Consolidated Financial Statements and Other Financial Information

Danbury Health Systems, Inc. and Subsidiaries
Years Ended September 30, 2009 and 2008
with Report of Independent Auditors

Danbury Health Systems, Inc. and Subsidiaries

Consolidated Financial Statements
and Other Financial Information

Years Ended September 30, 2009 and 2008

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Report of Independent Auditors

The Board of Directors
Danbury Health Systems, Inc.

We have audited the accompanying consolidated balance sheets of Danbury Health Systems, Inc. and Subsidiaries (the System) as of September 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Danbury Health Insurance Co. Ltd (the Company), a subsidiary of The Danbury Hospital, for the year ended September 30, 2009, which statements reflect total assets and revenues constituting 10% and 3%, respectively, of the related consolidated totals. These statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Company, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the System's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Danbury Health Systems, Inc. and Subsidiaries at September 30, 2009 and 2008, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

February 23, 2010

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Danbury Health Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30 2009	September 30 2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 46,525,880**	$ 34,272,558
Current portion of assets limited as to use	**1,756,854**	1,777,234
Current portion of pledges receivable	**1,136,440**	582,774
Accounts receivable, less allowance for uncollectible accounts of approximately $16,548,000 in 2009 and $16,031,000 in 2008	**45,303,281**	50,682,570
Inventories	**8,410,999**	8,432,437
Prepaid expenses and other	**6,615,531**	5,033,441
Total current assets	**109,748,985**	100,781,014
Investments	**198,001,685**	164,418,176
Assets limited as to use:		
Funds restricted by donor	**49,440,095**	20,664,049
Board designated funds	**14,821,054**	40,338,648
Trusts held by others	**2,800,407**	2,856,663
Total noncurrent assets limited as to use	**67,061,556**	63,859,360
Other assets	**8,107,799**	9,128,892
Due from related parties	**12,947,858**	14,922,412
Property, plant, and equipment:		
Land and land improvements	**7,577,097**	7,401,161
Buildings and building improvements	**231,481,481**	220,728,957
Equipment and other	**191,115,372**	174,459,742
Construction in progress (estimated cost to complete at September 30, 2009: $11,412,000)	**12,550,101**	13,442,247
	442,724,051	416,032,107
Less accumulated depreciation	**261,006,951**	236,178,706
	181,717,100	179,853,401
Pledges receivable, less current portion	**2,912,462**	3,817,514
Bond issuance costs, net	**3,274,927**	3,452,377
Total assets	**$ 583,772,372**	$ 540,233,146

	September 30	
	2009	**2008**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 20,726,338**	$ 19,556,308
Payroll-related accruals	**14,768,602**	12,531,989
Due to third-party payors	**8,795,411**	2,936,533
Interest payable	**1,068,910**	1,183,492
Other accrued expenses	**12,012,767**	20,459,641
Current portion of long-term debt	**3,966,139**	3,388,547
Total current liabilities	**61,338,167**	60,056,510
Self-insurance liabilities	**36,867,859**	32,232,942
Other long-term liabilities	**126,691,607**	35,821,804
Long-term debt, less current portion	**119,676,912**	122,717,154
Net assets:		
Unrestricted	**183,488,285**	261,433,117
Temporarily restricted	**28,603,447**	12,007,071
Permanently restricted	**27,106,095**	15,964,548
Total net assets	**239,197,827**	289,404,736
Total liabilities and net assets	**$ 583,772,372**	$ 540,233,146

See accompanying notes.

Danbury Health Systems, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Years Ended September 30	
	2009	**2008**
Unrestricted revenues:		
Net patient service revenue	**$500,116,851**	$469,481,703
Net assets released from restriction	**925,886**	901,999
Other operating revenue	**11,334,024**	10,201,426
	512,376,761	480,585,128
Expenses:		
Salaries, benefits and fees	**288,524,076**	273,157,683
Supplies and other	**140,611,921**	135,462,187
Insurance	**9,483,856**	11,242,830
Provision for uncollectible accounts	**17,033,519**	15,900,244
Depreciation and amortization	**25,227,586**	22,381,405
Interest	**5,130,485**	6,169,732
	486,011,443	464,314,081
Income from operations	**26,365,318**	16,271,047
Income tax expense	**1,398**	850
Nonoperating gains (losses):		
Contributions	**1,560,358**	3,104,133
Investment income, net	**7,298,367**	10,558,904
Change in unrealized gains and losses on investments	**4,864,466**	(41,647,461)
Loss on early extinguishment of debt	**–**	(904,724)
Operating expenses of the Danbury Hospital Development Fund, Inc.	**(1,947,541)**	(1,693,104)
Excess (deficiency) of revenues over expenses before minority interest	**38,139,570**	(14,312,055)
Minority interest in loss of Ridgefield Surgical Center	**–**	91,248
Excess (deficiency) of revenues over expenses	**38,139,570**	(14,220,807)

Continued on next page.

Danbury Health Systems, Inc. and Subsidiaries

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

	Years Ended September 30	
	2009	**2008**
Unrestricted net assets:		
Excess (deficiency) of revenues over expenses (continued)	**38,139,570**	(14,220,807)
Net unrealized loss on investments	**(317,859)**	–
Net assets released from restrictions for property, plant and equipment	**3,366,316**	1,406,808
Net asset transfer	**(24,634,527)**	(1,160,735)
Change in pension funding obligation	**(91,622,317)**	(31,256,793)
Effect of early measurement date elimination	**(3,287,101)**	–
Other	**411,086**	–
Decrease in unrestricted net assets	**(77,944,832)**	(45,231,527)
Temporarily restricted net assets:		
Contributions	**6,538,668**	2,693,749
Investment income, net	**461,490**	130,077
Change in unrealized gains and losses on investments	**594,749**	(1,483,545)
Net assets released from restriction	**(925,886)**	(901,999)
Net assets released from restrictions for property, plant and equipment	**(3,366,316)**	(1,406,808)
Transfers to Danbury Office of Physician Services, P.C.	**(266,044)**	(160,332)
Net asset transfer	**13,559,715**	763,164
Increase (decrease) in temporarily restricted net assets	**16,596,376**	(365,694)
Permanently restricted net assets:		
Change in trusts held by others	**(56,256)**	(684,224)
Contributions	**122,991**	2,234,810
Net asset transfer	**11,074,812**	397,571
Investment income (loss), net	–	(273,205)
Increase in permanently restricted net assets	**11,141,547**	1,674,952
Decrease in net assets	**(50,206,909)**	(43,922,269)
Net assets at beginning of year	**289,404,736**	333,327,005
Net assets at end of year	**$239,197,827**	$289,404,736

See accompanying notes.

