012
Danbury Hospital revenue bonds financed with CHEFA: Series H	\$ 39,615,000	\$ 39,615,000
Network revenue bonds financed with CHEFA:		
Series K	28,055,000	29,610,000
Series L	96,000,000	96,000,000
Series M	46,030,000	46,030,000
Series N	39,880,000	39,880,000
New Milford Hospital term loans	—	466,426
New Milford Hospital capital lease obligations	—	1,042,429
	<u>249,580,000</u>	<u>252,643,855</u>
Less current portion	2,880,000	2,050,090
	<u>\$ 246,700,000</u>	<u>\$ 250,593,765</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

The following is a summary of the combined aggregate amount of maturities and sinking fund requirements of the aforementioned obligations at September 30, 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	<u>224,660,000</u>
	<u>\$ 249,580,000</u>

The fair value of the revenue bonds, as determined by the Network'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. The revenue bonds are categorized as Level 2 in the fair value hierarchy described in Note 4. The carrying value of all remaining long-term debt approximates fair value. The Network paid interest of \$7,744,060 and \$8,373,470 in 2013 and 2012, respectively. The Network has capitalized interest of approximately \$3,760,000 and \$3,746,000 in 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 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 Danbury Hospital and the WCHNF (the Obligated Group) and CHEFA, the proceeds of the revenue bonds were loaned to Danbury Hospital. Danbury 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

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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 and 2012.

The Network holds four series of bonds. In 2011, the Obligated Group was expanded to also include Western Connecticut Health Network, Inc., New Milford Hospital, New Milford Hospital Foundation, Inc. and Western Connecticut Medical Group, P.C. In 2013, New Milford Hospital Foundation, Inc. was dissolved. All proceeds from the bonds were used to finance Danbury 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 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 scheduled maturity. The Series L 2011 Revenue Bonds (Series L Bonds) of \$96,000,000 were issued concurrently with Series M 2011 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 Danbury 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 Danbury Hospital's Series G Bonds.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

On June 11, 2010, New Milford Hospital entered into a leasing agreement with First Litchfield Leasing Corporation to lease a 64-slice CT Scanner in the amount of \$1,008,023. Lease payments of \$56,993 are due quarterly beginning July 1, 2010 through April 1, 2015, at which point New Milford Hospital has the option to purchase the machine for \$1. The equipment lease agreement bears interest at 1.33%. The outstanding balance of the capital lease obligation was \$579,539 as of September 30, 2012. The lease obligation was fully repaid in July 2013.

On October 7, 2010, New Milford Hospital entered into a leasing agreement with First Litchfield Leasing Corporation to lease a medical linear accelerator in the amount of \$722,405. Lease payments of \$40,845 are due quarterly beginning November 1, 2010 through August 1, 2015, at which point New Milford Hospital has the option to purchase the machine for \$1. The equipment lease agreement bears interest at 1.33% quarterly. The outstanding balance of the capital lease obligation was \$450,173 as of September 30, 2012. The lease obligation was fully repaid in July 2013.

On June 9, 2010, New Milford MRI JV, LLC entered into a loan agreement with Siemens Financial Services, Inc. in the amount of \$700,000 to help finance the construction and legal costs associated with the joint venture MRI project. Principal and interest are paid monthly in the amount of \$13,092 beginning in October 2010 through October 2015. The loan agreement bears interest at 4.63%. The outstanding balance as of September 30, 2012 was \$439,239. The carrying value of the loan approximates fair value as of September 30, 2012. The loan was fully repaid in June 2013. Substantially, all assets owned by New Milford Hospital were pledged as collateral for the term loans, as of September 30, 2012.

7. Commitments and Contingencies

Litigation

Malpractice claims have been asserted against the Network by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. In addition, the Network 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 Network's financial position.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Commitments and Contingencies (continued)

Workers' Compensation Insurance

The Network is self-insured for workers' compensation benefits. Liabilities of approximately \$6,932,000 and \$6,758,000, using a discount rate of 5.6% and 4.3% have been accrued as of September 30, 2013 and 2012, respectively, based on expected future payments pertaining to such years.

