

***Audited Consolidated Financial Statements
And Other Financial Information***

***Greater Waterbury Health Network, Inc.
and Subsidiaries***

Years ended September 30, 2009 and 2008

Greater Waterbury Health Network, Inc. and Subsidiaries

Audited Consolidated Financial Statements
And Other Financial Information

Years ended September 30, 2009 and 2008

Contents

Report of Independent Auditors.....	1
Consolidated Balance Sheets.....	2
Consolidated Statements of Operations and Changes in Net Assets.....	4
Consolidated Statements of Cash Flows.....	6
Notes to Consolidated Financial Statements.....	7
Other Financial Information	
Report of Independent Auditors on Other Financial Information.....	36
Consolidating Balance Sheets.....	37
Consolidating Statements of Operations.....	41

Report of Independent Auditors

Board of Trustees
Greater Waterbury Health Network, Inc.

We have audited the accompanying consolidated balance sheets of Greater Waterbury Health Network, Inc. (the "Corporation") and Subsidiaries as of September 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Greater Waterbury Health Network, Inc. and Subsidiaries as of September 30, 2009 and 2008, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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Hartford, Connecticut
January 25, 2010

Greater Waterbury Health Network, Inc. and Subsidiaries
Consolidated Balance Sheets

	September 30	
	<u>2009</u>	<u>2008</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,343,506	\$ 14,507,536
Short-term investments	819,938	878,151
Other assets required for current liabilities	573,887	2,737,177
Accounts receivable, less allowance (\$9,511,000 in 2009 and \$9,090,000 in 2008)		
Patients	33,030,750	36,881,585
Grants and other	1,101,738	816,614
	<u>34,132,488</u>	<u>37,698,199</u>
Inventories	584,339	608,211
Prepaid insurance and other expenses	1,404,755	1,792,742
Due from third-party reimbursement agencies	-	575,043
Due from affiliates	1,531,902	2,559,601
Other current assets	145,408	275,709
Total current assets	<u>58,536,223</u>	<u>61,632,369</u>
Other assets:		
Certificates of deposit and money market funds	14,570	1,424,705
U.S. Government obligations and other bonds	2,273	3,384,994
Under bond indenture agreements	2,612,987	2,593,874
Total other assets	<u>2,629,830</u>	<u>7,403,573</u>
Less other assets that are required for current liabilities	573,887	2,737,177
	<u>2,055,943</u>	<u>4,666,396</u>
Property, plant and equipment:		
Land	287,549	287,549
Buildings and improvements	89,608,146	88,908,696
Furniture, fixtures and equipment	167,989,598	166,444,630
Construction in progress (estimated additional cost to complete: 2009 - \$245,804)	134,784	193,299
Accumulated depreciation	<u>(207,922,774)</u>	<u>(198,386,192)</u>
	<u>50,097,303</u>	<u>57,447,982</u>
Funds held in trust by others	37,864,978	38,548,695
CHEFA obligations issue expense, less amortization	709,891	745,580
Long-term investments	30,168,049	33,161,797
Board-designated endowment funds	2,673,155	-
Other investments	206,607	134,576
Loans and other receivables	943,342	1,136,973
Accrued interest and dividends receivable	54,076	61,174
	<u>72,620,098</u>	<u>73,788,795</u>
	<u>\$ 183,309,567</u>	<u>\$ 197,535,542</u>

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Greater Waterbury Health Network, Inc. and Subsidiaries
Consolidated Balance Sheets (continued)

	September 30	
	2009	2008
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 25,053,002	\$ 30,851,726
Current portion of CHEFA obligations	865,000	835,000
Current portion of notes payable	442,010	5,010,284
Due to third-party reimbursement agencies	1,195,037	-
Due to affiliates	-	416,047
Total current liabilities	27,555,049	37,113,057
CHEFA obligations, less current portion and discount	20,547,007	21,387,150
Notes payable, less current portion	634,843	565,884
Other noncurrent liabilities	14,365,164	7,826,358
Minority interest in net assets of consolidated affiliates	2,530,345	2,417,095
Net assets:		
Unrestricted	69,255,238	76,183,050
Temporarily restricted	7,764,952	10,702,822
Permanently restricted	40,656,969	41,340,126
	117,677,159	128,225,998

	\$ 183,309,567	\$ 197,535,542
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See accompanying notes.

Greater Waterbury Health Network, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets

	Year ended September 30	
	2009	2008
Revenues:		
Net revenues from services to patients	\$ 258,121,071	\$ 239,986,207
Investment related income	2,668,767	1,263,709
Other operating revenues	3,479,975	5,031,437
Services, sales and rental income	9,209,658	9,196,023
Unrestricted gifts and bequests	465,305	162,275
Net assets released from restrictions	5,108,393	4,742,105
	279,053,169	260,381,756
Expenses:		
Salaries, wages and benefits	152,082,483	153,673,502
Supplies, utilities and other	90,618,383	90,208,295
Bad debt expense	14,440,795	17,897,459
Depreciation	9,919,723	10,474,375
Operations improvement	12,908,481	-
Interest and amortization	1,607,522	1,719,620
	281,577,387	273,973,251
Deficiency of revenues over expenses before minority interest	(2,524,218)	(13,591,495)
Minority interest in income of consolidated affiliates	(1,317,466)	(1,101,174)
Deficiency of revenues over expenses before net unrealized gains (losses) on investments	(3,841,684)	(14,692,669)
Net unrealized gains (losses) on investments	537,548	(3,134,718)
Deficiency of revenue over expenses	(3,304,136)	(17,827,387)

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Greater Waterbury Health Network, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year ended September 30	
	2009	2008
Unrestricted net assets:		
Deficiency of revenues over expenses	\$ (3,304,136)	\$ (17,827,387)
Net assets released from restrictions used for purchase of property and equipment	69,902	333,725
Transfer of net assets	2,175,872	-
Pension liability adjustments	(5,526,450)	(3,103,183)
Decrease in unrestricted net assets before effect of change in accounting principles	(6,584,812)	(20,596,845)
Adjustment to adopt measurement date provisions of FASB ASC 715-30	(343,000)	-
Decrease in unrestricted net assets	(6,927,812)	(20,596,845)
Temporarily restricted net assets:		
Gifts and bequests	654,754	521,866
Income from investments	320,237	702,851
Net realized and unrealized losses on investments	(662,430)	(2,748,132)
Grants	4,103,736	3,779,437
Net assets transferred and released from restrictions	(7,354,167)	(5,075,830)
Decrease in temporarily restricted net assets	(2,937,870)	(2,819,808)
Permanently restricted net assets:		
Gifts and bequests	560	50
Decrease in funds held in trust by others	(683,717)	(8,689,069)
Decrease in permanently restricted net assets	(683,157)	(8,689,019)
Decrease in net assets	(10,548,839)	(32,105,672)
Net assets at beginning of year	128,225,998	160,331,670
Net assets at end of year	\$ 117,677,159	\$ 128,225,998

See accompanying notes.