Danbury Health Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Years Ended September 30	
	2009	**2008**
Operating activities and other income		
Decrease in net assets	**$ (50,206,909)**	$ (43,922,269)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and other income:		
Depreciation and amortization	**25,227,586**	22,381,405
Change in unrealized gains and losses on investments	**(5,141,356)**	41,312,243
Minority interest in loss of Ridgefield Surgical Center	**–**	(91,248)
Change in pension funding obligation	**91,622,317**	31,256,793
Effect of early measurement date elimination	**3,287,101**	–
Other	**(411,086)**	–
Restricted contributions and investment income	**(7,123,149)**	(3,301,886)
Transfers to Danbury Office of Physician Services, P.C.	**266,044**	160,332
Decrease in trusts held by others	**56,256**	684,224
Increase (decrease) in self-insurance liabilities	**4,634,917**	(2,334,016)
Provision for uncollectible accounts	**17,033,519**	15,900,244
Loss on early extinguishment of debt	**–**	904,724
Changes in operating assets and liabilities (*See Note 13*)	**(10,522,656)**	(40,280,876)
Net cash provided by operating activities and other income	**64,087,667**	25,003,686
Investing activities		
Additions to property, plant, and equipment, net	**(27,091,285)**	(32,739,247)
Decrease (increase) in due from related parties	**1,974,554**	(4,690,797)
(Increase) decrease in investments, net	**(31,289,519)**	32,064,262
Net cash used in investing activities	**(56,406,250)**	(5,365,782)
Financing activities		
Proceeds of issuance of bonds, net of change in issuance costs	**177,450**	35,632,916
Payments of long-term debt	**(2,462,650)**	(36,898,874)
Restricted contributions and investment income	**7,123,149**	3,301,886
Transfers to Danbury Office of Physician Services, P.C.	**(266,044)**	(160,332)
Net cash provided by financing activities	**4,571,905**	1,875,596
Net increase in cash and cash equivalents	**12,253,322**	21,513,500
Cash and cash equivalents at beginning of year	**34,272,558**	12,759,058
Cash and cash equivalents at end of year	**$ 46,525,880**	$ 34,272,558

See accompanying notes.

Danbury Health Systems, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

Danbury Health Systems, Inc. (DHS) was incorporated under the statutes of the State of Connecticut and is the parent company of seven wholly-owned subsidiaries, which are: The Danbury Hospital (the Hospital); Danbury Hospital Development Fund, Inc. (the Development Fund); Danbury Health Care Affiliates, Inc. (DHCA); Business System, Inc. (BSI); Visiting Nurses Association of Danbury (VNA); Regional Hospice of Western Connecticut (Hospice); and the Foundation for Community Health Care (the Foundation).

DHS owns 100% of the capital stock of BSI. DHS is the sole corporate member of the Hospital, the Development Fund, DHCA, VNA, and the Hospice.

DHS owns 64.4% of Ridgefield Surgical Center (RSC), a free-standing ambulatory surgical center located in Ridgefield, Connecticut. Ridgefield Surgical Center has a December 31 year-end. RSC had a net deficit in working capital and members' equity for the years ended December 31, 2007 and 2008, and therefore, there is no minority interest recorded in the consolidated balance sheets.

The Foundation is a corporation under the Nonstock Corporation Act of the State of Connecticut and requires contributions by the physician members. DHS is required to make contributions that match those made by the physician members. As of this date, no physicians have made contributions. The Foundation is currently inactive.

Organization and Basis of Presentation

The consolidated financial statements include the accounts of DHS, the Hospital, the Development Fund, DHCA, BSI, VNA, Hospice, and the Foundation. All material intercompany transactions have been eliminated.

Use of Estimates

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

1. Summary of Significant Accounting Policies (continued)

Regulatory Matters

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with maturities of three months or less at date of purchase. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the System's policy to monitor the financial strength of these institutions.

Investments

Substantially all of the System's investment portfolio reported in the accompanying balance sheets is designated as trading, with realized and unrealized gains and losses included in the excess (deficiency) of revenues over expenses.

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

Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that the System holds limited partnership interests, are stated at fair value as estimated in an unquoted market. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, the System's holdings, may be determined by the investment manager or general partner, and for "fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the System to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts, and other derivative products. While these financial instruments may contain varying degrees of risk, the System's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors.

1. Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

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

Contributions

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

Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions, but which are met within the same reporting period, are reported as unrestricted support. Contributions, for which donors have imposed restrictions which limit the use of the donated assets, are reported as temporarily restricted net assets if the restrictions are not met in the same reporting period. When such donor imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributions of assets which donors have stipulated must be maintained in perpetuity, with only the income earned thereon available for current use, are classified as permanently restricted net assets.

Patient Accounts Receivable

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

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

1. Summary of Significant Accounting Policies (continued)

The System's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies and private patients. The System manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable include 32% and 14%, and 29% and 12% for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2009 and 2008, respectively.

Assets Limited as to Use

Assets limited as to use represent investments with donor restrictions, assets held by trustees under indenture agreements related to financing activities with the State of Connecticut Health and Educational Facilities Authority (CHEFA), and assets held in trusts by others in accordance with donor restrictions. Board designated funds represent unrestricted funds set aside for specific purposes or projects. The portion of amounts required for funding current liabilities is included in current assets.

Property, Plant and Equipment

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

Conditional asset retirement obligations recorded under the provisions of Accounting Standards Codification (ASC) 410-20, *Asset Retirement Obligations*, amounted to $726,537 as of September 30, 2009 and 2008. These obligations are recorded in other long-term liabilities in the accompanying balance sheet. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2009 and 2008, retirement obligations incurred and settled were minimal.

Bond Issuance Costs

Discounts and deferred costs related to the issuance of bonds are amortized over the period the obligation is outstanding, using the bonds outstanding method. Accumulated amortization of discounts and deferred costs were $1,092,389 and $894,770 at September 30, 2009 and 2008, respectively.

Inventories

Inventories are stated at the lower of cost (last in, first out method) or market.

1. Summary of Significant Accounting Policies (continued)

Nonoperating Gains (Losses)

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

Excess (Deficiency) of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include the excess (deficiency) of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from the excess (deficiency) of revenues over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets net unrealized loss on non-trading investments, and changes in the pension funding obligation.

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities as of September 30, 2009 and 2008 approximate fair value based on current market conditions. The fair values of other financial instruments are disclosed in the respective notes and/or in Note 4.

Income Taxes

The System is comprised of not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. DHSIC, Inc. is a foreign corporation exempt from US taxation.

The System has losses from unrelated business activities of approximately $33,676,000 which begin expiring in 2009. A deferred tax asset for these losses of approximately $13,470,000 is offset by a corresponding valuation allowance of the same amount.

Adoption of New Accounting Standards

In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles* (ASC 105), which establishes the FASB ASC as the sole source of authoritative GAAP. Pursuant to the provisions of ASC 105, the System has updated references to GAAP in its consolidated financial statements issued for the year ended September 30, 2009. The adoption of ASC 105 did not have an impact on the System's financial positions or results of operations.

1. Summary of Significant Accounting Policies (continued)

On October 1, 2008, the System adopted ASC 820-10, *Fair Value Measurements* (ASC 820-10), which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The System's adoption of ASC 820-10 did not significantly affect its consolidated financial statements (see Note 4).

