

THE WATERBURY HOSPITAL AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

SEPTEMBER 30, 2013 AND 2012

THE WATERBURY HOSPITAL AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Waterbury Hospital

We have audited the accompanying consolidated financial statements of The Waterbury Hospital, 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Waterbury Hospital as of September 30, 2013 and 2012, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Hartford, CT
January 10, 2014

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2013 AND 2012

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 23,993,423	\$ 24,607,775
Restricted cash	4,519,908	3,511,398
Short-term investments	472,637	448,318
Patient accounts receivable, less allowance (\$20,385,000 in 2013 and \$17,046,000 in 2012)	29,441,126	31,771,976
Grants and other receivables	3,702,524	2,977,504
Inventories of supplies	3,581,595	3,305,079
Prepaid insurance and other expenses	1,571,465	1,493,512
Total Current Assets	67,282,678	68,115,562
Other Assets		
Funds held in escrow by agreement with the State of Connecticut Health and Educational Facilities Authority (CHEFA) and trustee: Construction fund	--	661,338
Funds held in trust by others	44,960,039	42,218,163
Long-term investments	10,814,695	10,001,712
Board-designated endowment funds	3,193,664	2,974,503
Other receivables	171,972	290,416
Goodwill	1,813,567	1,813,567
CHEFA obligations issue expense, less amortization	282,676	321,666
	61,236,613	57,620,027
Property, plant and equipment:		
Land	287,549	287,549
Buildings and improvements	94,052,332	92,117,304
Equipment	186,912,261	184,952,035
Construction in progress (estimated additional cost to complete: 2013 - \$13,000)	73,654	2,473,015
	281,325,796	279,829,903
Less accumulated depreciation	(238,890,019)	(230,695,459)
	42,435,777	49,134,444
	\$ 170,955,068	\$ 175,531,371

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

	2013	2012
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 21,578,227	\$ 28,420,641
Salaries, wages, payroll taxes and amounts withheld from employees	7,395,011	8,325,174
Due to third-party reimbursement agencies	2,969,391	601,271
Current portion of CHEFA obligations	472,136	451,444
Current portion of notes payable	694,549	666,376
Due to affiliates	<u>2,042,951</u>	<u>2,999,940</u>
Total Current Liabilities	<u>35,152,265</u>	<u>41,464,846</u>
Other Noncurrent Liabilities	<u>21,813,507</u>	<u>21,853,067</u>
CHEFA Obligations - less current portion and discount	<u>24,283,520</u>	<u>24,755,656</u>
Notes Payable - less current portion	<u>852,568</u>	<u>1,426,291</u>
Net Assets		
Unrestricted	29,976,833	30,228,350
Temporarily restricted	8,409,794	7,645,420
Permanently restricted	<u>47,752,075</u>	<u>45,010,199</u>
Total Net Assets Excluding Noncontrolling Interests	86,138,702	82,883,969
Noncontrolling Interests	<u>2,714,506</u>	<u>3,147,542</u>
Total Net Assets	<u>88,853,208</u>	<u>86,031,511</u>
	<u>\$ 170,955,068</u>	<u>\$ 175,531,371</u>

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Unrestricted Revenues		
Net revenues from services to patients	\$ 254,713,112	\$ 269,112,543
Provision for bad debts	<u>(11,366,671)</u>	<u>(10,964,528)</u>
Net patient service revenue less provision for bad debts	243,346,441	258,148,015
Other operating revenues	5,209,968	5,784,691
Net assets released from restrictions	<u>5,419,591</u>	<u>5,609,005</u>
	<u>253,976,000</u>	<u>269,541,711</u>
Operating Expenses		
Salaries	116,676,000	124,608,715
Employee benefits	30,913,497	35,479,916
Supplies and other	100,247,756	98,648,364
Depreciation	8,821,562	9,241,684
Interest and amortization	<u>1,049,355</u>	<u>1,160,533</u>
	<u>257,708,170</u>	<u>269,139,212</u>
(Loss) Income from Operations	(3,732,170)	402,499
Nonoperating Gains		
Unrestricted gifts and bequests	217,275	83,577
Investment income	<u>1,737,423</u>	<u>1,607,608</u>
	<u>1,954,698</u>	<u>1,691,185</u>
(Deficiency) Excess of Revenues over Expenses Before Changes in Net Unrealized Gains on Investments	(1,777,472)	2,093,684
Changes in Net Unrealized Gains on Investments	<u>268,235</u>	<u>392,543</u>
(Deficiency) Excess of Revenues over Expenses	(1,509,237)	2,486,227
Less Excess of Revenues over Expenses Attributable to Noncontrolling Interests	<u>(874,685)</u>	<u>(997,139)</u>
(Deficiency) Excess of Revenues Over Expenses Attributable to Controlling Interest	<u>(2,383,922)</u>	<u>1,489,088</u>

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

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

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Unrestricted Net Assets, Controlling Interest		
(Deficiency) excess of revenues over expenses	\$ (2,383,922)	\$ 1,489,088
Net assets released from restrictions used for purchase of property and equipment	19,654	134,036
Interest rate swap adjustment	1,209,256	(524,547)
Pension liability adjustments	903,495	366,769
(Decrease) Increase in Unrestricted Net Assets, Controlling Interest	(251,517)	1,465,346
Unrestricted Net Assets, Noncontrolling Interest		
Excess of revenues over expenses	874,685	997,139
Distributions and other	(1,307,721)	(1,031,774)
Decrease in Unrestricted Net Assets Noncontrolling Interest	(433,036)	(34,635)
Temporarily Restricted Net Assets		
Gifts and bequests	475,360	444,830
Income from investments	497,540	476,299
Net realized and unrealized gains on investments	810,002	1,255,981
Grants	4,420,717	4,733,897
Net assets released from restrictions	(5,439,245)	(5,743,041)
Increase in Temporarily Restricted Net Assets	764,374	1,167,966
Permanently Restricted Net Assets		
Increase in fair value of funds held in trust by others	2,741,876	4,878,924
Increase in Permanently Restricted Net Assets	2,741,876	4,878,924
Increase in Net Assets	2,821,697	7,477,601
Net Assets - Beginning	86,031,511	78,553,910
Net Assets - End	\$ 88,853,208	\$ 86,031,511

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Operating Activities and Nonoperating Revenues		
Change in net assets	\$ 2,821,697	\$ 7,477,601
Adjustments to reconcile change in net assets to net cash provided by operating activities and nonoperating revenues:		
Provision for bad debts	11,366,671	10,964,528
Depreciation and amortization	8,860,554	9,349,683
Pension liability adjustments	(903,495)	(366,769)
Distributions to noncontrolling interests	1,307,721	1,031,774
Net realized and unrealized gains and change in fair value of funds held in trust by others	(3,820,113)	(6,527,448)
Restricted gifts, bequests and income from investments	(972,900)	(921,129)
Change in market value of interest rate swap	(1,209,256)	524,547
	<u>17,450,879</u>	<u>21,532,787</u>
Changes in operating working capital other than cash and cash equivalents:		
Patient accounts receivable, net	(9,035,821)	(13,705,794)
Grants and other receivables	(725,020)	1,406,813
Inventories of supplies	(276,516)	(46,317)
Prepaid insurance and other expenses	(77,953)	253,646
Accounts payable and accrued expenses	(6,842,414)	(815,566)
Salaries, wages, payroll taxes and amounts withheld from employees	(930,163)	(1,771,866)
Due to third-party reimbursement agencies	2,368,120	3,459,357
Increase in other noncurrent liabilities	2,073,189	1,819,663
	<u>(13,446,578)</u>	<u>(9,400,064)</u>
Net Cash Provided by Operating Activities and Nonoperating Revenues	<u>4,004,301</u>	<u>12,132,723</u>