Greater Waterbury Health Network, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

	Year ended September 30	
	2009	2008
Operating activities		
Change in net assets	\$ (10,548,839)	\$ (32,105,672)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for bad debts	14,440,795	17,897,459
Depreciation and amortization	10,094,753	10,552,039
Pension liability adjustments	5,526,450	3,103,183
Adjustment to adopt measurement date provisions of ASC 715-30	343,000	
Net realized and unrealized losses	341,032	14,483,516
Restricted gifts, bequests and income from investments	(975,551)	(1,224,767)
Decrease in minority interest in net assets of consolidated affiliates	113,250	(119,471)
	19,334,890	12,586,287
Change in operating working capital, other than cash and cash equivalents and short-term investments:		
Accounts receivable, net	(10,875,084)	(18,184,727)
Inventories	23,873	(129,827)
Prepaid insurance and other expenses	387,987	(282,830)
Other assets that are required for current liabilities	2,163,290	322,021
Accounts payable and accrued expenses	(5,798,724)	9,369,862
Due to third-party reimbursement agencies	1,770,080	(3,068,680)
Increase (decrease) in other noncurrent liabilities	6,538,806	(1,110,443)
	(5,789,772)	(13,084,624)
Net cash provided by (used in) operating activities	13,545,118	(498,337)
Investing activities		
Decrease (increase) in other current assets	130,301	(26,306)
Decrease (increase) in due from affiliates	611,652	(999,276)
(Increase) decrease in other assets	(3,250,385)	3,926,983
Additions to property, plant and equipment, net	(2,569,045)	(4,313,664)
Decrease (increase) in short-term investments	6,718	(3,091)
Decrease (increase) in long-term investments	695,518	9,464,894
Net cash (used in) provided by investing activities	(4,375,241)	8,049,540
Financing activities		
Restricted gifts, bequests and income from investments	975,551	1,224,767
Net proceeds from issuance of debt	474,325	3,039,488
Principal payments on debt obligations	(5,783,783)	(5,929,751)
Net cash used in financing activities	(4,333,907)	(1,665,496)
Net increase in cash and cash equivalents	4,835,970	5,885,707
Cash and cash equivalents at beginning of year	14,507,536	8,621,829
Cash and cash equivalents at end of year	\$ 19,343,506	\$ 14,507,536

Cash paid during the year for interest on borrowings was \$1,379,563 and \$1,594,176 for the years ended September 30, 2009 and 2008, respectively.

See accompanying notes.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

1. Significant Accounting Policies and Organization

Organization

Greater Waterbury Health Network, Inc. (the "Corporation" or "Network") was incorporated on September 27, 1984 as a not-for-profit organization under the Non-Stock Corporation Act of the State of Connecticut. The Corporation's subsidiaries are The Waterbury Hospital (the "Hospital"), Greater Waterbury Health Services, Inc., Greater Waterbury Management Resources, Inc. ("GWMRI"), VNA Health at Home, Inc. ("VNA"), and Children's Center of Greater Waterbury Health Network, Inc. The accompanying financial statements also include Access Rehab Centers LLC ("Access"), Greater Waterbury Imaging Center Limited Partnership ("GWIC"), Imaging Partners, LLC, and Alliance Medical Group, Inc. to the extent of the Hospital's ownership interest in these affiliated entities.

The Hospital entered into a members' agreement, making it an equal member with St. Mary's Hospital, located in Waterbury, Connecticut, in a joint venture to form The Harold Leever Regional Cancer Center, Inc. (the "Cancer Center"). The Cancer Center is a Connecticut non-stock corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The purpose of the joint venture is to develop, construct, own and operate the Cancer Center. Both member hospitals transferred the revenue and related expenses of their respective radiation oncology services to the Cancer Center in October 2002. Both member hospitals made working capital advances to the Cancer Center. The total amount of advances by the Hospital of \$1,277,492 was converted into a promissory note which bears interest at the prime rate adjusted every six months. Principal repayments began in December 2007 and the total unpaid balance is due by August 1, 2011. The balance remaining on this note was \$125,449 and \$872,917 at September 30, 2009 and 2008, respectively. The Cancer Center is not included in the Corporation's consolidated financial statements.

The accounting policies that affect significant elements of the consolidated financial statements are summarized below and in Note 2.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Recognition has been given to minority ownership interest in the Hospital's affiliates. All significant intercompany accounts and transactions are eliminated in consolidation.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

1. Significant Accounting Policies and Organization (continued)

Use of Estimates

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

Temporarily and Permanently Restricted Net Assets

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

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets.

Promises to Give

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

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

1. Significant Accounting Policies and Organization (continued)

Cash and Cash Equivalents

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

Accounts Receivable

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

Inventories

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

Risks and Uncertainties

The Corporation invests in a variety of investment securities which are exposed to various risks, such as interest rate risk, financial market risk and credit risk. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Corporation's September 30, 2009 financial statements.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

1. Significant Accounting Policies and Organization (continued)

Investments

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value (quoted market prices) in the accompanying consolidated balance sheets. Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that the Corporation holds limited partnership interests, are stated at fair value as estimated in an inactive 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 Corporation'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. 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 Corporation 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 Corporation'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.

Unrestricted realized and unrealized gains and losses, interest and dividends are included in deficiency of revenues over expenses unless the income or loss is restricted by donor or law. The changes in net unrealized gains and losses on alternative investments are included in the deficiency of revenues over expenses.

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

Other Assets

Other assets are comprised of certain unrestricted gifts and bequests and amounts set aside to fund the deductible portion of medical malpractice insurance coverage and workers' compensation claims, for the established purpose of providing for future improvement, expansion and replacement of plant and equipment and assets held by trustees under indenture agreements related to financing activities with the State of Connecticut Health and Educational Facilities Authority. The portion of these amounts required for funding current liabilities is included in current assets. In 2009, the Hospital is no longer funding these accounts to pay future malpractice and workers' compensation clients.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

1. Significant Accounting Policies and Organization (continued)

Instead, the Hospital maintains a \$4 million letter of credit with a bank in support of its self-insured workers' compensation program. In addition, the Hospital purchased a loss transfer insurance policy which provides coverage for general and medical malpractice liability claims incurred prior to October 1, 2006. Effective October 1, 2006, the Hospital obtained "claims-made" medical malpractice insurance coverage, through the Network, from Healthcare Alliance Insurance Company, Ltd. ("HAIC"). HAIC is a multi-provider insurance company domiciled in the Cayman Islands.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. The Corporation and its subsidiaries provide for depreciation of property, plant and equipment and amortization of assets under capital leases using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives.

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

Conditional asset retirement obligations of \$2,129,801 and \$2,015,317 as of September 30, 2009 and 2008, respectively, are recorded in other noncurrent liabilities. During 2009 and 2008, no retirement obligations were incurred and \$0 and \$64,736 of obligations were settled, respectively.

Impairment of Long-Lived Assets

The Corporation records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There were no impairment losses in 2009 or 2008.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

1. Significant Accounting Policies and Organization (continued)

Deficiency of Revenues over Expenses

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

Operations improvement expenses represent consulting and other costs incurred by the Hospital in 2009 to improve the revenue cycle, increase cash flows, and improve the Hospital's overall financial performance. The majority of these costs are not expected to recur in 2010.

Income Taxes

The Corporation and its subsidiaries, with the exception of GWMRI, are not-for-profit organizations and are exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code. GWMRI has no federal tax liability due to net operating losses since its date of incorporation. The Corporation is also exempt from state income tax.

Access, GWIC and Imaging Partners LLC are partnerships. For tax purposes, these partnerships are pass-through entities. Taxation does not occur at the partnership level. Accordingly, no provision for taxes is included.

GWMRI has approximately \$5,750,000 in net operating losses. This results in a potential deferred tax asset of \$2,300,000 which is offset by a corresponding valuation allowance of the same amount.

Medical Malpractice and Workers' Compensation Insurance

The Hospital has a policy of self-insuring the deductible portion of its workers' compensation claims. The deductible limit is \$400,000 per claim. The Hospital established an irrevocable trust for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreement, the trust fund assets could only be used for payment of workers' compensation claims, related expenses, and the cost of administering the trust from the respective funds. In 2009, the Hospital has chosen to no longer fund the trust fund. Instead, the Hospital maintains a \$4 million letter of credit with a bank in support of its self-insured workers' compensation program.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

1. Significant Accounting Policies and Organization (continued)

The assets of the trust fund were reported as other assets in the consolidated balance sheets, income from the trust fund assets and administrative costs were reported in the consolidated statements of operations and changes in net assets. In 2009, the majority of the trust assets were utilized to pay claims and related expenses and the remaining balance was \$12,703 at September 30, 2009. Management accrues its best estimate of losses as they occur. The accrued workers' compensation self-insurance liabilities of \$6,173,116 and \$4,870,589 at September 30, 2009 and 2008, respectively, have been discounted at 2.5% and 5%, respectively.