Operating Leases

The Network has entered into several lease agreements for 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 \$15,882,198 and \$14,614,302 for the years ended September 30, 2013 and 2012, respectively. Rent is included in supplies and other expense on the statements of operations and changes in net assets.

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

2014	\$ 15,277,403
2015	10,394,459
2016	9,255,435
2017	8,768,023
2018	8,396,338
Thereafter	23,434,025
	<u>\$ 75,525,683</u>

8. Pension Plans

The Network has two defined benefit pension plans, for which plan benefits are based on years of service and the employee's compensation (collectively referred to as the Plans). Effective May 26, 2011, the Board of Directors adopted a resolution to freeze the Network's retirement plan (the Network Plan) for non-union employees effective December 31, 2011 with certain employees continuing to accrue benefits based on age and vesting. Effective September 7, 2012, the Board of Directors adopted a second resolution to freeze benefits for all of those that had been continuing to accrue. As a result of these resolutions, the Plan liabilities were re-measured

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Pension Plans (continued)

for all employees and non-union employees as of September 30, 2013 and 2012, respectively. All outstanding prior service cost related to these employees totaling \$1,306,064 for the year ended September 30, 2012, was expensed as of the date of the re-measurement. The curtailment charges are included in the consolidated statement of operations and changes in net assets for the year ended September 30, 2012.

The New Milford Hospital retirement plan was frozen effective January 31, 2010. The New Milford Hospital plan was amended effective October 31, 2012 to cease the future accrual of benefits to each highly compensated employees as defined by the IRS.

Contributions to the Plans are intended to provide for benefits attributed to services rendered to date. The Network makes contributions in amounts sufficient to meet the required benefits to be paid to the Plans' participants as they become due as required by the Employee Retirement Income Security Act of 1974.

The Network established defined contribution pension plans for all eligible employees after freezing the Plans. Pension expense related to the defined contribution plans for the years ended September 30, 2013 and 2012 was \$15,124,977 and \$9,346,756, respectively.

The Network also maintains noncontributory, supplemental defined-benefit retirement plans (Supplemental Plans) for certain executive employees. As of September 30, 2013 and 2012, the projected benefit obligation for the Supplemental Plans amounted to \$3,690,461 and \$2,057,976, respectively, which was included in accrued pension liabilities and other in the accompanying consolidated balance sheets. The expenses incurred related to the Supplemental Plans amounted to \$1,664,854 and \$1,154,096 for the years ended September 30, 2013 and 2012, respectively. Effective October 1, 2009, the New Milford Hospital Supplemental Plan was frozen. Provisions have been made to "grandfather" those participants in the plan that are sixty years old and have at least ten years of service.

Included in unrestricted net assets at September 30, 2013 and 2012, are the following amounts that have not yet been recognized in net periodic pension cost: Unrecognized actuarial loss of \$115,514,412 and \$203,177,545, respectively. The actuarial loss included in unrestricted net assets at September 30, 2013 and expected to be recognized in net periodic pension cost during the year ending September 30, 2014 is \$2,668,374.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Pension Plans (continued)

The following table presents a reconciliation of the beginning and ending balances of the Plans' projected benefit obligation and the fair value of plan assets, as well as the funded status of the plans and accrued pension cost included in the consolidated balance sheets:

	September 30	
	2013	2012
Change in benefit obligation		
Benefit obligation at beginning of year	\$ (592,567,972)	\$ (460,152,661)
Service cost	(2,167,994)	(9,231,340)
Assumption changes	8,434,543	(12,459,379)
Amendment	127,811	-
Interest cost	(24,676,967)	(25,752,057)
Benefits paid	14,949,311	12,999,925
Curtailment	-	14,244,269
Actuarial gain (loss)	66,417,448	(112,216,729)
Benefit obligation at end of year	<u>(529,483,820)</u>	<u>(592,567,972)</u>
Change in plan assets		
Fair value of plan assets at beginning of year	430,517,695	353,934,882
Contributions	26,107,867	27,300,905
Expenses	(124,244)	-
Actual return on plan assets	41,760,067	62,281,833
Benefits paid	(14,949,311)	(12,999,925)
Fair value of plan assets at end of year	<u>483,312,074</u>	<u>430,517,695</u>
Underfunded status of the plans	<u>\$ (46,171,746)</u>	<u>\$ (162,050,277)</u>
Year Ended September 30		
	2013	2012
Components of net periodic benefit (income) cost		
Service cost	\$ 2,167,994	\$ 9,231,340
Interest cost	24,676,967	25,752,057
Expected return on plan assets	(34,763,778)	(28,785,560)
Net amortization and deferral	3,678,608	16,029,912
Recognized net loss	2,089,996	1,544,439
Curtailment costs	-	1,306,064
Prior service cost	42,682	469,500
Benefit (income) cost	<u>\$ (2,107,531)</u>	<u>\$ 25,547,752</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Pension Plans (continued)

