

**AUDITED CONSOLIDATED FINANCIAL  
STATEMENTS AND OTHER FINANCIAL  
INFORMATION**

**The Danbury Hospital and Subsidiary  
Years Ended September 30, 2010 and 2009  
With Report of Independent Auditors**

**The Danbury Hospital and Subsidiary**  
**Audited Consolidated Financial Statements**  
**and Other Financial Information**

Years Ended September 30, 2010 and 2009

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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, 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 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 Danbury Health Insurance Co. Ltd (the Company), a subsidiary of the Hospital, for the years ended September 30, 2010 and 2009, which statements reflect total assets of 9% and 8%, respectively, and total revenues of 2% and 3%, respectively, for the years then ended. These statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Company, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of 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, 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.

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is fluid and cursive, with "Ernst & Young" stacked above "LLP".

January 27, 2011

A member firm of Ernst & Young Global Limited

The Danbury Hospital and Subsidiary

Consolidated Balance Sheets

	September 30	
	2010	2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 26,488,364	\$ 39,023,177
Assets limited as to use	1,679,707	1,756,854
Accounts receivable, less allowance for uncollectible accounts of \$10,140,000 in 2010 and \$12,267,000 in 2009	51,429,630	45,692,092
Current portion of due from related parties	3,894,406	3,662,991
Inventories	7,538,558	7,249,038
Prepaid expenses and other	11,103,104	9,658,593
Total current assets	<b>102,133,769</b>	107,042,745
Investments	226,190,145	196,407,798
Prepaid pension and other assets	31,671,852	35,410,004
Due from related parties	15,058,487	12,947,858
Interest in Danbury Hospital Development Fund, Inc.	77,105,507	74,439,678
Property, plant and equipment:		
Land and land improvements	7,228,710	7,105,504
Buildings and building improvements	234,120,405	223,364,649
Equipment and other	196,721,202	179,865,401
Construction in progress (estimated cost to complete at September 30, 2010: \$13,629,000)	19,811,944	12,550,101
	<b>457,882,261</b>	422,885,655
Less accumulated depreciation	<b>274,705,979</b>	251,993,763
	<b>183,176,282</b>	170,891,892
Bond issuance costs, net	3,117,386	3,274,927
Total assets	<b>\$ 638,453,428</b>	\$ 600,414,902

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 20,722,686	\$ 19,989,643
Payroll-related accruals	14,821,485	14,142,886
Due to third-party payors	11,079,973	12,701,203
Interest payable	1,057,389	1,057,389
Other accrued expenses	2,929,346	3,365,463
Current portion of long-term debt	2,545,000	2,460,000
Long-term debt subject to short-term remarketing agreements	30,870,000	—
Total current liabilities	<b>84,025,879</b>	53,716,584
Self-insurance liabilities	34,983,997	36,867,859
Other long-term liabilities	14,178,425	14,488,471
Long-term debt, less current portion and long-term debt subject to short-term remarketing agreement	81,260,000	114,675,000
Net assets:		
Unrestricted	368,034,236	325,008,268
Temporarily restricted	28,224,280	28,552,625
Permanently restricted	27,746,611	27,106,095
Total net assets	<b>424,005,127</b>	380,666,988
Total liabilities and net assets	<b>\$ 638,453,428</b>	\$ 600,414,902