Effective October 1, 2006, the Corporation became a member of Healthcare Alliance Insurance Company, Ltd ("HAIC"). HAIC is a multi-provider captive, domiciled in the Cayman Islands, which provides medical malpractice insurance coverage to its members, which include two other local hospital networks. The Corporation owns 120,000 shares of Class C stock, which entitles it to appoint three members of HAIC's Board of Directors. The other two hospital networks own 120,000 shares of Class A stock and 120,000 shares of Class B stock, respectively, which entitles them to appoint seven and three members of HAIC's Board of Directors, respectively. The Corporation has recorded its investment in HAIC of \$206,607 and \$134,576 at September 30, 2009 and 2008, respectively, in other investments on the consolidated balance sheets under the equity method of accounting. The Corporation has obtained "claims-made" medical malpractice insurance coverage with HAIC up to \$1,500,000 per occurrence and \$4,500,000 in the aggregate. In addition to the coverage provided by HAIC, the Corporation recorded reserves of approximately \$1,891,000 and \$1,819,000 at September 30, 2009 and 2008, respectively, related to claims that were incurred subsequent to October 1, 2006, but not yet reported. These reserves have been discounted at 2.5% and 5% at September 30, 2009 and 2008, respectively.

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

The policy has annual aggregate limits of \$4,500,000 for medical incidents and \$3,000,000 for general liability cases with a combined \$16,500,000 total limit for all policy years. These aggregate limits are eroded by claims previously paid by the Hospital or other insurance.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

1. Significant Accounting Policies and Organization (continued)

Regulatory Matters

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

Retirement Benefit Plans

The Hospital maintains a defined benefit pension plan for eligible individuals. Reference is made to Note 9.

Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation. These reclassifications had no impact on the deficiency of revenues over expenses or net assets previously reported.

Adoption of New Accounting Pronouncements

In June 2009, FASB issued ASC 105, *Generally Accepted Accounting Principles* ("ASC 105"), which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of ASC 105, the Corporation has updated references to GAAP in its financial statements issued for the year ended September 30, 2009. The adoption of ASC 105 did not impact the Corporation's financial position or results of operations.

Effective October 1, 2008, the Corporation adopted ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), provides a definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The adoption of ASC 820 did not have a material effect on the Corporation's financial statements. See Note 4 for related fair value disclosures.

ASC 820 delays the effective date for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, until fiscal years beginning after November 15, 2008. Accordingly, the Corporation will apply the provisions of ASC 820 to nonfinancial assets and nonfinancial liabilities beginning with the fiscal year ending September 30, 2010.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

1. Significant Accounting Policies and Organization (continued)

Effective October 1, 2008, the Corporation adopted ASC 825-10, *The Fair Value Option for Financial Assets and Liabilities* (ASC 825-10). ASC 825-10 permits companies to choose to measure certain financial instruments and other items at fair value that currently are not required to be measured at fair value under accounting principles generally accepted in the United States of America. The Corporation chose not to elect the fair value option for its financial assets and liabilities. Consequently, the adoption of ASC 825-10 did not have any impact on its financial statements.

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

For its fiscal year ended September 30, 2009, the Corporation adopted the measurement date provisions of ASC 715-30, *Compensation Retirement Benefits Defined Benefit Plans*. ASC 715-30 requires the fair value of plan assets and benefit obligations to be measured as of the date of the employer's fiscal year-end in the. See Note 9 for the impact of adopting these provisions.

During 2009, the Corporation adopted ASC 855-10, *Subsequent Events* (ASC 855-10). ASC 855-10 establishes general standards of accounting and disclosure requirements for subsequent events, events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date under the requirements of ASC 855-10. The Corporation adopted the provisions of ASC 855-10 as of September 30, 2009, and evaluated the impact of subsequent events through January 25, 2010, representing the date at which the financial statements were available to be issued.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

2. Revenues from Services to Patients and Charity Care

The following summarizes net revenues from services to patients:

	Year ended September 30	
	2009	2008
Gross revenues from services to patients	\$ 874,444,095	\$ 738,607,872
Deductions (additions):		
Allowances	616,374,482	497,785,603
Free care	3,273,671	3,956,734
Regulatory	<u>(3,325,129)</u>	<u>(3,120,672)</u>
	616,323,024	498,621,665
	<u>\$ 258,121,071</u>	<u>\$ 239,986,207</u>

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from most payors are different from established billing rates, and these differences are accounted for as allowances. Gross revenues have been affected by the State of Connecticut Disproportionate Share program in 2009 and 2008.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For the years ended September 30, 2009 and 2008, the Corporation recorded approximately \$1,660,760 and \$1,211,000, respectively, as an increase to net revenues from services to patients as changes in estimate related to third-party payor settlements and adjustments to accruals recorded in the prior year.

During 2009 and 2008 approximately 44% and 43%, respectively, of net patient service revenue was received under the Medicare program, 10% and 11%, respectively, under the state Medicaid program, and 37% and 37%, respectively, from contracts with other third-parties. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Network.

The significant concentrations of net accounts receivable for services to patients include 36% from Medicare, 9% from Medicaid, 31% from commercial insurance carriers and 24% from others at September 30, 2009 (44%, 11%, 35% and 10%, respectively, in 2008).

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

2. Revenues from Services to Patients and Charity Care (Continued)

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 Corporation believes that it is in compliance with all applicable laws and regulations. Cost reports for the Corporation, which serve as a basis for final settlement with government payors, have been settled by final settlement through 2006 for Medicare and 1995 for Medicaid. Other years remain open for settlement.

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

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

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

3. Investments

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

	September 30			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Short-term investments:				
U.S. Treasury notes and other bonds	\$ 130,140	\$ 130,955	\$ 165,078	\$ 164,623
Marketable equity securities	184,899	181,474	223,713	256,446
Mutual funds	483,652	479,364	428,181	421,266
Certificates of deposit and money market funds	28,145	28,145	35,816	35,816
	<u>\$ 826,836</u>	<u>\$ 819,938</u>	<u>\$ 852,788</u>	<u>\$ 878,151</u>
Funds held by trustee:				
Certificates of deposit and money market funds	\$ 14,570	\$ 14,570	\$ 1,424,705	\$ 1,424,705
U.S. government obligations and other bonds	4,994	2,273	3,500,168	3,384,994
	<u>\$ 19,564</u>	<u>\$ 16,843</u>	<u>\$ 4,924,873</u>	<u>\$ 4,809,699</u>
Escrow funds for long-term debt:				
U.S. Government obligations	\$ 555,577	\$ 554,776	\$ 532,957	\$ 531,529
Guaranteed investment contracts	2,020,082	2,020,082	2,020,003	2,020,003
Cash and money market funds	38,129	38,129	42,342	42,342
	<u>\$ 2,613,788</u>	<u>\$ 2,612,987</u>	<u>\$ 2,595,302</u>	<u>\$ 2,593,874</u>
Funds held in trust by others	<u>\$ 35,476,750</u>	<u>\$ 37,864,978</u>	<u>\$ 43,025,577</u>	<u>\$ 38,548,695</u>