On October 1, 2008, the System adopted ASC 825-10, *The Fair Value Option for Financial Assets and Financial Liabilities* (ASC 825-10) which, among other things, provides an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. As a result of adopting ASC 825-10, the System did not elect fair value accounting for any asset or liability not currently required to be measured at fair value. Consequently, the adoption of ASC 825-10 did not have an impact on its consolidated financial statements.

On October 1, 2008, the System adopted ASC 958-205: *Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (ASC 958-205), which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and additional disclosures about an organization's endowment funds. The adoption of ASC 958-205 did not have a material effect on the System's consolidated balance sheet at September 30, 2009. See Note 12 for disclosures related to the System's endowment funds.

For its fiscal year ending September 30, 2009, the System adopted the measurement date provisions of ASC 715-20, *Compensation-Retirement Benefits* (ASC 715-20). ASC 715-20 requires the fair value of plan assets and benefit obligations to be measured as of the date of the employer's fiscal year-end in the consolidated balance sheet. See Note 8 for impact of adopting these provisions.

During 2009, the System adopted ASC 855-10, *Subsequent Events* (ASC 855-10). ASC 855-10 establishes general standards of accounting and disclosure requirements for subsequent events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date under the requirements of ASC 855-10. The System adopted the provisions of ASC 855-10 as of September 30, 2009, and evaluated the impact of subsequent events through February 23, 2010, representing the date at which the consolidated financial statements were issued. Refer to Note 15.

1. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2008 balances previously reported in the consolidated balance sheets and statements of operations and changes in net assets in order to conform with the year ended September 30, 2009 presentation

2. Net Patient Service Revenue and Charity Care

The following table summarizes net patient service revenue:

	Year Ended September 30	
	2009	**2008**
Gross patient service revenue	**$ 1,063,362,218**	$ 954,619,591
Deductions:		
Allowances	**(550,978,662)**	(475,480,123)
Charity care (at charges)	**(12,266,705)**	(9,657,765)
	(563,245,367)	(485,137,888)
Net patient service revenue	**$ 500,116,851**	$ 469,481,703

During 2009 and 2008, approximately 34% and 6%, and 32% and 6%, respectively, of net patient service revenue was received under the Medicare and Medicaid program, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The System believes it is in compliance with all applicable laws and regulations. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the System.

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

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. During 2009 and 2008, the System recorded changes in estimates of approximately $500,000 and $1,900,000, respectively, related to better than previously estimated third-party payor settlements.

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

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

3. Investments and Assets Limited as to Use

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

	September 30			
	2009		2008	
	Cost	Market	Cost	Market
Cash and cash equivalents	**$ 865,854**	**$ 865,854**	$ 1,837,388	$ 1,837,388
United States Treasury obligations	**36,256,255**	**36,475,383**	14,477,680	14,410,551
Corporate bonds	**23,243,519**	**22,967,399**	17,390,313	16,011,132
Mutual funds	**217,759,214**	**201,954,198**	212,718,856	193,161,802
	$ 278,124,842	**$ 262,262,834**	$ 246,424,237	$ 225,420,873
Current portion of assets limited as to use:				
Money market funds	**$ 1,756,854**	**$ 1,756,854**	$ 1,777,234	$ 1,777,234
	$ 1,756,854	**$ 1,756,854**	$ 1,777,234	$ 1,777,234

The System is the income beneficiary of funds held in trust by others. The market value of the trusts for the System were $2,800,407 and $2,856,663 at September 30, 2009 and 2008, respectively.

Investment income, net within non-operating gains (losses) for the year ended September 30, 2009 consists of:

Interest and dividend income	$ 7,911,160
Realized gains and losses	(612,793)
	$ 7,298,367

4. Fair Values of Financial Instruments

As described in Note 1, on October 1, 2008, the System adopted the methods of fair value as described in ASC 820-10 to value its financial assets and liabilities, where applicable. As defined in ASC 820-10, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase consistency and comparability in fair value measurements, ASC 820-10 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described as follows:

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

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

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

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

4. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of September 30, 2009 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 46,525,880	$ –	$ –	$ 46,525,880
Investments and assets limited as to use:				
Cash and cash equivalents	865,854	–	–	865,854
Money Market Funds	1,756,854	–	–	1,756,854
United States Treasury obligations	36,475,383	–	–	36,475,383
Corporate bonds	22,638,150	329,249	–	22,967,399
Mutual Funds	116,517,963	74,404,824	–	190,922,787
Trusts held by others	–	2,800,407	–	2,800,407
	$ 224,780,084	$ 77,534,480	$ –	$ 302,314,564

The amounts reported in the table above do not include alternative investments totaling approximately $11,031,000 that are accounted for under the equity method of accounting.

Fair value for Level 1 is based upon quoted market prices while fair value for Level 2 securities are primarily determined through prices obtained from third party pricing sources as quoted market prices for such securities are not readily available.

5. Pledges Receivable

Pledges receivable include the following unconditional promises to give as of September 30, 2009 and 2008:

	September 30	
	2009	**2008**
Due within one year	**$ 1,441,925**	$ 742,766
Due within one to five years	**2,934,620**	3,658,672
Due within greater than five years	**582,244**	945,101
	4,958,789	5,346,539
Discount	**(909,887)**	(946,251)
Present value of pledges receivable	**$ 4,048,902**	$ 4,400,288

The allowance recognizes the estimated uncollectible portion of pledges and the discount of pledges to net present value.

6. Long-Term Debt and Credit Facility

Long-term debt consisted of the following:

	September 30	
	2009	**2008**
RSC Term Loan	**$ 5,558,122**	$ 6,100,000
RSC Revolving Line of Credit	**874,929**	370,701
RSC Members' Loans	**75,000**	75,000
Obligated Group revenue bonds financed with CHEFA:		
Series G	**41,555,000**	42,420,000
Series H	**41,560,000**	41,560,000
Series J	**34,020,000**	35,580,000
	123,643,051	126,105,701
Less current portion	**3,966,139**	3,388,547
	$ 119,676,912	$ 122,717,154

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

The following is a summary of the combined aggregate amount of maturities and sinking fund requirements of the aforementioned obligations at September 30, 2009:

2010	$ 3,966,139
2011	3,222,899
2012	3,358,751
2013	3,504,994
2014	3,664,858
Thereafter	105,925,410
	$ 123,643,051

The fair value of the bonds, as determined by the System's investment advisor, was approximately $107,325,000 at September 30, 2009.

The System paid interest of $5,059,223 and $5,831,602 in 2009 and 2008, respectively.

The Series G revenue bonds (Series G Bonds) mature from 2008 through 2029 at an average coupon rate of 5.63%. The proceeds of the Series G Bonds were used to construct a new Cancer Center and reimburse the System for equipment purchases made during fiscal year 1999. The scheduled payment of principal and interest on the Series G Bonds is guaranteed by an insurance policy issued by a commercial insurer.

