

CONSOLIDATED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

Western Connecticut Healthcare, Inc. and Subsidiaries  
Years Ended September 30, 2010 and 2009  
with Report of Independent Auditors

# Western Connecticut Healthcare, Inc. and Subsidiaries

## Consolidated Financial Statements and Other Financial Information

Years Ended September 30, 2010 and 2009

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## Report of Independent Auditors

The Board of Directors  
Western Connecticut Healthcare, Inc.

We have audited the accompanying consolidated balance sheets of Western Connecticut Healthcare, Inc. and Subsidiaries (the System) as of September 30, 2010 and 2009, 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, and The New Milford Hospital, Incorporated and Subsidiaries (the Hospital) for the years ended September 30, 2010 and 2009, which statements reflect total assets of 18% for the years ended September 30, 2010 and 2009 and total revenues constituting 17% and 18%, respectively, for the years then ended. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Company and the Hospital is based solely on the reports 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 reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Western Connecticut Healthcare, Inc. and Subsidiaries at September 30, 2010 and 2009, 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.

As described in Note 1 to the financial statements, the System restated its financial statements for the year ended September 30, 2009 to account for the acquisition of The New Milford Hospital, Incorporated and Subsidiaries.



January 27, 2011

Western Connecticut Healthcare, Inc. and Subsidiaries

Consolidated Balance Sheets

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
		<i>(Restated)</i>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 41,061,454	\$ 50,191,954
Current portion of assets limited as to use	3,802,296	4,452,706
Current portion of pledges receivable	1,143,377	1,359,798
Accounts receivable, less allowance for uncollectible accounts of approximately \$13,481,000 in 2010 and \$15,587,000 in 2009	66,087,968	60,686,846
Inventories	10,647,373	10,446,076
Prepaid expenses and other	11,701,548	10,168,226
Total current assets	<u>134,444,016</u>	137,305,606
Investments	234,672,059	199,540,909
Assets limited as to use:		
Funds restricted by donor	53,508,088	57,668,331
Board designated funds	14,534,278	14,821,054
Trusts held by others	6,901,020	6,454,856
Total noncurrent assets limited as to use	<u>74,943,386</u>	78,944,241
Other assets	8,605,309	8,912,243
Due from related parties	15,058,487	12,947,858
Property, plant, and equipment:		
Land and land improvements	9,247,160	9,123,954
Buildings and building improvements	290,478,697	277,606,911
Equipment and other	255,709,652	235,528,462
Construction in progress (estimated cost to complete at September 30, 2010: \$15,774,028)	21,879,446	13,218,779
	<u>577,314,955</u>	535,478,106
Less accumulated depreciation	352,143,546	321,863,587
	<u>225,171,409</u>	213,614,519
Pledges receivable, less current portion	3,535,600	3,263,850
Bond issuance costs, net	3,117,386	3,274,927
Total assets	<u>\$ 699,547,652</u>	<u>\$ 657,804,153</u>

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
		<i>(Restated)</i>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 24,980,996	\$ 26,271,400
Payroll-related accruals	16,877,046	17,754,791
Due to third-party payors	14,882,325	15,239,554
Interest payable	1,067,716	1,068,910
Other accrued expenses	11,409,220	15,383,399
Current portion of long-term debt	6,455,637	5,628,869
Current portion of accrued pension liabilities	1,000,000	–
Long-term debt subject to short-term remarketing agreements	30,870,000	–
Total current liabilities	<b>107,542,940</b>	81,346,923
Self-insurance liabilities	<b>34,983,997</b>	36,867,859
Accrued pension liabilities and other	<b>152,835,684</b>	149,402,233
Long-term debt, less current portion and long-term debt subject to short-term remarketing agreement	<b>92,471,763</b>	127,220,909
Net assets:		
Unrestricted	246,220,345	193,067,618
Temporarily restricted	33,595,748	39,138,067
Permanently restricted	31,897,175	30,760,544
Total net assets	<b>311,713,268</b>	262,966,229
Total liabilities and net assets	<b>\$ 699,547,652</b>	<b>\$ 657,804,153</b>

*See accompanying notes.*

Western Connecticut Healthcare, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	<b>Years Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
		<i>(Restated)</i>
Unrestricted revenues:		
Net patient service revenue	<b>\$ 606,865,978</b>	\$ 588,988,826
Net assets released from restriction	<b>2,790,050</b>	1,947,910
Other operating revenue	<b>15,295,373</b>	15,376,242
	<b>624,951,401</b>	606,312,978
Expenses:		
Salaries, benefits and fees	<b>361,252,292</b>	345,440,070
Supplies and other	<b>180,857,069</b>	178,283,040
Insurance	<b>8,026,756</b>	9,483,856
Provision for uncollectible accounts	<b>14,229,424</b>	16,218,738
Depreciation and amortization	<b>33,299,043</b>	30,216,108
Interest	<b>5,539,104</b>	5,806,069
	<b>603,203,688</b>	585,447,881
Income from operations	<b>21,747,713</b>	20,865,097
Income tax expense	<b>1,000</b>	1,398
Nonoperating gains (losses):		
Contributions	<b>3,404,377</b>	1,733,390
Investment income, net	<b>7,688,148</b>	7,460,486
Change in unrealized gains and losses on investments	<b>12,609,784</b>	4,864,466
Operating expenses of the Danbury Hospital Development Fund, Inc.	<b>(1,887,589)</b>	(1,947,541)
	<b>21,814,720</b>	12,110,801
Excess of revenues over expenses	<b>43,561,433</b>	32,974,500

*Continued on next page.*

Western Connecticut Healthcare, Inc. and Subsidiaries

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

	<b>Years Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
		<i>(Restated)</i>
Unrestricted net assets:		
Excess of revenues over expenses (continued)	<b>43,561,433</b>	32,974,500
Change in unrealized gains and losses on investments	<b>247,823</b>	(866,731)
Net assets released from restrictions for property, plant and equipment	<b>9,206,307</b>	3,433,619
Transfers from (to) temporarily and permanently restricted net assets	<b>152,871</b>	(24,634,526)
Change in pension funding obligation	<b>(278,816)</b>	(104,771,098)
Effect of early measurement date elimination	–	(3,287,101)
Other	<b>263,109</b>	(458,169)
Increase (decrease) in unrestricted net assets	<b>53,152,727</b>	(97,609,506)
Temporarily restricted net assets:		
Contributions	<b>2,308,467</b>	7,948,422
Investment income (loss), net	<b>1,147,929</b>	(20,393)
Change in unrealized gains and losses on investments	<b>3,247,876</b>	730,882
Net assets released from restriction	<b>(2,790,050)</b>	(1,947,910)
Net assets released from restrictions for property, plant and equipment	<b>(9,206,307)</b>	(3,433,619)
Transfers to Danbury Office of Physician Services, P.C.	–	(266,044)
Transfer (to) from unrestricted and permanently restricted net assets	<b>(250,234)</b>	13,559,714
(Decrease) increase in temporarily restricted net assets	<b>(5,542,319)</b>	16,571,052
Permanently restricted net assets:		
Change in unrealized gains and losses on trusts held by others	<b>446,164</b>	(162,737)
Contributions	<b>593,104</b>	122,991
Transfer from temporarily restricted net assets	<b>97,363</b>	11,074,812
Increase in permanently restricted net assets	<b>1,136,631</b>	11,035,066
Increase (decrease) in net assets	<b>48,747,039</b>	(70,003,388)
Net assets at beginning of year	<b>262,966,229</b>	332,969,617
Net assets at end of year	<b>\$ 311,713,268</b>	\$ 262,966,229

See accompanying notes.