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

3. Investments (continued)

	September 30			
	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Long-term investments and				
Board-designated endowment funds:				
Certificates of deposit and				
money market funds	\$ 3,012,920	\$ 3,012,920	\$ 1,061,088	\$ 1,061,088
Marketable equity securities	23,919	53,309	23,919	52,650
U.S. government obligations	4,850,729	4,962,951	5,589,041	5,655,076
Corporate bonds	3,981,787	4,161,973	4,066,262	4,209,921
Annuity contract	100,000	144,553	100,000	102,915
Mutual funds	7,187,329	7,563,802	9,494,792	8,159,717
Alternative investments	13,780,878	12,665,384	15,031,985	13,722,905
Other investments	276,312	276,312	197,525	197,525
	<u>\$ 33,213,874</u>	<u>\$ 32,841,204</u>	<u>\$ 35,564,612</u>	<u>\$ 33,161,797</u>

Unrestricted investment income, including income on funds held in trust by others, and gains and (losses) are comprised of the following for the years ended September 30, 2009 and 2008:

	2009	2008
Income:		
Investment income	\$ 2,201,199	\$ 1,175,306
Realized gains on sales of investments	467,568	88,403
Changes in unrealized gains (losses)		
on investments	537,548	(3,134,718)
	<u>\$ 3,206,315</u>	<u>\$ (1,871,009)</u>

A summary of interest cost and investment income on borrowed funds held by the trustee under revenue bond indentures during the years ended September 30, 2009 and 2008 follows:

	2009	2008
Interest cost charged to operations	\$ 1,192,730	\$ 1,229,808
Investment income	\$ 133,317	\$ 123,946

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

4. Fair Value Measurements

As explained in Note 1, the Corporation adopted ASC 820 on October 1, 2008. Assets and liabilities recorded at fair value in the financial statements are categorized, for disclosure purposes, based upon whether the inputs used to determine their fair values are observable or unobservable utilizing a three-level fair value hierarchy that prioritizes the inputs used to measure assets and liabilities at fair value. Level inputs are as follows:

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

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

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

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

The following table summarizes fair value measurements, by level, at September 30, 2009, for all assets and liabilities which are measured at fair value on a recurring basis in the financial statements:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 19,343,506	\$ -	\$ -	\$ 19,343,506
Short-term investments	717,790	102,148	-	819,938
CDs and money market funds	14,570	-	-	14,570
U.S. Government obligations and other bonds	2,273	-	-	2,273
Other assets under bond indenture agreements	592,905	2,020,082	-	2,612,987
Funds held in trust by others	28,545,134	9,319,844	-	37,864,978
Long-term investments	14,218,784	5,818,821	10,130,444	30,168,049
Board-designated endowment funds	2,673,155	-	-	2,673,155
Other investments	-	206,607	-	206,607
	<u>\$ 66,108,117</u>	<u>\$ 17,467,502</u>	<u>\$ 10,130,444</u>	<u>\$ 93,706,063</u>
Liabilities:				
Asset retirement obligation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,129,801</u>	<u>\$ 2,129,801</u>

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

4. Fair Value Measurements (continued)

The following is a reconciliation of Level 3 assets and liabilities (at either the beginning or the ending of the period) for which significant unobservable inputs were used to determine fair value:

	Long-term Investments
Balance, as of September 30, 2008	\$ 13,856,284
Net realized and unrealized losses on investments	(2,697,451)
Sales, net	(1,090,799)
Income	62,410
Balance, as of September 30, 2009	<u>\$ 10,130,444</u>

	Asset Retirement Obligation
Balance, as of September 30, 2008	\$ 2,015,317
Accretion expense	114,484
Balance, as of September 30, 2009	<u>\$ 2,129,801</u>

5. Restricted Endowments

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

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

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

5. Restricted Endowments (continued)

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

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

5. Restricted Endowments (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

Endowment Net Asset Composition by Type of Fund as of September 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 5,978,741	\$ 40,656,969	\$ 46,635,710
Board-designated endowment funds	2,673,155	-	-	2,673,155
Total funds	<u>\$ 2,673,155</u>	<u>\$ 5,978,741</u>	<u>\$ 40,656,969</u>	<u>\$ 49,308,865</u>

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ -	\$ 9,139,586	\$ 41,340,126	\$ 50,479,712
Investment return:				
Investment income	41,596	427,613	-	469,209
Net appreciation (depreciation) (realized and unrealized)	455,687	(753,841)	(683,717)	(981,871)
Total investment return	497,283	(326,228)	(683,717)	(512,662)
Transfers	2,175,872	(2,175,872)	-	-
Appropriation of endowment assets for expenditure	-	(668,745)	-	(668,745)
Contributions	-	10,000	560	10,560
Endowment net assets, ending balance	<u>\$ 2,673,155</u>	<u>\$ 5,978,741</u>	<u>\$ 40,656,969</u>	<u>\$ 49,308,865</u>

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

5. Restricted Endowments (continued)

Endowment Net Asset Composition by Type of Fund as of September 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 9,139,586	\$ 41,340,126	\$ 50,479,712
Board-designated endowment funds	-	-	-	-
Total funds	<u>\$ -</u>	<u>\$ 9,139,586</u>	<u>\$ 41,340,126</u>	<u>\$ 50,479,712</u>

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning balance	\$ -	\$ 11,869,362	\$ 50,029,145	\$ 61,898,507
Investment return:				
Investment income	-	669,825	-	669,825
Net depreciation (realized and unrealized)	-	(2,741,560)	(8,689,069)	(11,430,629)
Total investment return	-	(2,071,735)	(8,689,069)	(10,760,804)
Appropriation of endowment assets for expenditure	-	(668,041)	-	(668,041)
Contributions	-	10,000	50	10,050
Endowment net assets, ending balance	<u>\$ -</u>	<u>\$ 9,139,586</u>	<u>\$ 41,340,126</u>	<u>\$ 50,479,712</u>

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

6. Temporarily and Permanently Restricted Net Assets

Permanently restricted net assets at September 30, 2009 and 2008, are restricted amounts which are to be held in perpetuity, the income from which is expendable to provide free care, scholarships for Waterbury Hospital employee's children, and for the operations of the Hospital. Also included in permanently restricted net assets are funds held in trust by others. The Corporation is the restricted income beneficiary of funds held in trust by others. The total trust assets, as reported by the trustee, had an aggregate quoted market value at September 30, 2009 and 2008 of \$37,864,978 and \$38,548,695, respectively. Income of \$1,429,877 and \$1,770,515 earned on these assets for the years ended September 30, 2009 and 2008, respectively, is included in investment related income in the statement of operations.

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

During 2009, net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes in providing grant related services, free care, and various miscellaneous services in the amounts of \$4,103,736, \$620,038 and \$384,619, respectively, in 2008, \$3,786,436, \$607,015 and \$348,654, respectively. In addition, \$69,902 and \$333,725 were released for the purchase of property and equipment in 2009 and 2008, respectively.

Based on a current review of donor intentions and further donor clarification obtained in 2009, the Hospital transferred \$2,175,872 from temporarily restricted net assets to unrestricted net assets. This transfer has been included in the net assets transferred and released from restrictions in the 2009 consolidated statement of operations and changes in net assets.

7. Debt

Series C Bond Financing

On December 1, 1999, the Hospital entered into Series C financing arrangements with CHEFA under a Master Indenture for the financing of, among other things, renovations, equipment purchases or replacements, and the defeasance of the Series B Bonds. To finance the above, CHEFA sold \$27,140,000 of Series C revenue bonds, maturing serially from 2000 through 2029, with interest at a net average annual rate of approximately 5.48%. The scheduled payment of principal and interest on the Series C Bonds when due is guaranteed by an insurance policy issued by a commercial insurer. This noncancellable insurance policy has been paid for by the Hospital and is included in CHEFA obligations issue expense, less amortization on the consolidated balance sheets.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

7. Debt (continued)

Under the terms of the financing arrangements between the Hospital and CHEFA, the proceeds of the revenue bonds were loaned to the Hospital. Pursuant to the loan agreement, the Hospital is obligated to provide amounts which will be sufficient to enable CHEFA to pay the principal and interest on the proceeds of the Series C Bonds.