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Cash Flows from Investing Activities		
Increase in restricted cash	\$ (1,008,510)	\$ (9,473)
Purchases of investments	(23,516,332)	(4,884,095)
Sales of investments	24,199,444	4,885,678
Cash received from affiliates	--	6,848,889
Cash paid to affiliates	(956,989)	--
Other assets	118,444	3,009,787
Additions to property, plant and equipment	<u>(2,122,895)</u>	<u>(8,759,471)</u>
Net Cash (Used in) Provided by Investing Activities	<u>(3,286,838)</u>	<u>1,091,315</u>
Cash Flows from Financing Activities		
Restricted gifts, bequests and income from investments	972,900	921,129
Distributions to noncontrolling interests	(1,307,721)	(1,031,774)
Proceeds from issuance of debt	157,781	616,571
Principal payments on debt obligations	<u>(1,154,775)</u>	<u>(1,030,933)</u>
Net Cash Used in Financing Activities	<u>(1,331,815)</u>	<u>(525,007)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(614,352)	12,699,031
Cash and Cash Equivalents - Beginning	<u>24,607,775</u>	<u>11,908,744</u>
Cash and Cash Equivalents - End	<u>\$ 23,993,423</u>	<u>\$ 24,607,775</u>

Supplemental Cash Flow Information

Cash paid during the year for interest on borrowings was \$1,224,496 and \$1,319,213 for the years ended September 30, 2013 and 2012, respectively.

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

ORGANIZATION

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

On October 29, 2012, the Network signed a Letter of Intent to develop a Joint Venture relationship with Vanguard Health Systems, Inc. (Vanguard) of Nashville, TN, a network of for-profit hospitals. Under terms of the proposed Joint Venture, the two organizations would form a Limited Liability Company in which Vanguard would have an 80 percent ownership interest and GWHN would have a 20 percent interest. The Joint Venture would create a taxable, for-profit health system. The GWHN board selected Vanguard due to the company's unique ability to meet the long-term goals of the Greater Waterbury Health Network, Inc. Under the terms of the transaction, the new Joint Venture would be overseen by a 12-member board of directors, half of whom will be appointed by GWHN with Vanguard serving as manager of the Joint Venture. The transaction with Waterbury Hospital will allow it to expand its range of outpatient services to the communities it serves while also conducting extensive renovations and upgrades to the Hospital's main campus. The transaction will also allow the Hospital to continue to attract and maintain top-quality physicians. With the Letter of Intent, the two organizations have developed a Definitive Agreement for the Certificate of Need (CON) process, which will be necessary for the approval from the State of Connecticut Office of Health Care Access (OHCA) and the Office of the Attorney General. The transaction will also require approval from state and federal antitrust authorities.

On October 1, 2013, Tenet Healthcare Corporation (THC) completed its acquisition of Vanguard. THC is a leading health care services company, which through its subsidiaries operates 77 acute care hospitals, 173 outpatient centers and Conifer Health Solutions, a provider of business process solutions for health care providers serving more than 600 hospitals and other clients nationwide.

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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

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

The Hospital entered into a members' agreement, making it an equal member with St. Mary's Hospital, located in Waterbury, Connecticut, in a joint venture to form The Harold Leever Regional Cancer Center, Inc. (the Cancer Center). The Cancer Center is a Connecticut non-stock corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The purpose of the joint venture is to develop, construct, own and operate the Cancer Center. Both member hospitals transferred the revenue and related expenses of their respective radiation oncology services to the Cancer Center in October 2002. Both member hospitals made working capital advances to the Cancer Center. The Cancer Center is not included in the Hospital's consolidated financial statements.

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

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Hospital and the affiliated entities. Recognition has been given to noncontrolling interests in the affiliates which is reflected as a component of unrestricted net assets. All significant intercompany accounts and transactions are eliminated in consolidation.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

USE OF ESTIMATES

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

RECLASSIFICATIONS

Certain prior year amounts were reclassified to conform to the current year presentation.

REGULATORY MATTERS

The Hospital is required to file annual operating information with OHCA.

TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

DONOR RESTRICTED GIFTS

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

The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

CASH AND CASH EQUIVALENTS

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

RESTRICTED CASH

The Hospital had letters of credit totaling \$4.5 million and \$3.5 million with banks available at September 30, 2013 and 2012, respectively, to support its self-insured workers' compensation program that were collateralized by certain investments held by the banks. As of September 30, 2013 and 2012, there were no borrowings on the letters of credit.

ACCOUNTS RECEIVABLE

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

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to net patient service revenue and third-party payor programs.

INVENTORIES

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

INVESTMENTS

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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

OTHER ASSETS

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. The Hospital provides for depreciation of property, plant and equipment and amortization of assets recorded under capital leases using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives which range from 3 to 40 years.

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

ASC 410-20's guidance requires such conditional asset retirement obligations to be estimated and recognized.

Conditional asset retirement obligations of \$2,684,704 and \$2,785,468 as of September 30, 2013 and 2012, respectively, are recorded in other noncurrent liabilities related to future asbestos remediation. During 2013 and 2012, there were no retirement obligations incurred or settled.

GOODWILL

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

IMPAIRMENT OF LONG-LIVED ASSETS

The Hospital records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There were no impairment losses recorded in 2013 and 2012.

NONOPERATING GAINS

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

(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES

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

INCOME TAXES

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

Management has analyzed the tax positions taken and has concluded that as of September 30, 2013, there are no uncertain tax positions taken or expected to be taken in that would require recognition of a liability (or asset) or disclosure in the financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Hospital is no longer subject to income tax examinations prior to 2010.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

MEDICAL MALPRACTICE AND WORKERS' COMPENSATION INSURANCE

The Hospital has a policy of self-insuring the deductible portion of its workers' compensation claims. The deductible limit is \$500,000 and \$400,000 per claim for the years ended September 30, 2013 and 2012, respectively. Management records its best estimate of losses as they occur. The accrued workers' compensation self-insurance liabilities of \$9,996,921 and \$9,871,633 at September 30, 2013 and 2012, respectively, have been discounted 2.25%.

Effective October 1, 2006, the Hospital obtained "claims-made" medical malpractice insurance coverage, through the Network, from Healthcare Alliance Insurance Company, Ltd. (HAIC). HAIC is a multi-provider captive insurance company domiciled in the Cayman Islands. The Network is a one third owner of the HAIC with two other local hospitals that each hold one third ownership. The Hospital's insurance coverage is \$1,500,000 per occurrence and \$5,000,000 in the aggregate. In addition to the coverage from HAIC, the Hospital recorded reserves of approximately \$2,066,103 and \$2,104,554 at September 30, 2013 and 2012, respectively, related to claims that were incurred subsequent to October 1, 2006, but not yet reported. These reserves were discounted at 2.25% at September 30, 2013 and 2012.

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

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

The policy has annual aggregate limits of \$4,500,000 for medical incidents and \$3,000,000 for general liability cases with a combined \$25,000,000 total limit for all policy years. These aggregate limits are eroded by claims previously paid by the Hospital or other insurance.

RETIREMENT BENEFIT PLANS

The Hospital maintains a defined benefit pension plan for eligible individuals and participates in two multi-employer pension plans that cover certain union employees. Reference is made to Note 9.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities include the long-term portion of liabilities for medical malpractice, workers' compensation, retirement benefits, the interest rate swap, and conditional asset retirement obligations.