Western Connecticut Healthcare, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	<b>Years Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
		<i>(Restated)</i>
<b>Operating activities and other income</b>		
Increase (decrease) in net assets	\$ 48,747,039	\$ (70,003,388)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities and other income:		
Depreciation and amortization	33,299,043	30,216,108
Change in unrealized gains and losses on investments	(16,105,483)	(4,728,617)
Change in pension funding obligation	278,816	104,771,098
Effect of early measurement date elimination	–	3,287,101
Other	(263,109)	458,169
Restricted contributions and investment income	(4,049,500)	(8,051,020)
Transfers to Danbury Office of Physician Services, P.C.	–	266,044
Change in unrealized gains and losses on trusts held by others	(446,164)	162,737
Provision for uncollectible accounts	14,229,424	16,218,738
Changes in operating assets and liabilities ( <i>See Note 13</i> )	(24,693,128)	(3,478,044)
Net cash provided by operating activities and other income	<b>50,996,938</b>	69,118,926
<b>Investing activities</b>		
Additions to property, plant, and equipment, net	(44,855,933)	(29,619,121)
(Increase) decrease in due from related parties	(2,110,629)	1,974,554
Increase in investments, net	(14,315,539)	(34,132,027)
Net cash used in investing activities	<b>(61,282,101)</b>	(61,776,594)
<b>Financing activities</b>		
Proceeds of issuance of bonds, net of change in issuance costs	157,541	177,450
Proceeds from long-term debt	1,708,023	–
Payments of long-term debt	(4,760,401)	(5,865,410)
Restricted contributions and investment income	4,049,500	8,051,020
Transfers to Danbury Office of Physician Services, P.C.	–	(266,044)
Net cash provided by financing activities	<b>1,154,663</b>	2,097,016
Net (decrease) increase in cash and cash equivalents	<b>(9,130,500)</b>	9,439,348
Cash and cash equivalents at beginning of year	<b>50,191,954</b>	40,752,606
Cash and cash equivalents at end of year	<b>\$ 41,061,454</b>	\$ 50,191,954

*See accompanying notes.*

# Western Connecticut Healthcare, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2010

### 1. Summary of Significant Accounting Policies

#### Organization and Basis of Presentation

Western Connecticut Healthcare, Inc. 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). The New Milford Hospital Incorporated and Subsidiaries (The New Milford Hospital) joined Western Connecticut Healthcare, Inc. in September 2010. Refer to “Restatement for Acquisition of The New Milford Hospital”, following, for additional disclosures. As a result of this affiliation, the name of the parent company was changed from Danbury Health Systems, Inc. (DHS) to Western Connecticut Healthcare, Inc.

Western Connecticut Healthcare, Inc. owns 100% of the capital stock of BSI. Western Connecticut Healthcare, Inc. is the sole corporate member of the Hospital, the Development Fund, The New Milford Hospital, DHCA, VNA, and the Hospice.

Western Connecticut Healthcare, Inc. owns 62.2% 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, 2008 and 2009, 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. Western Connecticut Healthcare, Inc. is required to make contributions that match those made by the physician members. As of this date, no physicians have made contributions and the Foundation is currently inactive.

The New Milford Hospital, is a voluntary, not-for-profit, non-stock corporation incorporated under the General Statutes of the State of Connecticut and is the sole corporate member of its subsidiaries, New Milford Hospital Foundation, Inc., and New Milford Visiting Nurse Association, Inc.

The consolidated financial statements include the accounts of Western Connecticut Healthcare, Inc. the Hospital, the Development Fund, The New Milford Hospital, DHCA, BSI, VNA, Hospice, and the Foundation. All material intercompany transactions have been eliminated in consolidation.

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### Restatement for Acquisition of The New Milford Hospital

Pursuant to an affiliation agreement dated September 30, 2010, Western Connecticut Healthcare, Inc. became the sole corporate member of The New Milford Hospital. The transaction was treated in a manner similar to a pooling-of-interests. Accordingly, the accompanying consolidated financial statements for 2010 are based on the assumption that the companies were combined for the full fiscal year ended September 30, 2010. In addition, the consolidated financial statements of the prior year have been restated to give effect to the combination. For the periods preceding the transaction, there were no intercompany transactions which required elimination from the consolidated results of operations and there were no adjustments necessary to conform to accounting practices of the combining companies.

Selected financial information for the combining entities included in the consolidated financial statements for the years ended September 30, 2010 and 2009, is as follows:

	<b>2010</b>	<b>2009</b>
	<i>(in thousands)</i>	
Total unrestricted revenues and other support:		
Western Connecticut Healthcare, Inc.	\$ 528,735	\$ 508,322
The New Milford Hospital	96,216	97,991
Combined	<u>\$ 624,951</u>	<u>\$ 606,313</u>
Operating income (loss):		
Western Connecticut Healthcare, Inc.	\$ 21,865	\$ 26,365
The New Milford Hospital	(117)	(5,500)
Combined	<u>\$ 21,748</u>	<u>\$ 20,865</u>
Excess (deficiency) of revenues over expenses:		
Western Connecticut Healthcare, Inc.	\$ 43,371	\$ 38,140
The New Milford Hospital	190	(5,165)
Combined	<u>\$ 43,561</u>	<u>\$ 32,975</u>

The retroactive restatement of consolidated net assets at October 1, 2008 of \$332,969,617 includes Western Connecticut Healthcare, Inc. net assets of \$289,404,736 and The New Milford Hospital net assets of \$43,564,881.

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **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.

##### **Regulatory Matters**

Western Connecticut Healthcare, Inc. 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 Western Connecticut Healthcare, Inc.'s policy to monitor the financial strength of these institutions.

##### **Investments**

Substantially all of Western Connecticut Healthcare, Inc.'s investment portfolio reported in the accompanying balance sheets is designated as trading, with realized and unrealized gains and losses included in the excess of revenues over expenses.

Investments in equity securities with readily determinable fair values and all investments in debt securities are 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 of revenues over expenses unless the income or loss is restricted by donor or by law.

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that Western Connecticut Healthcare, Inc. 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, Western Connecticut Healthcare, Inc.'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 Western Connecticut Healthcare, Inc. 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, Western Connecticut Healthcare, Inc.'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.

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

Temporarily restricted net assets are those whose use by Western Connecticut Healthcare, Inc. 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, Western Connecticut Healthcare, Inc. 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.

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

Patient accounts receivable result from the health care services provided by Western Connecticut Healthcare, Inc. 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. During 2010, Western Connecticut Healthcare, Inc. recorded positive changes in estimate of approximately \$2,570,000 related to the allowance for doubtful accounts. See Note 2 for additional information relative to third-party payor programs.

Western Connecticut Healthcare, Inc.'s primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies and private patients. Western Connecticut Healthcare, Inc. 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 44% and 10%, and 43% and 9% for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2010 and 2009, 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), assets held in trusts by others in accordance with donor restrictions, cash designated for the Supplemental Executive Retirement Plan and donated land held for sale. 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. Western Connecticut Healthcare, Inc. 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.

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Conditional asset retirement obligations recorded under the provisions of Accounting Standards Codification (ASC) 410-20, *Asset Retirement Obligations*, amounted to \$469,148 and \$726,537 as of September 30, 2010 and 2009. 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 2010 and 2009, 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 \$1,283,533 and \$1,092,389 at September 30, 2010 and 2009, respectively.

#### **Inventories**

Effective October 1, 2009, the Hospital changed its inventory valuation method from last in, first out method to first in, first out method. The change in valuation method had an immaterial impact to the consolidated balance sheet and statement of operations for the year ended September 30, 2010.

Inventories, used in general operations of The New Milford Hospital, are stated at average cost.

#### **Nonoperating Gains (Losses)**

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating gains (losses) 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 of Revenues Over Expenses**

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

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

The carrying value of financial instruments classified as current assets and current liabilities as of September 30, 2010 and 2009 approximate fair value based on current market conditions. The fair values of Western Connecticut Healthcare, Inc.'s financial instruments are disclosed in the respective notes and/or in Note 4.

##### **Income Taxes**

Western Connecticut Healthcare, Inc. 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 is a foreign corporation exempt from US taxation.

Western Connecticut Healthcare, Inc. has losses from unrelated business activities of approximately \$38,000,000 which began expiring in 2010. A deferred tax asset for these losses of approximately \$15,200,000 is offset by a corresponding valuation allowance of the same amount.

##### **Adoption of New Accounting Standards**

In December 2008, the FASB issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in ASC 715. This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within plan assets. See Note 8 for these additional disclosures for the year ended September 30, 2010. The adoption of this guidance did not have a significant impact on Western Connecticut Healthcare, Inc.'s consolidated financial statements for the year ended September 30, 2010.

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### New Accounting Standards

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements*, (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each “class” of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 becomes effective for reporting periods beginning after December 15, 2009. Management is currently evaluating the effect that the provisions of ASU 2010-06 will have on the consolidated financial statements.

##### Subsequent Events

Western Connecticut Healthcare, Inc. evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the year ended September 30, 2010, Western Connecticut Healthcare, Inc. evaluated subsequent events through January 27, 2011, which represents the date in which the consolidated financial statements were issued. Refer to Note 15 for events that required disclosure. No events occurred that require adjustment to the consolidated financial statements.

##### Reclassifications

Certain reclassifications have been made to the year ended September 30, 2009 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, 2010 presentation.