Concurrently with the issuance and delivery of the Series C Bonds, the Hospital and U.S. Bank NA, as Trustee, entered into the Master Indenture and Supplemental Master Indenture Number 1 pursuant to which the Hospital is obligated to pay the amount due under the loan agreement with CHEFA. The Master Indenture and Supplemental Master Indenture provide for, among other things, the establishment and maintenance of a Debt Service Reserve Fund and a pledge of the gross receipts, as defined, of the Hospital, restriction on the incurrence of certain indebtedness of the Hospital and provide for covenants regarding the Hospital's debt service coverage ratios, minimum levels of cash on hand, the ratio of long term debt to total capitalization, sale and lease of assets and other covenants similar in financings of this type.

During the year ended September 30, 2008, the Obligated Group (Hospital and Network) violated certain debt covenants, including the debt service coverage ratio and minimum level of cash on hand. As required under the Master Trust Indenture, the Hospital retained an independent consultant to make recommendations regarding rates, fees, charges, or methods of operations to increase the debt service coverage ratio. On February 26, 2009, the Hospital and Network entered into a forbearance agreement with the bond insurer which waived the consequences of these defaults and modified future financial and other covenants. The Obligated Group was in compliance with the terms of the forbearance agreement as of September 30, 2009.

Series D Bond Financing

On August 1, 2000, the Children's Center of Greater Waterbury Health Network, Inc. entered into Series D financing arrangements with CHEFA under a Master Indenture for the financing of the construction of a new child care center building. To finance the above, CHEFA sold \$1,945,000 of Series D revenue bonds, maturing serially from 2002 through 2030, with interest at a net average annual rate of approximately 5.31%. The scheduled payment of principal and interest on the Series D Bonds when due is guaranteed by an insurance policy issued by a commercial insurer. This noncancelable insurance policy has been paid for by the Children's Center of Greater Waterbury Health Network, Inc. and is included in CHEFA obligations issue expense, less amortization, on the consolidated balance sheets.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

7. Debt (continued)

Under the terms of the financing arrangements between the Children's Center of Greater Waterbury Health Network, Inc. and CHEFA, the proceeds of the revenue bonds were loaned to the Children's Center of Greater Waterbury Health Network, Inc. Pursuant to the loan agreement, the Children's Center of Greater Waterbury Health Network, Inc. is obligated to provide amounts which will be sufficient to enable CHEFA to pay the principal of and interest on the proceeds of the Series D Bonds.

Concurrently with the issuance and delivery of the Series D Bonds, the Children's Center of Greater Waterbury Health Network, Inc. and U.S. Bank NA, as Trustee, entered into the Master Indenture and Supplemental Master Indentures Numbers 1 and 2, pursuant to which the Children's Center of Greater Waterbury Health Network, Inc. is obligated to pay the amount due under the loan agreement with CHEFA. The Master Indenture and Supplemental Master Indentures provide for, among other things, the establishment and maintenance of a Debt Service Reserve Fund (which has been funded by the State of Connecticut as discussed below) and a pledge of the gross receipts, as defined, of the Children's Center of Greater Waterbury Health Network, Inc., restriction on the incurrence of certain indebtedness of the Children's Center of Greater Waterbury Health Network, Inc. and covenants regarding the Children's Center of Greater Waterbury Health Network, Inc.'s debt service coverage ratios, sale and lease of assets and other covenants similar in financings of this type.

Pursuant to Public Act No. 97-259 (the "School Readiness Act"), the State of Connecticut has encouraged the development of a network of school readiness programs that meet the standards developed by the State Department of Education. To encourage such development, the School Readiness Act established, among other things, the Child Care Facilities Program to finance low interest loans for the purpose of new construction of child care centers. The State of Connecticut, acting through the Commissioner of the Department of Social Services, may allow actual debt service on such loans and a debt service reserve fund to be paid by the State of Connecticut provided that such debt service terms are determined by the Commissioner to be reasonable. The State of Connecticut has funded the debt service reserve fund and has agreed to fund, subject to available appropriations, 80.5% of the debt service on the Series D Bonds and to replenish any deficiencies in the debt service reserve fund. During 2009 and 2008, the total debt service funded by the State of Connecticut was \$109,620 and \$108,711, respectively.

Future minimum payments by year and in the aggregate, subject to early redemption provisions discussed above, under the Series C and D bond financing are as follows at September 30, 2009:

2010	\$	865,000
2011		910,000
2012		960,000
2013		1,015,000
2014		1,080,000
Aggregate thereafter		17,075,000
	\$	<u>21,905,000</u>

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

7. Debt (continued)

The Corporation had an available \$4,000,000 line of credit with a bank bearing interest at the LIBOR rate plus 0.75% (5.00% at September 30, 2008) which expired on February 27, 2009. Outstanding borrowings at September 30, 2009 and 2008 were \$0 and \$3,495,613, respectively.

Access has a \$250,000 line of credit with a bank. There were no borrowings under this line of credit at September 30, 2009 and 2008.

The Hospital obtained an equipment loan through CHEFA during 2004. The total loan commitment of \$9,361,036 was drawn in unequal periodic amounts through December 2005. The loan was repayable in installments of principal plus interest at a fixed rate of 4.45% totaling \$170,745 per month through March 2009. The balance of this loan was \$1,011,316 at September 30, 2008. This loan was repaid in full in March 2009.

The Hospital has a \$4 million letter of credit with a bank available to support its self-insured workers' compensation program that is collateralized by certain investments held by the bank. As of September 30, 2009, there were no borrowings on this letter of credit.

The Hospital entered into an equipment lease during 2009. The lease calls for equal monthly payments of \$7,278 through June 2011 and is secured by the equipment. The balance of the capital lease liability was \$148,379 at September 30, 2009.

Effective April 2005, VNA established a \$500,000 line of credit with Webster Financial Advisors. The interest rate at September 30, 2009 was 2.31%. The line of credit is secured by VNA's investments held by Webster Financial Advisors. Advances on the line of credit at September 30, 2009 and 2008 were \$90,000 and \$244,000, respectively. The line of credit expires on November 1, 2009.

In addition, effective April 2004, VNA established a \$210,000 term note credit line with Webster Financial Advisors. The interest rate at September 30, 2008 was 6.80%. The term note credit line was also secured by VNA's investments held by Webster Financial Advisors. Advances on the term note credit line at September 30, 2009 and 2008 were \$0 and \$41,385, respectively. This note was repaid in full in April 2009.

GWMRI entered into two equipment leases during 2007. The leases called for total monthly payments of \$2,449 and were secured by the equipment. These leases were cancelled during 2009 and replaced with operating leases. The balance of the capital lease liability at September 30, 2008 was \$56,968.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

7. Debt (continued)

GWMRI entered into an equipment lease during 2008. The lease calls for total monthly payments of \$1,485 through April 2013 and are secured by the equipment. The balance of the capital lease liability at September 30, 2009 and 2008 were \$53,467 and \$65,287, respectively.

GWMRI entered into an equipment lease during 2009. The lease calls for monthly payments of \$593 through January 2014 and is secured by the equipment. The balance of the capital lease liability at September 30, 2009 was \$22,610.

GWMRI assumed a note payable during 2009 for the fit-up of office space. The original amount of the note was \$320,000 and is repayable in installments of principal plus interest at 7.50% totaling \$4,908 through January 2014. In addition, this note calls for a final payment of principal and interest of \$113,981 in February 2014. The balance of this note at September 30, 2009 was \$296,218.