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

The Series I revenue bonds (Series I Bonds) were issued as variable rate debt to initially bear interest at an Auction Rate and are scheduled to mature and be called from 2007 to 2036. During fiscal year 2008, the Obligated Group refunded the Series I bonds that were outstanding and was legally discharged from the obligation.

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

The Series J Revenue bonds (Series J Bonds) were issued as variable rate debt to initially bear interest at a weekly rate (ranging from 0.2% to 7.5%) and are scheduled to mature from 2009 through 2036. The proceeds of Series J Bonds were used to advance refund all of the Series I bonds outstanding. The scheduled payment of principal and interest on the Series J Bonds is guaranteed by an irrevocable, direct-pay letter of credit issued by Wachovia Bank. The Series J Bonds may be converted from the weekly rate to a daily rate, short-term rate, long-term rate, auction rate or fixed rate.

Under the terms of the Series H Bonds, Series I Bonds and Series J Bonds financing arrangements between the Hospital and the Development Fund (the Obligated Group) and CHEFA, the proceeds of the revenue bonds were loaned to the Hospital. The Hospital is obligated to provide amounts sufficient to pay the principal and interest due on the Series H Bonds, Series I Bonds and Series J Bonds. The Master Indentures and Supplemental Master Indentures provide for the potential establishment and maintenance of a Debt Service Reserve Fund, a pledge of gross receipts, as defined, and parity with the Series G Bonds that remain outstanding. The Master Indentures also establishes a debt service coverage ratio requirement and restricts the incurrence of certain indebtedness by the Obligated Group.

Debt service funds held under bond indenture agreements for Series G Bonds, Series H Bonds and Series J Bonds were $1,756,854 and $1,777,234 at September 30, 2009 and 2008, respectively.

In October 2007, RSC entered into a term loan with a bank secured by business assets and a revolving line of credit. The loan is guaranteed by the owners proportional to their respective ownership interests. The interest is at a fixed rate of 6.86% and is payable over a nine-year term. At September 30, 2009, RSC had an unpaid principal balance of $5,558,122 related to the fixed rate loan. The loan was interest only for the first year through October 20, 2008, and has a maturity date of September 20, 2016. Interest paid relating to these loans during fiscal year 2009 and 2008 amounted to $400,050 and $418,427, respectively.

7. Commitments and Contingencies

Malpractice claims have been asserted against the System by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. In the opinion of counsel, the outcome of these actions will not have a significant effect on the financial position or the results of operations of the System.

7. Commitments and Contingencies (continued)

The System is a party to various lawsuits incidental to its business. Management believes that the lawsuits will not have a material adverse effect on the System's financial position.

In May 2008, the System received a subpoena from the U.S. Department of Health and Human Services, Office of Inspector General, requesting documentation relating to certain claims submitted to Medicare. A second subpoena was received in February 2009 requesting additional information. The System has not received any detailed information about the basis of this subpoena and has fully cooperated with the government's request for information

The System has entered into several lease agreements for real estate and equipment. Certain of these leases have renewal options for periods up to five years and escalation clauses. Rent is payable in equal monthly installments. Rent expense was $5,131,251 and $4,837,591 for the years ended September 30, 2009 and 2008, respectively.

The future minimum lease payments are as follows:

2010	$ 5,058,695
2011	2,235,429
2012	1,776,355
2013	1,719,966
2014	1,687,512
Thereafter	5,788,408
	$ 18,266,365

8. Pension Plan

The System has a defined benefit pension plan (the Plan) covering substantially all of its employees. Plan benefits are based on years of service and the employee's compensation. Contributions to the Plan are intended to provide for benefits attributed to services rendered to date and benefits expected to be earned in the future. Future benefits are based on the employee's average compensation and years of service as defined by the plan documents. Plan participants vest in their benefits on a percentage basis with years of service. The System makes contributions in amounts sufficient to meet the required benefits to be paid to plan participants as they become due as required by the Employee Retirement Income Security Act of 1974.

8. Pension Plan (continued)

Included in unrestricted net assets at September 30, 2009 and 2008, is the following amount that has not yet been recognized in net periodic pension cost: Unrecognized actuarial loss of $160,530,068 and $68,907,751, respectively. The actuarial loss included in unrestricted net assets at September 30, 2009 and expected to be recognized in net periodic pension cost during the year ended September 30, 2010 is $3,145,717.

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

	2009	**2008**
Change in benefit obligation		
Benefit obligation at beginning of year	**$ (279,449,297)**	$ (268,624,967)
Effect of eliminating early measurement date	**(5,678,191)**	–
Service cost	**(10,999,629)**	(10,723,151)
Interest cost	**(18,757,782)**	(17,382,298)
Benefits paid	**7,667,483**	6,720,760
Actuarial (loss) gain	**(40,657,802)**	10,560,359
Plan amendments	**(14,887,424)**	–
Benefit obligation at end of year	**$ (362,762,642)**	$ (279,449,297)
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 252,705,819**	$ 257,519,576
Effect of eliminating early measurement date	**9,177,519**	–
Contributions	**18,000,000**	24,000,000
Actual return on plan assets	**(20,254,514)**	(22,092,997)
Benefits paid	**(7,667,483)**	(6,720,760)
Fair value of plan assets at end of year	**$ 251,961,341**	$ 252,705,819
Reconciliation of funded status		
Funded status of the plan	**$ (110,801,301)**	$ (26,743,478)
Contributions made between the measurement date and year end	**–**	6,000,000
Accrued pension cost	**$ (110,801,301)**	$ (20,743,478)

8. Pension Plan (continued)

	2009	2008
Components of net periodic benefit cost		
Service cost	**$ 10,999,629**	$ 10,723,151
Interest cost	**18,757,782**	17,382,298
Expected return on plan assets	**(19,754,723)**	(20,286,331)
Net amortization and deferral	**3,145,717**	562,176
Benefit cost	**$ 13,148,405**	$ 8,381,294

As discussed in Note 1, the System adopted the measurement date provisions of ASC 715-20 for the year ended September 30, 2009. As a result of the change in measurement date from June 30 to September 30, the System recorded approximately $3,287,000 in the accompanying consolidated statements of operations and changes in net assets as an effect of early measurement date elimination. Adopting ASC 715-20's measurement date provisions did not have an effect on the System's consolidated financial position as of September 30, 2009.

The accrued pension cost of $110,801,301 and $20,743,478 as of September 30, 2009 and 2008, respectively, is included in other long-term liabilities in the consolidated balance sheets.

The assumptions used to develop net periodic benefit cost and the projected benefit obligation are as follows:

	2009	2008
Discount rate used for net periodic benefit cost	**6.56%**	6.32%
Discount rate used for projected benefit obligation	**5.78**	6.56
Expected long-term rate of return on plan assets	**7.50**	7.50
Average rate of increase in compensation	**3.50**	4.00

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

The accumulated benefit obligation at September 30, 2009 and 2008 was $304,383,880 and $234,220,494, respectively.