*See accompanying notes.*

**The Danbury Hospital and Subsidiary**  
**Consolidated Statements of Operations and Changes in Net Assets**

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Unrestricted revenues:		
Net patient service revenue	\$ 473,298,383	\$ 456,041,554
Other operating revenues	<u>12,329,835</u>	<u>11,772,747</u>
	<b>485,628,218</b>	467,814,301
Expenses:		
Salaries, benefits and fees	290,962,055	273,345,707
Supplies and other	<u>121,925,292</u>	<u>117,218,083</u>
Insurance	<u>8,026,756</u>	<u>9,473,436</u>
Provision for uncollectible accounts	<u>10,687,109</u>	<u>12,641,113</u>
Depreciation and amortization	<u>25,703,935</u>	<u>23,125,624</u>
Interest	<u>4,557,278</u>	<u>4,667,920</u>
	<b>461,862,425</b>	440,471,883
Income from operations	<b>23,765,793</b>	27,342,418
Nonoperating gains:		
Investment income, net	6,894,477	6,466,684
Change in unrealized gains and losses on investments	<u>10,679,998</u>	<u>4,492,089</u>
Change in equity interest in unrestricted net assets of the Danbury Hospital Development Fund, Inc.	<u>3,239,430</u>	<u>213,448</u>
	<b>20,813,905</b>	11,172,221
Excess of revenues over expenses	<b>44,579,698</b>	38,514,639

*Continued on next page.*

The Danbury Hospital and Subsidiary  
 Consolidated Statements of Operations and Changes in Net Assets (continued)

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Unrestricted net assets:		
Excess of revenues over expenses (continued)	\$ 44,579,698	\$ 38,514,639
Change in equity interest of the Danbury Hospital Development Fund, Inc.	(885,772)	(26,259,494)
Transfers from the Danbury Hospital Development Fund, Inc.	6,032,042	5,185,066
Transfers to Danbury Health Systems, Inc.	(6,700,000)	(40,913,129)
Increase (decrease) in unrestricted net assets	<b>43,025,968</b>	(23,472,918)
Temporarily restricted net assets:		
Change in equity interest of the Danbury Hospital Development Fund, Inc.	(328,345)	16,596,173
(Decrease) increase in temporarily restricted net assets	<b>(328,345)</b>	16,596,173
Permanently restricted net assets:		
Change in equity interest of the Danbury Hospital Development Fund, Inc.	640,516	11,141,547
Increase in permanently restricted net assets	<b>640,516</b>	11,141,547
Increase in net assets	<b>43,338,139</b>	4,264,802
Net assets at beginning of year	<b>380,666,988</b>	376,402,186
Net assets at end of year	<b>\$ 424,005,127</b>	\$ 380,666,988

*See accompanying notes.*

**The Danbury Hospital and Subsidiary**

**Consolidated Statements of Cash Flows**

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activities and other income</b>		
Increase in net assets	\$ 43,338,139	\$ 4,264,802
Adjustments to reconcile increase in net assets to net cash provided by operating activities and other income:		
Depreciation and amortization	25,703,935	23,125,624
Change in unrealized gains and losses on investments	(10,679,998)	(4,492,089)
Increase in equity interest in net assets of the Danbury Hospital Development Fund, Inc.	(2,665,829)	(1,691,674)
Transfers from the Danbury Hospital Development Fund, Inc.	(6,032,042)	(5,185,066)
Transfers to Danbury Health Systems, Inc.	6,700,000	36,061,534
Provision for uncollectible accounts	10,687,109	12,641,113
Decrease in other long-term liabilities	(310,046)	(1,931,084)
(Decrease) increase in self-insurance liabilities	(1,883,862)	4,634,917
Changes in operating assets and liabilities (See Note 11)	(14,989,084)	3,909,313
Net cash provided by operating activities and other income	<u>49,868,322</u>	71,337,390
<b>Investing activities</b>		
Additions to property, plant and equipment, net	(37,988,325)	(26,767,125)
Increase in due from related parties	(9,042,044)	(4,990,694)
Increase in investments, net	(19,102,349)	(33,628,222)
Net cash used in investing activities	<u>(66,132,718)</u>	(65,386,041)
<b>Financing activities</b>		
Proceeds of issuance of bonds, net of change in issuance costs	157,541	177,450
Payments of long-term debt	(2,460,000)	(2,425,000)
Transfers from the Danbury Hospital Development Fund, Inc.	6,032,042	5,185,066
Net cash provided by financing activities	<u>3,729,583</u>	2,937,516
Net (decrease) increase in cash and cash equivalents	<u>(12,534,813)</u>	8,888,865
Cash and cash equivalents at beginning of year	39,023,177	30,134,312
Cash and cash equivalents at end of year	<u>\$ 26,488,364</u>	\$ 39,023,177

*See accompanying notes.*

# The Danbury Hospital and Subsidiary

## Notes to Consolidated Financial Statements

September 30, 2010

### **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 Healthcare. The Board of the Hospital is appointed by Western Connecticut Healthcare.