GWMRI is contingently liable for a lease with respect to medical office space should the lessee default in payment of any obligations due under the lease. The lease requires monthly rental payments through February 2010. The total of such rental payments remaining at September 30, 2009 is \$11,781. Under the terms of the lease guarantee, GWMRI would be entitled to recover fifty one percent of any amounts it paid under this guarantee from another third-party guarantor.

Imaging Partners, LLC entered into a master equipment lease during 2006. The lease calls for unequal periodic payments through October 2011 and is secured by the equipment. The balance of the capital lease liability was \$466,179 and \$661,599 at September 30, 2009 and 2008, respectively.

Future minimum payments by year and in the aggregate for all non-CHEFA Series C and D bond obligations were as follows at September 30, 2009:

2010	\$	442,010
2011		357,258
2012		85,739
2013		63,827
2014		128,019
		<u>1,076,853</u>

The fair value of the debt, using the discounted cash flow analyses, was approximately \$25,147,036 at September 30, 2009.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

8. Rental Expense and Lease Commitments

The Hospital, VNA and GWMRI have entered into operating leases for office space and office equipment. Rental expense for the years ended September 30, 2009 and 2008 was \$3,892,731 and \$3,277,952, respectively. The minimum rental commitments under all noncancellable operating leases with initial or remaining terms of more than one year are as follows:

2010	\$ 1,806,971
2011	1,569,997
2012	1,467,737
2013	1,557,903
2014	1,658,900
Thereafter	3,801,805
	<u>\$ 11,863,313</u>

9. Employee Benefit Plans

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

As discussed in Note 1, the Hospital adopted the measurement date provision of ASC 715-30 as of September 30, 2009. As a result, the increase to the benefit obligation and deferred pension cost for the effect of moving the measurement date from June 30 to September 30 ("gap period") was \$343,000. The effect on the Corporation's consolidated balance sheet has been recognized as an adjustment to unrestricted net assets in the accompanying consolidated statements of operations and changes in net assets, representing the net periodic benefit cost attributable to the period July 1 through September 30, 2008. Adopting ASC 715-30's measurement date provision did not have an effect on the Corporation's consolidated balance sheet at September 30, 2008.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

9. Employee Benefit Plans (continued)

Following is a summary of the Plan's funded status (using the measurement dates of September 30 in 2009 and June 30 in 2008) and amounts recognized in the Corporation's financial statements. Contributions made subsequent to the measurement date, but prior to September 30, decrease the accrued pension liability.

	September 30	
	2009	2008
Change in benefit obligation		
Benefit obligation beginning of year	\$ (33,567,569)	\$ (34,385,903)
Service and interest costs during gap period	(782,683)	-
Benefit payments during gap period	439,266	-
Service cost	(1,065,635)	(1,161,376)
Plan amendments	-	(340,786)
Interest cost	(2,065,099)	(2,048,212)
Actuarial gain	1,094,303	1,870,981
Benefits paid	1,271,159	2,497,727
Benefit obligation, end of year	<u>\$ (34,676,258)</u>	<u>\$ (33,567,569)</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 31,692,647	\$ 35,840,683
Actual return on plan assets	(3,505,041)	(1,991,309)
Employer contributions	437,000	341,000
Benefits paid	(1,271,159)	(2,497,727)
Benefit payments during gap period	(439,266)	-
Fair value of plan assets, end of year	<u>\$ 26,914,181</u>	<u>\$ 31,692,647</u>
Funded status	\$ (7,762,077)	\$ (1,874,922)
Employer contributions subsequent to measurement date	-	437,000
Accrued pension liability	<u>\$ (7,762,077)</u>	<u>\$ (1,437,922)</u>
Components of net periodic pension cost		
Service cost	\$ 1,065,635	\$ 1,161,376
Interest cost	2,065,099	2,048,212
Expected return on plan assets	(2,702,674)	(2,813,266)
Amortization of actuarial loss	-	170,766
Amortization of prior service cost	35,527	431
Net periodic pension cost	<u>\$ 463,587</u>	<u>\$ 567,519</u>
Accumulated benefit obligation	<u>\$ 33,404,451</u>	<u>\$ 32,682,317</u>

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

9. Employee Benefit Plans (continued)

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

	September 30	
	<u>2009</u>	<u>2008</u>
Unrecognized prior service cost	\$ (298,567)	\$ (342,976)
Unrecognized actuarial losses	(12,364,630)	(6,575,550)
Benefit obligation, end of year	<u>\$ (12,663,197)</u>	<u>\$ (6,918,526)</u>

Changes in benefit obligations recognized in unrestricted net assets during 2009 include:

	September 30	
	<u>2009</u>	<u>2008</u>
Prior service cost	\$ (266,409)	\$ (340,786)
Current year actuarial losses	(5,295,568)	(2,933,594)
Change in measurement date	(343,000)	-
Amortization of actuarial losses	-	170,766
Amortization of prior service cost	35,527	431
	<u>\$ (5,869,450)</u>	<u>\$ (3,103,183)</u>

The prior service cost and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic cost during the year ending September 30, 2010 are \$35,527 and \$129,140, respectively.

Assumptions

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

	<u>2009</u>	<u>2008</u>
Discount rate	5.50%	6.85%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

9. Employee Benefit Plans (continued)

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

	<u>2009</u>	<u>2008</u>
Discount rate	6.85%	6.25%
Expected return on assets	8.00%	8.50%
Rate of compensation increase	3.00%	3.50%

Expected Long-Term Return on Plan Assets

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

Investment Policy

The Plan's weighted-average asset allocation at September 30, 2009 and 2008, by asset category are as follows:

<u>Asset Category</u>	<u>Plan Assets at September 30</u>		<u>Asset Allocation Policy</u>	
	2009	2008	Target	Range
Equity securities	64%	62%	70%	60% - 80%
Debt securities	26%	32%	30%	20% - 40%
Cash and cash equivalents	10%	6%		

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

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

9. Employee Benefit Plans (continued)

Contributions

The Hospital expects to make \$3 million in contributions to the Plan in 2010.

Estimated Future Benefit Payments

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

Asset Category	Plan Assets at September 30		Asset Allocation Policy	
	2009	2008	Target	Range
Equity securities	64%	62%	70%	60% - 80%
Debt securities	26%	32%	30%	20% - 40%
Cash and cash equivalents	10%	6%		

Other Benefit Plans

The Hospital also makes contributions for substantially all union employees to pension plans sponsored by the union. Contributions are based on a percentage of each participant's total salary.

The VNA has a defined contribution pension plan which covers substantially all full-time employees, in addition to a non-contributory discretionary pension plan for which contributions are made annually at the discretion of the VNA's Board of Directors.

Total pension expense for the above noted plans charged to operations during the years ended September 30, 2009 and 2008 was \$3,953,029 and \$4,262,563, respectively.

In addition, the Hospital has a supplemental employee retirement plan for certain executives. The plan provides for a total benefit and is partially funded. As of September 30, 2009 and 2008, liabilities of \$1,133,531 and \$1,076,696, respectively, have been reflected in the consolidated balance sheets.

Greater Waterbury Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

10. Self-Insurance Claims

There have been malpractice and workers' compensation claims that fall within the Corporation's partially self-insured programs, which have been asserted against the Corporation. In addition, there are known incidents that have occurred through September 30, 2009 that may result in the assertion of claims. Corporation management has accrued its best estimate of these contingent losses. Other claims may be asserted arising from services provided to patients or workers' compensation incidents in the past. Corporation management has provided reserves for these contingent liabilities.

11. Commitments and Contingencies

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

12. Due from (to) Affiliates

As of September 30, 2009, the Hospital and GWMRI had receivables of \$1,014,665 and \$517,237, respectively, due from Alliance Medical Group of Greater Waterbury, P.C. ("Alliance") for services provided to Alliance and the reimbursement of expenses. Similarly, the Hospital and GWMRI had receivables from Alliance of \$2,029,287 and \$530,314 at September 30, 2008, respectively. At September 30, 2008, the Corporation had a payable of \$416,047 to Alliance.