Western Connecticut Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

The following table summarizes net patient service revenue:

	<b>Years Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Gross patient service revenue	<b>\$ 1,350,505,746</b>	\$ 1,297,474,231
Deductions:		
Allowances	<b>(728,277,143)</b>	(692,832,475)
Charity care (at charges)	<b>(15,362,625)</b>	(15,652,930)
	<b>(743,639,768)</b>	(708,485,405)
Net patient service revenue	<b>\$ 606,865,978</b>	\$ 588,988,826

During 2010 and 2009, approximately 34% and 6% 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. Western Connecticut Healthcare, Inc. 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 Western Connecticut Healthcare, Inc.

Western Connecticut Healthcare, Inc. has agreements with third-party payors that provide for payments to Western Connecticut Healthcare, Inc. 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 2010 and 2009, Western Connecticut Healthcare, Inc. recorded increases in net patient service revenue of approximately \$2,484,000 and \$500,000, respectively, related to changes in previously estimated third-party payor settlements.

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Western Connecticut Healthcare, Inc. 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 Western Connecticut Healthcare, Inc. specific data. Such amounts are included in the accompanying consolidated balance sheets.

It is the policy of Western Connecticut Healthcare, Inc. 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 Western Connecticut Healthcare, Inc. A patient is classified as a charity care patient by reference to established policies of Western Connecticut Healthcare, Inc. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, Western Connecticut Healthcare, Inc. 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			
	2010		2009	
	Cost	Market	Cost	Market
Cash and cash equivalents	\$ 2,373,629	\$ 2,363,207	\$ 8,202,701	\$ 8,202,701
United States Treasury obligations	48,875,063	49,562,181	36,256,255	36,475,383
Corporate bonds	30,344,486	30,107,189	24,814,854	24,570,632
Mutual funds	220,769,675	220,681,848	218,756,978	202,781,578
	\$ 302,362,853	\$ 302,714,425	\$ 288,030,788	\$ 272,030,294
Current portion of assets limited as to use:				
Cash and cash equivalents	\$ 922,589	\$ 922,589	\$ 1,095,852	\$ 1,095,852
Money market funds	1,679,707	1,679,707	1,756,854	1,756,854
	\$ 2,602,296	\$ 2,602,296	\$ 2,852,706	\$ 2,852,706

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 3. Investments and Assets Limited as to Use (continued)

Also included within the current portion of assets limited as to use is \$1,200,000 and \$1,600,000 of land held for sale as of September 30, 2010 and 2009, respectively.

Western Connecticut Healthcare, Inc. is the income beneficiary of funds held in trust by others. The fair value of the trusts for Western Connecticut Healthcare, Inc. were \$6,901,020 and \$6,454,856 at September 30, 2010 and 2009, respectively.

Investment income included in non-operating gains (losses) for the year ended September 30, 2010 consists of:

Interest and dividend income	\$ 7,942,949
Realized gains and losses	(254,801)
	<u>\$ 7,688,148</u>

#### 4. Fair Values of Financial Instruments

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, Western Connecticut Healthcare, Inc. utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. In addition, Western Connecticut Healthcare, Inc. considers counterparty credit risk in its assessment of fair value.

Western Connecticut Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Financial assets and liabilities carried at fair value as of September 30, 2010 are classified in the table below in one of the three categories described above:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 41,061,454	\$ —	\$ —	\$ 41,061,454
Investments and assets limited as to use:				
Cash and cash equivalents	3,285,796	—	—	3,285,796
Money market funds	1,679,707	—	—	1,679,707
United States Treasury obligations	49,562,181	—	—	49,562,181
Corporate bonds	29,604,818	502,371	—	30,107,189
Mutual Funds	128,476,192	80,546,656	—	209,022,848
Trusts held by others	—	6,901,020	—	6,901,020
Postretirement pension plan assets:				
Cash and cash equivalents	276,029	—	—	276,029
Corporate bonds	116,949,962	—	—	116,949,962
Mutual Funds	30,566,136	159,853,981	27,989,880	218,409,997
<b>Liabilities</b>				
Interest rate swap agreement	—	623,890	—	623,890
	<u>\$ 401,462,275</u>	<u>\$ 248,427,918</u>	<u>\$ 27,989,880</u>	<u>\$ 677,880,073</u>

The amounts reported in the table above do not include alternative investments totaling approximately \$11,659,000 that are accounted for under the equity method of accounting.

Western Connecticut Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 50,191,954	\$ —	\$ —	\$ 50,191,954
Investments and assets limited as to use:				
Cash and cash equivalents	9,298,553	—	—	9,298,553
Money market funds	1,756,854	—	—	1,756,854
United States Treasury obligations	36,475,383	—	—	36,475,383
Corporate bonds	24,256,825	313,807	—	24,570,632
Mutual Funds	117,310,949	74,439,629	—	191,750,578
Trusts held by others	—	6,454,856	—	6,454,856
<b>Liabilities</b>				
Interest rate swap agreement	—	586,578	—	586,578
	<u>\$ 239,290,518</u>	<u>\$ 81,794,870</u>	<u>\$ —</u>	<u>\$ 321,085,388</u>

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 assets is based upon quoted market prices while fair value for Level 2 assets are primarily determined through prices obtained from third party pricing sources as quoted market prices for such securities are not readily available. Fair value for the interest rate swap agreement classified as Level 2 is determined using information provided by TD Securities. The fair value estimate considers the underlying notional debt principal amounts and the current interest rates paid by Western Connecticut Healthcare, Inc. and TD Securities under the swap contract.

For the year ended September 30, 2010, the changes in the fair value of assets measured using significant unobservable inputs (Level 3) were comprised of the following:

Beginning balance at October 1, 2009	\$ 25,436,835
Change in unrealized gains and losses	2,455,806
Purchases	210,638
Sales	(113,399)
Ending balance at September 30, 2010	<u>\$ 27,989,880</u>

Western Connecticut Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**5. Pledges Receivable**

Pledges receivable include the following unconditional promises to give as of September 30, 2010 and 2009:

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Due within one year	<b>\$ 1,367,319</b>	\$ 1,665,283
Due within one to five years	<b>3,786,426</b>	3,357,614
Due within greater than five years	<b>216,886</b>	582,244
	<b>5,370,631</b>	5,605,141
Discount	<b>(691,654)</b>	(981,493)
Present value of pledges receivable	<b>\$ 4,678,977</b>	\$ 4,623,648

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:

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Obligated Group revenue bonds financed with CHEFA:		
Series G	<b>\$ 40,650,000</b>	\$ 41,555,000
Series H	<b>41,560,000</b>	41,560,000
Series J	<b>32,465,000</b>	34,020,000
The New Milford Hospital term loans	<b>7,814,640</b>	8,521,379
The New Milford Hospital promissory notes	<b>429,338</b>	685,348
The New Milford Hospital capital lease	<b>956,254</b>	—
RSC term loan	<b>4,926,881</b>	5,558,122
RSC revolving line of credit	<b>920,287</b>	874,929
RSC members' loans	<b>75,000</b>	75,000
	<b>129,797,400</b>	132,849,778
Less current portion	<b>6,455,637</b>	5,628,869
Less long-term debt subject to short-term remarketing agreements	<b>30,870,000</b>	—
	<b>\$ 92,471,763</b>	\$ 127,220,909

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

The following is a summary of the combined aggregate amount of maturities and sinking fund requirements of the aforementioned obligations at September 30, 2010:

2011	\$ 6,455,637
2012	5,297,219
2013	5,111,123
2014	5,367,066
2015	5,549,391
Thereafter	<u>102,016,964</u>
	<u>\$ 129,797,400</u>

The fair value of the bonds, as determined by Western Connecticut Healthcare, Inc.'s investment advisor, was approximately \$106,820,000 at September 30, 2010.

Western Connecticut Healthcare, Inc. paid interest of \$5,205,308 and \$5,760,928 in 2010 and 2009, 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 Western Connecticut Healthcare, Inc. 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 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 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.

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Under the terms of the Series H Bonds, Series G 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 G 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 \$1,679,707 and \$1,756,854 at September 30, 2010 and 2009, respectively.

On September 21, 2005, The New Milford Hospital entered into an agreement with TD BankNorth, N.A. to provide a term loan in the amount of \$11,000,000 to fund The New Milford Hospital's defined benefit pension plan. This loan bears interest at a variable rate, which is reset monthly and is based on LIBOR plus 1.3%. Commencing on October 15, 2005 and continuing on the 15<sup>th</sup> day of each month through August 15, 2015 and on September 28, 2015, principal and interest of approximately \$122,000 shall be paid in monthly installments.