The accompanying consolidated financial statements include the accounts of the Hospital and the Hospital's wholly owned subsidiary, Danbury Health Systems Insurance Company, Ltd. (DHSIC, Ltd.). All material intercompany transactions have been eliminated.

#### **Use of Estimates**

The preparation of 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**

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. 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 unrestricted portion of the 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.

**The Danbury Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements (continued)**

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

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 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 stated at fair value as estimated in an unquoted market. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, the 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. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Hospital to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts, and other derivative products. While these financial instruments may contain varying degrees of risk, the Hospital'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 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 held by trustees under indenture agreements related to financing activities with the State of Connecticut Health and Educational Facilities Authority (CHEFA). The portion of amounts required for funding current liabilities is included in current assets.

The Danbury Hospital and Subsidiary  
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 the Hospital. 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, the Hospital 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.

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 33% and 10%, and 32% and 14%, for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2010 and 2009, respectively.

### **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 \$469,148 and \$726,537 as of September 30, 2010 and 2009, respectively. 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 setting 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.

# The Danbury Hospital and Subsidiary

## Notes to Consolidated Financial Statements (continued)

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

#### **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.

#### **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 and changes in the equity interest of the Danbury Hospital Development Fund.

#### **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 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 Healthcare, 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 \$20,317,263 and \$10,022,856 for 2010 and 2009, respectively. The Hospital has a prepaid pension on the consolidated balance sheets that represents additional funding the Hospital has made to the defined benefit pension plan. Prepaid pension was \$30,229,958 and \$32,567,775 at September 30, 2010 and 2009, respectively.

Western Connecticut Healthcare, Inc.'s defined benefit pension plan had estimated projected benefit obligations of \$420,464,422 and \$362,762,642 at September 30, 2010 and 2009, respectively, and the fair value of those plan assets were \$297,328,592 and \$251,961,341 at September 30, 2010 and 2009, respectively. The discount rate was 5.55% and 5.78% for the years ended September 30, 2010 and 2009, respectively.

The Danbury Hospital and Subsidiary  
Notes to Consolidated Financial Statements (continued)

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

During 2009, the Hospital transferred net assets of \$40,913,129 to Western Connecticut Healthcare, Inc. relating to the Hospital's funding of Western Connecticut Healthcare, Inc. pension plans.

### **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. DHSIC Ltd. is a foreign corporation exempt from U.S. taxation.

The Hospital has losses from unrelated business activities of approximately \$38,000,000, which began expiring in 2009. A deferred tax asset for these losses of approximately \$13,470,000 is offset by a corresponding valuation allowance of the same amount.

### **Interest in the Danbury Hospital Development Fund, Inc.**

The interest in the Danbury Hospital Development Fund, Inc. represents the Hospital's interest in the restricted net assets of the Danbury Hospital Development Fund, 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).

### **Adoption of 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.

The Danbury Hospital and Subsidiary  
Notes to Consolidated Financial Statements (continued)

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

### **Subsequent Events**

The Hospital 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. The Hospital evaluated subsequent events through January 27, 2011, which represents the date in which the consolidated financial statements were issued. No events occurred that require disclosure or 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.