The assumptions used to develop net periodic benefit (income) cost and the projected benefit obligation for the Plans are as follows:

	September 30	
	2013	2012
Discount rate used for net periodic benefit (income) cost	4.12-4.23%	5.56-5.58%
Discount rate used for projected benefit obligation	5.23-5.25%	4.12-4.23%
Expected long-term rate of return on plan assets	8.00%	8.00%
Average rate of increase in compensation	3.00%	3.00%

To develop the expected long-term rate of return on plan assets assumption, the Network considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The accumulated benefit obligation for the Plans at September 30, 2013 and 2012 was \$529,077,179 and \$590,724,718, respectively.

Plan Assets

The Plans' investment objectives are to achieve long-term growth in excess of long-term inflation and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets over a long-term time horizon. In order to minimize the risk, the Plans aim to minimize the variability in yearly returns. The Plans also aim to diversify holdings among sectors, industries, and companies. The target allocations for the Network Plan assets are 40% in equities, 35% in fixed income securities and 25% in alternative investments. The assets of the New Milford Hospital's plan are all held in mutual funds.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Pension Plans (continued)

The weighted average asset allocations for the Plans' assets by category are as follows:

Asset Category	September 30	
	2013	2012
Equity securities	64%	52%
Debt securities	24	35
Other investments	12	13
	<u>100%</u>	<u>100%</u>

As discussed in the Fair Value Measurements note (Note 4), the Network follows a three-level hierarchy to categorize assets measured at fair value. In accordance with this hierarchy, as of September 30, 2013, 33%, 56% and 11% of the Plans' assets which are measured at fair value on a recurring basis were categorized as Level 1, Level 2 and Level 3 investments, respectively.

Contributions

The Network expects to contribute \$24,884,000 to its plans in fiscal year 2014.

Estimated Future Benefit Payments

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

Fiscal Year	Pension Benefits
2014	\$ 19,941,021
2015	21,920,158
2016	23,691,484
2017	25,535,302
2018	27,690,010
Years 2019 – 2023	165,242,104

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Professional Liability Insurance

Effective October 1, 2004, the Network 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 Network has recorded a liability of \$10,661,668 and \$10,488,898 at September 30, 2013 and 2012, respectively, based on a discount rate of 3.5% as of September 30, 2013 and 2012, for incurred-but-not-reported claims, which is included in accrued pension liabilities and other 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 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 the beginning of period	\$ 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>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Professional Liability Insurance (continued)

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 activity is recorded using deposit accounting on the Network’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 the 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 the end of year	<u>\$ –</u>	<u>\$ 2,635,432</u>

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.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Net Assets

Temporarily restricted net assets of \$62,336,151 and \$33,826,104 as of September 30, 2013 and 2012, respectively, are available to the Network for health care services and capital expenditures. Permanently restricted net assets total \$33,382,843 and \$32,959,292 as of September 30, 2013 and 2012, respectively, and represent investments to be held in perpetuity and beneficial interest in trust held by others, 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.

11. Endowments

The Network 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.

The Leadership of the Network 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, the Network classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Network considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Network 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 Network
- (7) The investment policies of the Network

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Endowments (continued)

The Network has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Network must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Network'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, the Network 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 Network targets a diversified asset allocation to achieve its long-term objective within prudent risk constraints. Each year, the Network's 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 Network Board abides by these regulations and will adjust this rate accordingly.