RISKS AND UNCERTAINTIES

The Hospital invests in a variety of investment securities which are exposed to various risks, such as interest rate risk, financial market risk, currency risk and credit risk. Due to the level of risk associated with investment securities, coupled with the economic events, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Hospital's September 30, 2013 financial statements, in addition to the funded status of its defined benefit pension plan.

NEW ACCOUNTING PRONOUNCEMENTS

BAD DEBTS

In July 2011, the FASB issued ASU 2011-07, *Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*, which requires certain health care entities to present the provision for bad debts associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than as an operating expense with enhanced footnote disclosures on the policies for recognizing revenue and assessing bad debts, in addition to qualitative and quantitative information about changes in the allowance for doubtful accounts. The pronouncement was adopted for the year ended September 30, 2013 and retrospectively applied to the year ended September 30, 2012. Refer to Note 2 for the additional disclosures required by ASU 2011-07. There was no material impact to the Hospital's consolidated financial statements aside from the required changes in presentation.

MULTI-EMPLOYER PENSION PLAN DISCLOSURES

ASU 2011-09, *Disclosures about an Employer's Participation in a Multi-Employer Plan*, became effective for the year ended September 30, 2013 and required additional disclosures regarding multi-employer pension plans. The Hospital has made these additional disclosures in Note 9. The adoption of this pronouncement had no material impact on the Hospital's consolidated financial statements.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 2 – REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE

The following table summarizes net revenues from services to patients:

	<u>2013</u>	<u>2012</u>
Gross revenues from services to patients	\$ 936,820,801	\$ 966,591,489
Deductions (additions)		
Allowances	682,420,456	698,910,302
Regulatory	<u>(312,767)</u>	<u>(1,431,356)</u>
	<u>682,107,689</u>	<u>697,478,946</u>
Net revenues from services to patients	254,713,112	269,112,543
Provision for bad debts	<u>11,366,671</u>	<u>10,964,528</u>
Net patient service revenue		
less provision for bad debts	<u>\$ 243,346,441</u>	<u>\$ 258,148,015</u>

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

Amounts received from most payors are different from the established billing rates of the Hospital, and these differences are accounted for as allowances. Net revenues have been affected by State of Connecticut Disproportionate Share program in 2013 and 2012 which is reflected in the regulatory amounts in the table above.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For the years ended September 30, 2013 and 2012, the Hospital recorded approximately (\$2,400,000) and \$2,066,000, respectively, as a (decrease) increase to net revenues from services to patients as changes in estimates related to third-party payor settlements and adjustments to accruals recorded in prior years.

During 2013 and 2012, approximately 37% and 43%, respectively, of net revenue from services to patients was received under the Medicare program, 16% and 11%, respectively, under the state Medicaid program, and 42% and 41%, respectively, from contracts with other third-parties.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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

Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. The State of Connecticut has announced reductions in the State's Disproportionate Share Reimbursement Program for the period from July 1, 2012 through June 30, 2015.

The significant concentrations of net accounts receivable for services to patients include 44% from Medicare, 13% from Medicaid, 24% from commercial insurance carriers and 19% from others at September 30, 2013 (47%, 13%, 25% and 15%, respectively, in 2012).

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Hospital believes that it is in compliance with all applicable laws and regulations. Cost reports for the Hospital, which serve as a basis for final settlement with government payors, have been settled by final settlement through 2009 for Medicare and 1995 for Medicaid. Other years remain open for settlement.

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

- 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;
- Various allowance coverage statistics.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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

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

A summary of the Hospital's allowance for doubtful accounts activity for the years ended September 30, 2013 and 2012 is as follows:

	Balance at Beginning of Period	Additions Recorded in the Provision for Bad Debts	Accounts Written off, Net of Recoveries and Other	Balance at End of Period
Allowance for doubtful accounts:				
Year ended September 30, 2012	\$ (15,096,000)	\$ (10,964,528)	\$ 9,014,528	\$ (17,046,000)
Year ended September 30, 2013	\$ (17,046,000)	\$ (11,366,671)	\$ 8,027,671	\$ (20,385,000)

MEASURING CHARITY CARE

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

Self-pay revenues are derived primarily from patients who do not have any form of health care coverage. The Hospital evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other governmental assistance programs, as well as the Hospital's policy for charity care. The Hospital provides care without charge to certain patients that qualify under its charity care policy. For the years ended September 30, 2013 and 2012, the Hospital estimates that its costs of care provided under its charity care programs approximated \$440,051 and \$369,888, respectively.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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

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

ELECTRONIC HEALTH RECORD INCENTIVE PAYMENTS

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

Income from Medicare incentive payments is recognized as revenue after the Hospital has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period. The Hospital recognized revenue from Medicaid and Medicare for incentive payments after it adopted certified EHR technology. Medicaid incentive payments were \$483,979 and \$806,632 for the years ended September 30, 2013 and 2012, respectively. Medicare incentive payments were \$1,939,299 and \$2,585,732 for the years ended September 30, 2013 and 2012, respectively. Incentive payments are included in other operating revenues in the accompanying consolidated statements of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Hospital's compliance with the meaningful use criteria is subject to audit by the federal government.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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

ICD-10 IMPLEMENTATION

The Hospital is subject to the administrative simplification provisions of HIPAA which require the use of uniform electronic data transmission standards for health care claims and payment transactions submitted or received electronically.

In January 2009, the Centers for Medicare and Medicaid Services (CMS) published its tenth revision of International Statistical Classification of Diseases and Related Health Problems (ICD-10) and related changes to the formats used for certain electronic transactions. ICD-10 contains significantly more diagnostic and procedural codes than the existing ICD-9 coding system, and as a result, the coding for the patient services provided in the Hospital will require much greater specificity when ICD-10 becomes effective on October 1, 2014.

The implementation of ICD-10 will require a significant investment in technology and training. The Hospital may experience delays in reimbursement while the Hospital and the payors from which it seeks reimbursement make the transition to ICD-10. If the Hospital fails to implement the new coding systems by the deadline, the Hospital will not be paid for services. Management is not able to reasonably estimate the overall financial statement impact of the Hospital's transition to ICD-10.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 3 – INVESTMENTS

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

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Short-Term Investments				
Certificates of deposit and money market funds	\$ 406,088	\$ 472,637	\$ 386,726	\$ 448,318
Escrow funds for long-term debt:				
Cash and money market funds	\$ --	\$ --	\$ 661,338	\$ 661,338
Investments of funds held in trust by others	\$ 36,611,831	\$ 44,960,039	\$ 35,730,956	\$ 42,218,163
Long-term investments and Board-designated funds:				
Certificates of deposit and money market funds	\$ 901,472	\$ 901,472	\$ 854,843	\$ 854,843
Marketable equity securities	197,835	287,008	73,305	116,299
U.S. Government obligations	108,451	154,567	108,451	169,163
Corporate bonds	3,412,334	3,396,880	3,386,725	3,548,495
Mutual funds	7,708,657	8,908,523	7,626,076	7,904,439
	<u>\$ 12,328,749</u>	<u>\$ 13,648,450</u>	<u>\$ 12,049,400</u>	<u>\$ 12,593,239</u>

The Hospital had long-term investments in partnerships and joint ventures that were recorded at cost of \$359,909 and \$382,976 as of September 30, 2013 and 2012, respectively, as it was not practicable to estimate fair value. These investments are not included in the tables above.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 3 – INVESTMENTS (CONTINUED)