Effective September 28, 2005, The New Milford Hospital entered into an interest rate swap contract which effectively converts the variable rate on the \$11,000,000 term loan to a fixed rate of 5.99%. This interest rate swap has been designated as a cash flow hedge of the base interest rate. Management has determined that the interest rate swap is highly effective and reflects the changes in the effective portion of the hedge as a change in unrestricted net assets on the accompanying statement of changes in net assets. The ineffective portion of the interest rate swap, if any, is recorded as a non-operating item in the accompanying statement of operations and changes in net assets.

On June 11, 2010, The New Milford Hospital entered into a leasing agreement with First Litchfield Leasing Corporation to lease a 64-slice CT Scanner in the amount of \$1,008,023. Lease payments of \$56,993 are due quarterly beginning July 1, 2010 through July 1, 2015, at which point The New Milford Hospital has the option to purchase the machine for \$1. The equipment lease agreement bears interest at 4.8%.

Substantially, all assets owned by The New Milford Hospital are pledged as collateral for the term loans and revolving credit facility.

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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, 2010, RSC had an unpaid principal balance of \$4,926,881 related to the term 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 2010 and 2009 amounted to \$404,145 and \$400,050, respectively.

#### 7. Commitments and Contingencies

Malpractice claims have been asserted against Western Connecticut Healthcare, Inc. 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 Western Connecticut Healthcare, Inc. In addition, Western Connecticut Healthcare, Inc. is a party to various lawsuits incidental to its business. Management believes that the lawsuits will not have a material adverse effect on Western Connecticut Healthcare, Inc.'s financial position.

Western Connecticut Healthcare, Inc. 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 \$6,946,991 and \$6,381,795 for the years ended September 30, 2010 and 2009, respectively.

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

2011	\$ 5,954,673
2012	3,729,412
2013	3,304,394
2014	3,048,100
2015	2,857,614
Thereafter	9,523,906
	<u>\$ 28,418,099</u>

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **8. Pension Plans**

Western Connecticut Healthcare, Inc. and The New Milford Hospital have defined benefit pension plans, for which plan benefits are based on years of service and the employee's compensation (collectively referred to as the Plans). During November 2009, The New Milford Hospital approved to freeze its defined benefit pension plan effective January 31, 2010 for all employees. Provisions have been made to "grandfather" those participants in the plan that are fifty-six years old and have at least ten years of service. All other participants have their accrued pension benefits frozen. New employees are not allowed to participate in the pension plan. Contributions to the Western Connecticut Healthcare, Inc. 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. Western Connecticut Healthcare, Inc. plan participants vest in their benefits on a percentage basis with years of service. The Hospital 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.

Western Connecticut Healthcare, Inc. and The New Milford Hospital also maintain noncontributory, supplemental defined-benefit retirement plan (Supplemental Plans) for certain executive employees. As of September 30, 2010 and 2009, the projected benefit obligation for the Supplemental Plans amounted to \$1,928,066 and \$1,095,852, respectively, which was included in accrued pension liabilities and other in the accompanying consolidated balance sheets. The expenses incurred related to the Supplemental Plans amounted to \$169,846 and \$1,105,105 for the years ended September 30, 2010 and 2009, respectively. Effective October 1, 2009, The New Milford Hospital Supplemental Plan was frozen. Provisions have been made to "grandfather" those participants in the plan that are sixty years old and have at least ten years of service.

Included in unrestricted net assets at September 30, 2010 and 2009, are the following amounts that have not yet been recognized in net periodic pension cost: Unrecognized actuarial loss of \$190,506,899 and \$190,228,083, respectively. The actuarial loss included in unrestricted net assets at September 30, 2010 and expected to be recognized in net periodic pension cost during the year ending September 30, 2011 is \$11,284,026.

Western Connecticut Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Pension Plans (continued)**

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

	<u>2010</u>	<u>2009</u>
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ (419,278,744)	\$ (320,831,096)
Effect of eliminating early measurement date	–	(5,678,191)
Service cost	(14,955,500)	(12,303,781)
Assumption changes	(969,445)	–
Interest cost	(24,212,751)	(21,792,023)
Benefits paid	10,211,503	9,131,998
Curtailement	4,126,972	–
Actuarial loss	(25,633,497)	(52,918,227)
Plan amendments	–	(14,887,424)
Benefit obligation at end of year	<u>\$ (470,711,462)</u>	<u>\$ (419,278,744)</u>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$ 288,051,281	\$ 289,242,235
Effect of eliminating early measurement date	–	9,177,519
Contributions	24,000,000	18,000,000
Actual return on plan assets	33,796,210	(19,236,475)
Benefits paid	(10,211,503)	(9,131,998)
Fair value of plan assets at end of year	<u>335,635,988</u>	<u>288,051,281</u>
Underfunded status of the plans	<u>\$ (135,075,474)</u>	<u>\$ (131,227,463)</u>
<b>Components of net periodic benefit cost</b>		
Service cost	\$ 14,955,500	\$ 12,303,781
Interest cost	24,212,751	21,792,023
Expected return on plan assets	(23,469,330)	(22,657,175)
Net amortization and deferral	10,033,613	3,145,717
Recognized net loss	1,317,004	1,003,365
Prior service cost	1,365,818	–
Benefit cost	<u>\$ 28,415,356</u>	<u>\$ 15,587,711</u>

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 8. Pension Plans (continued)

As discussed in Note 1, Western Connecticut Healthcare, Inc. 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, Western Connecticut Healthcare, Inc. recorded a decrease in net assets approximately \$3,287,000 in the accompanying consolidated statements of operations and changes in net assets which represents the effect of early measurement date elimination.

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

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Discount rate used for net periodic benefit cost	<b>5.78 – 6.00%</b>	6.56 – 7.50%
Discount rate used for projected benefit obligation	<b>5.55%</b>	5.78 – 6.00%
Expected long-term rate of return on plan assets	<b>8.00%</b>	7.50 – 8.00%
Average rate of increase in compensation	<b>3.00 – 4.00%</b>	3.50 – 4.00%

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

The accumulated benefit obligation for the Plans at September 30, 2010 and 2009 was \$416,960,354 and \$352,329,928, respectively.

#### Plan Assets

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

Western Connecticut Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Pension Plans (continued)**

The weighted average asset allocations for Healthcare plan assets by category are as follows:

<b>Asset Category</b>	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Equity securities	<b>57%</b>	62%
Debt securities	<b>35</b>	31
Other investments	<b>8</b>	7
	<b>100%</b>	100%

As discussed in Note 1, Western Connecticut Healthcare, Inc. adopted the FASB's authoritative disclosure guidance on reporting for assets of postretirement benefit plans for the fiscal year ended September 30, 2010. As discussed in the Fair Value Measurements note (Note 4), Western Connecticut Healthcare, Inc. follows a three-level hierarchy to categorize assets measured at fair value. In accordance with this hierarchy, as of September 30, 2010, 44%, 48% and 8% of the Plans' assets which are measured at fair value on a recurring basis were categorized as Level 1, Level 2 and Level 3 investments, respectively. 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**

Western Connecticut Healthcare, Inc. expects to contribute \$25,000,000 to its plans in fiscal year 2011.

**Estimated Future Benefit Payments**

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

<b>Fiscal Year</b>	<b>Pension Benefits</b>
2011	\$ 14,687,143
2012	16,027,476
2013	17,765,830
2014	19,329,076
2015	21,040,619
Years 2016 – 2020	145,550,325

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **8. Pension Plans (continued)**

The New Milford Hospital has a Tax Sheltered Annuity (TSA) plan whereby The New Milford Hospital will match the contribution at a rate equal to that contributed by the participant on an annual basis. The TSA is available to substantially all employees. New participants may elect to contribute up to 20% of pretax compensation not to exceed \$16,500 and \$15,500 in calendar year 2010 and 2009, respectively, with certain “catch-up” provisions for employees over fifty years of age. The participants are fully vested in their contributions from the date of contribution. Employer contributions to the TSA during fiscal year 2010 and 2009 were \$626,233 and \$651,522, respectively.

#### **9. Related-Party Transactions**

Danbury Office of Physician Services, P.C. (DOPS) is a not-for-profit professional corporation which provides medical services to Western Connecticut Healthcare, Inc. Charges for physician services provided to Western Connecticut Healthcare, Inc. by DOPS were \$34,844,237 and \$31,954,001 for the years ended September 30, 2010 and 2009, respectively. During 2003, Western Connecticut Healthcare, Inc. issued a note receivable for \$2,000,000 to DOPS, of which \$917,035 and \$1,020,495 was outstanding at September 30, 2010 and 2009, respectively. Western Connecticut Healthcare, Inc. has accounts receivable from DOPS of \$15,058,487 and \$12,947,858 for the years ended September 30, 2010 and 2009, respectively.

