GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Greater Waterbury Health Network, Inc.

We have audited the accompanying consolidated balance sheet of Greater Waterbury Health Network, Inc. (the Network) as of September 30, 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the year 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 audit. The financial statements of the Network as of and for the year ended September 30, 2009 were audited by other auditors, whose report dated January 25, 2010, expressed an unqualified opinion on those financial statements.

We conducted our audit 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 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 Network'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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of Greater Waterbury Health Network, Inc. as of September 30, 2010, and the consolidated results of their operations and changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Marcum LLP

Hartford, CT
January 27, 2011

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GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2010 AND 2009

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	$ 22,269,814	$ 19,343,506
Short-term investments	920,291	819,938
Other assets required for current liabilities	582,693	573,887
Accounts receivable, less allowance ($8,011,000 in 2010 and $9,511,000 in 2009)		
Patients	32,604,849	33,030,750
Grants and other	1,728,061	1,101,738
	34,332,910	34,132,488
Inventories	812,360	584,339
Prepaid insurance and other expenses	1,423,516	1,404,755
Due from affiliates	197,863	1,531,902
Other current assets	--	145,408
Total Current Assets	60,539,447	58,536,223
Other Assets		
Certificates of deposit and money market funds	--	14,570
U.S. Government obligations and other bonds	--	2,273
Under bond indenture agreements	2,633,822	2,612,987
	2,633,822	2,629,830
Less other assets that are required for current liabilities	582,693	573,887
	2,051,129	2,055,943
Property, Plant and Equipment		
Land	287,549	287,549
Buildings and improvements	89,818,022	89,608,146
Furniture, fixtures and equipment	169,708,247	167,989,598
Construction in progress (estimated additional cost to complete: 2010 - $11,334,885)	1,688,586	134,784
Accumulated depreciation	(215,664,310)	(207,922,774)
	45,838,094	50,097,303
Funds held in trust by others	39,561,090	37,864,978
CHEFA obligations issue expense, less amortization	674,201	709,891
Long-term investments	32,295,430	30,168,049
Board-designated endowment funds	2,787,502	2,673,155
Other investments	277,579	206,607
Loans and other receivables	363,404	943,342
Accrued interest and dividends receivable	54,434	54,076
	76,013,640	72,620,098
	$ 184,442,310	$ 183,309,567

The accompanying notes are an integral part of these financial statements.

GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2010 AND 2009

	2010	2009
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 28,749,242	$ 25,053,002
Current portion of CHEFA obligations	910,000	865,000
Current portion of notes payable	502,875	442,010
Due to third-party reimbursement agencies	414,546	1,195,037
Due to affiliates	10,409	--
Total Current Liabilities	30,587,072	27,555,049
CHEFA Obligations - less current portion and discount	19,661,864	20,547,007
Notes Payable - less current portion	736,885	634,843
Other Noncurrent Liabilities	14,667,421	14,365,164
Minority Interest in Net Assets of Consolidated Affiliates	2,930,053	2,530,345
Net Assets		
Unrestricted	65,190,041	69,255,238
Temporarily restricted	8,315,873	7,764,952
Permanently restricted	42,353,101	40,656,969
	115,859,015	117,677,159
	$ 184,442,310	$ 183,309,567

The accompanying notes are an integral part of these financial statements.

GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
Revenues		
Net revenues from services to patients	$ 259,811,962	$ 258,121,071
Investment related income	1,308,292	2,668,767
Other operating revenues	6,754,745	3,479,975
Services, sales and rental income	3,595,324	9,209,658
Unrestricted gifts and bequests	198,765	465,305
Net assets released from restrictions	5,405,414	5,108,393
	277,074,502	279,053,169
Expenses		
Salaries, wages and benefits	158,857,461	152,082,483
Supplies, utilities and other	90,947,561	90,618,383
Bad debt expense	15,713,175	14,440,795
Depreciation	9,815,349	9,919,723
Operations improvement	2,695,434	12,908,481
Interest and amortization	1,915,699	1,607,522
	279,944,679	281,577,387
Deficiency of Revenues over Expenses Before Minority Interest	(2,870,177)	(2,524,218)
Minority Interest in Income of Consolidated Affiliates	(1,030,015)	(1,317,466)
Deficiency of Revenues over Expenses Before Net Unrealized Gains on Investments	(3,900,192)	(3,841,684)
Net Unrealized Gains on Investments	1,419,128	537,548
Deficiency of Revenues Over Expenses	(2,481,064)	(3,304,136)

The accompanying notes are an integral part of these financial statements.

GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
Unrestricted Net Assets		
Deficiency of revenues over expenses	$ (2,481,064)	$ (3,304,136)
Net assets released from restrictions used for purchase of property and equipment	135,818	69,902
Transfer of net assets	--	2,175,872
Pension liability adjustments	(1,719,951)	(5,526,450)
Decrease in Unrestricted Net Assets Before Effect of Change in Accounting Principles	(4,065,197)	(6,584,812)
Adjustment to adopt measurement date provisions of FASB ASC 715-30	--	(343,000)
Decrease in Unrestricted Net Assets	(4,065,197)	(6,927,812)
Temporarily Restricted Net Assets		
Gifts and bequests	571,957	654,754
Income from investments	427,309	320,237
Net realized and unrealized losses on investments	568,896	(662,430)
Grants	4,523,991	4,103,736
Net assets transferred and released from restrictions	(5,541,232)	(7,354,167)
Increase (Decrease) in Temporarily Restricted Net Assets	550,921	(2,937,870)
Permanently Restricted Net Assets		
Gifts and bequests	20	560
Increase (decrease) in funds held in trust by others	1,696,112	(683,717)
Increase (Decrease) in Permanently Restricted Net Assets	1,696,132	(683,157)
Decrease in Net Assets	(1,818,144)	(10,548,839)
Net Assets - Beginning	117,677,159	128,225,998
Net Assets - End	$ 115,859,015	$ 117,677,159

The accompanying notes are an integral part of these financial statements.

GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
Cash Flows from Operating Activities		
Change in net assets	$ (1,818,144)	$ (10,548,839)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Provision for bad debts	15,713,175	14,440,795
Depreciation and amortization	10,385,459	10,094,753
Pension liability adjustments	1,719,951	5,526,450
Adjustment to adopt measurement date provisions of ASC 715-30	--	343,000
Net realized and unrealized (gains) and losses and change in fair value of funds held in trust by others	(3,775,255)	341,032
Restricted gifts, bequests and income from investments	(999,286)	(975,551)
Increase in minority interest in net assets of consolidated affiliates	399,708	113,250
	21,625,608	19,334,890
Change in operating working capital, other than cash and cash equivalents and short-term investments:		
Accounts receivable, net	(15,913,597)	(10,875,084)
Inventories	(228,021)	23,873
Prepaid insurance and other expenses	(18,761)	387,987
Other assets that are required for current liabilities	(8,806)	2,163,290
Accounts payable and accrued expenses	3,696,240	(5,798,724)
Due to third-party reimbursement agencies	(780,491)	1,770,080
Increase in other noncurrent liabilities	302,257	6,538,806
	(12,951,179)	(5,789,772)
Net Cash Provided by Operating Activities	8,674,429	13,545,118

The accompanying notes are an integral part of these financial statements.

**GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009

	2010	2009
Cash Flows from Investing Activities		
Other current assets	$ 145,408	$ 130,301
Due from affiliates	1,344,448	611,652
Other assets	(1,595,493)	(3,250,385)
Additions to property, plant and equipment, net	(5,556,141)	(2,569,045)
Short-term investments	(64,530)	6,718
Long-term investments	(343,863)	695,518
Net Cash Used in Investing Activities	(6,070,171)	(4,375,241)
Cash Flows from Financing Activities		
Restricted gifts, bequests and income from investments	999,286	975,551
Net proceeds from issuance of debt	663,881	474,325
Principal payments on debt obligations	(1,341,117)	(5,783,783)
Net Cash Provided by (Used in) Financing Activities	322,050	(4,333,907)
Net Increase in Cash and Cash Equivalents	2,926,308	4,835,970
Cash and Cash Equivalents - Beginning	19,343,506	14,507,536
Cash and Cash Equivalents - End	$ 22,269,814	$ 19,343,506

Cash paid during the year for interest on borrowings was $1,304,624 and $1,379,563 for the years ended September 30, 2010 and 2009, respectively.