Unrestricted investment income, including income on funds held in trust by others and gains are comprised of the following for the years ended September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Income		
Investment income	\$ 1,737,423	\$ 1,607,608
Changes in net unrealized gains on investments	<u>268,235</u>	<u>392,543</u>
	<u>\$ 2,005,658</u>	<u>\$ 2,000,151</u>

A summary of interest cost and investment income on borrowed funds held by the trustee under revenue bond indentures during the years ended September 30, 2013 and 2012 follows:

	<u>2013</u>	<u>2012</u>
Interest charged to operations	<u>\$ 1,017,986</u>	<u>\$ 929,633</u>
Investment income credited to other operating revenues	<u>\$ 31</u>	<u>\$ 233</u>

NOTE 4 – FAIR VALUE MEASUREMENTS

The Hospital categorizes assets and liabilities for disclosure purposes based on whether the inputs used to determine their fair values are observable or unobservable. The Hospital utilizes a three-level fair value hierarchy that prioritizes the inputs used to measure assets at fair value. Level inputs are as follows:

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

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

Level 3 – Inputs that are unobservable for the asset or liability.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

The following table summarizes fair value measurements, by level, at September 30, 2013, for all assets and liabilities which are measured at fair value on a recurring basis in the consolidated financial statements:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 31,081,328	\$ --	\$ --	\$ 31,081,328
Common stock-Insurance	93,309	--	--	93,309
Mutual funds:				
U.S. large cap	23,645,248	--	--	23,645,248
U.S. mid cap	3,460,785	--	--	3,460,785
U.S. small cap	3,034,881	--	--	3,034,881
International developed	4,960,376	--	--	4,960,376
Emerging markets	2,705,380	--	--	2,705,380
Fixed income securities:				
Investment grade taxable	2,042,330	11,202,070	--	13,244,400
International developed bonds	1,237	719,184	--	720,421
Global high yield taxable	261,841	2,027,557	--	2,289,398
Real estate investment trusts	1,972,747	--	--	1,972,747
Other	101,506	284,678	--	386,184
Total investments at fair value	<u>\$ 73,360,968</u>	<u>\$ 14,233,489</u>	<u>\$ --</u>	<u>\$ 87,594,457</u>
Liabilities:				
Interest rate swap	<u>\$ --</u>	<u>\$ 1,729,706</u>	<u>\$ --</u>	<u>\$ 1,729,706</u>

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

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

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 31,686,030	\$ --	\$ --	\$ 31,686,030
Common stock-Insurance	64,739	--	--	64,739
Mutual funds:				
U.S. large cap	19,580,267	--	--	19,580,267
U.S. mid cap	2,972,585	--	--	2,972,585
U.S. small cap	2,025,227	--	--	2,025,227
International developed	4,210,680	--	--	4,210,680
Emerging markets	2,394,768	--	--	2,394,768
Bonds	345,802	--	--	345,802
Fixed income securities:				
Investment grade taxable	2,293,528	10,423,958	--	12,717,486
International developed bonds	--	632,249	--	632,249
Global high yield taxable	399,340	2,977,811	--	3,377,151
U.S. Government obligations	1,276,960	--	--	1,276,960
Mortgage backed securities	--	873,732	--	873,732
Real estate investment trusts	1,844,055	--	--	1,844,055
Other	38,500	--	--	38,500
Total investments at fair value	<u>\$ 69,132,481</u>	<u>\$ 14,907,750</u>	<u>\$ --</u>	<u>\$ 84,040,231</u>
Liabilities:				
Interest rate swap	<u>\$ --</u>	<u>\$ 2,938,962</u>	<u>\$ --</u>	<u>\$ 2,938,962</u>

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 5 – RESTRICTED ENDOWMENTS

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

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

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

RETURN OBJECTIVES AND RISK PARAMETERS

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

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

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

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

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ --	\$ 7,446,152	\$ 47,752,075	\$ 55,198,227
Board-designated endowment funds	<u>3,193,664</u>	<u>--</u>	<u>--</u>	<u>3,193,664</u>
	<u>\$ 3,193,664</u>	<u>\$ 7,446,152</u>	<u>\$ 47,752,075</u>	<u>\$ 58,391,891</u>

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ 2,974,503	\$ 6,806,683	\$ 45,010,199	\$ 54,791,385
Investment return				
Investment income	72,896	238,568	--	311,464
Net appreciation (realized and unrealized)	<u>277,353</u>	<u>829,688</u>	<u>2,741,876</u>	<u>3,848,917</u>
Total investment return	350,249	1,068,256	2,741,876	4,160,381
Appropriation of endowment assets for expenditure	<u>(131,088)</u>	<u>(428,787)</u>	<u>--</u>	<u>(559,875)</u>
Endowment net assets, ending balance	<u>\$ 3,193,664</u>	<u>\$ 7,446,152</u>	<u>\$ 47,752,075</u>	<u>\$ 58,391,891</u>

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2012

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

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

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

NOTE 6 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at September 30, 2013 and 2012, are restricted amounts which are to be held in perpetuity, the income from which is expendable to provide free care, scholarships for the children of the Hospital's employees, and for the operations of the Hospital. Also included in permanently restricted net assets are funds held in trust by others. The Hospital is the restricted income beneficiary of funds held in trust by others. The total trust assets, as reported by the trustee, had an aggregate fair value at September 30, 2013 and 2012 of \$44,960,039 and \$42,218,163, respectively. Income of \$1,896,981 and \$1,759,075 earned on these assets for the years ended September 30, 2013 and 2012, respectively, is included in investment income.

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

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

During 2013, net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes in providing grant related services, free care, and various miscellaneous services in the amounts of \$4,420,718, \$657,252 and \$341,621, respectively in 2013 and \$4,733,897, \$625,195, and \$249,913, respectively in 2012. In addition, \$19,654 and \$134,036 were released for the purchase of property and equipment in 2013 and 2012, respectively.

NOTE 7 - DEBT

SERIES C AND D BOND FINANCING

In December 2010, the Hospital refinanced its Series C bond financing and financed an additional \$8,000,000 for various capital projects to be completed over a two year period. The par amount of the new Series D debt was \$25,918,000 and interest is variable at the interest rate that is equal to the product of (i) sixty-eight percent (68%) and (ii) the sum of the LIBOR Rate and three hundred basis points (2.16% at September 30, 2013). The new bonds require monthly principal and interest payments, based upon a 10 year amortization schedule, from 2011 through 2020 with the remaining principal balance due in 2020.

The terms of the bonds provide for, among other things, a pledge of gross receipts of the Hospital, restriction on the incurrence of certain indebtedness of the Hospital and provide for covenants regarding the Hospital's debt service coverage ratios, minimum levels of cash on hand, sale and lease of assets and other covenants similar in financings of this type.

In connection with this refinancing, the Hospital entered into an interest rate swap with a bank which allowed it to convert its variable interest rate liability to a fixed interest rate liability of 4.475% without changing the structure of the underlying debt.

The Hospital uses the interest rate swap agreement to manage interest rate risk associated with its outstanding debt. At September 30, 2013 and 2012, the notional value of outstanding interest rate swap was \$24,755,656 and \$25,207,100, respectively.

The Hospital recognizes the fair value of its interest rate swap in the consolidated balance sheet as a liability, recorded in other noncurrent liabilities. At September 30, 2013 and 2012, the fair value of interest rate swap was in a liability position of \$1,729,706 and \$2,938,962, respectively.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 7 – DEBT (CONTINUED)

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

Future minimum payments by year and in the aggregate under the Series D bond financing are as follows at September 30, 2013:

2014	\$	472,136
2015		493,776
2016		516,408
2017		540,080
2018		564,832
Aggregate thereafter		<u>22,168,424</u>
	\$	<u>24,755,656</u>

Access has a \$250,000 line of credit with a bank. There were no borrowings under this line of credit at September 30, 2013 and 2012.