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

The following summarizes net patient service revenue:

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Gross patient service revenue	<b>\$ 1,042,814,917</b>	\$ 1,002,343,396
Deductions:		
Allowances	<b>556,748,702</b>	534,035,137
Charity care (at charges)	<b>12,767,832</b>	12,266,705
	<b>569,516,534</b>	546,301,842
Net patient service revenue	<b>\$ 473,298,383</b>	\$ 456,041,554

During 2010 and 2009, approximately 34% and 6%, and 34% and 6%, respectively, of net patient service revenue was received under the Medicare and Medicaid program, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. The 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 Danbury Hospital and Subsidiary  
Notes to Consolidated Financial Statements (continued)

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

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 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, the Hospital 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.

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.

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 Danbury Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements (continued)**

### **3. Investments**

The composition of investments is set forth in the following table:

	September 30		2009	
	2010	Market	Cost	Market
<b>Fixed income investments:</b>				
Cash and cash equivalents	\$ 124,947	\$ 124,947	\$ 124,785	\$ 124,785
United States Treasury obligations	48,764,092	49,459,837	36,054,162	36,271,805
Corporate bonds	27,272,362	26,954,487	22,917,780	22,638,150
Mutual funds	154,968,305	149,650,874	152,930,630	137,373,058
	<b><u>\$ 231,129,706</u></b>	<b><u>\$ 226,190,145</u></b>	<b><u>\$ 212,027,357</u></b>	<b><u>\$ 196,407,798</u></b>
<b>Assets limited as to use:</b>				
Money market funds	\$ 1,679,707	\$ 1,679,707	\$ 1,756,854	\$ 1,756,854
	<b><u>\$ 1,679,707</u></b>	<b><u>\$ 1,679,707</u></b>	<b><u>\$ 1,756,854</u></b>	<b><u>\$ 1,756,854</u></b>

Investment income included in non-operating gains at September 30 consists of:

	2010	2009
Interest and dividend income	\$ 7,220,516	\$ 6,623,650
Realized gains and losses	(326,039)	(156,966)
	<b><u>\$ 6,894,477</u></b>	<b><u>\$ 6,466,684</u></b>

### **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.

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

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

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

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

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

Financial assets 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	\$ 26,488,364	\$ —	\$ —	\$ 26,488,364
Investments:				
Cash and cash equivalents	124,947	—	—	124,947
United States Treasury obligations	49,459,837	—	—	49,459,837
Corporate bonds	26,954,487	—	—	26,954,487
Mutual Funds	95,777,116	53,873,758	—	149,650,874
Assets limited as to use:				
Money Market Funds	1,679,707	—	—	1,679,707
	<u>\$ 200,484,458</u>	<u>\$ 53,873,758</u>	<u>\$ —</u>	<u>\$ 254,358,216</u>

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

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

Financial assets carried at fair value as of September 30, 2009 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	\$ 39,023,177	\$ –	\$ –	\$ 39,023,177
Investments:				
Cash and cash equivalents	124,785	–	–	124,785
United States Treasury obligations	36,271,805	–	–	36,271,805
Corporate bonds	22,638,150	–	–	22,638,150
Mutual Funds	89,094,823	48,278,235	–	137,373,058
Assets limited as to use:				
Money Market Funds	1,756,854	–	–	1,756,854
	<u>\$ 188,909,594</u>	<u>\$ 48,278,235</u>	<u>\$ –</u>	<u>\$ 237,187,829</u>

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

#### **5. Long-Term Debt and Credit Facility**

Long-term debt consists of the following:

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Hospital revenue bonds financed with CHEFA:		
Series G	\$ 40,650,000	\$ 41,555,000
Series H	41,560,000	41,560,000
Series J	32,465,000	34,020,000
	<u>114,675,000</u>	<u>117,135,000</u>
Less current portion	2,545,000	2,460,000
Less long-term debt subject to short-term remarketing agreements	<u>30,870,000</u>	<u>–</u>
	<u><u>\$ 81,260,000</u></u>	<u><u>\$ 114,675,000</u></u>

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **5. 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 according to their long term amortization schedule:

2011	\$ 2,545,000
2012	2,635,000
2013	2,730,000
2014	2,835,000
2015	2,945,000
Thereafter	<u>100,985,000</u>
	<u><u>\$ 114,675,000</u></u>

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

The Hospital paid interest of \$4,256,083 and \$4,659,173 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 to reimburse the Hospital 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 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 letter of credit expires on June 24, 2011. As a result, Series J Bonds are included in current liabilities. 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.