The accompanying notes are an integral part of these financial statements.

NOTE 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. (AMG) to the extent of the Hospital's ownership interest in these affiliated entities.

During June 2010, the Hospital entered into an arrangement with certain gastroenterology physician-members of the Hospital's medical staff to form Waterbury Gastroenterology Co-Management Company, LLC (GI Co-Management Company), a Connecticut limited liability company. This company was formed as a collaborative effort between the Hospital and the physicians for the purpose of improving the quality and efficiency of the gastroenterology service line at the Hospital. The Hospital's investment of $50,000 in the GI Co-Management Company is included in the Corporation's consolidated financial statements.

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. The balance remaining on this note was $125,449 at September 30, 2009 and it has been repaid as of September 2010. The Cancer Center is not included in the Corporation's consolidated financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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, 2010 financial statements.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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 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. Effective in 2009, the Hospital is no longer funding these accounts to pay future malpractice and workers' compensation clients.

Instead, the Hospital maintains a $3.5 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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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 $2,639,365 and $2,129,801 as of September 30, 2010 and 2009, respectively, are recorded in other noncurrent liabilities. During 2010, $82,000 of retirement obligations were incurred and $58,175 of obligations were settled. There were no retirement obligations incurred or settled during 2009.

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 was $291,731 of impairment losses in 2010. There were no impairment losses in 2009.

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, pension liability adjustments and net asset transfers.

Operations improvement expenses represent consulting and other costs incurred by the Hospital in 2010 and 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 2011.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

INCOME TAXES

The Corporation and its subsidiaries, with the exception of GWMRI, Access, GWIC and Imaging Partners LLC, 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 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 terminated the trust fund. Instead, the Hospital maintains a letter of credit with a bank in support of its self-insured workers' compensation program. This letter of credit limit was $3.5 million and $4.0 million at September 30, 2010 and 2009, respectively.

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 $6,815,650 and $6,173,116 at September 30, 2010 and 2009, respectively, have been discounted at 2.5%.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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 $277,579 and $206,607 at September 30, 2010 and 2009, 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 $1,818,858 and $1,891,000 at September 30, 2010 and 2009, respectively, related to claims that were incurred subsequent to October 1, 2006, but not yet reported. These reserves were discounted at 2.5% at September 30, 2010 and 2009.

The Hospital also obtains excess insurance coverage for professional and general liability, through the Network, from HAIC. These policies have limits of $25,000,000 per claim and $25,000,000 aggregate, in excess of the underlying limits in the primary layer, for both professional and general liability.

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.

REGULATORY MATTERS

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

RETIREMENT BENEFIT PLANS

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

SUBSEQUENT EVENTS

The Network evaluates the impact of subsequent events, 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 or for disclosure in the notes to the financial statements. The Network evaluated events occurring subsequent to September 30, 2010 through January 27, 2011, the date on which the accompanying consolidated financial statements were available to be issued. During this period, except for the Hospital's CHEFA debt refinancing (refer to Note 7), there were no subsequent events that required disclosure or recognition in the consolidated financial statements.

RECLASSIFICATIONS

Certain 2009 amounts have been reclassified to conform to the 2010 presentation. These reclassifications had no impact on the deficiency of revenues over expenses or net assets previously reported.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In December 2008, the FASB issued additional authoritative guidance regarding an employer's disclosures about postretirement benefit plan assets, currently included in ASC Topic 715 (formerly FSP FAS 132(R)-1). This guidance requires disclosure about the major classes of postretirement benefit plan assets, including a description of the inputs and valuation techniques used to measure those assets and the designation of such assets by level; how investment allocation decisions are made; the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and significant concentrations of risk within the plan assets. See Note 9 for these additional disclosures for the year ended September 30, 2010. The adoption of this guidance did not have a significant impact on the Network's consolidated financial statements for the year ended September 30, 2010.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