AMG had a capital lease for equipment that called for monthly payments of \$1,485 through April 2013 and was secured by the equipment. The balance of the capital lease liability was \$0 at September 30, 2013 and \$10,054 at September 30, 2012.

AMG has a capital lease for equipment that calls for monthly payments of \$593 through January 2014 and is secured by the equipment. The balance of the capital lease liability was \$2,858 at September 30, 2013 and \$9,037 at September 30, 2012.

AMG entered into an equipment lease during 2010. The lease calls for monthly payments of \$353 through March 2015 and is secured by the equipment. The balance of the capital lease liability was \$5,877 at September 30, 2013 and \$9,445 at September 30, 2012.

AMG entered into an equipment lease during 2010. The lease calls for monthly payments of \$447 through May 2015 and is secured by the equipment. The balance of the capital lease liability was \$8,687 at September 30, 2013 and \$13,095 at September 30, 2012.

The Hospital entered into a capital lease for equipment during 2011. The lease calls for equal monthly payments of \$20,885 through May 2016 and is secured by the equipment. The balance of the capital lease liability was \$609,435 at September 30, 2013 and \$835,685 at September 30, 2012.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 7 – DEBT (CONTINUED)

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

AMG entered into a term note during 2010 at an interest rate of 9.8%. The note calls for monthly payments of \$13,216 through November 2014 and is secured by the assets of AMG. The balance of the term note liability was \$173,794 at September 30, 2013 and \$307,277 at September 30, 2012.

AMG assumed a note payable during 2009 for the fit-up of office space. The original amount of the note was \$320,000 and is repayable in installments of principal plus interest at 7.50% totaling \$4,908 per month through January 2014. In addition, this note calls for a final payment of principal and interest of \$113,981 in February 2014. The balance of this note was \$129,815 at September 30, 2013 and \$177,038 at September 30, 2012.

The Hospital entered into a capital lease for equipment during 2012. The lease calls for equal monthly payments of \$11,469 through August 2017 and is secured by the equipment. The balance of the capital lease liability was \$495,826 at September 30, 2013 and \$593,633 at September 30, 2012.

The Hospital entered into a capital lease for equipment during 2013. The lease calls for equal monthly payments of \$4,779 through November 2015. The balance of capital lease liability was \$120,826 at September 30, 2013.

Future minimum payments by year and in the aggregate for all obligations other than the CHEFA Series D bonds were as follows at September 30, 2013:

2014	\$	694,549
2015		448,424
2016		280,624
2017		<u>123,520</u>
	\$	<u>1,547,117</u>

The fair value of the debt, using the discounted cash flow analyses, was approximately \$28,032,000 at September 30, 2013 and \$29,240,000 at September 30, 2012.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 8 – RENTAL EXPENSE AND LEASE COMMITMENTS

The Hospital has entered into operating leases for office space and office equipment. Rental expense for the years ended September 30, 2013 and 2012 was \$4,740,477 and \$4,586,155, respectively. The minimum rental commitments under all noncancellable operating leases with initial or remaining terms of more than one year are as follows:

2014	\$ 4,354,779
2015	3,592,196
2016	3,271,507
2017	2,479,208
2018	27,036
Thereafter	<u>201,566</u>
	<u>\$ 13,926,292</u>

NOTE 9 – EMPLOYEE BENEFIT PLANS

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Following is a summary of the Plan's funded status using the measurement dates of September 30, 2013 and 2012 and amounts recognized in the Hospital's consolidated financial statements.

	2013	2012
Change in benefit obligation		
Benefit obligation beginning of year	\$ (37,888,825)	\$ (37,373,483)
Service cost	(1,702,273)	(1,220,226)
Interest cost	(1,154,537)	(1,798,078)
Actuarial gain (loss)	2,126,771	(443,054)
Benefits paid	3,056,653	2,946,016
Benefit obligation, end of year	\$ (35,562,211)	\$ (37,888,825)
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 28,843,113	\$ 26,540,513
Actual return on plan assets	253,055	2,716,897
Employer contributions	1,162,156	2,531,719
Benefits paid	(3,056,653)	(2,946,016)
Fair value of plan assets, end of year	\$ 27,201,671	\$ 28,843,113
Funded status	\$ (8,360,540)	\$ (9,045,712)
Accrued pension liability	\$ (8,360,540)	\$ (9,045,712)
Components of net periodic pension cost		
Service cost	\$ 1,702,273	\$ 1,220,226
Interest cost	1,154,537	1,798,078
Expected return on plan assets	(2,483,658)	(2,566,157)
Amortization of actuarial loss	971,872	623,556
Amortization of prior service cost	35,455	35,527
Net periodic pension cost	\$ 1,380,479	\$ 1,111,230
Accumulated benefit obligation	\$ 34,675,898	\$ 36,832,025

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

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

	2013	2012
Unrecognized prior service cost	\$ (156,531)	\$ (191,986)
Unrecognized actuarial losses	<u>(14,772,799)</u>	<u>(15,640,839)</u>
Benefit obligation, end of year	<u>\$ (14,929,330)</u>	<u>\$ (15,832,825)</u>

Changes in benefit obligations recognized in unrestricted net assets include:

	2013	2012
Current year actuarial losses	\$ (103,832)	\$ (292,314)
Amortization of prior service cost	35,455	35,527
Amortization of net loss	<u>971,872</u>	<u>623,556</u>
	<u>\$ 903,495</u>	<u>\$ 366,769</u>

The prior service cost and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic cost during the year ending September 30, 2014 are \$35,455 and \$816,016, respectively.

ASSUMPTIONS

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

	2013	2012
Discount rate	3.99%	3.17%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	2.00% for 3 year select period, 3.00% ultimate	2.00% for 4 year select period, 3.00% ultimate

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

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

	2013	2012
Discount rate	3.17%	5.07%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	2.00% for 4 year select period, 3.00% ultimate	2.00% for 5 year select period, 3.00% ultimate

EXPECTED LONG-TERM RETURN ON PLAN ASSETS

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

INVESTMENT POLICY

The Plan's weighted-average asset allocation at September 30, 2013, by asset category are as follows:

Asset Category	Plan Assets	Asset Allocation Policy	
		Target	Range
Global defensive equity unhedged	10%	0.1	5% - 15%
Custom fixed income	90%	0.9	85% - 95%

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

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

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

CONTRIBUTIONS

The Hospital expects to make \$1,500,000 in contributions to the Plan in 2014.

ESTIMATED FUTURE BENEFIT PAYMENTS

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

2014	\$ 3,702,000
2015	3,025,000
2016	3,414,000
2017	3,289,000
2018	3,512,000
2019-2023	<u>15,898,000</u>
	<u>\$ 32,840,000</u>

As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

The following tables set forth by level within the fair value hierarchy the investment assets and investment liabilities at fair value, as of September 30, 2013.

	Level 1	Level 2	Level 3	Total
Commingled funds and private equity	<u>\$ --</u>	<u>\$ --</u>	<u>\$27,201,671</u>	<u>\$27,201,671</u>

The following tables set forth by level within the fair value hierarchy the investment assets and investment liabilities at fair value, as of September 30, 2012.