8. Pension Plan (continued)

Plan Assets

The Plan's investment objectives are to achieve long-term growth in excess of long-term inflation and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets over a long-term time horizon. In order to minimize the risk, the Plan aims to minimize the variability in yearly returns. The Plan also aims to diversify its holding among sectors, industries, and companies. The target allocation for the Plan's assets are 70% in equities and 30% in fixed income securities.

The System's pension plan asset allocations at September 30, 2009 and 2008, by category are as follows:

Asset Category	2009	2008
Equity securities	**57%**	62%
Debt securities	**35**	27
Other investments	**8**	11
	100%	100%

Assets invested in the defined benefit pension plan are carried at fair value. Securities with readily determinable values are carried at fair value as determined based on independent published sources. Alternative investments, as described in Note 1, are stated at fair value, as estimated in an unquoted market but corroborated by market data.

Contributions

The System expects to contribute $24,000,000 to its pension plan in fiscal year 2010.

8. Pension Plan (continued)

Estimated Future Benefit Payments

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

Fiscal Year	Pension Benefits
2010	$ 10,679,109
2011	11,801,673
2012	13,088,133
2013	14,509,728
2014	15,880,925
Years 2015 – 2019	111,003,137

The System also maintains a noncontributory, supplemental defined-benefit retirement plan (Supplemental Plan) for certain executive employees. As of September 30, 2009, the System has made all lump sum payments to its participants. As of September 30, 2008, the projected benefit obligation amounted to $5,805,303 which was included in other long-term liabilities in the accompanying consolidated balance sheets. Included in salaries, benefits and fees within operating expenses for the year ended September 30, 2008 was $2,443,516 of settlement charges related to the Supplemental Plan.

9. Related-Party Transactions

Danbury Office of Physician Services, P.C. (DOPS) is a not-for-profit professional corporation which provides medical services to the System. Charges for physician services provided to the System by DOPS were $31,954,001 and $30,631,504 for the years ended September 30, 2009 and 2008, respectively. During 2003, the System issued a note receivable for $2,000,000 to DOPS, of which $1,020,495 and $1,194,045 was outstanding at September 30, 2009 and 2008, respectively. The System has accounts receivable from DOPS of $12,947,858 and $14,922,412 for the years ended September 30, 2009 and 2008, respectively.

10. Professional Liability Self-Insurance

Effective October 1, 2004, the System formed a captive insurance company, Danbury Health Systems Insurance Company, Ltd. (DHSIC, Ltd.). DHSIC, a subsidiary of the Hospital, is domiciled in the Cayman Islands to provide alternative professional liability insurance to the System and DOPS, as well as providing community doctors with a competitive professional liability insurance option.

Coverage for medical malpractice insurance is on a claims-made basis. The coverage limits are $5,000,000 per claim and $25,000,000 in the aggregate. The excess indemnity coverage is $15,000,000 per claim and $15,000,000 in the aggregate. The System has recorded a liability of $9,700,000 at September 30, 2009 for incurred-but-not-reported claims, which is included in other long-term liabilities on the accompanying consolidated balance sheets.

Assets held by DHSIC, Ltd. approximate $57,682,000 as of September 30, 2009, of which a majority is reflected as investments in the accompanying consolidated balance sheets. Liabilities recorded by DHSIC, Ltd. approximate $37,020,000 as of September 30, 2009, of which a majority is reflected as self-insurance liabilities in the accompanying consolidated balance sheets.

The reserve for losses and loss adjustment expenses for DHSIC, Ltd. are included in estimated self-insurance liabilities in the accompanying consolidated balance sheets. Activity in the reserve for losses and loss adjustment expenses for the years ended September 30, 2009 and 2008 is summarized as follows:

	2009	**2008**
Balance at the beginning of period	**$ 23,982,982**	$ 25,164,125
Incurred related to:		
Current period	**11,221,862**	11,157,928
Prior period	**(3,428,073)**	(1,327,600)
Total incurred	**7,793,789**	9,830,328
Paid related to:		
Current period	**(315,022)**	(36,500)
Prior period	**(1,026,797)**	(10,974,971
Total paid	**(1,341,819)**	(11,011,471)
Balance at the end of period	**$ 30,434,952**	$ 23,982,982

10. Professional Liability Self-Insurance (continued)

ASC 944, *Financial Services – Insurance*, requires the application of deposit accounting for any policies or agreements that do not transfer insurance risk. To the extent that an insurance contract or a reinsurance contract does not, despite its form, provide for indemnification of the insured or the ceding company by the insurer or reinsurer against loss or liability, the premium paid less the amount of the premium to be retained by the insurer or reinsurer shall be accounted for as a deposit by the insurer or ceding company.

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

	2009	**2008**
Balance at the beginning of period	**$ 8,088,048**	$ 9,250,480
Losses paid	**(1,257,975)**	(597,467)
Gain on deposit liability transferred to statement of income	**(567,163)**	(564,965)
Balance at the end of period	**$ 6,262,910**	$ 8,088,048

Also included in self-insurance liabilities as of September 30, 2009 and 2008 are unearned premiums of $169,997 and $161,912, respectively.

The actuary estimated the liability for unpaid losses based on industry data, as well as entity-specific data. Management considers the liability to be adequate as of September 20, 2009 and 2008: however, no assurance can be given that the ultimate settlement of losses may not vary materially from the liability recorded. Future adjustments to the amounts recorded resulting from the continual review process, as well as differences between estimates and ultimate payments, will be reflected in the consolidating statements of operations and changes in net assets of future years when such adjustments, if any, become known.

11. Net Assets

Temporarily restricted net assets of $28,603,447 and $12,007,071 as of September 30, 2009 and 2008, respectively, are available to the System for health care services. Permanently restricted net assets are $27,106,095 and $15,964,548 as of September 30, 2009 and 2008, respectively, and are investments to be held in perpetuity, the income which is expendable to support health care services.

12. Endowments

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

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

(1) The duration and preservation of the fund
(2) The purposes of the Development Fund 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 Development Fund
(7) The investment policies of the Development Fund

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

12. Endowments (continued)

To satisfy its long-term rate-of-return objectives, the Development Fund 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 Development Fund targets a diversified asset allocation that places a greater emphasis on equity-based alternative investments to achieve its long-term objective within prudent risk constraints. The spending policy is that all expenditures associated with the endowment are reviewed and approved by the leadership of the Development Fund prior to appropriation for spending each year.