In January 2010, the FASB issued ASC Accounting Standards Update (ASU) No. 2010-06 (ASU 2010-06), which guidance clarifies certain existing fair value measurement disclosure requirements of ASC Topic 820 (formerly SFAS 157) and also requires additional fair value measurement disclosures. Specifically, ASU 2010-06 clarifies that assets and liabilities must be leveled by major class of assets or liability, and provides guidance regarding the identification of such major classes. Additionally, disclosures are required about valuation techniques and the inputs to those techniques, for those assets or liabilities designated as level 2 or level 3 instruments. Disclosures regarding transfers between level 1 and level 2 assets and liabilities are required, as well as deeper level of disaggregation of activity within existing rollforwards of the fair value of level 3 assets and liabilities. The adoption of this guidance died not have a significant impact on the Network's consolidated financial statements for the year ended September 30, 2010.

NOTE 2 – REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE

The following summarizes net revenues from services to patients:

	2010	2009
Gross revenues from services to patients	$ 872,701,324	$ 874,444,095
Deductions (additions):		
Allowances	613,061,915	616,374,482
Free care	3,081,466	3,273,671
Regulatory	(3,254,019)	(3,325,129)
	612,889,362	616,323,024
Net revenues from services to patients	$ 259,811,962	$ 258,121,071

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 2010 and 2009.

NOTE 2 – REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE (CONTINUED)

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, 2010 and 2009, the Corporation recorded approximately $700,000 and $1,660,760, respectively, as an increase to net revenues from services to patients as changes in estimates related to third-party payor settlements and adjustments to accruals recorded in the prior year.

During 2010 and 2009 approximately 43% and 44%, respectively, of net patient service revenue was received under the Medicare program, 10% and 10%, respectively, under the state Medicaid program, and 40% 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 40% from Medicare, 11% from Medicaid, 34% from commercial insurance carriers and 15% from others at September 30, 2009 (36%, 9%, 31% and 24%, respectively, in 2009).

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.

NOTE 2 – REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE (CONTINUED)

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.

NOTE 3 - INVESTMENTS

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

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Short-term investments:				
U.S. Treasury notes and other bonds	$ 155,186	$ 161,742	$ 130,140	$ 130,955
Marketable equity securities	207,982	220,238	184,899	181,474
Mutual funds	474,407	502,551	483,652	479,364
Certificates of deposit and money market funds	35,760	35,760	28,145	28,145
	$ 873,335	$ 920,291	$ 826,836	$ 819,938
Funds held by trustee:				
Certificates of deposit and money market funds	$ --	$ --	$ 14,570	$ 14,570
U.S. government obligations and other bonds	--	--	4,994	2,273
	$ --	$ --	$ 19,564	$ 16,843

NOTE 3 – INVESTMENTS (CONTINUED)

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Escrow funds for long-term debt:				
U.S. Government obligations	$ 580,868	$ 580,016	$ 555,577	$ 554,776
Guaranteed investment contracts	2,020,082	2,020,082	2,020,082	2,020,082
Cash and money market funds	33,724	33,724	38,129	38,129
	$ 2,634,674	$ 2,633,822	$ 2,613,788	$ 2,612,987
Funds held in trust by others	$35,233,635	$39,561,090	$35,476,750	$37,864,978
Long-term investments and Board-designated endowment funds:				
Certificates of deposit and money market funds	$ 1,116,055	$ 1,116,055	$ 3,012,920	$ 3,012,920
Marketable equity securities	23,919	63,665	23,919	53,309
U.S. government obligations	5,404,062	5,614,564	4,850,729	4,962,951
Corporate bonds	4,597,816	5,073,487	3,981,787	4,161,973
Annuity contract	100,000	156,542	100,000	144,553
Mutual funds	6,485,454	7,283,361	7,187,329	7,563,802
Alternative investments	15,560,814	15,452,422	13,780,878	12,665,384
Other investments	322,836	322,836	276,312	276,312
	$33,610,956	$35,082,932	$33,213,874	$32,841,204

Unrestricted investment income, including income on funds held in trust by others, and gains are comprised of the following for the years ended September 30, 2010 and 2009:

	2010	2009
Income:		
Investment income	$ 1,217,173	$ 2,201,199
Realized gains on sales of investments	91,119	467,568
Changes in unrealized gains on investments	1,419,128	537,548
	$ 2,727,420	$ 3,206,315

NOTE 3 – INVESTMENTS (CONTINUED)

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, 2010 and 2009 follows:

	2010	2009
Interest cost charged to operations	$ 1,156,778	$ 1,192,730
Investment income	$ 116,842	$ 133,317

NOTE 4 – FAIR VALUE MEASUREMENTS

The Corporation adopted ASC 820, *Fair Value Measurement*, on October 1, 2008. Assets 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 at fair value. Level inputs are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets 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, either directly or indirectly. If the asset has a specific (contractual) term, a Level 2 input must be observable for substantially the full term of the asset.

Level 3 – Inputs that are unobservable for the asset.

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.

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes fair value measurements, by level, at September 30, 2010, for all assets 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	$22,269,814	$ --	$ --	$ 22,269,814
Short-term investments	778,905	141,386	--	920,291
Other assets under bond indenture agreements	613,740	2,020,082	--	2,633,822
Funds held in trust by others	29,227,042	10,334,048	--	39,561,090
Long-term investments	13,662,955	7,480,729	11,151,746	32,295,430
Board-designated endowment funds	2,787,502	--	--	-- 2,787,502
Other investments	--	277,579	--	277,579
	$69,339,958	$20,253,824	$11,151,746	$ 100,745,528

The following is a reconciliation of Level 3 assets (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, 2009	$ 10,130,444
Net realized and unrealized gains on investments	737,047
Purchases, net	284,255
Balance, as of September 30, 2010	$ 11,151,746

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes fair value measurements, by level, at September 30, 2009, for all assets 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
	$66,108,117	$17,467,502	$10,130,444	$ 93,706,063

The following is a reconciliation of Level 3 assets (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	$ 10,130,444

NOTE 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.

NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

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:

(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.

NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

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.

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, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ --	$ 6,317,021	$ 42,353,101	$ 48,670,122
Board-designated endowment funds	2,787,502	--	--	2,787,502
Total funds	$ 2,787,502	$ 6,317,021	$ 42,353,101	$ 51,457,624

NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	$ 2,673,155	$ 5,978,741	$ 40,656,969	$ 49,308,865
Investment return:				
Investment income	65,913	211,422	--	277,335
Net appreciation (realized and unrealized)	180,036	575,876	1,696,112	2,452,024
Total investment return	245,949	787,298	1,696,112	2,729,359
Appropriation of endowment assets for expenditure	(131,602)	(449,018)	--	(580,620)
Contributions	--	--	20	20
Endowment net assets, ending balance	$ 2,787,502	$ 6,317,021	$ 42,353,101	$ 51,457,624

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	$ 2,673,155	$ 5,978,741	$ 40,656,969	$ 49,308,865

NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

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	$ 2,673,155	$ 5,978,741	$ 40,656,969	$ 49,308,865

NOTE 6 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at September 30, 2010 and 2009, 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, 2010 and 2009 of $39,561,090 and $37,864,978, respectively. Income of $1,597,759 and $1,429,877 earned on these assets for the years ended September 30, 2010 and 2009, 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.

NOTE 6 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

During 2010, 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 $4,497,224, $521,983 and $386,207, respectively, in 2009, $4,103,736, $620,038 and $384,619, respectively. In addition, $135,818 and $69,902 were released for the purchase of property and equipment in 2010 and 2009, 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.

NOTE 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.

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

NOTE 7 – DEBT (CONTINUED)

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, 2010 and 2009.

Effective December 22, 2010, the Hospital refinanced its Series C bond financing and financed an additional $8,000,000 for various capital projects to be completed over a two year period. The par amount of the new debt is $25,918,000. The new bonds require monthly principal and interest payments, based upon a 10 year amortization schedule, from 2011 through 2020 with the remaining principal balance due in 2020. The terms of this refinancing arrangement provide for, among other things, a pledge of gross receipts 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 and, sale and lease of assets and other covenants similar in financings of this type. In connection with this refinancing, the Hospital entered into an interest rate swap with a bank which allowed it to convert its variable interest rate liability to a fixed interest rate liability of 4.475% without changing the structure of the underlying debt.