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	\$ -	\$ 15,272,503	\$ 25,789,216	\$ 41,061,719
Board-designated endowment funds	9,114,504	-	-	9,114,504
Endowment net assets at end of year	<u>\$ 9,114,504</u>	<u>\$ 15,272,503</u>	<u>\$ 25,789,216</u>	<u>\$ 50,176,223</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Endowments (continued)

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	\$ 25,696,661	\$ 47,874,405
Investment return:				
Investment income, net	658,488	2,955,473	-	3,613,961
Change in unrealized gains and losses	98,879	409,999	-	508,878
Total investment return	757,367	3,365,472	-	4,122,839
Contributions	-	299,260	167,410	466,670
Net asset reclassification- net change in loss on endowments	-	(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>\$ 15,272,503</u>	<u>\$ 25,789,216</u>	<u>\$ 50,176,223</u>

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 13,820,607	\$ 25,696,661	\$ 39,517,268
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>\$ 25,696,661</u>	<u>\$ 47,874,405</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Endowments (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	115,407	381,717
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>\$ 25,696,661</u>	<u>\$ 47,874,405</u>

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level fund of the corpus that UPMIFA requires the Network 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 are reported in unrestricted net assets for the years ended September 30, 2013 and 2012.

Also included within permanently restricted net assets are \$7,593,627 and \$7,262,631 of beneficial interests in trusts held by others as of September 30, 2013 and 2012, respectively.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Changes in Components of Operating Assets and Liabilities

	Year Ended September 30	
	2013	2012
(Increase) decrease in operating assets:		
Pledges receivable	\$ (29,478,711)	\$ (3,581,524)
Accounts receivable, net	(18,903,986)	(29,871,371)
Inventories	98,980	855,978
Prepaid expenses and other assets	(96,003)	(1,888,574)
	<u>(48,379,720)</u>	<u>(34,485,491)</u>
Increase (decrease) in operating liabilities:		
Accounts payable	7,213,169	(3,683,973)
Payroll-related accruals	11,040,069	10,871,108
Due to third-party payors	(1,693,878)	(2,845,270)
Interest payable	82,294	(179,203)
Other accrued expenses	(450,606)	(1,468,794)
Self-insurance liabilities	4,063,268	3,119,769
Accrued pension liabilities and other	(24,647,657)	736,497
	<u>(4,393,341)</u>	<u>6,550,134</u>
Decrease in operating assets and liabilities	<u>\$ (52,773,061)</u>	<u>\$ (27,935,357)</u>

13. Functional Expenses

The Network provides general health care services to residents within its geographic location. Expenses related to providing these services, including the operating expenses of the Western Connecticut Health Network Foundation, Inc. and the New Milford Hospital Foundation, Inc. are as follows:

	Year Ended September 30	
	2013	2012
Healthcare services	\$ 564,209,731	\$ 593,458,749
General and administrative	125,221,265	127,705,268
Fundraising	2,818,144	2,407,222
	<u>\$ 692,249,140</u>	<u>\$ 723,571,239</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Subsequent Events

The Network evaluates the impact of subsequent events, which are 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. For the year ended September 30, 2013, the Network evaluated subsequent events through January 21, 2014, which represents the date the consolidated financial statements were issued.

On January 1, 2014 (the Transaction Date), the Network entered into an affiliation agreement, whereby, the Network became the sole corporate member of Norwalk Health Services Corporation (Norwalk), a system of health care affiliates that provides a wide array of services throughout the area including the Norwalk Hospital Association and its majority interest in the Norwalk Surgery Center, LLC; Norwalk Physician and Surgeons, Inc.; Norwalk Health Care, Inc.; and Norwalk Hospital Foundation, Inc.; S.W.C. Corporation and Maple Street Indemnity Corporation, by means of an inherent contribution where no consideration will be transferred by the Network. The Network will account for this business combination by applying the acquisition method and, accordingly, the inherent contribution received will be valued as the excess of assets acquired over liabilities assumed. In determining the inherent contribution received, all assets acquired and liabilities assumed will be measured at fair value as of the Transaction Date. As of the date these consolidated financial statements were issued, management is preparing the initial accounting for the acquisition.