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

The following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

	2013	2012
Balance as of September 30,	\$ 19,307,214	\$ 17,038,042
Change in unrealized (depreciation) appreciation	(487,433)	2,362,257
Purchases	52,316,941	7,446,351
Sales	<u>(43,935,051)</u>	<u>(7,539,436)</u>
Balance as of September 30,	<u>\$ 27,201,671</u>	<u>\$ 19,307,214</u>

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

OTHER BENEFIT PLANS

The Hospital participates in multi-employer pension plans that cover substantially all union employees. Contributions to the plans are based upon a percentage of each participant's total salary. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer.
- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers.
- If the Hospital chose to stop participating in the multi-employer plans, it would be required to pay those plans an amount based on the underfunded status of the plans, referred to as a withdrawal liability.

The following table presents the Hospital's participation in these plans as of and for the years ended September 30, 2013 and 2012.

Pension Trust Fund	Pension Plan Employer Identification Number	Pension Protection Act ("PPA") Certified Zone Status ¹		FIP / RP Status Pending / Implemented ²	Contributions		Surcharge Imposed	Expiration Date of Collection Bargaining Agreement ³
		2013	2012		2013	2012		
Connecticut Health Care Associates Pension Fund	06-1313462	Green	Green	N/A	\$ 2,077,612	\$ 2,230,433	No	September 30, 2013
New England Health Care Employees Pension Fund	22-3071963	Green	Green	N/A	<u>783,235</u>	<u>865,646</u>	No	February 29, 2016
Total Contributions:					<u>\$ 2,860,847</u>	<u>\$ 3,096,079</u>		

¹ The most recent PPA zone status available in 2013 and 2012 is for the plan's year-ending during 2012 and 2011, respectively. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

² The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented.

³ Lists the expiration dates of the collective-bargaining agreements to which the plans are subject.

During the years ended September 30, 2013 and 2012, the Hospital's contributions to the Connecticut Health Care Associates Pension Plan represented 96% of the total contributions made to the plan by all participating employers.

During the years ended September 30, 2013 and 2012, the Hospital's contributions to the New England Health Care Employees Pension Plan represented 3% of the total contributions made to the plan by all participating employers.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. The Hospital has explored the costs to withdraw from the Connecticut Health Care Associates (CHCA) Pension Plan in the event that the Hospital enters into a joint venture (Note 1). As of September 30, 2013, it is estimated a withdrawal liability to exit this plan would be \$17,200,000. It is expected that CHCA will likewise withdraw from the pension plan making a total withdrawal liability for the Hospital of approximately \$27,700,000. Management expects that the costs to withdraw from the plan will be funded by the proceeds from the transaction and payable over time at the rate of \$2,400,000 per annum.

In addition, the Hospital has a supplemental employee retirement plan for certain executives. The plan provides for a total benefit and is partially funded. As of September 30, 2013 and 2012, liabilities of \$240,869 and \$152,244, respectively, have been reflected in the consolidated balance sheets.

As noted above, the Hospital also has a noncontributory defined benefit cash balance plan covering substantially all non-union employees age 21 and older with one year of service. Total pension expense, relating to this plan, charged to operations during the years ended September 30, 2013 and 2012 was \$1,380,479 and \$1,111,230, respectively.

NOTE 10 – SELF-INSURANCE CLAIMS

There have been medical malpractice and workers' compensation claims that fall within the Hospital's partially self-insured program, which have been asserted against the Hospital. In addition, there are known incidents that have occurred through September 30, 2013 that may result in the assertion of claims. Hospital management has accrued its best estimate of these contingent losses. Other claims may be asserted arising from services provided to patients or workers' compensation incidents in the past. Hospital management has provided reserves for these contingent liabilities.

NOTE 11 – CONTINGENCIES

The Hospital is a party to various lawsuits incidental to its business.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012

NOTE 12 – DUE (TO) FROM AFFILIATES

The amounts due to affiliates of (\$2,042,951) and (\$2,999,940) at September 30, 2013 and 2012, respectively, represent receivables from and (payables) to affiliates that do not eliminate in consolidation. These balances are comprised of the following:

	<u>2013</u>	<u>2012</u>
Greater Waterbury Health Network, Inc.	\$ (1,885,946)	\$ (2,828,764)
Alliance Medical Group of Greater Waterbury, P.C.	(9,983)	(9,983)
Greater Waterbury Management Resources, Inc.	(162,693)	(162,693)
GI Co-Management Company	1,500	1,500
Children's Center of Greater Waterbury Health Network, Inc.	<u>14,171</u>	<u>--</u>
	<u>\$ (2,042,951)</u>	<u>\$ (2,999,940)</u>

NOTE 13 – FUNCTIONAL EXPENSES

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

	<u>2013</u>	<u>2012</u>
Health care services	\$ 193,831,378	\$ 202,823,451
General and administrative	63,524,487	66,059,047
Fundraising	<u>352,305</u>	<u>256,714</u>
	<u>\$ 257,708,170</u>	<u>\$ 269,139,212</u>

NOTE 14 – SUBSEQUENT EVENTS

The Hospital evaluates the impact of subsequent events, events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date or for disclosure in the notes to the financial statements. The Hospital evaluated events occurring subsequent to September 30, 2013 through January 10, 2014, the date on which the accompanying consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements.



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

Board of Trustees
The Waterbury Hospital

We have audited the consolidated financial statements of The Waterbury Hospital as of and for the years ended September 30, 2013 and 2012, and our report thereon dated January 10, 2014, which contained an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for the purposes of additional analysis and is 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Marcum LLP

Hartford, CT
January 10, 2014



THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2013

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Assets								
Current Assets								
Cash and cash equivalents	\$ 19,142,392	\$ 1,262,636	\$ 1,706,736	\$ 359,845	\$ 1,317,437	\$ 204,377	\$ --	\$ 23,993,423
Restricted cash	4,519,908	--	--	--	--	--	--	4,519,908
Short-term investments	--	--	472,637	--	--	--	--	472,637
Patient accounts receivable, net	25,010,738	751,229	1,842,494	352	1,952,597	430,068	(546,352)	29,441,126
Grants and other receivables	3,065,683	--	--	--	503,555	185,477	(52,191)	3,702,524
Inventories of supplies	3,416,317	--	--	--	162,966	2,312	--	3,581,595
Prepaid insurance and other expenses	1,291,734	--	71,843	4,686	80,404	122,798	--	1,571,465
Total Current Assets	56,446,772	2,013,865	4,093,710	364,883	4,016,959	945,032	(598,543)	67,282,678
Other Assets								
Funds held in trust by others	44,960,039	--	--	--	--	--	--	44,960,039
Long-term investments	10,713,229	42,426	59,040	--	--	--	--	10,814,695
Board-designated endowment funds	3,193,664	--	--	--	--	--	--	3,193,664
Other receivables	171,972	--	--	--	--	--	--	171,972
Goodwill	200,500	--	--	--	--	1,613,067	--	1,813,567
CHEFA obligations issue expense, less amortization	282,676	--	--	--	--	--	--	282,676
	59,522,080	42,426	59,040	--	--	1,613,067	--	61,236,613
Property, plant and equipment:								
Land	287,549	--	--	--	--	--	--	287,549
Buildings and improvements	89,664,119	1,150,646	488,740	--	2,634,456	114,371	--	94,052,332
Equipment	176,657,750	5,970,380	766,531	1,134,076	2,040,925	342,599	--	186,912,261
Construction in progress	73,654	--	--	--	--	--	--	73,654
Accumulated depreciation	(229,493,366)	(5,279,792)	(822,193)	(1,113,060)	(1,999,154)	(182,454)	--	(238,890,019)
	37,189,706	1,841,234	433,078	21,016	2,676,227	274,516	--	42,435,777
	\$ 153,158,558	\$ 3,897,525	\$ 4,585,828	\$ 385,899	\$ 6,693,186	\$ 2,832,615	\$ (598,543)	\$ 170,955,068

