Audited Consolidated Financial Statements and Supplementary Information

The Danbury Hospital and Subsidiary
Years Ended September 30, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

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Audited Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2012 and 2011

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Report of Independent Auditors

Board of Directors
The Danbury Hospital

We have audited the accompanying consolidated balance sheets of The Danbury Hospital and Subsidiary (the Hospital) as of September 30, 2012 and 2011, 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 Hospital'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 Western Connecticut Health Network Insurance Co., Ltd. (the Company), a subsidiary of the Hospital, which statements reflect total assets of 8% and 7% as of September 30, 2012 and 2011, respectively, and total revenues of 2%, for the years then ended, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Company, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Danbury Hospital and Subsidiary at September 30, 2012 and 2011, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

January 25, 2013

A member firm of Ernst & Young Global Limited

The Danbury Hospital and Subsidiary

Consolidated Balance Sheets

	September 30 2012	September 30 2011
Assets		
Current assets:		
Cash and cash equivalents	**$ 54,460,115**	$ 36,610,270
Current portion of assets limited as to use	**900,896**	1,273,013
Accounts receivable, less allowance for uncollectible accounts of approximately $12,322,000 in 2012 and $11,261,000 in 2011	**60,038,935**	53,313,528
Current portion of due from related parties	**8,730,837**	6,009,891
Inventories	**9,333,372**	8,853,966
Prepaid expenses and other	**14,940,018**	15,544,259
Total current assets	**148,404,173**	121,604,927
Assets limited as to use:		
Construction funds	**100,552,317**	125,248,424
Investments in WCHNIC	**59,508,868**	50,837,322
Total noncurrent assets limited as to use	**160,061,185**	176,085,746
Investments	**173,599,412**	151,523,870
Other assets	**156,415**	–
Due from related parties	**8,172,413**	5,905,152
Interest in Western Connecticut Health Network Foundation, Inc.	**78,906,136**	73,125,721
Property, plant and equipment:		
Land and land improvements	**9,904,877**	8,458,354
Buildings and building improvements	**286,763,195**	265,771,375
Equipment and other	**229,444,069**	218,310,465
Construction in progress (estimated cost to complete at September 30, 2012: $111,203,000)	**39,100,951**	27,578,848
	565,213,092	520,119,042
Less accumulated depreciation	**322,977,997**	299,833,683
	242,235,095	220,285,359
Bond issuance costs, net	**4,628,949**	5,779,765
Total assets	**$ 816,163,778**	$ 754,310,540

	September 30	
	2012	**2011**
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 25,455,839**	$ 27,363,171
Payroll-related accruals	**20,868,119**	12,263,559
Due to third-party payors	**9,985,351**	11,107,547
Interest payable	**1,624,480**	1,803,683
Other accrued expenses	**3,553,987**	4,070,796
Current portion of long-term debt	**1,555,000**	2,515,000
Total current liabilities	**63,042,776**	59,123,756
Self-insurance liabilities	**42,317,667**	39,197,898
Other long-term liabilities	**16,602,236**	15,647,308
Long-term debt, less current portion	**249,580,000**	252,100,000
Net assets:		
Unrestricted	**386,002,265**	332,255,763
Temporarily restricted	**29,794,088**	27,787,449
Permanently restricted	**28,824,746**	28,198,366
Total net assets	**444,621,099**	388,241,578
Total liabilities and net assets	**$ 816,163,778**	$ 754,310,540

See accompanying notes.

The Danbury Hospital and Subsidiary

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2012	**2011**
Unrestricted revenues:		
Net patient service revenue	**$ 521,836,000**	$ 497,720,490
Provision for bad debt (*see Note 1*)	**19,413,218**	18,183,085
Net patient service revenue less provision for bad debt	**502,422,782**	479,537,405
Other operating revenues	**27,310,465**	19,846,375
	529,733,247	499,383,780
Expenses:		
Salaries, benefits and fees	**313,980,347**	308,540,688
Supplies and other	**139,049,312**	130,649,238
Insurance	**11,680,311**	8,742,635
Depreciation and amortization	**31,663,499**	27,369,949
Interest	**4,156,059**	4,587,742
	500,529,528	479,890,252
Income from operations	**29,203,719**	19,493,528
Nonoperating income:		
Investment income, net	**1,690,407**	6,100,396
Change in unrealized gains and losses on investments	**19,910,410**	(1,979,439)
Change in equity interest in unrestricted net assets of the Western Connecticut Health Network Foundation, Inc.	**2,571,725**	71,435
	24,172,542	4,192,392
Excess of revenues over expenses	**53,376,261**	23,685,920

Continued on next page.