The Danbury Hospital and Subsidiary  
Notes to Consolidated Financial Statements (continued)

## **5. 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.

## **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 the opinion of counsel, the outcome of these actions will not have a significant effect on the financial position or the results of operations of the Hospital. In addition, the Hospital is a party to various lawsuits incidental to its business. Management believes that the 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 \$4,971,176 and \$3,980,458 for the years ended September 30, 2010 and 2009, respectively.

The future minimum lease payments are as follows:

2011	\$ 4,168,074
2012	2,500,424
2013	2,396,165
2014	2,329,865
2015	2,335,966
Thereafter	8,562,706
	<u>\$ 22,293,200</u>

**The Danbury Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements (continued)**

**7. Related Party Transactions**

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

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Western Connecticut Healthcare	\$ 2,013,898	\$ 1,908,977
Danbury Health Care Affiliates, Inc.	372,623	459,032
Business Systems, Inc.	943,902	964,266
The Danbury Hospital Development Fund, Inc.	327,998	123,066
Danbury Visiting Nurses Association, Inc.	152,089	153,932
Regional Hospice of Western Connecticut	83,896	53,718
Danbury Office of Physician Services, P.C.	<u>15,058,487</u>	<u>12,947,858</u>
	<u><b>\$ 18,952,893</b></u>	<u><b>\$ 16,610,849</b></u>

The Hospital earned income from related parties as follows:

	<b>Year Ended</b>	
	<b>September 30</b>	<b>2010</b>
	<b>2009</b>	<b>2009</b>
Danbury Health Care Affiliates, Inc.	\$ 161,983	\$ 157,597
Business Systems, Inc.	270,146	276,065
	<u><b>\$ 432,129</b></u>	<u><b>\$ 433,662</b></u>

Danbury Office of Physician Services, P.C. (DOPS) is a nonprofit professional corporation which provides medical services to the Hospital. Charges for physician services provided to the Hospital by DOPS were \$34,844,237 and \$31,954,001 for the years ended September 30, 2010 and 2009, respectively. During 2003, the Hospital 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. Other amounts due from DOPS represent cash advances from the Hospital.

During 2010, the Hospital transferred net assets of \$6,700,000 to Western Connecticut Healthcare relating to benefits and other expenses paid on their behalf.

## The Danbury Hospital and Subsidiary

### Notes to Consolidated Financial Statements (continued)

#### **8. Professional Liability Self-Insurance**

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

Coverage for medical malpractice insurance is on a claims-made basis. The coverage limits are \$5,000,000 per claim and \$25,000,000 in the aggregate. The excess indemnity coverage is \$15,000,000 per claim and \$15,000,000 in the aggregate. The Hospital has recorded a liability of \$8,500,000 and \$9,700,000 at September 30, 2010 and 2009, respectively, for incurred-but-not-reported claims, which is included in other long-term liabilities on the accompanying consolidated balance sheets.

Assets held by DHSIC, Ltd. approximate \$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, Ltd. 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, Ltd. are included in self-insurance liabilities in the accompanying consolidating 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:

	<b>2010</b>	<b>2009</b>
Balance at 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 end of period	<u><u>\$ 32,294,365</u></u>	<u><u>\$ 30,434,952</u></u>

The Danbury Hospital and Subsidiary  
Notes to Consolidated Financial Statements (continued)

## **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 DHSIC Ltd.’s activity is recorded using deposit accounting on the Hospital’s consolidated balance sheets.