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



Ernst & Young LLP
650 Jean-Baptiste
325 Aspinwall Street
Hartford, CT 06103-1506

Tel: +1 860 747 5300
Fax: +1 860 725 6340
e40374

Report of Independent Auditors on Supplementary Information

The Board of Directors
Western Connecticut Health Network, Inc.

We have audited the consolidated financial statements of Western Connecticut Health Network, Inc. and Subsidiaries (the Network) 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

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2013

Assets	The Danbury Hospital and Subsidiaries	Western Connecticut Health Network Foundation, Inc.	Western Connecticut Health Network, Inc.	The New Milford and Subsidiaries	Western Connecticut Medical Group, P.C.	Eliminations	Obligated Group	Foundation for Community Health Care	Western Connecticut Health Network Affiliates, Inc.	Business Systems, Inc.	Western Connecticut Home Care, Inc.	Eliminations	Total
Current assets													
Cash and cash equivalents	\$ 99,531,469	\$ 247,637	\$ 383,079	\$ 2,221,383	\$ 6,916,101	\$ -	\$ 66,293,611	\$ 1,040	\$ 887,421	\$ 26,088	\$ 1,569,383	\$ -	\$ 71,777,607
Current portion of assets limited as to use	4,989,827	1,200,180	-	-	-	-	6,189,827	-	-	-	-	-	6,189,827
Current portion of pledges receivable	-	13,627,769	-	-	-	-	11,627,769	-	-	-	-	-	11,627,769
Current portion of due from related parties	57,584,978	-	-	7,144,799	2,779,034	-	72,508,811	-	-	-	-	-	72,508,811
Investments	7,022,757	-	-	-	946,306	(7,432,947)	586,116	-	2,710,693	-	1,057,099	(536,116)	76,374,995
Prepaid expenses and other	9,521,955	27,099	17,136	1,231,171	185,112	1,057,848	11,228,278	-	-	-	88,133	-	11,238,699
Total current assets	152,038,999	15,103,403	467,225	11,428,810	16,888,401	17,764,628	184,779,232	1,040	3,018,698	179,037	2,802,669	(536,116)	193,305,296
Intangible assets	199,169,613	11,654,165	-	-	-	-	210,865,726	-	-	-	-	-	193,305,296
Assets limited as to use	-	-	-	-	-	-	-	-	-	-	-	-	-
Pledges restricted by donor	47,633,280	-	-	-	-	-	47,633,280	-	-	-	-	-	47,633,280
Broad designated trust	9,223,299	-	-	-	-	-	9,223,299	-	-	-	-	-	9,223,299
Identical interest in trust held by other	2,893,627	-	-	-	-	-	2,893,627	-	-	-	-	-	2,893,627
Construction in progress	45,694,876	-	-	-	-	-	45,694,876	-	-	-	-	-	45,694,876
Construction in progress estimated cost to complete at September 30, 2013 \$71,316,894	58,419,619	-	-	-	-	-	58,419,619	-	-	-	-	-	58,419,619
Total non-current assets limited as to use	104,105,286	64,449,204	-	-	-	-	108,554,698	-	-	-	-	-	104,105,286
Other assets	195,539	229,752	9,044,971	4,032,903	5,800,636	(2,299,139)	16,813,682	-	-	-	127,448	-	16,813,682
Intests in Western Connecticut Health Network Foundation, Inc.	106,103,031	-	-	-	-	(17,512,524)	-	-	-	-	-	-	88,590,507
Due from related parties	5,739,847	-	1,059,937	-	541,992	(7,341,791)	-	-	-	-	-	-	-
Properties, plant, and equipment	9,964,052	471,593	-	4,541,627	7,326,292	-	11,807,212	-	-	-	-	-	11,807,212
Land and land improvements	293,234,282	796,417	31,594	47,284,173	3,326,292	-	349,105,466	-	-	-	-	-	349,105,466
Buildings and building improvements	222,804,495	211,311	40,341	41,953,201	6,632,826	-	273,642,230	-	-	-	-	-	273,642,230