13. Functional Expenses

The Corporation through the Hospital and other subsidiaries provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	Year ended September 30	
	2009	2008
Health care services	\$ 218,460,432	\$ 223,045,662
General and administrative	62,699,612	50,511,431
Fundraising	417,343	416,158
	<u>\$ 281,577,387</u>	<u>\$ 273,973,251</u>

**Report of Independent Auditors
on Other Financial Information**

Board of Trustees
Greater Waterbury Health Network, Inc.

Our report on our audits of the basic consolidated financial statements of the Greater Waterbury Health Network, Inc. as of and for the years ended September 30, 2009 and 2008 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The following consolidating information is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

UHY LLP

Hartford, Connecticut
January 25, 2010

Greater Waterbury Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2009

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Assets								
Current assets:								
Cash and cash equivalents	\$ 6,815	\$ 18,606,510	\$ 88,613	\$ -	\$ 116,271	\$ 525,297	\$ -	\$ 19,343,506
Short-term investments	-	359,823	460,115	-	-	-	-	819,938
Other assets required for current liabilities	-	573,887	-	-	-	-	-	573,887
Accounts receivable - patients, net	-	32,375,764	587,427	-	15,357	71,377	(19,175)	33,030,750
Accounts receivable - grants and other	-	1,101,738	-	-	-	-	-	1,101,738
Inventories	-	584,339	-	-	-	-	-	584,339
Prepaid insurance and other expenses	-	1,374,738	4,445	-	-	25,572	-	1,404,755
Due from affiliates	(5,064,939)	5,802,476	-	(11,764)	806,129	-	0	1,531,902
Other current assets	-	-	-	-	153,096	-	(7,688)	145,408
Total current assets	(5,058,124)	60,779,275	1,140,600	(11,764)	1,090,853	622,246	(26,863)	58,536,223
Other assets:								
Certificates of deposit and money market funds	-	14,570	-	-	-	-	-	14,570
U.S. Government obligations and other bonds	-	2,273	-	-	-	-	-	2,273
Under bond indenture agreements	-	2,577,126	-	-	-	35,861	-	2,612,987
Total other assets	-	2,593,969	-	-	-	35,861	-	2,629,830
Less assets that are required for current liabilities	-	573,887	-	-	-	-	-	573,887
	-	2,020,082	-	-	-	35,861	-	2,055,943
Property, plant and equipment:								
Land	-	287,549	-	-	-	-	-	287,549
Buildings and improvements	-	84,040,718	20,776	-	2,495,819	3,050,833	-	89,608,146
Furniture, fixtures and equipment	-	165,827,291	662,474	-	1,339,566	160,267	-	167,989,598
Construction in progress	-	93,916	-	-	40,868	-	-	134,784
Accumulated depreciation	-	(204,484,124)	(481,495)	-	(2,211,903)	(745,252)	-	(207,922,774)
	-	45,765,350	201,755	-	1,664,350	2,465,848	-	50,097,303
Funds held in trust by others	-	37,864,978	-	-	-	-	-	37,864,978
CHEFA obligations issue expense, less amortization	-	606,280	-	-	-	103,611	-	709,891
Long-term investments	20,420,669	9,602,827	-	-	-	144,553	-	30,168,049
Board-designated endowment funds	-	2,673,155	-	-	-	-	-	2,673,155
Other investments	206,607	-	-	-	-	-	-	206,607
Investment in subsidiary	11,829,409	-	-	-	-	-	(11,829,409)	-
Loans and other receivables	254,130	732,690	-	-	210,720	-	(254,198)	943,342
Accrued interest and dividends receivable	54,076	-	-	-	-	-	-	54,076
	32,764,891	51,479,930	-	-	210,720	248,164	(12,083,607)	72,620,098
	\$ 27,706,767	\$ 160,044,637	\$ 1,342,355	\$ (11,764)	\$ 2,965,923	\$ 3,372,119	\$ (12,110,470)	\$ 183,309,567

Greater Waterbury Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2009

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Liabilities and net assets								
Current liabilities:								
Accounts payable and accrued expenses	\$ 50,083	\$ 24,011,183	\$ 310,645	\$ -	\$ 542,606	\$ 165,348	\$ (26,863)	\$ 25,053,002
Current portion of CHEFA obligations	-	820,000	-	-	-	45,000	-	865,000
Current portion of notes payable	-	296,974	90,000	-	55,036	7,359	(7,359)	442,010
Due to third-party reimbursement agencies	-	1,023,178	171,859	-	-	-	-	1,195,037
Total current liabilities	50,083	26,151,335	572,504	-	597,642	217,707	(34,222)	27,555,049
CHEFA obligations, less current portion and discount	-	18,984,928	-	-	-	1,562,079	-	20,547,007
Notes payable, less current portion	-	317,584	-	-	317,259	246,839	(246,839)	634,843
Other noncurrent liabilities	-	14,365,164	-	-	-	-	-	14,365,164
Minority interest in net assets of consolidated affiliates	-	2,530,345	-	-	-	-	-	2,530,345
Net assets:								
Unrestricted	27,656,684	49,273,360	769,851	(11,764)	2,051,022	1,345,494	(11,829,409)	69,255,238
Temporarily restricted	-	7,764,952	-	-	-	-	-	7,764,952
Permanently restricted	-	40,656,969	-	-	-	-	-	40,656,969
	27,656,684	97,695,281	769,851	(11,764)	2,051,022	1,345,494	(11,829,409)	117,677,159
	\$ 27,706,767	\$ 160,044,637	\$ 1,342,355	\$ (11,764)	\$ 2,965,923	\$ 3,372,119	\$ (12,110,470)	\$ 183,309,567

Greater Waterbury Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2008

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Assets								
Current assets:								
Cash and cash equivalents	\$ 301,099	\$ 13,628,566	\$ 15,948	\$ -	\$ 100,368	\$ 461,555	\$ -	\$ 14,507,536
Short-term investments	-	329,890	548,261	-	-	-	-	878,151
Other assets required for current liabilities	-	2,737,177	-	-	-	-	-	2,737,177
Accounts receivable - patients, net	-	35,695,451	1,036,161	-	4,707	161,061	(15,795)	36,881,585
Accounts receivable - grants and other	-	802,114	14,500	-	-	-	-	816,614
Inventories	-	608,211	-	-	-	-	-	608,211
Prepaid insurance and other expenses	-	1,779,748	12,994	-	-	-	-	1,792,742
Due from third-party reimbursement agencies	-	810,405	(235,362)	-	-	-	-	575,043
Due from affiliates	2,746,592	(705,541)	-	(11,764)	530,314	-	0	2,559,601
Other current assets	-	-	-	-	234,590	41,119	-	275,709
Total current assets	3,047,691	55,686,021	1,392,502	(11,764)	869,979	663,735	(15,795)	61,632,369
Other assets:								
Certificates of deposit and money market funds	-	1,424,705	-	-	-	-	-	1,424,705
U.S. Government obligations and other bonds	-	3,384,994	-	-	-	-	-	3,384,994
Under bond indenture agreements	-	2,559,694	-	-	-	34,180	-	2,593,874
Total other assets	-	7,369,393	-	-	-	34,180	-	7,403,573
Less assets that are required for current liabilities	-	2,737,177	-	-	-	34,180	-	2,737,177
	-	4,632,216	-	-	-	-	-	4,666,396
Property, plant and equipment:								
Land	-	287,549	-	-	-	-	-	287,549
Buildings and improvements	-	83,624,235	20,776	-	2,212,852	3,050,833	-	88,908,696
Furniture, fixtures and equipment	-	164,392,238	553,915	-	1,326,755	171,722	-	166,444,630
Construction in progress	-	193,299	-	-	-	-	-	193,299
Accumulated depreciation	-	(195,126,470)	(499,046)	-	(2,102,244)	(658,432)	-	(198,386,192)
Funds held in trust by others	-	53,370,851	75,645	-	1,437,363	2,564,123	-	57,447,982
CHEFA obligations issue expense, less amortization	-	38,548,695	-	-	-	-	-	38,548,695
Long-term investments	20,335,487	636,977	-	-	-	108,603	-	745,580
Other investments	134,576	12,723,395	-	-	-	102,915	-	33,161,797
Investment in subsidiary	11,388,660	-	-	-	-	-	(11,388,660)	-
Loans and other receivables	364,151	876,157	-	-	157,355	-	(260,690)	1,136,973
Accrued interest and dividends receivable	61,174	-	-	-	-	-	-	61,174
	32,284,048	52,785,224	-	-	157,355	211,518	(11,649,350)	73,788,795
	\$ 35,331,739	\$ 166,474,312	\$ 1,468,147	\$ (11,764)	\$ 2,464,697	\$ 3,473,556	\$ (11,665,145)	\$ 197,533,342