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

	<b>2010</b>	<b>2009</b>
Balance at 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 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 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 \$28,224,280 and \$28,552,625 as of September 30, 2010 and 2009, respectively, are available to the Hospital for health care services. Permanently restricted net assets are \$27,746,611 and \$27,106,095 as of September 30, 2010 and 2009, respectively, and are investments to be held in perpetuity, the income which is expendable to support health care services.

The Danbury Hospital and Subsidiary  
Notes to Consolidated Financial Statements (continued)

## **10. Endowments**

The Danbury Hospital Development Fund (DHDF) 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.

The Leadership of DHDF has interpreted 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, DHDF 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, DHDF 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 DHDF 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 DHDF
- (7) The investment policies of DHDF

DHDF 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 DHDF 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'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.

The Danbury Hospital and Subsidiary  
Notes to Consolidated Financial Statements (continued)

**10. Endowments (continued)**

To satisfy its long-term rate-of-return objectives, the DHDF 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 DHDF targets a diversified asset allocation to achieve its long-term objective within prudent risk constraints. Each year, the DHDF 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 DHDF 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	\$ 24,796,155	\$ 43,795,865
Board-designated endowment funds	<u>12,020,250</u>	—	—	<u>12,020,250</u>
Endowment net assets at end of year	<u>\$ 12,020,250</u>	<u>\$ 18,999,710</u>	<u>\$ 24,796,155</u>	<u>\$ 55,816,115</u>

**The Danbury Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements (continued)**

**10. 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	<u>1,284,806</u>	<u>4,283,224</u>	–	5,568,030
Contributions	–	186,918	393,104	580,022
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>\$ 24,796,155</u>	<u>\$ 55,816,115</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>

# The Danbury Hospital and Subsidiary

## Notes to Consolidated Financial Statements (continued)

### **10. Endowments (continued)**

Changes in endowment funds for the fiscal year ended September 30, 2009, 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	\$ 39,155,330	\$ 1,222,224	\$ 13,107,885	\$ 53,485,439
Net asset reclassifications	<u>(26,319,514)</u>	<u>15,947,255</u>	<u>10,372,259</u>	<u>–</u>
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	<u>257,709</u>	<u>499,050</u>	<u>–</u>	<u>756,759</u>
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 create donor- designated endowment funds	–	(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 DHDF 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.

The Danbury Hospital and Subsidiary  
 Notes to Consolidated Financial Statements (continued)

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

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
(Increase) decrease in operating assets:		
Assets limited as to use	\$ 77,147	\$ 20,380
Accounts receivable, net	(16,424,647)	(11,294,419)
Inventories	(289,520)	(7,405)
Prepaid expenses and other	<u>2,293,641</u>	<u>1,540,292</u>
	<u>(14,343,379)</u>	<u>(9,741,152)</u>
Increase (decrease) in operating liabilities:		
Accounts payable	733,043	1,504,086
Interest payable	(112,220)	(112,220)
Payroll-related accruals	678,599	2,231,785
Due to third-party payors	(1,621,230)	9,809,505
Other accrued expenses	<u>(436,117)</u>	<u>217,309</u>
	<u>(645,705)</u>	<u>13,650,465</u>
Change in working capital other than cash and cash equivalents	<u><b>\$ (14,989,084)</b></u>	<u><b>\$ 3,909,313</b></u>

**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:

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Health care services	\$ 393,885,428	\$ 375,243,839
General and administrative	67,976,997	65,228,044
	<u><b>\$ 461,862,425</b></u>	<u><b>\$ 440,471,883</b></u>



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## Report of Independent Auditors on Other Financial Information

Board of Directors  
The Danbury Hospital

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 consolidated 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.

A handwritten signature in black ink that reads 'Ernst &amp; Young LLP'.