Construction in progress (estimated cost to complete at September 30, 2013 \$71,316,894)	105,466,676	-	-	-	-	-	105,466,676	-	-	-	-	-	105,466,676
Leasehold improvements	631,888,676	1,891,331	21,740	4,537,992	480,886	-	1,108,554	-	-	-	-	-	1,108,554
Less accumulated depreciation	(329,308,919)	(158,984)	(3,807)	(7,737,223)	(14,400,463)	(6,098,913)	(398,573,389)	-	-	-	-	-	(398,573,389)
Pledges receivable, less current portion	303,587,586	1,730,337	38,897	3,368,394	8,431,248	-	40,957,072	-	-	-	-	-	40,957,072
Goodwill	4,059,435	27,603,408	-	-	-	-	27,662,843	-	-	-	-	-	27,662,843
Other intangible assets	276,159,628	131,101,203	10,543,021	71,269,530	30,602,297	(1,143,806.7)	964,809.3	1,040	6,481,292	102,316	1,532,433	(532,433)	276,159,628
Total assets	\$ 376,159,628	\$ 131,101,203	\$ 10,543,021	\$ 71,269,530	\$ 30,602,297	\$ (1,143,806.7)	\$ 964,809.3	\$ 1,040	\$ 6,481,292	\$ 102,316	\$ 1,532,433	\$ (532,433)	\$ 376,159,628
Liabilities and net assets													
Current liabilities													
Accounts payable	\$ 31,744,172	\$ -	\$ 304	\$ 2,345,429	\$ (972,071)	\$ (182,438)	\$ 33,115,646	\$ -	\$ 344,129	\$ -	\$ 96,193	\$ -	\$ 33,556,138
Payroll-related amounts	28,385,032	79,791	-	2,391,153	13,429,689	-	44,285,965	-	-	-	-	-	44,285,965
Due to third party payees	4,710,000	-	-	1,973,652	-	-	10,683,682	-	-	-	-	-	10,683,682
Current portion of due to related parties	1,706,774	661,676	23,248	6,514,591	25,624	(7,432,948)	191	-	-	-	-	-	1,706,774
Interest payable	2,933,157	148,723	809,711	388,315	328,657	-	1,706,774	-	-	-	-	-	1,706,774
Current portion of long-term debt and capital lease obligation	2,880,190	-	-	-	-	-	4,270,763	-	-	-	-	-	4,270,763
Total current liabilities	78,339,103	891,190	1,032,459	13,783,340	13,799,213	(7,615,376)	99,242,991	-	346,309	(2,216)	680,249	(532,433)	99,914,890
Self-insurance liability	46,380,935	-	-	-	-	-	46,380,935	-	-	-	-	-	46,380,935
Accruals for vacation, sick leave, and other	181,962,437	(580)	4,918,154	13,282,671	5,411,345	(2,107,401)	79,226,629	-	-	-	-	-	79,226,629
Long-term debt and capital lease obligations, less current portion	246,290,000	-	432,938	2,476,284	4,511,893	(7,440,913)	246,290,000	-	-	-	-	-	246,290,000
Total liabilities	386,592,537	890,610	46,003,451	29,542,298	22,786,431	(7,223,692)	471,888,455	-	2,087	(2,216)	449,892	(532,433)	386,592,537
Net assets													
Unrestricted	409,630,008	23,620,047	(33,859,321)	23,332,942	8,126,126	(23,322,982)	396,627,220	1,000	5,931,296	183,012	1,715,908	(532,433)	409,630,008
Restricted	56,601,735	62,208,703	-	4,128,215	13,282,671	(13,282,671)	62,208,703	-	-	-	-	-	62,208,703
Permanently restricted	29,115,368	31,382,843	-	4,269,475	-	-	31,382,843	-	-	-	-	-	31,382,843
Total net assets	192,447,111	192,211,553	(33,859,321)	31,721,632	8,126,126	(17,615,376)	964,809.3	1,000	5,931,296	183,012	1,715,908	(532,433)	192,447,111
Total liabilities and net assets	\$ 376,159,628	\$ 131,101,203	\$ 10,543,021	\$ 71,269,530	\$ 30,602,297	\$ (1,143,806.7)	\$ 964,809.3	\$ 1,040	\$ 6,481,292	\$ 102,316	\$ 1,532,433	\$ (532,433)	\$ 376,159,628

* Includes Eastern New York Medical Services, P.C.