The Danbury Hospital and Subsidiary

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

	Year Ended September 30	
	2012	**2011**
Unrestricted net assets:		
Excess of revenues over expenses (continued)	**$ 53,376,261**	$ 23,685,920
Change in equity interest of the Western Connecticut Health Network Foundation, Inc.	**575,671**	(4,066,145)
Transfers from the Western Connecticut Health Network Foundation, Inc.	**4,705,608**	9,075,863
Transfers to Western Connecticut Health Network, Inc.	**(4,911,038)**	(64,474,111)
Increase (decrease) in unrestricted net assets	**53,746,502**	(35,778,473)
Temporarily restricted net assets:		
Change in equity interest of the Western Connecticut Health Network Foundation, Inc.	**2,006,639**	(436,831)
Increase (decrease) in temporarily restricted net assets	**2,006,639**	(436,831)
Permanently restricted net assets:		
Change in equity interest of the Western Connecticut Health Network Foundation, Inc.	**626,380**	451,755
Increase in permanently restricted net assets	**626,380**	451,755
Increase (decrease) in net assets	**56,379,521**	(35,763,549)
Net assets at beginning of year	**388,241,578**	424,005,127
Net assets at end of year	**$ 444,621,099**	$ 388,241,578

See accompanying notes.

The Danbury Hospital and Subsidiary

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2012	**2011**
Operating activities and other income		
Increase (decrease) in net assets	**$ 56,379,521**	$ (35,763,549)
Adjustments to reconcile change in net assets to net cash provided by operating activities and other income:		
Depreciation and amortization	**31,663,499**	27,369,949
Change in unrealized gains and losses on investments	**(19,910,410)**	1,979,439
(Increase) decrease in equity interest in net assets of the Western Connecticut Health Network Foundation, Inc.	**(5,780,415)**	3,979,786
Transfers from the Western Connecticut Health Network Foundation, Inc.	**(4,705,608)**	(9,075,863)
Transfers to Western Connecticut Health Network, Inc.	**4,911,038**	64,474,111
Provision for bad debt	**19,413,218**	18,183,085
Increase in other long-term liabilities	**954,928**	1,468,883
Increase in self-insurance liabilities	**3,119,769**	4,213,901
Changes in operating assets and liabilities (*see Note 11*)	**(21,291,185)**	(17,222,009)
Net cash provided by operating activities and other income	**64,754,355**	59,607,733
Investing activities		
Additions to property, plant and equipment, net	**(53,613,235)**	(64,479,026)
Increase in due from related parties and transfers to Western Connecticut Health Network, Inc.	**(9,899,245)**	(28,368,069)
Decrease (increase) in investments, net and assets limited as to use	**14,231,546**	(102,992,216)
Net cash used in investing activities	**(49,280,934)**	(195,839,311)
Financing activities		
Proceeds of issuance of bonds	**41,030,816**	172,402,621
Payments of long-term debt	**(43,360,000)**	(35,125,000)
Transfers from the Western Connecticut Health Network Foundation, Inc.	**4,705,608**	9,075,863
Net cash provided by financing activities	**2,376,424**	146,353,484
Net increase in cash and cash equivalents	**17,849,845**	10,121,906
Cash and cash equivalents at beginning of year	**36,610,270**	26,488,364
Cash and cash equivalents at end of year	**$ 54,460,115**	$ 36,610,270

See accompanying notes.

The Danbury Hospital and Subsidiary

Notes to Consolidated Financial Statements

September 30, 2012

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

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

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

Use of Estimates

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

Regulatory Matters

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

Cash and Cash Equivalents

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

Investments

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

1. Summary of Significant Accounting Policies (continued)

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

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

Temporarily and Permanently Restricted Net Assets

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

Assets Limited as to Use

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

1. Summary of Significant Accounting Policies (continued)

Patient Accounts Receivable

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

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

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

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

The Hospital's primary concentration of credit risk is patient accounts receivable, which consists of amounts owed by various governmental agencies, insurance companies and private patients. The Hospital manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable include 30% and 14%, and 30% and 13%, for Medicare and Medicaid, respectively, at September 30, 2012 and 2011, respectively.

1. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

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

Conditional asset retirement obligations amounted to $396,262 and $464,904 as of September 30, 2012 and 2011, respectively. These obligations are recorded in other long-term liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2012 and 2011, 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 $1,569,849 and $1,347,238 at September 30, 2012 and 2011, respectively.

Inventories

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

Excess of Revenues over Expenses

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

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

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, 2012 and 2011 approximate fair value based on current market conditions. The fair values of other financial instruments are disclosed in the respective notes and/or in Note 4.

Pension Plan

The Hospital participates in a noncontributory defined benefit pension plan sponsored by Western Connecticut Health Network, Inc. covering substantially all of its employees. Contributions are made to the plan in amounts sufficient to meet the Employee Retirement Income Security Act's minimum funding requirements. Net periodic pension expense allocated to the Hospital was $16,688,567 and $20,984,556 for 2012 and 2011, respectively. In 2012, the defined benefit pension plan was frozen. The Network established a defined contribution plan for all employees. Pension expense related to the defined contribution plan was $5,721,897 for the year ended September 30, 2012. During 2011, the Hospital transferred net assets of $26,813,388 to Western Connecticut Health Network, Inc. relating to the funding the Hospital made to the defined benefit pension plan.

Western Connecticut Health Network, Inc.'s defined benefit pension plan had estimated projected benefit obligations of $525,237,935 and $406,545,972 at September 30, 2012 and 2011, respectively, and the fair value of plan assets were $384,083,218 and $315,609,522 at September 30, 2012 and 2011, respectively. The discount rate was 4.23% and 5.58% for the years ended September 30, 2012 and 2011, respectively.

Income Taxes

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

At September 30, 2012, the Hospital has net operating loss carryforwards from unrelated business activities of approximately $38,744,000, which began expiring in 2009. A deferred tax asset for these losses of approximately $15,497,600 is offset by a corresponding valuation allowance of the same amount due to the uncertainty of utilizing the deferred tax asset in future periods.

1. Summary of Significant Accounting Policies (continued)

Interest in the Western Connecticut Health Network Foundation, Inc.

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

Reclassifications

Certain 2011 amounts have been reclassified to conform to the 2012 presentation. These reclassifications are not material to the overall consolidated financial statements.

Adoption of New Accounting Standards

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") No. 2010-23, *Measuring Charity Care for Disclosure*. The new guidance requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. Separate disclosure of the amount of any cash reimbursements received for providing charity care must also be disclosed. The new disclosure requirements became effective for the Hospital on October 1, 2011 and are included in the accompanying consolidated financial statements for all periods presented (see Note 2).

In July 2011, the FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The new guidance requires the Hospital to change the presentation of its statement of operations by reclassifying the provision for bad debts associated with patient service revenue (net of contractual allowances and discounts) from an operating expense to a deduction from patient service revenue. Additionally, the Hospital is required to provide enhanced disclosures about its policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for uncollectible accounts. The new guidance was adopted by the Hospital as of and for the year ended September 30, 2012 and retrospectively applied the presentation requirements for the year ended September 30, 2011.

2. Net Patient Service Revenue and Charity Care

The following summarizes net patient service revenue:

	Year Ended September 30	
	2012	**2011**
Gross patient service revenue	**$ 1,177,078,060**	$ 1,113,153,089
Deductions:		
Allowances	**641,272,278**	604,036,581
Charity care (at charges)	**13,969,782**	11,396,018
	655,242,060	615,432,599
Net patient service revenue	**521,836,000**	497,720,490
Provision for bad debt	**19,413,218**	18,183,085
Net patient service revenue less provision for bad debt	**$ 502,422,782**	$ 479,537,405

During 2012 and 2011, approximately 32% and 7%, and 33% and 6%, respectively, of net patient service revenue was received under the Medicare and Medicaid programs, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. The Hospital believes it is in compliance with all applicable laws and regulations. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. During 2012 and 2011, the Hospital recorded increases in net patient service revenue of approximately $6,875,000 and $2,300,000, respectively, related to changes in previously estimated third party payor settlements.

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

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

Patient service revenue, net of contractual allowances and before the provision for bad debts, recognized in the period from major payor sources for the year ended September 30, 2012, is as follows:

Third-party payors	$ 499,154,107
Self-pay patients	36,651,675
	$ 535,805,782

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

The estimated cost of charity care provided was approximately $5,700,000 and $4,700,000 for the years ended September 30, 2012 and 2011, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital specific data.