#### **10. Professional Liability Insurance**

Effective October 1, 2004, Western Connecticut Healthcare, Inc. formed a captive insurance company, Danbury Health Systems Insurance Company, Ltd. (DHSIC). DHSIC, a subsidiary of the Hospital, is domiciled in the Cayman Islands and provides alternative professional liability insurance to Western Connecticut Healthcare, Inc. (excluding The New Milford Hospital) and DOPS. DHSIC also provides 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. Professional liability for The New Milford Hospital was also provided under claims-made policies. Western Connecticut Healthcare, Inc. has recorded a liability of \$9,717,769 and \$10,982,735 at September 30, 2010 and 2009, respectively, for incurred-but-not-reported claims, which is included in accrued pension liabilities and other on the accompanying consolidated balance sheets.

Western Connecticut Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**10. Professional Liability Insurance (continued)**

Assets held by DHSIC approximate \$58,806,000 and \$57,682,000 as of September 30, 2010 and 2009, respectively, of which a majority is reflected as investments in the accompanying consolidated balance sheets. Liabilities recorded by DHSIC. approximate \$35,179,000 and \$37,020,000 as of September 30, 2010 and 2009, respectively, of which a majority is reflected as self-insurance liabilities in the accompanying consolidated balance sheets.

The reserve for losses and loss adjustment expenses for DHSIC. 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, 2010 and 2009 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Balance at the beginning of period	\$ 30,434,952	\$ 23,982,982
Incurred related to:		
Current period	10,203,734	11,221,862
Prior period	(3,934,625)	(3,428,073)
Total incurred	<u>6,269,109</u>	<u>7,793,789</u>
Paid related to:		
Current period	(85,731)	(315,022)
Prior period	(4,323,965)	(1,026,797)
Total paid	<u>(4,409,696)</u>	<u>(1,341,819)</u>
Balance at the end of period	<u>\$ 32,294,365</u>	<u>\$ 30,434,952</u>

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. Accordingly, a portion of DHSIC activity is recorded using deposit accounting on Western Connecticut Healthcare, Inc.’s consolidated balance sheet.

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 10. Professional Liability Insurance (continued)

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

	<u>2010</u>	<u>2009</u>
Balance at the beginning of period	\$ 6,262,910	\$ 8,088,048
Losses paid	(3,514,180)	(1,257,975)
Gain on deposit liability transferred to statement of income	(214,842)	(567,163)
Balance at the end of period	<u>\$ 2,533,888</u>	<u>\$ 6,262,910</u>

Also included in self-insurance liabilities as of September 30, 2010 and 2009 are unearned premiums of \$155,744 and \$169,997, respectively.

The actuary estimated the liability for unpaid losses based on industry data, as well as entity-specific data. Management considers the liability to be adequate as of September 30, 2010 and 2009; 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 \$33,595,748 and \$39,138,067 as of September 30, 2010 and 2009, respectively, are available to Western Connecticut Healthcare, Inc. for health care services. Permanently restricted net assets of \$31,897,175 and \$30,760,544 as of September 30, 2010 and 2009, respectively, 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 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

## Western Connecticut Healthcare, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 12. Endowments (continued)

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 Western Connecticut Healthcare, Inc.'s Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

Western Connecticut Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**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 to achieve its long-term objective within prudent risk constraints. Each year, the Development Fund's Board of Directors will approve an endowment and similar fund spending rate. The objectives of the portfolio are the enhancement of capital and real purchasing power while limiting exposure to risk of loss. The endowment spending rate will be calculated on the 13 quarter trailing average market value of each portfolio as of the prior May 31. The computed value may be adjusted for large contributions, withdrawals or market value swings as necessary. A default spending cap on appreciation of seven percent in any given year is currently in effect. The Development Fund Board abides by these regulations and will adjust this rate accordingly.

Endowment net asset composition by type of fund as of September 30, 2010, consisted of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 18,999,710	\$ 24,996,155	\$ 43,995,865
Board-designated endowment funds	12,020,250	-	-	12,020,250
Endowment net assets at end of year	<u>\$ 12,020,250</u>	<u>\$ 18,999,710</u>	<u>\$ 24,996,155</u>	<u>\$ 56,016,115</u>

Western Connecticut Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**12. Endowments (continued)**

Changes in endowment funds for the fiscal year ended September 30, 2010, consisted of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at beginning of the year	\$ 12,517,572	\$ 16,347,547	\$ 24,305,688	\$ 53,170,807
Investment return:				
Investment income, net	317,842	1,075,797	–	1,393,639
Change in unrealized gains and losses	966,964	3,207,427	–	4,174,391
Total investment return	1,284,806	4,283,224	–	5,568,030
Contributions	–	186,918	593,104	780,022
Net asset reclassification- net change in loss on endowments	–	(298,159)	–	(298,159)
Appropriation of endowment assets for expenditures	(1,782,128)	(1,422,457)	–	(3,204,585)
Other changes:				
Transfers to permanently restricted endowment	–	(97,363)	97,363	–
Endowment net assets at end of year	<u>\$ 12,020,250</u>	<u>\$ 18,999,710</u>	<u>\$ 24,996,155</u>	<u>\$ 56,016,115</u>

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

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
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	<u>\$ 12,517,572</u>	<u>\$ 16,347,547</u>	<u>\$ 24,305,688</u>	<u>\$ 53,170,807</u>

Western Connecticut Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**12. Endowments (continued)**

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	-	119,879	122,992	242,871
Net asset reclassification- net loss on endowments	-	301,801	-	301,801
Appropriation of endowment assets for expenditures	(800,000)	(1,648,465)	-	(2,448,465)
Other changes:				
Transfers to permanently restricted endowment	-	(702,552)	702,552	-
Endowment net assets at end of year	<u>\$ 12,517,572</u>	<u>\$ 16,347,547</u>	<u>\$ 24,305,688</u>	<u>\$ 53,170,807</u>

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level fund of the Corpus that UPMIFA requires the 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 \$3,642 and \$301,801 in deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2010 and 2009, respectively.

Western Connecticut Healthcare, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**13. Changes in Components of Operating Assets and Liabilities**

	<b>Years Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
(Increase) decrease in operating assets:		
Current portion of assets limited as to use	\$ 650,410	\$ 459,884
Pledges receivable	(55,329)	919,743
Accounts receivable, net	(19,630,546)	(14,548,096)
Inventories	(201,297)	76,636
Prepaid expenses and other assets	(1,226,388)	(1,119,646)
	<u>(20,463,150)</u>	<u>(14,211,479)</u>
Increase (decrease) in operating liabilities:		
Accounts payable	(1,290,404)	1,665,114
Payroll-related accruals	(877,745)	2,399,088
Due to third-party payors	(357,229)	11,000,688
Interest payable	(1,194)	(114,582)
Other accrued expenses	(3,974,179)	(7,642,012)
Current portion of accrued pension liabilities	1,000,000	-
Self-insurance liabilities	(1,883,862)	4,634,917
Accrued pension liabilities and other	3,154,635	(1,209,778)
	<u>(4,229,978)</u>	<u>10,733,435</u>
Decrease in operating assets and liabilities	<u>\$ (24,693,128)</u>	<u>\$ (3,478,044)</u>

**14. Functional Expenses**

Western Connecticut Healthcare, Inc. 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:

	<b>Years Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Healthcare services	\$ 498,168,811	\$ 483,517,541
General and administrative	103,981,192	101,135,699
Fundraising	2,941,274	2,742,182
	<u>\$ 605,091,277</u>	<u>\$ 587,395,422</u>

**15. Subsequent Event**

As of December 1, 2010, Hospice will no longer be part of Western Connecticut Healthcare, Inc. and Subsidiaries.