Endowment net asset composition by type of fund as of September 30, 2009, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 16,347,547	$ 24,305,688	$ 40,653,235
Board-designated endowment funds	12,517,572	–	–	12,517,572
Endowment net assets at end of year	$ 12,517,572	$ 16,347,547	$ 24,305,688	$ 53,170,807

Changes in endowment funds for the fiscal year ended September 30, 2009, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of the year	$ 39,155,330	$ 1,222,224	$ 13,107,885	$ 53,485,439
Net asset reclassifications	(26,319,514)	15,947,255	10,372,259	–
Endowment net assets after reclassification	12,835,816	17,169,479	23,480,144	53,485,439
Investment return:				
Investment income, net	224,047	608,355	–	832,402
Change in unrealized gains and losses	257,709	499,050	–	756,759
Total investment return	481,756	1,107,405	–	1,589,161
Contributions	–	131,554	122,991	254,545
Net asset reclassification- net loss on endowments	–	290,127	–	290,127
Appropriation of Endowment assets for expenditures	(800,000)	(1,648,465)	–	(2,448,465)
Other changes:				
Transfers to create donor-designated endowment funds	–	(702,553)	702,553	–
Endowment net assets at end of year	$ 12,517,572	$ 16,347,547	$ 24,305,688	$ 53,170,807

12. Endowments (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level fund of the Corpus that UPMIFA requires the Development Fund to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There was $290,127 in deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2009.

13. Changes in Components of Operating Assets and Liabilities

	Years Ended September 30	
	2009	**2008**
(Increase) decrease in operating assets:		
Current portion of assets limited as to use	**$ 20,380**	$ (232,893)
Pledges receivable	**351,386**	(286,974)
Accounts receivable, net	**(11,654,230)**	(19,418,573)
Inventories	**21,438**	(792,153)
Prepaid expenses and other assets	**(560,997)**	1,114,205
	(11,822,023)	(19,616,388)
Increase (decrease) in operating liabilities:		
Accounts payable	**1,170,030**	87,147
Payroll-related accruals	**2,236,613**	1,432,481
Due to third-party payors	**5,858,878**	960,250
Interest payable	**(114,582)**	81,313
Other accrued expenses	**(8,446,874)**	9,601,192
Self-insurance liabilities	**4,634,917**	(2,334,016)
Other long-term liabilities	**(4,039,615)**	(30,492,855)
	1,299,367	(20,664,488)
Decrease in operating assets and liabilities	**$ (10,522,656)**	$ (40,280,876)

14. Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses related to providing these services, including the operating expenses of the Development Fund, are as follows:

	Years Ended September 30	
	2009	**2008**
Healthcare services	**$ 413,009,029**	$ 399,483,040
General and administrative	**71,054,873**	63,239,577
Fundraising	**1,947,541**	1,591,464
	$ 486,011,443	$ 464,314,081

15. Subsequent Event

On February 15, 2010, a non-binding letter of intent was signed between the System and New Milford Hospital. The letter of intent was signed to document potential merger activity of New Milford Hospital into the System.

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Report of Independent Auditors on Other Financial Information

The Board of Directors
Danbury Health Systems, Inc.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating financial statements are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

February 23, 2010

A member firm of Ernst & Young Global Limited

Danbury Health Systems, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2009

	Danbury Health Systems, Inc.	Danbury Hospital	Foundation	Development Fund	Danbury Health Care Affiliates	Business System, Inc.	Danbury VNA, Inc.	Regional Hospice of Western Connecticut, Inc.	Eliminations	Consolidated Danbury Health System, Inc.
Assets										
Current assets:										
Cash and cash equivalents	$ 159,310	$ 39,023,177	$ 1,000	$ 3,989,402	$ 697,295	$ 266,762	$ 1,013,720	$ 1,375,214		$ 46,525,880
Current portion of assets limited as to use	–	1,756,854	–	–	–	–	–	–		1,756,854
Current portion of pledges receivable	–	–	–	1,136,440	–	–	–	–		1,136,440
Accounts receivable, less allowance for uncollectible accounts of $16,548,000	593,896	41,637,724	–	–	1,403,957	514,366	435,800	717,538		45,303,281
Current portion of due from related parties	-	3,662,991	–	–	–	–	26,441	–	$ (3,689,432)	–
Inventories	149,001	7,249,038	–	–	–	1,012,960	–	–	–	8,410,999
Prepaid expenses and other	702,127	9,658,593	–	80,818	140,200	18,443	210,951	82,534	(4,278,135)	6,615,531
Total current assets	1,604,334	102,988,377	1,000	5,206,660	2,241,452	1,812,531	1,686,912	2,175,286	(7,967,567)	109,748,985
Investments	–	196,407,798	–	902,537	–	–	691,350			198,001,685
Assets limited as to use:										
Funds restricted by donor	–	–	–	49,418,939	–	–	21,156		–	49,440,095
Board designated funds	–	–	–	12,743,679	–	–	–	2,077,375	–	14,821,054
Trusts held by others	–	–	–	2,800,407	–	–	–	–	–	2,800,407
Total noncurrent assets limited as to use	–	–	–	64,963,025	–	–	21,156	2,077,375	–	67,061,556
Other assets	22,421,782	35,410,004	–	–	–	–	–	4,780	(49,728,767)	8,107,799
Interest in Danbury Hospital Development Fund, Inc.	–	74,439,678	–	–	–	–	–	–	(74,439,678)	–
Due from related parties	–	12,947,858	–	–	–	–	–	–	–	12,947,858
Property, plant, and equipment:										
Land and land improvements	–	7,105,504	–	471,593	–	–	–	–	–	7,577,097
Buildings and building improvements	4,119,740	223,364,649	–	860,049	2,827,783	34,000	3,835	271,425	–	231,481,481
Equipment and other	3,140,023	179,865,401	–	140,627	6,884,365	160,112	674,953	249,891	–	191,115,372
Construction in progress (estimated cost to complete at September 30, 2009: $11,412,000)	–	12,550,101	–	–	–	–	–	–	–	12,550,101
	7,259,763	422,885,655	–	1,472,269	9,712,148	194,112	678,788	521,316	–	442,724,051
Less accumulated depreciation	(2,065,387)	(251,993,763)	–	(228,682)	(5,713,494)	(142,128)	(632,054)	(231,443)	–	(261,006,951)
	5,194,376	170,891,892	–	1,243,587	3,998,654	51,984	46,734	289,873	–	181,717,100
Pledges receivable, less current portion	–	–	–	2,912,462	–	–	–	–	–	2,912,462
Bond issuance costs, net	–	3,274,927	–	–	–	–	–	–	–	3,274,927
Total assets	$ 29,220,492	$ 596,360,534	$ 1,000	$ 75,228,271	$ 6,240,106	$ 1,864,515	$ 2,446,152	$ 4,547,314	$ (132,136,012)	$ 583,772,372
Liabilities and net assets										
Current liabilities:										
Accounts payable	$ 144,608	$ 19,989,643			$ 340,480		$ 130,583	$ 121,024		$ 20,726,338
Payroll-related accruals	20,631	14,142,886		$ 37,993	283,599	$ 67,673	125,155	90,665		14,768,602
Due to third-party payors	–	8,646,835		–	–	–	142,576	6,000		8,795,411
Due to affiliates	2,623,145	–		123,066	459,032	1,964,266	165,175	53,718	$ (5,388,402)	–
Interest payable	11,521	1,057,389		–	–	–	–	–	–	1,068,910
Other accrued expenses	7,861,657	3,365,463		559,384	23,626	10,936	89,490	102,211	–	12,012,767
Current portion of long-term debt	1,506,139	2,460,000		–	1,241,396	–	–	–	(1,241,396)	3,966,139
Total current liabilities	12,167,701	49,662,216		720,443	2,348,133	2,042,875	652,979	373,618	(6,629,798)	61,338,167
Self-insurance liabilities	–	36,867,859		–	–	–	–	–	–	36,867,859
Other long-term liabilities	161,855,253	14,488,471		68,150	8,500	–	–	–	(49,728,767)	126,691,607
Long-term debt, less current portion	5,001,912	114,675,000		–	1,337,769	–	–	–	(1,337,769)	119,676,912
Net assets:										
Unrestricted	(149,804,374)	325,008,268	$ 1,000	18,780,958	2,545,704	(178,360)	1,772,017	4,144,030	(18,780,958)	183,488,285
Temporarily restricted	–	28,552,625	–	28,552,625	–	–	21,156	29,666	(28,552,625)	28,603,447
Permanently restricted	–	27,106,095	–	27,106,095	–	–	–	–	(27,106,095)	27,106,095
Total net assets	(149,804,374)	380,666,988	1,000	74,439,678	2,545,704	(178,360)	1,793,173	4,173,696	(74,439,678)	239,197,827
Total liabilities and net assets	$ 29,220,492	$ 596,360,534	$ 1,000	$ 75,228,271	$ 6,240,106	$ 1,864,515	$ 2,446,152	$ 4,547,314	$ (132,136,012)	$ 583,772,372