Greater Waterbury Health Network, Inc. and Subsidiaries
Consolidating Balance Sheet
September 30, 2008

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Liabilities and net assets								
Current liabilities:								
Accounts payable and accrued expenses	\$ 375,708	\$ 29,530,284	\$ 314,558	\$ -	\$ 478,013	\$ 168,958	\$ (15,795)	\$ 30,851,726
Current portion of CHEFA obligations	-	790,000	-	-	-	45,000	-	835,000
Current portion of notes payable	3,495,613	1,206,736	285,385	-	22,550	7,071	(7,071)	5,010,284
Due to affiliates	416,047	-	-	-	-	-	-	416,047
Total current liabilities	4,287,368	31,527,020	599,943	-	500,563	221,029	(22,866)	37,113,057
CHEFA obligations, less current portion and discount	-	19,782,139	-	-	-	1,605,011	-	21,387,150
Notes payable, less current portion	-	466,179	-	-	99,705	253,619	(253,619)	565,884
Other noncurrent liabilities	-	7,826,358	-	-	-	-	-	7,826,358
Minority interest in net assets of consolidated affiliates	-	2,417,095	-	-	-	-	-	2,417,095
Net assets:								
Unrestricted	31,044,371	52,412,573	868,204	(11,764)	1,864,429	1,393,897	(11,388,660)	76,183,050
Temporarily restricted	-	10,702,822	-	-	-	-	-	10,702,822
Permanently restricted	-	41,340,126	-	-	-	-	-	41,340,126
	31,044,371	104,455,521	868,204	(11,764)	1,864,429	1,393,897	(11,388,660)	128,225,998
	\$ 35,331,739	\$ 166,474,312	\$ 1,468,147	\$ (11,764)	\$ 2,464,697	\$ 3,473,556	\$ (11,665,145)	\$ 197,535,542

Greater Waterbury Health Network, Inc. and Subsidiaries
Consolidating Statement of Operations
Year ended September 30, 2009

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Revenues:								
Net revenues from services to patients	\$ -	\$ 253,538,766	\$ 4,609,354	\$ -	\$ -	\$ -	\$ (27,049)	\$ 258,121,071
Investment related income	64,442	2,642,954	(38,629)	-	-	-	-	2,668,767
Other operating revenues	2,699	3,287,728	207,504	-	-	128,398	(146,354)	3,479,975
Services, sales and rental income	-	-	-	-	8,184,011	1,671,532	(645,885)	9,209,658
Unrestricted gifts and bequests	-	431,346	33,959	-	-	-	-	465,305
Net assets released from restrictions	-	5,108,393	-	-	-	-	-	5,108,393
	67,141	265,009,187	4,812,188	-	8,184,011	1,799,930	(819,288)	279,053,169
Expenses:								
Salaries, wages and benefits	1,548,452	142,760,188	3,459,145	-	2,948,349	1,366,349	-	152,082,483
Supplies, utilities and other	2,420,986	82,048,470	1,316,700	-	5,321,853	274,485	(764,111)	90,618,383
Bad debt expense	-	14,428,863	11,932	-	-	-	-	14,440,795
Depreciation	-	9,595,813	64,232	-	159,877	99,801	-	9,919,723
Operations improvement	55,177	1,484,698	7,037	-	-	-	-	12,908,481
Interest and amortization	4,024,615	263,226,513	4,859,046	-	8,438,168	1,848,333	(819,288)	1,607,522
	(3,957,474)	1,782,674	(46,858)	-	(254,157)	(48,403)	-	(2,524,218)
(Deficiency) excess of revenues over expenses before minority interest	-	(1,317,466)	-	-	-	-	-	(1,317,466)
Minority interest in income of consolidated affiliates								
(Deficiency) excess of revenues over expenses before net unrealized losses on investments	(3,957,474)	465,208	(46,858)	-	(254,157)	(48,403)	-	(3,841,684)
Net unrealized losses on investments	569,788	19,255	(51,495)	-	-	-	-	537,548
(Deficiency) excess of revenues over expenses	\$ (3,387,686)	\$ 484,463	\$ (98,353)	\$ -	\$ (254,157)	\$ (48,403)	\$ -	\$ (3,304,136)

Greater Waterbury Health Network, Inc. and Subsidiaries
Consolidating Statement of Operations
Year ended September 30, 2008

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Revenues:								
Net revenues from services to patients	\$ -	\$ 235,304,342	\$ 4,730,891	\$ -	\$ -	\$ -	\$ (49,026)	\$ 239,986,207
Investment related income	(606,204)	1,853,052	16,861	-	-	-	-	1,263,709
Other operating revenues	-	5,176,272	25,156	-	-	76,658	(246,649)	5,031,437
Services, sales and rental income	-	-	-	-	8,025,516	1,737,118	(566,611)	9,196,023
Unrestricted gifts and bequests	-	120,297	41,978	-	-	-	-	162,275
Net assets released from restrictions	-	4,742,105	-	-	-	-	-	4,742,105
	(606,204)	247,196,068	4,814,886	-	8,025,516	1,813,776	(862,286)	260,381,756
Expenses:								
Salaries, wages and benefits	2,065,386	143,967,791	3,274,007	-	3,068,926	1,297,392	-	153,673,502
Supplies, utilities and other	3,433,750	80,880,567	1,262,537	25	5,045,003	263,611	(677,198)	90,208,295
Bad debt expense	-	17,891,925	5,534	-	-	-	-	17,897,459
Depreciation	-	10,126,368	79,998	-	165,875	102,134	-	10,474,375
Interest and amortization	185,088	1,596,401	7,800	-	3,271	112,148	(185,088)	1,719,620
	5,684,224	254,463,052	4,629,876	25	8,283,075	1,775,285	(862,286)	273,973,251
(Deficiency) excess of revenues over expenses before minority interest	(6,290,428)	(7,266,984)	185,010	(25)	(257,559)	38,491	-	(13,591,495)
Minority interest in income of consolidated affiliates	-	(1,101,174)	-	-	-	-	-	(1,101,174)
(Deficiency) excess of revenues over expenses before net unrealized losses on investments	(6,290,428)	(8,368,158)	185,010	(25)	(257,559)	38,491	-	(14,692,669)
Net unrealized losses on investments	(2,982,350)	(115,851)	(36,517)	-	-	-	-	(3,134,718)
(Deficiency) excess of revenues over expenses	\$ (9,272,778)	\$ (8,484,009)	\$ 148,493	\$ (25)	\$ (257,559)	\$ 38,491	\$ -	\$ (17,827,387)