January 27, 2011

The Danbury Hospital and Subsidiary

Consolidating Balance Sheets

	September 30, 2010				September 30, 2009			
	The Danbury Hospital	Danbury		Adjustments and Eliminations	Total	The Danbury Hospital	Danbury	
		Health Systems	Insurance Co.				LTD	Insurance Co.
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 26,334,940	\$ 153,424		\$ 26,488,364		\$ 38,643,022	\$ 380,155	\$ 39,023,177
Assets limited as to use	1,679,707			1,679,707		1,756,854	—	1,756,854
Accounts receivable, less allowance for uncollectible accounts of \$10,140,000 in 2010 and \$12,267,000 in 2009	51,429,630			51,429,630		45,692,092	—	45,692,092
Current portion of due from related parties	4,041,813		\$ (147,407)	3,894,406		3,777,584	—	3,662,991
Inventories	7,538,558			7,538,558		7,249,038	—	7,249,038
Prepaid expenses and other	5,454,623	5,648,481		11,103,104		3,805,773	5,852,820	9,658,593
Total current assets	96,479,271	5,801,905	(147,407)	102,133,769		100,924,363	6,232,975	(114,593) 107,042,745
Investments	173,186,305	53,003,840		226,190,145		144,958,291	51,449,507	— 196,407,798
Prepaid pension and other assets	31,671,852			31,671,852		35,410,004	—	35,410,004
Due from related parties	15,058,487			15,058,487		12,947,858	—	12,947,858
Investment in Danbury Health Systems Insurance Co., LTD.	23,626,734		(23,626,734)	—		20,662,202	—	(20,662,202) —
Interest in Danbury Hospital Development Fund, Inc.	77,105,507			77,105,507		74,439,678	—	74,439,678
<b>Property, plant and equipment:</b>								
Land and land improvements	7,228,710			7,228,710		7,105,504	—	7,105,504
Buildings and building improvements	234,120,405			234,120,405		223,364,649	—	223,364,649
Equipment and other	196,721,202			196,721,202		179,865,401	—	179,865,401
Construction in progress (estimated cost to complete at September 30, 2010-\$13,629,000)	19,811,944			19,811,944		12,550,101	—	12,550,101
	457,882,261	—	—	457,882,261		422,885,655	—	422,885,655
Less accumulated depreciation	274,705,979			274,705,979		251,993,763	—	251,993,763
	183,176,282	—	—	183,176,282		170,891,892	—	170,891,892
Bond issuance costs, net	3,117,386			3,117,386		3,274,927	—	3,274,927
Total assets	\$ 603,421,824	\$ 58,805,745	\$ (23,774,141)	\$ 638,453,428		\$ 563,509,215	\$ 57,682,482	\$ (20,776,795) \$ 600,414,902

*Continued on next page.*

The Danbury Hospital and Subsidiary  
Consolidating Balance Sheets (continued)

	September 30, 2010				September 30, 2009			
	Danbury		Danbury		Danbury		Danbury	
	The Danbury	Health Systems	Adjustments	The Danbury	Health Systems	Adjustments	The Danbury	Health Systems
<b>Liabilities and net assets</b>								
Current liabilities:								
Accounts payable	\$ 20,675,079	\$ 47,607	\$ 20,722,686	\$ 19,951,815	\$ 37,828	\$ 19,989,643		
Payroll-related accruals	14,821,485		14,821,485	14,142,886	—	14,142,886		
Due to affiliates		147,407	\$ (147,407)	—	114,593	\$ (114,593)	—	
Due to third-party payors	11,079,973		11,079,973	12,701,203	—	—	12,701,203	
Interest payable	1,057,389		1,057,389	1,057,389	—	—	1,057,389	
Other accrued expenses	2,929,346		2,929,346	3,365,463	—	—	3,365,463	
Current portion of long-term debt	2,545,000		2,545,000	2,460,000	—	—	2,460,000	
Long-term debt subject to short-term remarketing agreements	30,870,000	—	30,870,000	—	—	—	—	
Total current liabilities	83,978,272	195,014	(147,407)	84,025,879	53,678,756	152,421	(114,593)	53,716,584
Self-insurance liabilities		34,983,997		34,983,997	—	36,867,859	—	36,867,859
Other long-term liabilities	14,178,425		14,178,425	14,488,471	—	—	14,488,471	
Long-term debt, less current portion, and long-term debt subject to short-term remarketing agreements	81,260,000		81,260,000	114,675,000	—	—	114,675,000	
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	368,034,236	14,951,401	(14,951,401)	368,034,236	325,008,268	11,986,869	(11,986,869)	325,008,268
Temporarily restricted	28,224,280		28,224,280	28,552,625	—	—	28,552,625	
Permanently restricted	27,746,611		27,746,611	27,106,095	—	—	27,106,095	
Total net assets	424,005,127	23,626,734	(23,626,734)	424,005,127	380,666,988	20,662,202	(20,662,202)	380,666,988
Total liabilities and net assets	\$ 603,421,824	\$ 58,805,745	\$ (23,774,141)	\$ 638,453,428	\$ 563,509,215	\$ 57,682,482	\$ (20,776,795)	\$ 600,414,902