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2013

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Liabilities and Net Assets								
Current Liabilities								
Accounts payable and accrued expenses	\$ 20,802,742	\$ 348,614	\$ 479,401	\$ 19,215	\$ 502,553	\$ 24,245	\$ (598,543)	\$ 21,578,227
Salaries, wages, payroll taxes and amounts withheld from employees	5,298,046	--	159,713	--	505,210	1,432,042	--	7,395,011
Due to third-party reimbursement agencies	2,969,391	--	--	--	--	--	--	2,969,391
Current portion of CHEFA obligations	472,136	--	--	--	--	--	--	472,136
Current portion of notes payable	405,496	--	--	--	289,053	--	--	694,549
Due to affiliates	1,795,348	--	--	(3,634)	690,250	(439,013)	--	2,042,951
Total Current Liabilities	<u>31,743,159</u>	<u>348,614</u>	<u>639,114</u>	<u>15,581</u>	<u>1,987,066</u>	<u>1,017,274</u>	<u>(598,543)</u>	<u>35,152,265</u>
Other Noncurrent Liabilities	<u>21,482,020</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>331,487</u>	<u>--</u>	<u>--</u>	<u>21,813,507</u>
CHEFA Obligations - less current portion and discount	<u>24,283,520</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>24,283,520</u>
Notes Payable - less current portion	<u>820,591</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>31,977</u>	<u>--</u>	<u>--</u>	<u>852,568</u>
Net Assets								
Unrestricted	18,667,399	2,271,303	2,565,364	314,770	4,342,656	1,815,341	--	29,976,833
Temporarily restricted	8,409,794	--	--	--	--	--	--	8,409,794
Permanently restricted	47,752,075	--	--	--	--	--	--	47,752,075
Total Net Assets Excluding Noncontrolling Interests	<u>74,829,268</u>	<u>2,271,303</u>	<u>2,565,364</u>	<u>314,770</u>	<u>4,342,656</u>	<u>1,815,341</u>	<u>--</u>	<u>86,138,702</u>
Noncontrolling Interests	<u>--</u>	<u>1,277,608</u>	<u>1,381,350</u>	<u>55,548</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,714,506</u>
Total Net Assets	<u>74,829,268</u>	<u>3,548,911</u>	<u>3,946,714</u>	<u>370,318</u>	<u>4,342,656</u>	<u>1,815,341</u>	<u>--</u>	<u>88,853,208</u>
	<u>\$ 153,158,558</u>	<u>\$ 3,897,525</u>	<u>\$ 4,585,828</u>	<u>\$ 385,899</u>	<u>\$ 6,693,186</u>	<u>\$ 2,832,615</u>	<u>\$ (598,543)</u>	<u>\$ 170,955,068</u>

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2012

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Assets								
Current Assets								
Cash and cash equivalents	\$ 19,419,565	\$ 1,688,371	\$ 2,353,527	\$ 279,212	\$ 664,318	\$ 202,782	\$ --	\$ 24,607,775
Restricted cash	3,511,398	--	--	--	--	--	--	3,511,398
Short-term investments	--	--	448,318	--	--	--	--	448,318
Patient accounts receivable, net	26,903,888	757,059	1,821,440	43,622	2,195,621	420,152	(369,806)	31,771,976
Grants and other receivables	2,829,816	--	--	--	223,046	201,111	(276,469)	2,977,504
Inventories of supplies	3,105,602	--	--	--	199,477	--	--	3,305,079
Prepaid insurance and other expenses	1,109,204	--	100,122	5,106	156,561	122,519	--	1,493,512
Total Current Assets	<u>56,879,473</u>	<u>2,445,430</u>	<u>4,723,407</u>	<u>327,940</u>	<u>3,439,023</u>	<u>946,564</u>	<u>(646,275)</u>	<u>68,115,562</u>
Funds held in escrow by agreement with the State of Connecticut Health and Educational Facilities Authority (CHEFA) and trustee: Construction fund	661,338	--	--	--	--	--	--	661,338
Funds held in trust by others	42,218,163	--	--	--	--	--	--	42,218,163
Long-term investments	9,900,286	46,076	55,350	--	--	--	--	10,001,712
Board-designated endowment funds	2,974,503	--	--	--	--	--	--	2,974,503
Other receivables	290,416	--	--	--	--	--	--	290,416
Goodwill	200,500	--	--	--	--	1,613,067	--	1,813,567
CHEFA obligations issue expense, less amortization	321,666	--	--	--	--	--	--	321,666
	<u>55,905,534</u>	<u>46,076</u>	<u>55,350</u>	<u>--</u>	<u>--</u>	<u>1,613,067</u>	<u>--</u>	<u>57,620,027</u>
Property, plant and equipment:								
Land	287,549	--	--	--	--	--	--	287,549
Buildings and improvements	87,936,502	1,150,646	408,435	--	2,621,721	--	--	92,117,304
Equipment	174,931,365	5,945,100	689,803	1,134,076	1,917,412	334,279	--	184,952,035
Construction in progress	2,358,644	--	--	--	--	114,371	--	2,473,015
Accumulated depreciation	(222,405,856)	(4,952,624)	(734,266)	(1,101,825)	(1,391,945)	(108,943)	--	(230,695,459)
	<u>43,108,204</u>	<u>2,143,122</u>	<u>363,972</u>	<u>32,251</u>	<u>3,147,188</u>	<u>339,707</u>	<u>--</u>	<u>49,134,444</u>
	<u>\$ 156,554,549</u>	<u>\$ 4,634,628</u>	<u>\$ 5,142,729</u>	<u>\$ 360,191</u>	<u>\$ 6,586,211</u>	<u>\$ 2,899,338</u>	<u>\$ (646,275)</u>	<u>\$ 175,531,371</u>

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2012

	The Waterbury Hospital	Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Liabilities and Net Assets								
Current Liabilities								
Accounts payable and accrued expenses	\$ 26,966,152	\$ 364,278	\$ 543,597	\$ 59,952	\$ 1,098,186	\$ 34,751	\$ (646,275)	\$ 28,420,641
Salaries, wages, payroll taxes and amounts withheld from employees	6,072,850	--	127,190	--	549,742	1,575,392	--	8,325,174
Due to third-party reimbursement agencies	601,271	--	--	--	--	--	--	601,271
Current portion of CHEFA obligations	451,444	--	--	--	--	--	--	451,444
Current portion of notes payable	461,461	--	--	--	204,915	--	--	666,376
Due to affiliates	3,551,101	--	--	--	(25,013)	(526,148)	--	2,999,940
Total Current Liabilities	<u>38,104,279</u>	<u>364,278</u>	<u>670,787</u>	<u>59,952</u>	<u>1,827,830</u>	<u>1,083,995</u>	<u>(646,275)</u>	<u>41,464,846</u>
Other Noncurrent Liabilities	<u>21,417,424</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>435,643</u>	<u>--</u>	<u>--</u>	<u>21,853,067</u>
CHEFA Obligations - less current portion and discount	<u>24,755,656</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>24,755,656</u>
Notes Payable - less current portion	<u>1,105,261</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>321,030</u>	<u>--</u>	<u>--</u>	<u>1,426,291</u>
Net Assets								
Unrestricted	18,516,310	2,733,024	2,906,762	255,203	4,001,708	1,815,343	--	30,228,350
Temporarily restricted	7,645,420	--	--	--	--	--	--	7,645,420
Permanently restricted	45,010,199	--	--	--	--	--	--	45,010,199
Total Net Assets Excluding Noncontrolling Interests	<u>71,171,929</u>	<u>2,733,024</u>	<u>2,906,762</u>	<u>255,203</u>	<u>4,001,708</u>	<u>1,815,343</u>	<u>--</u>	<u>82,883,969</u>
Noncontrolling Interests	<u>--</u>	<u>1,537,326</u>	<u>1,565,180</u>	<u>45,036</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>3,147,542</u>
Total Net Assets	<u>71,171,929</u>	<u>4,270,350</u>	<u>4,471,942</u>	<u>300,239</u>	<u>4,001,708</u>	<u>1,815,343</u>	<u>--</u>	<u>86,031,511</u>
	<u>\$ 156,554,549</u>	<u>\$ 4,634,628</u>	<u>\$ 5,142,729</u>	<u>\$ 360,191</u>	<u>\$ 6,586,211</u>	<u>\$ 2,899,338</u>	<u>\$ (646,275)</u>	<u>\$ 175,531,371</u>