## Report of Independent Auditors on Other Financial Information

The Board of Directors  
Western Connecticut Healthcare, 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*

January 27, 2011

Western Connecticut Healthcare, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2010

	Danbury Hospital	Development Fund	Eliminations	Obligated Group Total	Western Connecticut Healthcare, Inc.	New Milford Hospital	Eliminations	Subtotal	Foundation	Danbury Health Care Affiliates	Business Systems, Inc.	Danbury VNA, Inc.	Regional Hospice of Western Connecticut, Inc.	Eliminations	Total
<b>Assets</b>															
Current assets:															
Cash and cash equivalents	\$ 26,488,364	\$ 1,265,060	\$ -	\$ 27,753,424	\$ 160,339	\$ 7,581,902	\$ -	\$ 35,495,665	\$ 1,000	\$ 1,442,013	\$ 181,177	\$ 2,060,700	\$ 1,880,899	\$ -	\$ 41,061,454
Current portion of assets limited as to use	1,679,707	-	-	1,679,707	-	2,122,589	-	3,802,296	-	-	-	-	-	-	3,802,296
Current portion of pledges receivable	-	925,466	-	925,466	-	217,911	-	1,143,377	-	-	-	-	-	-	1,143,377
Accounts receivable, less allowance for uncollectible accounts of \$13,481,000	51,429,630	-	-	51,429,630	350,521	10,587,187	-	62,367,338	-	1,686,460	659,585	550,637	823,948	-	66,087,968
Current portion of due from related parties	3,894,406	-	(327,998)	3,566,408	-	-	(2,728,065)	838,343	-	-	-	-	-	(838,343)	-
Inventories	7,538,558	-	-	7,538,558	153,315	2,043,790	-	9,735,663	-	-	911,710	-	-	-	10,647,373
Prepaid expenses and other	11,103,104	-	-	11,103,104	747,000	2,498,889	-	14,348,993	-	45,723	26,612	314,911	31,223	(3,065,914)	11,701,548
Total current assets	102,133,769	2,190,526	(327,998)	103,996,297	1,411,175	25,052,268	(2,728,065)	127,731,675	1,000	3,174,196	1,779,084	2,926,248	2,736,070	(3,904,257)	134,444,016
Investments	226,190,145	6,281,797	-	232,471,942	-	2,200,117	-	234,672,059	-	-	-	-	-	-	234,672,059
Assets limited as to use:															
Funds restricted by donor	-	49,818,772	-	49,818,772	-	3,646,762	-	53,465,534	-	-	-	42,554	-	-	53,508,088
Board designated funds	-	12,255,537	-	12,255,537	-	-	-	12,255,537	-	-	-	-	2,278,741	-	14,534,278
Trusts held by others	-	2,950,456	-	2,950,456	-	3,950,564	-	6,901,020	-	-	-	-	-	-	6,901,020
Total noncurrent assets limited as to use	-	65,024,765	-	65,024,765	-	7,597,326	-	72,622,091	-	-	-	42,554	2,278,741	-	74,943,386
Other assets	31,671,852	-	-	31,671,852	23,309,915	1,009,712	(47,390,950)	8,600,529	-	-	-	-	4,780	-	8,605,309
Interest in Danbury Hospital Development Fund, Inc.	77,105,507	-	(77,105,507)	-	-	-	-	-	-	-	-	-	-	-	-
Due from related parties	15,058,487	-	-	15,058,487	-	-	-	15,058,487	-	-	-	-	-	-	15,058,487
Property, plant, and equipment:															
Land and land improvements	7,228,710	471,593	-	7,700,303	-	1,546,857	-	9,247,160	-	-	-	-	-	-	9,247,160
Buildings and building improvements	234,120,405	706,417	-	234,826,822	4,109,328	48,167,495	-	287,103,645	-	3,044,000	34,000	3,835	293,217	-	290,478,697
Equipment and other	196,721,202	146,049	-	196,867,251	3,246,163	47,608,978	-	247,722,392	-	6,838,345	170,981	704,763	273,171	-	255,709,652
Construction in progress (estimated cost to complete at September 30, 2010: \$15,774,028)	19,811,944	-	-	19,811,944	-	2,034,805	-	21,846,749	-	32,697	-	-	-	-	21,879,446
	457,882,261	1,324,059	-	459,206,320	7,355,491	99,358,135	-	565,919,946	-	9,915,042	204,981	708,598	566,388	-	577,314,955
Less accumulated depreciation	(274,705,979)	(201,004)	-	(274,906,983)	(2,740,264)	(66,345,362)	-	(343,992,609)	-	(7,047,677)	(156,883)	(676,634)	(269,743)	-	(352,143,546)
	183,176,282	1,123,055	-	184,299,337	4,615,227	33,012,773	-	221,927,337	-	2,867,365	48,098	31,964	296,645	-	225,171,409
Pledges receivable, less current portion	-	3,338,575	-	3,338,575	-	197,025	-	3,535,600	-	-	-	-	-	-	3,535,600
Bond issuance costs, net	3,117,386	-	-	3,117,386	-	-	-	3,117,386	-	-	-	-	-	-	3,117,386
Total assets	\$ 638,453,428	\$ 77,958,718	\$ (77,433,505)	\$ 638,978,641	\$ 29,336,317	\$ 69,069,221	\$ (50,119,015)	\$ 687,265,164	\$ 1,000	\$ 6,041,561	\$ 1,827,182	\$ 3,000,766	\$ 5,316,236	\$ (3,904,257)	\$ 699,547,652
<b>Liabilities and net assets</b>															
Current liabilities:															
Accounts payable	\$ 20,722,686	\$ -	\$ -	\$ 20,722,686	\$ 361,243	\$ 3,307,401	\$ -	\$ 24,391,330	\$ -	\$ 330,100	\$ -	\$ 216,808	\$ 42,758	\$ -	\$ 24,980,996
Payroll-related accruals	14,821,485	41,219	-	14,862,704	25,475	1,350,121	-	16,238,300	-	306,972	78,722	146,951	106,101	-	16,877,046
Due to third-party payors	11,079,973	-	-	11,079,973	-	3,703,516	-	14,783,489	-	-	-	35,436	63,400	-	14,882,325
Due to related parties	-	327,998	(327,998)	-	2,728,065	-	(2,728,065)	-	-	374,765	1,943,902	163,925	83,896	(2,566,488)	-
Interest payable	1,057,389	-	-	1,057,389	10,327	-	-	1,067,716	-	-	-	-	-	-	1,067,716
Other accrued expenses	2,929,346	480,008	-	3,409,354	5,435,119	2,327,723	-	11,172,196	-	(119,164)	4,568	268,400	83,220	-	11,409,220
Current portion of long-term debt	2,545,000	-	-	2,545,000	1,654,595	2,256,042	-	6,455,637	-	1,337,769	-	-	-	(1,337,769)	6,455,637
Current portion of accrued pension liabilities	-	-	-	-	-	1,000,000	-	1,000,000	-	-	-	-	-	-	1,000,000
Long-term debt subject to short-term remarketing agreements	30,870,000	-	-	30,870,000	-	-	-	30,870,000	-	-	-	-	-	-	30,870,000
Total current liabilities	84,025,879	849,225	(327,998)	84,547,106	10,214,824	13,944,803	(2,728,065)	105,978,668	-	2,230,442	2,027,192	831,520	379,375	(3,904,257)	107,542,940
Self-insurance liabilities	34,983,997	-	-	34,983,997	-	-	-	34,983,997	-	-	-	-	-	-	34,983,997
Accrued pension liabilities and other	14,178,425	3,986	-	14,182,411	172,560,099	13,475,624	(47,390,950)	152,827,184	-	8,500	-	-	-	-	152,835,684
Long-term debt, less current portion and long-term debt subject to short-term remarketing agreement	81,260,000	-	-	81,260,000	4,267,573	6,944,190	-	92,471,763	-	-	-	-	-	-	92,471,763
Net assets:															
Unrestricted	368,034,236	21,134,616	(21,134,616)	368,034,236	(157,706,179)	25,430,433	-	235,758,490	1,000	3,802,619	(200,010)	2,126,692	4,731,554	-	246,220,345
Temporarily restricted	28,224,280	28,224,280	(28,224,280)	28,224,280	-	5,323,607	-	33,547,887	-	-	-	42,554	5,307	-	33,595,748
Permanently restricted	27,746,611	27,746,611	(27,746,611)	27,746,611	-	3,950,564	-	31,697,175	-	-	-	-	200,000	-	31,897,175
Total net assets	424,005,127	77,105,507	(77,105,507)	424,005,127	(157,706,179)	34,704,604	-	301,003,552	1,000	3,802,619	(200,010)	2,169,246	4,936,861	-	311,713,268
Total liabilities and net assets	\$ 638,453,428	\$ 77,958,718	\$ (77,433,505)	\$ 638,978,641	\$ 29,336,317	\$ 69,069,221	\$ (50,119,015)	\$ 687,265,164	\$ 1,000	\$ 6,041,561	\$ 1,827,182	\$ 3,000,766	\$ 5,316,236	\$ (3,904,257)	\$ 699,547,652