3. Investments and Assets Limited as to Use

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

	September 30	
	2012	**2011**
Cash and cash equivalents	**$ 427,998**	$ 1,430,645
Money market funds	**101,453,213**	126,521,437
Common collective funds	**67,236,615**	59,122,057
Fixed income securities	**56,444,462**	50,738,895
Mutual funds	**91,392,277**	81,244,459
Alternative investments (at equity method)	**17,606,928**	9,825,136
	$ 334,561,493	$ 328,882,629

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

	2012	**2011**
Interest and dividend income	**$ 1,833,787**	$ 4,520,294
Realized gains and losses, net and equity income on alternative investments	**(143,380)**	1,580,102
	$ 1,690,407	$ 6,100,396

4. Fair Values of Financial Instruments

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

4. Fair Values of Financial Instruments (continued)

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

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

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

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

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

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

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

4. Fair Values of Financial Instruments (continued)

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

	September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 36,610,270	$ –	$ –	$ 36,610,270
Investments and assets limited as to use:				
Cash and cash equivalents	1,430,645	–	–	1,430,645
Money market funds	126,521,437	–	–	126,521,437
Domestic equity:				
Common collective funds	–	44,096,534	–	44,096,534
International equity:				
Common collective funds	–	15,025,523	–	15,025,523
Fixed income:				
Mutual funds	81,244,459	–	–	81,244,459
Securities	27,264,022	23,474,873	–	50,738,895
	$ 273,070,833	$ 82,596,930	$ –	$ 355,667,763

The amounts reported in the table above do not include alternative investments totaling $9,825,136 that are accounted for under the equity method of accounting.

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based upon model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

5. Long-Term Debt and Credit Facility

Long-term debt consisted of the following:

	September 30	
	2012	**2011**
Hospital revenue bonds financed with CHEFA:		
Series G	**$ –**	$ 39,700,000
Series H	**39,615,000**	41,560,000
Intercompany debt with Western Connecticut Health Network, Inc.	**211,520,000**	173,355,000
	251,135,000	254,615,000
Less current portion	**1,555,000**	2,515,000
	$ 249,580,000	$ 252,100,000

The following is a summary of the combined aggregate amount of maturities and sinking fund requirements of the aforementioned obligations at September 30, 2012 according to their long-term amortization schedule:

2013	$ 1,555,000
2014	2,880,000
2015	4,925,000
2016	5,485,000
2017	5,700,000
Thereafter	230,590,000
	$ 251,135,000

The fair value of the Hospital's long-term debt as determined by the Hospital's investment advisor using a discounted cash flow analysis was approximately $263,780,000 and $248,699,000 at September 30, 2012 and 2011, respectively. The Hospital paid interest of $8,210,188 and $4,282,932 in 2012 and 2011, respectively. The Hospital has capitalized interest of approximately $3,746,000 and $863,000 in September 30, 2012 and 2011, respectively. Debt service funds held under bond indenture agreements for Series G Bonds, Series H Bonds and Series N Bonds were $900,896 and $1,273,013 at September 30, 2012 and 2011, respectively.

The Series G revenue bonds (Series G Bonds) were scheduled to mature from 2012 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 to reimburse the Hospital for equipment purchases made during fiscal

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

year 1999. The scheduled payment of principal and interest on the Series G Bonds was guaranteed by an insurance policy issued by a commercial insurer. In November 2011, the Series G bonds were refunded by Western Connecticut Health Network Issue, Series N CHEFA revenue bonds (Series N Bonds).

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

Under the terms of the Series H Bonds financing arrangements between the Hospital and the Western Connecticut Health Network Foundation, Inc. (the Obligated Group) and CHEFA, the proceeds of the revenue bonds were loaned to the Hospital. The Hospital is obligated to provide amounts sufficient to pay the principal and interest due on the Series H Bonds. The Master Indentures and Supplemental Master Indentures provide for the potential establishment and maintenance of a Debt Service Reserve Fund and a pledge of gross receipts, as defined. The Master Indentures also establish a debt service coverage ratio requirement and restricts the incurrence of certain indebtedness by the Obligated Group. No violations of financial covenants existed as of September 30, 2012 or 2011.

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

The Series K revenue bonds (Series K Bonds) were issued in the amount of $33,035,000. The Series K Bonds bear interest at the bank purchase rate (1.446% and 1.972% at September 30, 2012 and 2011, respectively) and mature serially from September 30, 2011 to September 30, 2036.