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2013

	Western Connecticut Health Network Foundation, Inc.	Western Connecticut Health Network, Inc.	The New Milford Hospital Inc. and Subsidiary	Western Connecticut Medical Group, P.C.	Obligated Group	Western Connecticut Health Network Affiliates, Inc.	Business System, Inc.	Western Connecticut Home Care, Inc.	Eliminations	Total
Revenues	\$ 518,977,809	\$ -	\$ 72,281,354	\$ 196,717,422	\$ (283,094)	\$ (3,567,360)	\$ (344,392)	\$ 5,248,074	\$ (1,897,486)	\$ 715,654,985
Net patient service revenue	17,114,070	15,713	2,569,134	1,847,480	21,516,419	389,363	60	122,581	-	22,024,123
Provision for bad debt	301,863,249	5,713	69,721,620	104,869,992	676,177,432	13,181,997	(344,652)	5,723,497	(589,448)	693,630,862
Net patient service revenue less provision for bad debt	5,221,901	-	130,298	-	5,831,199	-	-	161,886	-	5,214,015
Net assets released from contracts	18,529,750	407,786	744,102	684,338,633	13,126,281	19,679	-	-	-	13,864,143
Other operating revenues	223,644,890	413,301	70,596,020	165,366,625	(67,681,084)	13,321,676	(344,721)	5,410,664	(728,569)	712,309,062
Expenses	298,231,785	1,128,349	44,019,423	1,940,257,669	(38,084,937)	7,281,838	28,796	3,135,137	-	45,668,640
Salaries, benefits and fees	149,182,119	1,066,042	21,170,383	2,098,948	(2,845,912)	4,861,283	(16,531)	2,042,795	-	196,744,879
Supplies and other	15,709,626	206,439	2,065,741	3,256,611	(5,528,611)	91,564	-	32,027	1,602,918	15,709,626
Insurance	90,033,213	1,180	5,443,180	1,185,674	-	36,663,247	1,313	12,836	(123,594)	37,390,848
Depreciation and amortization	3,984,131	-	263,572	36,551	0.17	4,067,031	-	-	-	4,067,031
Interest	477,103,854	3,302,396	72,962,299	165,891,533	106,053,033	12,859,027	13,460	5,422,705	1,728,891	688,430,996
Operating income (loss)	28,334,026	(2,888,889)	(2,366,279)	213,072	(427,401)	401,749	(3,581,811)	(12,043)	-	2,178,060
Income tax credit expenses	-	(750)	-	-	-	-	159,246	-	-	158,496
Nonoperating income (loss)	-	-	-	-	(730)	-	-	-	-	(730)
Contributions	-	-	-	-	-	-	-	-	-	-
Change in unrealized gains and losses on investments	4,782,118	-	-	-	628,817	-	-	25,096	-	5,336,031
Change in equity interest in unaffiliated net assets of the Western Connecticut Health Network Foundation, Inc.	5,199,125	446,222	-	2,709	(275,481)	2,711	-	33,434	-	7,034,697
Operating expenses of the Western Connecticut Health Network Foundation, Inc.	206,244	-	287,759	-	5,545,347	-	-	36,850	-	5,996,197
Operating expenses of the Western Connecticut Health Network Foundation, Inc.	(2,907,152)	-	-	-	(489,003)	-	-	-	-	(3,396,155)
Net income (loss) before income taxes	10,187,487	(117,862)	282,759	2,709	(671,476)	401,749	(3,422,565)	111,501	-	10,485,983
Income taxes	38,641,923	13,027,311	(2,083,520)	217,781	11,098,871	(64,460)	(198,885)	99,319	-	53,722,595
Net income (loss)	\$ (28,454,436)	\$ (13,145,173)	\$ (1,800,761)	\$ (215,072)	\$ (11,770,347)	\$ 401,749	\$ (3,621,416)	\$ 111,501	\$ -	\$ (55,993,163)

Includes Eastern New York Medical Services, P.C.