Western Connecticut Healthcare, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2010

	Danbury Hospital	Development Fund	Eliminations	Obligated Group Total	Western Connecticut Healthcare, Inc.	New Milford Hospital	Eliminations	Subtotal	Danbury Health Care Affiliates	Business Systems, Inc.	Danbury VNA, Inc.	Regional Hospice of Western Connecticut, Inc.	Eliminations	Total
Unrestricted revenues:														
Net patient service revenue	\$ 473,298,383	\$ -	\$ -	\$ 473,298,383	\$ 5,468,462	\$ 91,604,813	\$ -	\$ 570,371,658	\$ 15,436,649	\$ 13,049,875	\$ 4,749,290	\$ 3,767,954	\$ (509,448)	\$ 606,865,978
Net assets released from restriction	962,456	806,357	-	1,768,813	-	897,007	-	2,665,820	-	-	32,165	92,065	-	2,790,050
Other operating revenues	11,367,379	-	(78,132)	11,289,247	1,609	3,713,825	-	15,004,681	201,639	481,288	181,674	-	(573,909)	15,295,373
	485,628,218	806,357	(78,132)	486,356,443	5,470,071	96,215,645	-	588,042,159	15,638,288	13,531,163	4,963,129	3,860,019	(1,083,357)	624,951,401
Expenses:														
Salaries, benefits and fees	290,962,055	-	-	290,962,055	3,490,331	52,344,838	-	346,797,224	6,596,548	1,921,048	3,391,145	2,552,477	(6,150)	361,252,292
Supplies and other	121,925,292	-	(101,640)	121,823,652	4,651,760	34,876,693	-	161,352,105	5,970,687	11,704,903	1,207,350	1,563,601	(941,577)	180,857,069
Insurance	8,026,756	-	-	8,026,756	-	-	-	8,026,756	89,092	11,630	27,276	7,632	(135,630)	8,026,756
Provision for uncollectible accounts	10,687,109	-	-	10,687,109	89,191	3,084,305	-	13,860,605	244,102	38,327	71,784	14,606	-	14,229,424
Depreciation and amortization	25,703,935	-	-	25,703,935	687,431	5,488,727	-	31,880,093	1,334,183	14,754	31,713	38,300	-	33,299,043
Interest	4,557,278	-	-	4,557,278	443,622	538,204	-	5,539,104	151,340	-	-	-	(151,340)	5,539,104
	461,862,425	-	(101,640)	461,760,785	9,362,335	96,332,767	-	567,455,887	14,385,952	13,690,662	4,729,268	4,176,616	(1,234,697)	603,203,688
Income (loss) from operations	23,765,793	806,357	23,508	24,595,658	(3,892,264)	(117,122)	-	20,586,272	1,252,336	(159,499)	233,861	(316,597)	151,340	21,747,713
Income tax expense	-	-	-	-	(750)	-	-	(750)	-	(250)	-	-	-	(1,000)
Nonoperating gains (losses):														
Contributions	-	2,478,712	-	2,478,712	-	201,836	-	2,680,548	-	-	53,333	670,496	-	3,404,377
Investment income, net	6,894,477	849,947	(101,640)	7,642,784	13,664	105,533	-	7,761,981	4,579	-	14,187	58,741	(151,340)	7,688,148
Change in unrealized gains and losses on investments	10,679,998	1,876,492	-	12,556,490	-	-	-	12,556,490	-	-	53,294	-	-	12,609,784
Change in equity interest in unrestricted net assets of the Danbury Hospital Development Fund, Inc.	3,239,430	-	(3,239,430)	-	-	-	-	-	-	-	-	-	-	-
Operating expenses of the Danbury Hospital Development Fund, Inc.	-	(1,965,721)	78,132	(1,887,589)	-	-	-	(1,887,589)	-	-	-	-	-	(1,887,589)
	20,813,905	3,239,430	(3,262,938)	20,790,397	13,664	307,369	-	21,111,430	4,579	-	120,814	729,237	(151,340)	21,814,720
Excess (deficiency) of revenues over expenses	\$ 44,579,698	\$ 4,045,787	\$ (3,239,430)	\$ 45,386,055	\$ (3,879,350)	\$ 190,247	\$ -	\$ 41,696,952	\$ 1,256,915	\$ (159,749)	\$ 354,675	\$ 412,640	\$ -	\$ 43,561,433

Western Connecticut Healthcare, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2009