The Series M revenue bonds (Series M Bonds) were issued in the aggregate principle of $46,030,000, with interest payable initially on January 1, 2012 and semiannually on each January 1 and July 1 thereafter. The Series M Bonds will bear interest at rates ranging from

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

5.000% to 5.375% and are scheduled to mature from July 1, 2031 to July 1, 2041. The Series M Bonds are also subject to annual sinking fund installments commencing in 2024 through scheduled maturity. The Series L Revenue Bonds (Series L Bonds) of $96,000,000 were issued concurrently with Series M Bonds and are subject to annual sinking fund installments commencing July 1, 2015 and continuing through final maturity on July 1, 2041. The Series L Bonds bear interest at the bank purchase rate (1.355% and 1.348% at September 30, 2012 and 2011, respectively). The proceeds of the Series L Bonds and Series M Bonds are being used for funding the planning, design, acquisition, construction, equipping and furnishing of the Hospital's new patient tower, expansion of a parking garage, capital improvements and to fund capitalized interest.

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

6. Commitments and Contingencies

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

The Hospital has several operating lease agreements for certain real estate and equipment. Certain of these leases have renewal options for periods up to five years and escalation clauses. Rent is payable in equal monthly installments. Rent expense was $7,062,202 and $5,857,937 for the years ended September 30, 2012 and 2011, respectively.

The future minimum lease payments are as follows:

2013	$ 7,281,518
2014	4,944,467
2015	4,280,102
2016	3,815,329
2017	3,669,318
Thereafter	12,359,341
	$ 36,350,075

7. Related Party Transactions

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

	September 30 2012	September 30 2011
Western Connecticut Health Network Affiliates, Inc.	**$ 627,583**	$ 408,534
The New Milford Hospital, Inc.	**8,258,912**	8,315,822
Business Systems, Inc.	**2,740,137**	1,543,248
Western Connecticut Health Network Foundation, Inc.	**463,421**	765,775
Western Connecticut Home Care, Inc.	**346,733**	74,202
Western Connecticut Medical Group, P.C.	**4,466,464**	807,462
	$ 16,903,250	$ 11,915,043

The Hospital earned income from related parties as follows:

	Year Ended September 30 2012	Year Ended September 30 2011
Western Connecticut Health Network Affiliates, Inc.	**$ 138,352**	$ 139,850
Western Connecticut Medical Group, P.C.	**1,988,697**	1,764,159
Western Connecticut Health Network Foundation, Inc.	**75,269**	71,915
The New Milford Hospital, Inc.	**609,784**	493,259
Business Systems, Inc.	**198,257**	265,365
	$ 3,010,359	$ 2,734,548

Western Connecticut Medical Group, P.C. (WCMG) is a tax exempt professional corporation which provides medical services to the Hospital. Charges for physician services provided to the Hospital by WCMG were $49,768,640 and $40,419,666 for the years ended September 30, 2012 and 2011, respectively.

In 2012 and 2011, respectively, the Hospital transferred net assets of $4,911,038 and $64,474,111 to Western Connecticut Health Network, Inc. relating to funding the Hospital made to the defined benefit pension plan, benefits paid on their behalf and to forgive intercompany debt of WCMG and other affiliates.

8. Professional Liability Self-Insurance

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

Coverage for medical malpractice insurance is on a claims-made basis. The coverage limits are $5,000,000 per claim and $25,000,000 in the aggregate. The excess indemnity coverage is $25,000,000 per claim and $25,000,000 in the aggregate. The Hospital has recorded a liability of $9,049,000 and $7,991,000 at September 30, 2012 and 2011, respectively, based on a discount rate of 3.5% for incurred-but-not-reported claims, which is included in other long-term liabilities on the accompanying consolidated balance sheets.

Assets held by WCHNIC approximate $65,788,000 and $56,572,000 as of September 30, 2012 and 2011, respectively, of which a majority is reflected as assets limited as to use in the accompanying consolidated balance sheets. Total liabilities recorded by WCHNIC approximate $42,543,000 and $39,372,000 as of September 30, 2012 and 2011, respectively, of which a majority is reflected as self-insurance liabilities in the accompanying consolidated balance sheets.