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2012

	Western Connecticut Health Network Foundation, Inc.	Western Connecticut Health Network, Inc.	The New Milford Hospital Inc. and Subsidiary	Western Connecticut Medical Group, P.C.	Eliminations	Obligated Group	Western Connecticut Health Network Affiliates, Inc.	Business System, Inc.	Western Connecticut Home Care, Inc.	Eliminations	Total
Unrestricted revenues	\$ 321,836,060	\$ -	\$ 81,236,073	\$ 104,940,347	\$ (609,784)	\$ 707,402,670	\$ 14,974,851	\$ 10,630,596	\$ 4,423,720	\$ (809,448)	\$ 736,921,869
Net patient service revenue	19,413,218	(24,553)	3,125,172	1,769,588	-	24,283,125	405,650	63,438	19,739	-	24,771,652
Provision for bad debt	502,422,282	-	-	-	-	683,119,345	14,569,181	10,567,158	4,402,981	(509,448)	712,149,417
Net patient service revenue less provision for bad debt	3,156,468	-	66,843	58,842,786	-	3,223,311	137,951	101,277	-	-	3,324,388
Net assets released from restriction	24,153,997	-	1,284	1,051,889	-	21,247,002	14,703,132	3,010,078	129,122	(146,851)	24,054,372
Other operating revenues	529,733,247	-	23,868	79,212,233	(63,395,335)	707,889,838	14,703,132	13,377,236	4,033,459	(975,299)	739,528,377
Expenses											
Salaries, benefits and fees	313,980,347	-	2,912,631	138,444,987	(56,330,662)	449,964,799	7,093,837	2,028,467	3,351,986	(3,265)	462,975,144
Supplies and other	139,049,312	-	2,058,476	23,023,818	(3,114,803)	185,794,911	5,886,240	9,885,844	1,531,287	(847,798)	201,859,884
Insurance	11,680,311	-	1,643,424	2,750,952	(4,394,376)	11,680,311	85,932	12,274	25,536	(124,236)	11,680,311
Depreciation and amortization	31,063,499	-	1,180	5,526,925	-	38,515,937	490,248	12,183	10,884	-	39,029,352
Interest	4,159,059	-	-	419,014	(3,102)	4,322,962	-	-	-	-	4,322,962
Operating income before pension curtailment charge	500,529,528	-	4,072,281	85,184,973	(64,587,492)	690,218,530	13,256,257	11,939,268	4,919,207	(975,299)	719,857,953
Pension curtailment charge	29,203,719	-	(4,046,413)	(5,972,740)	-	17,371,338	946,875	1,637,968	(285,757)	-	19,670,424
Operating income (loss)	471,325,809	-	(8,018,694)	79,212,233	(64,587,492)	672,847,192	12,309,382	10,301,300	4,633,450	(975,299)	699,187,524
Income tax expense	29,203,719	-	(1,306,064)	(2,573,647)	-	(1,306,064)	946,875	1,637,968	(285,757)	-	18,764,380
Nonoperating gains (losses)	-	-	(750)	-	-	(750)	-	(500,250)	-	-	(501,000)
Contributions	-	-	-	-	-	-	-	-	-	-	-
Investment income, net	-	-	1,099,077	-	-	1,911,691	-	-	24,515	-	1,976,206
Change in unrealized gains and losses on investments	1,690,407	-	429,853	3,235	(52,171)	2,392,795	3,241	-	49,859	-	2,445,895
Change in equity interest in unconsolidated net assets of the Western Connecticut Health Network Foundation, Inc.	19,910,449	-	(12,206)	-	-	22,602,179	-	-	72,035	-	22,672,114
Operating expenses of the New Milford Hospital Foundation, Inc. and Western Connecticut Health Network Foundation, Inc.	2,571,725	-	-	-	(2,571,725)	-	-	-	-	-	-
Excess (deficiency) of revenues over expenses	24,172,542	(1,832,723)	(654,369)	79,769	(2,407,222)	24,499,443	3,241	1,637,968	4,633,450	(975,299)	24,649,993
	\$ 53,376,261	\$ (2,571,723)	\$ (3,300,283)	\$ (2,576,412)	\$ (2,083,708)	\$ 40,563,967	\$ 950,116	\$ 1,137,718	\$ (119,448)	\$ -	\$ 42,512,453

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