The Danbury Hospital and Subsidiary  
Consolidating Statements of Operations and Changes in Net Assets

	September 30, 2010				September 30, 2009			
	The Danbury Hospital	Danbury Health Systems Insurance Co. LTD	Adjustments and Eliminations	Total	The Danbury Hospital	Danbury Health Systems Insurance Co. LTD	Adjustments and Eliminations	Total
Unrestricted revenues:								
Net patient service revenue	\$ 473,298,383			\$ 473,298,383				\$ 456,041,554
Other operating revenues	7,805,933	\$ 11,216,278	\$ (6,692,376)	12,329,835		7,344,217	\$ 12,145,828	\$ (7,717,298)
	<u>481,104,316</u>	<u>11,216,278</u>	<u>(6,692,376)</u>	<u>485,628,218</u>		<u>463,385,771</u>	<u>12,145,828</u>	<u>(7,717,298)</u>
Expenses:								
Salaries, benefits and fees	290,962,055			290,962,055		273,345,707		273,345,707
Supplies and other	128,404,325	213,343	(6,692,376)	121,925,292		124,754,012	181,369	(7,717,298)
Insurance		8,026,756		8,026,756		-	9,473,436	9,473,436
Provision for uncollectible accounts	10,687,109			10,687,109		12,641,113		12,641,113
Depreciation and amortization	25,703,935			25,703,935		23,125,624		23,125,624
Interest	4,557,278			4,557,278		4,667,920		4,667,920
	<u>460,314,702</u>	<u>8,240,099</u>	<u>(6,692,376)</u>	<u>461,862,425</u>		<u>438,534,376</u>	<u>9,654,805</u>	<u>(7,717,298)</u>
Income from operations	20,789,614	2,976,179	-	23,765,793		24,851,395	2,491,023	-
Nonoperating gains :								
Investment income, net	9,146,945	2,747,532	(5,000,000)	6,894,477		8,551,578	2,415,106	(4,500,000)
Change in unrealized gains and losses on investments	10,679,998	2,240,820	(2,240,820)	10,679,998		4,492,089	2,420,906	(2,420,906)
Loss on early extinguishment of debt of the Danbury Hospital Development Fund, Inc.	3,239,430			3,239,430		-	-	-
Change in investment in DHSIC	723,711		(723,711)	-		213,448	-	213,448
	<u>23,790,084</u>	<u>4,988,352</u>	<u>(7,964,531)</u>	<u>20,813,905</u>		<u>406,129</u>	<u>-</u>	<u>(406,129)</u>
Excess of revenues over expenses	<u>\$ 44,579,698</u>	<u>\$ 7,964,531</u>	<u>\$ (7,964,531)</u>	<u>\$ 44,579,698</u>		<u>\$ 38,514,639</u>	<u>\$ 7,327,035</u>	<u>\$ (7,327,035)</u>
								\$ 38,514,639