The reserve for losses and loss adjustment expenses for WCHNIC are included in self-insurance liabilities in the accompanying consolidated balance sheets. Activity in the reserve for losses and loss adjustment expenses for the years ended September 30, 2012 and 2011 is summarized as follows:

	2012	**2011**
Balance at beginning of year	**$ 35,675,566**	$ 32,294,365
Incurred related to:		
Current period	**7,922,650**	8,782,963
Prior period	**960,245**	(2,689,921)
Total incurred	**8,882,895**	6,093,042
Paid related to:		
Current period	**(21,742)**	(92,030)
Prior period	**(5,023,091)**	(2,619,811)
Total paid	**(5,044,833)**	(2,711,841)
Net provision for losses and loss adjustment expenses	**$ 39,513,628**	$ 35,675,566

8. Professional Liability Self-Insurance (continued)

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

Activity in the deposit liability for the years ended September 30, 2012 and 2011, included in self-insurance liabilities on the consolidated balance sheets, is summarized as follows:

	2012	**2011**
Balance at beginning of year	**$ 3,355,509**	$ 2,533,888
Losses paid	**(1,657,800)**	(88,040)
Loss on deposit liability transferred to statement of income	**937,723**	909,661
Balance at end of year	**$ 2,635,432**	$ 3,355,509

Also included in self-insurance liabilities as of September 30, 2012 and 2011 are unearned premiums of $168,607 and $166,823, 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, 2012 and 2011; however, no assurance can be given that the ultimate settlement of losses may not vary materially from the liability recorded. Future adjustments to the amounts recorded resulting from the continual review process, as well as differences between estimates and ultimate payments, will be reflected in the consolidated statements of operations and changes in net assets of future years when such adjustments, if any, become known.

9. Net Assets

Temporarily restricted net assets of $29,794,088 and $27,787,449 as of September 30, 2012 and 2011, respectively, are available to the Hospital for health care services. Permanently restricted net assets total $28,824,746 and $28,198,366 as of September 30, 2012 and 2011, respectively, and are investments to be held in perpetuity, the income from which is expendable to support health care services.

10. Endowments

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

Leadership of WCHNF has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, WCHNF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, WCHNF considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

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

10. Endowments (continued)

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

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

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

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

10. Endowments (continued)

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

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

Endowment net asset composition by type of fund as of September 30, 2011, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 14,345,583	$ 25,445,909	$ 39,791,492
Board-designated endowment funds	7,218,125	–	–	7,218,125
Endowment net assets at end of year	$ 7,218,125	$ 14,345,583	$ 25,445,909	$ 47,009,617

10. Endowments (continued)

Changes in endowment funds for the fiscal year ended September 30, 2011, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of the year	$ 12,020,250	$ 18,999,710	$ 24,796,155	$ 55,816,115
Investment return:				
Investment income, net	1,156,098	3,898,117	–	5,054,215
Change in unrealized gains and losses	(513,521)	(2,459,072)	–	(2,972,593)
Total investment return	642,577	1,439,045	–	2,081,622
Contributions	–	274,835	47,145	321,980
Net asset reclassification - net change in loss on endowments	–	24,840	–	24,840
Appropriation of endowment assets for expenditures	(5,444,702)	(6,212,604)	–	(11,657,306)
Other changes:				
Transfers to permanently restricted endowment	–	(180,243)	602,609	422,366
Endowment net assets at end of year	$ 7,218,125	$ 14,345,583	$ 25,445,909	$ 47,009,617

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level fund of the corpus that UPMIFA requires WCHNF to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There was $28,482 in deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2011 (none at September 30, 2012).

Also included within permanently restricted net assets is $3,378,837 of beneficial interests in trusts held by others.

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

	Year Ended September 30	
	2012	**2011**
(Increase) decrease in operating assets:		
Accounts receivable, net	**$ (26,138,625)**	$ (20,066,983)
Inventories	**(479,406)**	(1,315,408)
Prepaid expenses and other	**447,826**	(1,837,495)
	(26,170,205)	(23,219,886)
Increase (decrease) in operating liabilities:		
Accounts payable	**(1,907,332)**	6,640,485
Interest payable	**(179,203)**	746,294
Payroll-related accruals	**8,604,560**	(2,557,926)
Due to third-party payors	**(1,122,196)**	27,574
Other accrued expenses	**(516,809)**	1,141,450
	4,879,020	5,997,877
Change in working capital other than cash and cash equivalents	**$ (21,291,185)**	$ (17,222,009)

12. Functional Expenses

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

	Year Ended September 30	
	2012	**2011**
Health care services	**$ 421,646,074**	$ 408,290,627
General and administrative	**78,883,454**	71,599,625
	$ 500,529,528	$ 479,890,252

13. Subsequent Events

Subsequent events have been evaluated through January 25, 2013, which represents the date the consolidated financial statements were issued.