Danbury Health Systems, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2009

	Danbury Health Systems, Inc.	Danbury Hospital	Foundation	Development Fund	Danbury Health Care Affiliates	Business System, Inc.	Danbury VNA, Inc.	Regional Hospice of Western Connecticut, Inc.	Eliminations	Consolidated Danbury Health System, Inc.
Unrestricted revenues:										
Net patient service revenue	$ 5,415,612	$ 460,095,922			$ 14,025,987	$ 13,152,095	$ 4,635,099	$ 3,145,746	$ (353,610)	$ 500,116,851
Net assets released from restriction	–	642,483		$ 193,782	–	–	32,865	56,756	–	925,886
Other operating revenues	633	11,130,264		–	155,368	472,590	226,814	–	(651,645)	11,334,024
	5,416,245	471,868,669		193,782	14,181,355	13,624,685	4,894,778	3,202,502	(1,005,255)	512,376,761
Expenses:										
Salaries, benefits and fees	2,348,016	272,649,656		–	6,167,643	1,754,716	3,271,540	2,338,240	(5,735)	288,524,076
Supplies and other	3,314,362	117,914,134		–	5,782,969	11,656,970	1,312,149	1,520,225	(888,888)	140,611,921
Insurance	–	9,473,436		–	90,900	12,080	28,272	7,920	(128,752)	9,483,856
Provision for uncollectible accounts	95,842	16,695,481		–	179,353	1,772	30,648	30,423	–	17,033,519
Depreciation and amortization	674,338	23,125,624		–	1,334,360	14,682	43,987	34,595	–	25,227,586
Interest	462,565	4,667,920		–	102,874	–	–	–	(102,874)	5,130,485
	6,895,123	444,526,251		–	13,658,099	13,440,220	4,686,596	3,931,403	(1,126,249)	486,011,443
Income (loss) from operations	(1,478,878)	27,342,418		193,782	523,256	184,465	208,182	(728,901)	120,994	26,365,318
Income tax expense	1,148	–			–	250	–	–	–	1,398
Nonoperating gains (losses):										
Contributions	–	–		966,451	–	–	42,122	551,785	–	1,560,358
Investment income, net	(6,034)	6,466,684		917,714	2,146	–	28,828	93,543	(204,514)	7,298,367
Change in unrealized gains and losses on investments	–	4,492,089		360,344	–	–	12,033	–	–	4,864,466
Loss on early extinguishment of debt	–	–		–	–	–	–	–	–	–
Change in equity interest in unrestricted net assets of the Danbury Hospital Development Fund, Inc.	–	213,448		–	–	–	–	–	(213,448)	–
Operating expenses of the Danbury Hospital Development Fund, Inc.	–	–		(2,031,061)	–	–	–	–	83,520	(1,947,541)
Excess (deficiency) of revenues over expenses before minority interest	(1,486,060)	38,514,639		407,230	525,402	184,215	291,165	(83,573)	(213,448)	38,139,570
Minority interest in loss of Ridgefield Surgical Center	–	–		–	–	–	–	–	–	–
Excess (deficiency) of revenues over expenses	$ (1,486,060)	38,514,639	$ –	$ 407,230	$ 525,402	$ 184,215	$ 291,165	$ (83,573)	$ (213,448)	$ 38,139,570