	Danbury Hospital	Development Fund	Eliminations	Obligated Group Total	Western Connecticut Healthcare, Inc.	New Milford Hospital	Eliminations	Subtotal	Foundation	Danbury Health Care Affiliates	Business Systems, Inc.	Danbury VNA, Inc.	Regional Hospice of Western Connecticut, Inc.	Eliminations	Total <i>(Restated)</i>
<b>Assets</b>															
Current assets:															
Cash and cash equivalents	\$ 39,023,177	\$ 3,989,402	\$ -	\$ 43,012,579	\$ 159,310	\$ 3,666,074	\$ -	\$ 46,837,963	\$ 1,000	\$ 697,295	\$ 266,762	\$ 1,013,720	\$ 1,375,214	\$ -	\$ 50,191,954
Current portion of assets limited as to use	1,756,854	-	-	1,756,854	-	2,695,852	-	4,452,706	-	-	-	-	-	-	4,452,706
Current portion of pledges receivable	-	1,136,440	-	1,136,440	-	223,358	-	1,359,798	-	-	-	-	-	-	1,359,798
Accounts receivable, less allowance for uncollectible accounts of \$15,587,000	45,692,092	-	-	45,692,092	593,896	11,329,197	-	57,615,185	-	1,403,957	514,366	435,800	717,538	-	60,686,846
Current portion of due from related parties	3,662,991	-	(123,066)	3,539,925	-	-	(2,623,145)	916,780	-	-	-	26,441	-	(943,221)	-
Inventories	7,249,038	-	-	7,249,038	149,001	2,035,077	-	9,433,116	-	-	1,012,960	-	-	-	10,446,076
Prepaid expenses and other	9,658,593	80,818	-	9,739,411	702,127	3,552,695	-	13,994,233	-	140,200	18,443	210,951	82,534	(4,278,135)	10,168,226
Total current assets	107,042,745	5,206,660	(123,066)	112,126,339	1,604,334	23,502,253	(2,623,145)	134,609,781	1,000	2,241,452	1,812,531	1,686,912	2,175,286	(5,221,356)	137,305,606
Investments	196,407,798	902,537	-	197,310,335	-	1,539,224	-	198,849,559	-	-	-	691,350	-	-	199,540,909
Assets limited as to use:															
Funds restricted by donor	-	49,418,939	-	49,418,939	-	8,228,236	-	57,647,175	-	-	-	21,156	-	-	57,668,331
Board designated funds	-	12,743,679	-	12,743,679	-	-	-	12,743,679	-	-	-	-	2,077,375	-	14,821,054
Trusts held by others	-	2,800,407	-	2,800,407	-	3,654,449	-	6,454,856	-	-	-	-	-	-	6,454,856
Total noncurrent assets limited as to use	-	64,963,025	-	64,963,025	-	11,882,685	-	76,845,710	-	-	-	21,156	2,077,375	-	78,944,241
Other assets	35,410,004	-	-	35,410,004	22,421,782	804,444	(49,728,767)	8,907,463	-	-	-	-	4,780	-	8,912,243
Interest in Danbury Hospital Development Fund, Inc	74,439,678	-	(74,439,678)	-	-	-	-	-	-	-	-	-	-	-	-
Due from related parties	12,947,858	-	-	12,947,858	-	-	-	12,947,858	-	-	-	-	-	-	12,947,858
Property, plant, and equipment:															
Land and land improvements	7,105,504	471,593	-	7,577,097	-	1,546,857	-	9,123,954	-	-	-	-	-	-	9,123,954
Buildings and building improvements	223,364,649	860,049	-	224,224,698	4,119,740	46,125,430	-	274,469,868	-	2,827,783	34,000	3,835	271,425	-	277,606,911
Equipment and other	179,865,401	140,627	-	180,006,028	3,140,023	44,413,090	-	227,559,141	-	6,884,365	160,112	674,953	249,891	-	235,528,462
Construction in progress (estimated cost to complete at September 30, 2009: \$15,591,972)	12,550,101	-	-	12,550,101	-	668,678	-	13,218,779	-	-	-	-	-	-	13,218,779
	422,885,655	1,472,269	-	424,357,924	7,259,763	92,754,055	-	524,371,742	-	9,712,148	194,112	678,788	521,316	-	535,478,106
Less accumulated depreciation	(251,993,763)	(228,682)	-	(252,222,445)	(2,065,387)	(60,856,636)	-	(315,144,468)	-	(5,713,494)	(142,128)	(632,054)	(231,443)	-	(321,863,587)
	170,891,892	1,243,587	-	172,135,479	5,194,376	31,897,419	-	209,227,274	-	3,998,654	51,984	46,734	289,873	-	213,614,519
Pledges receivable, less current portion	-	2,912,462	-	2,912,462	-	351,388	-	3,263,850	-	-	-	-	-	-	3,263,850
Bond issuance costs, net	3,274,927	-	-	3,274,927	-	-	-	3,274,927	-	-	-	-	-	-	3,274,927
Total assets	\$ 600,414,902	\$ 75,228,271	\$ (74,562,744)	\$ 601,080,429	\$ 29,220,492	\$ 69,977,413	\$ (52,351,912)	\$ 647,926,422	\$ 1,000	\$ 6,240,106	\$ 1,864,515	\$ 2,446,152	\$ 4,547,314	\$ (5,221,356)	\$ 657,804,153
<b>Liabilities and net assets</b>															
Current liabilities:															
Accounts payable	\$ 19,989,643	\$ -	\$ -	\$ 19,989,643	\$ 144,608	\$ 5,545,062	\$ -	\$ 25,679,313	-	\$ 340,480	\$ -	\$ 130,583	\$ 121,024	\$ -	\$ 26,271,400
Payroll-related accruals	14,142,886	37,993	-	14,180,879	20,631	2,986,189	-	17,187,699	-	283,599	67,673	125,155	90,665	-	17,754,791
Due to third-party payors	12,701,203	-	-	12,701,203	-	2,389,775	-	15,090,978	-	-	-	142,576	6,000	-	15,239,554
Due to related parties	-	123,066	(123,066)	-	2,623,145	-	(2,623,145)	-	-	459,032	1,964,266	165,175	53,718	(2,642,191)	-
Interest payable	1,057,389	-	-	1,057,389	11,521	-	-	1,068,910	-	-	-	-	-	-	1,068,910
Other accrued expenses	3,365,463	559,384	-	3,924,847	7,861,657	3,370,632	-	15,157,136	-	23,626	10,936	89,490	102,211	-	15,383,399
Current portion of long-term debt	2,460,000	-	-	2,460,000	1,506,139	1,662,730	-	5,628,869	-	1,241,396	-	-	-	(1,241,396)	5,628,869
Total current liabilities	53,716,584	720,443	(123,066)	54,313,961	12,167,701	15,954,388	(2,623,145)	79,812,905	-	2,348,133	2,042,875	652,979	373,618	(3,883,587)	81,346,923
Self-insurance liabilities	36,867,859	-	-	36,867,859	-	-	-	36,867,859	-	-	-	-	-	-	36,867,859
Accrued pension liabilities and other	14,488,471	68,150	-	14,556,621	161,855,253	22,710,626	(49,728,767)	149,393,733	-	8,500	-	-	-	-	149,402,233
Long-term debt, less current portion and long-term debt subject to short-term remarketing agreement	114,675,000	-	-	114,675,000	5,001,912	7,543,997	-	127,220,909	-	1,337,769	-	-	-	(1,337,769)	127,220,909
Net assets:															
Unrestricted	325,008,268	18,780,958	(18,780,958)	325,008,268	(149,804,374)	9,579,333	-	184,783,227	1,000	2,545,704	(178,360)	1,772,017	4,144,030	-	193,067,618
Temporarily restricted	28,552,625	28,552,625	(28,552,625)	28,552,625	-	10,534,620	-	39,087,245	-	-	-	21,156	29,666	-	39,138,067
Permanently restricted	27,106,095	27,106,095	(27,106,095)	27,106,095	-	3,654,449	-	30,760,544	-	-	-	-	-	-	30,760,544
Total net assets	380,666,988	74,439,678	(74,439,678)	380,666,988	(149,804,374)	23,768,402	-	254,631,016	1,000	2,545,704	(178,360)	1,793,173	4,173,696	-	262,966,229
Total liabilities and net assets	\$ 600,414,902	\$ 75,228,271	\$ (74,562,744)	\$ 601,080,429	\$ 29,220,492	\$ 69,977,413	\$ (52,351,912)	\$ 647,926,422	\$ 1,000	\$ 6,240,106	\$ 1,864,515	\$ 2,446,152	\$ 4,547,314	\$ (5,221,356)	\$ 657,804,153

Western Connecticut Healthcare, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2009

	Danbury Hospital	Development Fund	Eliminations	Obligated Group Total	Western Connecticut Healthcare, Inc.	New Milford Hospital	Eliminations	Subtotal	Danbury Health Care Affiliates	Business Systems, Inc.	Danbury VNA, Inc.	Regional Hospice of Western Connecticut, Inc.	Eliminations	Total <i>(Restated)</i>
Unrestricted revenues:														
Net patient service revenue	\$ 456,041,554	\$ -	\$ -	\$ 456,041,554	\$ 5,415,612	\$ 92,926,343	\$ -	\$ 554,383,509	\$ 14,025,987	\$ 13,152,095	\$ 4,635,099	\$ 3,145,746	\$ (353,610)	\$ 588,988,826
Net assets released from restriction	642,483	193,782	-	836,265	-	1,022,024	-	1,858,289	-	-	32,865	56,756	-	1,947,910
Other operating revenues	11,130,264	-	(83,520)	11,046,744	633	4,042,218	-	15,089,595	155,368	472,590	226,814	-	(568,125)	15,376,242
	467,814,301	193,782	(83,520)	467,924,563	5,416,245	97,990,585	-	571,331,393	14,181,355	13,624,685	4,894,778	3,202,502	(921,735)	606,312,978
Expenses:														
Salaries, benefits and fees	273,345,707	-	-	273,345,707	2,348,016	56,219,943	-	331,913,666	6,167,643	1,754,716	3,271,540	2,338,240	(5,735)	345,440,070
Supplies and other	117,218,083	-	(101,640)	117,116,443	3,314,362	38,367,170	-	158,797,975	5,782,969	11,656,970	1,312,149	1,520,225	(787,248)	178,283,040
Insurance	9,473,436	-	-	9,473,436	-	-	-	9,473,436	90,900	12,080	28,272	7,920	(128,752)	9,483,856
Provision for uncollectible accounts	12,641,113	-	-	12,641,113	95,842	3,239,587	-	15,976,542	179,353	1,772	30,648	30,423	-	16,218,738
Depreciation and amortization	23,125,624	-	-	23,125,624	674,338	4,988,522	-	28,788,484	1,334,360	14,682	43,987	34,595	-	30,216,108
Interest	4,667,920	-	-	4,667,920	462,565	675,584	-	5,806,069	102,874	-	-	-	(102,874)	5,806,069
	440,471,883	-	(101,640)	440,370,243	6,895,123	103,490,806	-	550,756,172	13,658,099	13,440,220	4,686,596	3,931,403	(1,024,609)	585,447,881
Income (loss) from operations	27,342,418	193,782	18,120	27,554,320	(1,478,878)	(5,500,221)	-	20,575,221	523,256	184,465	208,182	(728,901)	102,874	20,865,097
Income tax expense	-	-	-	-	(1,148)	-	-	(1,148)	-	(250)	-	-	-	(1,398)
Nonoperating gains (losses):														
Contributions	-	966,451	-	966,451	-	173,032	-	1,139,483	-	-	42,122	551,785	-	1,733,390
Investment income, net	6,466,684	917,714	(101,640)	7,282,758	(6,034)	162,119	-	7,438,843	2,146	-	28,828	93,543	(102,874)	7,460,486
Change in unrealized gains and losses on investments	4,492,089	360,344	-	4,852,433	-	-	-	4,852,433	-	-	12,033	-	-	4,864,466
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)	-	-	-	(1,947,541)	-	-	-	-	-	(1,947,541)
	11,172,221	213,448	(231,568)	11,154,101	(6,034)	335,151	-	11,483,218	2,146	-	82,983	645,328	(102,874)	12,110,801
Excess (deficiency) of revenues over expenses	\$ 38,514,639	\$ 407,230	\$ (213,448)	\$ 38,708,421	\$ (1,486,060)	\$ (5,165,070)	\$ -	\$ 32,057,291	\$ 525,402	\$ 184,215	\$ 291,165	\$ (83,573)	\$ -	\$ 32,974,500