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

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Report of Independent Auditors on Supplementary Information

Board of Directors
The Danbury Hospital

We have audited the consolidated financial statements of The Danbury Hospital and Subsidiary (the Hospital) as of and for the years ended September 30, 2012 and 2011, and have issued our report thereon dated January 25, 2013, which contained an unqualified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheets and statements of operations are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, based on our audits and the report of other auditors, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

January 25, 2013

A member firm of Ernst & Young Global Limited

The Danbury Hospital and Subsidiary

Consolidating Balance Sheets

	September 30, 2012				September 30, 2011			
	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total
Assets:								
Current assets:								
Cash and cash equivalents	$ 53,518,078	$ 942,037	$ –	$ 54,460,115	$ 36,603,282	$ 6,988	$ –	$ 36,610,270
Current portion of assets limited as to use	900,896	–	–	900,896	1,273,013	–	–	1,273,013
Accounts receivable, less allowance for uncollectible accounts								–
of $12,322,000 in 2012 and $11,261,000 in 2011	60,038,935	–	–	60,038,935	53,313,528	–	–	53,313,528
Current portion of due from related parties	8,994,093	–	(263,256)	8,730,837	6,177,652	–	(167,761)	6,009,891
Inventories	9,333,372	–	–	9,333,372	8,853,966	–	–	8,853,966
Prepaid expenses and other	9,603,409	5,336,609	–	14,940,018	9,816,103	5,728,156	–	15,544,259
Total current assets	142,388,783	6,278,646	(263,256)	148,404,173	116,037,544	5,735,144	(167,761)	121,604,927
Assets limited as to use:								
Construction funds	100,552,317	–	–	100,552,317	125,248,424	–	–	125,248,424
Investments in WCHNIC	–	59,508,868	–	59,508,868	–	50,837,322	–	50,837,322
Total noncurrent assets limited as to use	100,552,317	59,508,868	–	160,061,185	125,248,424	50,837,322	–	176,085,746
Investments	173,599,412	–	–	173,599,412	151,523,870	–	–	151,523,870
Other assets	156,415	–	–	156,415	–	–	–	–
Due from related parties	8,172,413	–	–	8,172,413	5,905,152	–	–	5,905,152
Investment in Western Connecticut Health Network Insurance Co., Ltd.	23,244,364	–	(23,244,364)	–	17,200,124	–	(17,200,124)	–
Interest in Western Connecticut Health Network Foundation, Inc.	78,906,136	–	–	78,906,136	73,125,721	–	–	73,125,721
Property, plant and equipment:								
Land and land improvements	9,904,877	–	–	9,904,877	8,458,354	–	–	8,458,354
Buildings and building improvements	286,763,195	–	–	286,763,195	265,771,375	–	–	265,771,375
Equipment and other	229,444,069	–	–	229,444,069	218,310,465	–	–	218,310,465
Construction in progress (estimated cost to complete at September 30, 2012-$111,203,000)	39,100,951	–	–	39,100,951	27,578,848	–	–	27,578,848
	565,213,092	–	–	565,213,092	520,119,042	–	–	520,119,042
Less accumulated depreciation	322,977,997	–		322,977,997	299,833,683	–		299,833,683
	242,235,095	–	–	242,235,095	220,285,359	–	–	220,285,359
Bond issuance costs, net	4,628,949	–	–	4,628,949	5,779,765	–	–	5,779,765
Total assets	$ 773,883,884	$ 65,787,514	$ (23,507,620)	$ 816,163,778	$ 715,105,959	$ 56,572,466	$ (17,367,885)	$ 754,310,540

Continued on next page.

The Danbury Hospital and Subsidiary

Consolidating Balance Sheets (continued)