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Unrestricted Revenues								
Net revenues from services to patients	\$ 218,481,776	\$ 4,496,888	\$ 10,608,492	\$ 172,403	\$ 16,720,615	\$ 6,426,998	\$ (2,194,060)	\$ 254,713,112
Provision for bad debts	(10,783,760)	29,929	(21,275)	--	(384,485)	(207,080)	--	(11,366,671)
Net patient service revenue less provision for bad debts	207,698,016	4,526,817	10,587,217	172,403	16,336,130	6,219,918	(2,194,060)	243,346,441
Other operating revenues	3,615,057	--	1,182	6,347	4,425,680	1,644,871	(4,483,169)	5,209,968
Net assets released from restrictions	5,419,591	--	--	--	--	--	--	5,419,591
	<u>216,732,664</u>	<u>4,526,817</u>	<u>10,588,399</u>	<u>178,750</u>	<u>20,761,810</u>	<u>7,864,789</u>	<u>(6,677,229)</u>	<u>253,976,000</u>
Operating Expenses								
Salaries	84,495,149	694,748	6,034,037	--	16,932,997	8,519,069	--	116,676,000
Employee benefits	25,316,268	85,023	1,245,184	--	3,120,845	1,146,177	--	30,913,497
Supplies and other	94,673,089	1,926,379	2,353,046	97,435	6,696,550	1,178,486	(6,677,229)	100,247,756
Depreciation	7,674,744	298,106	103,183	11,235	658,908	75,386	--	8,821,562
Interest and amortization	1,011,579	--	--	--	37,776	--	--	1,049,355
	<u>213,170,829</u>	<u>3,004,256</u>	<u>9,735,450</u>	<u>108,670</u>	<u>27,447,076</u>	<u>10,919,118</u>	<u>(6,677,229)</u>	<u>257,708,170</u>
Income (Loss) from Operations	<u>3,561,835</u>	<u>1,522,561</u>	<u>852,949</u>	<u>70,080</u>	<u>(6,685,266)</u>	<u>(3,054,329)</u>	<u>--</u>	<u>(3,732,170)</u>
Nonoperating Gains								
Unrestricted gifts and bequests	217,275	--	--	--	--	--	--	217,275
Investment income	1,722,250	--	15,173	--	--	--	--	1,737,423
	<u>1,939,525</u>	<u>--</u>	<u>15,173</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,954,698</u>
Excess (Deficiency) of Revenues Over Expenses Before Changes in								
Net Unrealized Gains on Investments	5,501,360	1,522,561	868,122	70,080	(6,685,266)	(3,054,329)	--	(1,777,472)
Changes in Net Unrealized Gains on Investments	<u>233,353</u>	<u>--</u>	<u>34,882</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>268,235</u>
Excess (Deficiency) of Revenues Over Expenses	5,734,713	1,522,561	903,004	70,080	(6,685,266)	(3,054,329)	--	(1,509,237)
Less Excess of Revenue over Expenses Attributable to Noncontrolling Interests	--	--	--	--	--	--	(874,685)	(874,685)
Excess (Deficiency) of Revenues Over Expenses								
Attributable to Controlling Interest	<u>\$ 5,734,713</u>	<u>\$ 1,522,561</u>	<u>\$ 903,004</u>	<u>\$ 70,080</u>	<u>\$ (6,685,266)</u>	<u>\$ (3,054,329)</u>	<u>\$ (874,685)</u>	<u>\$ (2,383,922)</u>

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Unrestricted Revenues								
Net revenues from services to patients	\$ 230,780,700	\$ 4,933,735	\$ 10,281,358	\$ 549,908	\$ 19,513,656	\$ 6,556,710	\$ (3,503,524)	\$ 269,112,543
Provision for bad debts	(10,435,502)	16,456	(164,721)	--	(135,111)	(245,650)	--	(10,964,528)
Net patient service revenue less provision for bad debts	220,345,198	4,950,191	10,116,637	549,908	19,378,545	6,311,060	(3,503,524)	258,148,015
Other operating revenues	5,053,184	--	1,254	5,197	4,576,608	1,579,205	(5,430,757)	5,784,691
Net assets released from restrictions	5,609,005	--	--	--	--	--	--	5,609,005
	231,007,387	4,950,191	10,117,891	555,105	23,955,153	7,890,265	(8,934,281)	269,541,711
Operating Expenses								
Salaries	88,660,642	689,090	5,549,606	--	20,977,007	8,732,370	--	124,608,715
Employee benefits	29,181,525	86,757	1,187,110	--	3,897,155	1,127,369	--	35,479,916
Supplies and other	94,251,364	2,063,252	2,306,707	463,555	7,330,432	1,167,335	(8,934,281)	98,648,364
Depreciation	8,028,339	370,254	97,257	13,718	658,328	73,788	--	9,241,684
Interest and amortization	1,101,603	--	--	148	58,782	--	--	1,160,533
	221,223,473	3,209,353	9,140,680	477,421	32,921,704	11,100,862	(8,934,281)	269,139,212
Income (Loss) from Operations	9,783,914	1,740,838	977,211	77,684	(8,966,551)	(3,210,597)	--	402,499
Nonoperating Gains								
Unrestricted gifts and bequests	83,577	--	--	--	--	--	--	83,577
Investment income	1,594,603	--	13,005	--	--	--	--	1,607,608
	1,678,180	--	13,005	--	--	--	--	1,691,185
Excess (Deficiency) of Revenues Over Expenses Before Changes in Net Unrealized Gains on Investments	11,462,094	1,740,838	990,216	77,684	(8,966,551)	(3,210,597)	--	2,093,684
Changes in Net Unrealized Gains on Investments	357,661	--	34,882	--	--	--	--	392,543
Excess (Deficiency) of Revenues Over Expenses	11,819,755	1,740,838	1,025,098	77,684	(8,966,551)	(3,210,597)	--	2,486,227
Less Excess of Revenue over Expenses Attributable to Noncontrolling Interests	--	--	--	--	--	--	(997,139)	(997,139)
Excess (Deficiency) of Revenues Over Expenses Attributable to Controlling Interest	\$ 11,819,755	\$ 1,740,838	\$ 1,025,098	\$ 77,684	\$ (8,966,551)	\$ (3,210,597)	\$ (997,139)	\$ 1,489,088