Danbury Health Systems, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2008

	Danbury Health Systems, Inc.	Danbury Hospital	Foundation	Development Fund	Danbury Health Care Affiliates	Business System, Inc.	Danbury VNA, Inc.	Regional Hospice of Western Connecticut, Inc.	Eliminations	Consolidated Danbury Health System, Inc.
Assets										
Current assets:										
Cash and cash equivalents	$ 517,346	$ 30,134,312	$ 1,000	$ 772,810	$ 478,810	$ 209,953	$ 643,883	$ 1,514,444		$ 34,272,558
Current portion of assets limited as to use	–	1,777,234	–	–	–	–	–	–		1,777,234
Current portion of pledges receivable	–	–	–	582,774	–	–	–	–		582,774
Accounts receivable less allowance for uncollectible accounts of $16,031,000	713,902	47,038,786	–	–	1,241,821	480,976	518,377	688,708		50,682,570
Current portion of due from related parties	-	17,140,576	–	1,505,978	–	–	–	–	$ (18,646,554)	-
Inventories	147,813	7,241,633	–	–	–	1,042,991	-	–	–	8,432,437
Prepaid expenses and other	93,343	9,782,186	–	169,075	96,672	1,971	327,949	32,791	(5,470,546)	5,033,441
Total current assets	1,472,404	113,114,727	1,000	3,030,637	1,817,303	1,735,891	1,490,209	2,235,943	(24,117,100)	100,781,014
Investments	–	158,287,487	–	3,271,790	–	–	663,452	2,195,447		164,418,176
Assets limited as to use:										
Funds restricted by donor	–	–	–	20,664,049	–	–	–	–	–	20,664,049
Board designated funds	–	-	–	40,338,648	–	–	–	–	–	40,338,648
Trusts held by others	–	–	–	2,856,663	–	–	–	–	–	2,856,663
Total noncurrent assets limited as to use	–	-	–	63,859,360	–	–	–	–	–	63,859,360
Other assets	4,869,971	52,445,404	–	–	–	–	–	–	(48,186,483)	9,128,892
Interest in Danbury Hospital Development Fund, Inc.	–	72,748,004	–	–	–	–	–	–	(72,748,004)	–
Due from related parties	–	14,922,412	–	–	–	–	–	–	-	14,922,412
Property, plant, and equipment:										
Land and land improvements	–	6,929,568	–	471,593	–	–	–	–	–	7,401,161
Buildings and building improvements	4,100,720	215,768,192	–	860,045	–	–	–	–	–	220,728,957
Equipment and other	3,124,474	160,278,254	–	109,048	9,512,657	208,238	651,310	575,761	–	174,459,742
Construction in progress	-	13,442,247	–	–	–	–	–	–	–	13,442,247
	7,225,194	396,418,261	–	1,440,686	9,512,657	208,238	651,310	575,761	–	416,032,107
Less accumulated depreciation	(1,403,603)	(229,167,870)	–	(182,723)	(4,374,396)	(180,419)	(588,068)	(281,627)	–	(236,178,706)
	5,821,591	167,250,391	–	1,257,963	5,138,261	27,819	63,242	294,134	–	179,853,401
Pledges receivable, less current portion	–	–	–	3,817,514	–	–	–	–	–	3,817,514
Bond issuance costs, net	–	3,452,377	–	–	–	–	–	–	–	3,452,377
Total assets	$ 12,163,966	$ 582,220,802	$ 1,000	$ 75,237,264	$ 6,955,564	$ 1,763,710	$ 2,216,903	$ 4,725,524	$ (145,051,587)	$ 540,233,146
Liabilities and net assets										
Current liabilities:										
Accounts payable	$ 124,512	$ 18,485,557		$ 35,542	$ 340,362		$ 349,730	$ 220,605		$ 19,556,308
Payroll-related accruals	48,677	11,911,101		30,100	273,330	$ 68,457	95,023	105,301		12,531,989
Due to third-party payors	–	2,891,698		–		–	44,835	–		2,936,533
Due to related parties	16,002,177	–		1,599,695	505,519	2,079,959	119,571	53,798	$ (20,360,719)	-
Interest payable	13,883	1,169,609		–	–	–	–	–	–	1,183,492
Other accrued expenses	16,463,208	3,148,154		667,787	51,170	3,404	-	125,918	–	20,459,641
Current portion of long-term debt	963,547	2,425,000		–	1,141,638	–	–	–	(1,141,638)	3,388,547
Total current liabilities	33,616,004	40,031,119		2,333,124	2,312,019	2,151,820	609,159	505,622	(21,502,357)	60,056,510
Self-insurance liabilities	–	32,232,942		–	–	–	–	–	–	32,232,942
Other long-term liabilities	67,310,037	16,419,555		156,136	8,500	–	114,059	–	(48,186,483)	35,821,804
Long-term debt, less current portion	5,582,154	117,135,000		–	2,614,743	–	–	–	(2,614,743)	122,717,154
Net assets:										–
Unrestricted	(94,344,229)	348,481,186	$ 1,000	44,827,004	2,020,302	(388,110)	1,480,852	4,182,116	(44,827,004)	261,433,117
Temporarily restricted	–	11,956,452	-	11,956,452	–	–	12,833	37,786	(11,956,452)	12,007,071
Permanently restricted	–	15,964,548	-	15,964,548	–	–	–	–	(15,964,548)	15,964,548
Total net assets	(94,344,229)	376,402,186	1,000	72,748,004	2,020,302	(388,110)	1,493,685	4,219,902	(72,748,004)	289,404,736
Total liabilities and net assets	$ 12,163,966	$ 582,220,802	$ 1,000	$ 75,237,264	$ 6,955,564	$ 1,763,710	$ 2,216,903	$ 4,687,738	$ (145,051,587)	$ 540,233,146

Danbury Health Systems, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2008

	Danbury Health Systems, Inc.	Danbury Hospital	Foundation	Development Fund	Danbury Health Care Affiliates	Business System, Inc.	Danbury VNA, Inc.	Regional Hospice of Western Connecticut, Inc.	Eliminations	Consolidated Danbury Health System, Inc.
Revenues:										
Net patient service revenue	$ 5,354,034	$ 430,505,970	$ -	$ -	$ 12,753,947	$ 13,337,665	$ 4,356,816	$ 3,173,271		$ 469,481,703
Net assets released from restriction	–	881,832			–	–	20,167	–	–	901,999
Other operating revenues	3,763	10,434,601			215,987	$ 414,192	239,655	–	(1,106,772)	10,201,426
	5,357,797	441,822,403			12,969,934	13,751,857	4,616,638	3,173,271	(1,106,772)	480,585,128
Expenses:										
Salaries, benefits, and fees	7,459,418	253,108,466			5,591,896	1,643,636	3,202,288	2,151,979	-	273,157,683
Supplies and other	3,358,465	112,448,578			5,662,425	12,423,321	1,223,053	1,554,757	(1,208,412)	135,462,187
Insurance	48,939	11,193,891			–	–	–	–	–	11,242,830
Provision for uncollectible accounts	44,826	15,597,793			175,426	5,454	76,745	–	–	15,900,244
Depreciation and amortization	687,541	20,324,444			1,281,360	11,280	43,325	33,455	–	22,381,405
Interest	488,994	5,680,738			389,653			–	$ (389,653)	6,169,732
	12,088,183	418,353,910			13,100,760	14,083,691	4,545,411	3,740,191	(1,598,065)	464,314,081
(Loss) income from operations	(6,730,386)	23,468,493			(130,826)	(331,834)	71,227	(566,920)	491,293	16,271,047
Income tax expense	600	–			–	250	–	–	–	850
Nonoperating (losses) gains:										
Contributions	–	–		2,129,454	–	–	79,725	894,954	–	3,104,133
Investment income, net	13,610	7,209,837		3,823,956	–	–	45,028	(42,234)	$ (491,293)	10,558,904
Change in unrealized gains and losses on investments		(28,243,677)		(13,068,566)			(105,042)	(230,176)		(41,647,461)
Loss on early extinguishment of debt		(904,724)								(904,724)
Change in equity interest in unrestricted net assets of the										–
Danbury Hospital Development Fund, Inc.	–	(8,808,260)		–	–	–	–	–	8,808,260	-
Operating expenses of the Danbury										–
Hospital Development Fund, Inc.	–	–		(1,693,104)	–	–	–	–	-	(1,693,104)
(Deficiency) excess of revenues over expenses before minority interest	(6,717,376)	(7,278,331)		(8,808,260)	(130,826)	(332,084)	90,938	55,624	8,808,260	(14,312,055)
Minority interest in loss of Ridgefield Surgical Center	91,248	–		–	–	–	–	–	–	91,248
(Deficiency) excess of revenues over expenses	$ (6,626,128)	(7,278,331)	$ –	$ (8,808,260)	$ (130,826)	$ (332,084)	$ 90,938	$ 55,624	$ 8,808,260	$ (14,220,807)