	September 30, 2012				September 30, 2011			
	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Adjustments and Eliminations	Total
Liabilities and net assets:								
Current liabilities:								
Accounts payable	$ 25,493,612	$ (37,773)	$ –	$ 25,455,839	$ 27,356,488	$ 6,683	$ –	$ 27,363,171
Payroll-related accruals	20,868,119	–	–	20,868,119	12,263,559	–	–	12,263,559
Due to affiliates		263,256	(263,256)	–		167,761	(167,761)	–
Due to third-party payors	9,985,351	–	–	9,985,351	11,107,547	–	–	11,107,547
Interest payable	1,624,480	–	–	1,624,480	1,803,683	–	–	1,803,683
Other accrued expenses	3,553,987	–	–	3,553,987	4,070,796	–	–	4,070,796
Current portion of long-term debt	1,555,000	–	–	1,555,000	2,515,000	–	–	2,515,000
Total current liabilities	63,080,549	225,483	(263,256)	63,042,776	59,117,073	174,444	(167,761)	59,123,756
Self-insurance liabilities	–	42,317,667	–	42,317,667	–	39,197,898	–	39,197,898
Other long-term liabilities	16,602,236	–	–	16,602,236	15,647,308	–	–	15,647,308
Long-term debt, less current portion	249,580,000	–	–	249,580,000	252,100,000	–	–	252,100,000
Net assets:								
Share capital	–	12,000	(12,000)	–	–	12,000	(12,000)	–
Additional paid in capital	–	8,663,333	(8,663,333)	–	–	8,663,333	(8,663,333)	–
Unrestricted	386,002,265	14,569,031	(14,569,031)	386,002,265	332,255,763	8,524,791	(8,524,791)	332,255,763
Temporarily restricted	29,794,088	–	–	29,794,088	27,787,449	–	–	27,787,449
Permanently restricted	28,824,746	–	–	28,824,746	28,198,366	–	–	28,198,366
Total net assets	444,621,099	23,244,364	(23,244,364)	444,621,099	388,241,578	17,200,124	(17,200,124)	388,241,578
Total liabilities and net assets	$ 773,883,884	$ 65,787,514	$ (23,507,620)	$ 816,163,778	$ 715,105,959	$ 56,572,466	$ (17,367,885)	$ 754,310,540

The Danbury Hospital and Subsidiary

Consolidating Statements of Operations

	September 30, 2012				September 30, 2011			
	The Danbury Hospital	Western Connecticut Health Care Insurance Co., Ltd.	Adjustments and Eliminations	Total	The Danbury Hospital	Western Connecticut Health Care Insurance Co., Ltd.	Adjustments and Eliminations	Total
Unrestricted revenues:								
Net patient service revenue	$ 521,836,000	$ –	$ –	$ 521,836,000	$ 497,720,490	$ –	$ –	$ 497,720,490
Provision for bad debt	19,413,218	–	–	19,413,218	18,183,085	–	–	18,183,085
Net patient service revenue less provision for bad debt	502,422,782	–	–	502,422,782	479,537,405	–	–	479,537,405
Other operating revenues	22,126,583	11,982,398	(6,798,516)	27,310,465	13,930,894	12,289,002	(6,373,521)	19,846,375
	524,549,365	11,982,398	(6,798,516)	529,733,247	493,468,299	12,289,002	(6,373,521)	499,383,780
Expenses:								
Salaries, benefits and fees	313,980,347	–	–	313,980,347	308,540,688	–	–	308,540,688
Supplies and other	145,584,073	263,755	(6,798,516)	139,049,312	136,790,504	232,255	(6,373,521)	130,649,238
Insurance	–	11,680,311	–	11,680,311	–	8,742,635	–	8,742,635
Depreciation and amortization	31,663,499	–	–	31,663,499	27,369,949	–	–	27,369,949
Interest	4,156,059	–	–	4,156,059	4,587,742	–	–	4,587,742
	495,383,978	11,944,066	(6,798,516)	500,529,528	477,288,883	8,974,890	(6,373,521)	479,890,252
Income from operations	29,165,387	38,332	–	29,203,719	16,179,416	3,314,112	–	19,493,528
Nonoperating income:								
Investment income, net	1,690,407	–	–	1,690,407	14,482,744	1,617,652	(10,000,000)	6,100,396
Change in unrealized gains and losses on investments	19,910,410	6,005,908	(6,005,908)	19,910,410	(1,979,439)	(1,358,375)	1,358,375	(1,979,439)
Change in equity interest in unrestricted net assets of the Western Connecticut Health Network Foundation, Inc.	2,571,725	–	–	2,571,725	71,435	–	–	71,435
Change in investment in WCHCIC	38,332	–	(38,332)	–	(5,068,236)	–	5,068,236	–
	24,210,874	6,005,908	(6,044,240)	24,172,542	7,506,504	259,277	(3,573,389)	4,192,392
Excess of revenues over expenses	$ 53,376,261	$ 6,044,240	$ (6,044,240)	$ 53,376,261	$ 23,685,920	$ 3,573,389	$ (3,573,389)	$ 23,685,920

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