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%.

NOTE 7 – DEBT (CONTINUED)

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.

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 2010 and 2009, the total debt service funded by the State of Connecticut was $107,875 and $109,620, respectively.

NOTE 7 – DEBT (CONTINUED)

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, 2010:

2011	$ 910,000
2012	960,000
2013	1,015,000
2014	1,080,000
2015	1,140,000
Aggregate thereafter	15,935,000
	$ 21,040,000

The Corporation had a $4,000,000 line of credit with a bank that expired on February 27, 2009.

Access has a $250,000 line of credit with a bank. There were no borrowings under this line of credit at September 30, 2010 and 2009.

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. This loan was repaid in full in March 2009.

The Hospital had a $3.5 million and $4.0 million letter of credit with a bank available at September 30, 2010 and 2009, respectively, to support its self-insured workers' compensation program that is collateralized by certain investments held by the bank. As of September 30, 2010 and 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 $64,625 and $148,379 at September 30, 2010 and 2009, respectively.

NOTE 7 – DEBT (CONTINUED)

Effective April 2005, VNA established a $500,000 line of credit with Webster Financial Advisors. The interest rate at September 30, 2010 was 5%. The line of credit is secured by VNA's investments held by Webster Financial Advisors. Advances on the line of credit at September 30, 2010 and 2009 were $30,000 and $90,000, respectively. The line of credit expires on November 1, 2011.

AMG entered into an equipment lease during 2008. The lease calls for monthly payments of $1,485 through April 2013 and is secured by the equipment. The balances of the capital lease liability at September 30, 2010 and 2009 were $41,549 and $53,467, respectively.

AMG 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 balances of the capital lease liability at September 30, 2010 and 2009 were $18,600 and $22,610, respectively.

AMG entered into an equipment lease during 2010. The lease calls for monthly payments of $353 through March 2015 and is secured by the equipment. The balance of the capital lease liability at September 30, 2010 was $15,976.

AMG entered into an equipment lease during 2010. The lease calls for monthly payments of $447 through May 2015 and is secured by the equipment. The balance of the capital lease liability at September 30, 2010 was $20,853.

AMG entered into a term note during 2010 at an interest rate of 9.8%. The note calls for monthly payments of $13,216 through November 2014 and is secured by the assets of AMG. The balance of the term note liability at September 30, 2010 was $536,950.

AMG assumed a note payable 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 per month 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, 2010 was $258,248.

NOTE 7 – DEBT (CONTINUED)

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 $252,959 and $466,179 at September 30, 2010 and 2009, respectively.

Future minimum payments by year and in the aggregate for all non-CHEFA obligations were as follows at September 30, 2010:

2011	$ 502,875
2012	213,549
2013	206,651
2014	284,372
2015	32,313
	$ 1,239,760

The fair value of the debt, using the discounted cash flow analyses, was approximately $22,844,000 at September 30, 2010.

NOTE 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, 2010 and 2009 was $4,571,797 and $3,892,731, respectively. The minimum rental commitments under all noncancellable operating leases with initial or remaining terms of more than one year are as follows:

2011	$ 3,638,085
2012	3,384,735
2013	3,425,960
2014	3,195,039
2015	1,533,897
Thereafter	2,294,141
	$ 17,471,857

NOTE 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 older 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.

The Hospital adopted the measurement date provision of ASC 715-30 as of September 30, 2009. 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 2009 consolidated statements of operations and changes in net assets, representing the net periodic benefit cost attributable to the period July 1, 2008 through September 30, 2008.

Following is a summary of the Plan's funded status using the measurement dates of September 30, 2010 and 2009 and amounts recognized in the Corporation's consolidated financial statements.

	2010	2009
Change in benefit obligation		
Benefit obligation beginning of year	$ (34,676,258)	$ (33,567,569)
Service and interest costs during gap period	--	(782,683)
Benefit payments during gap period	--	439,266
Service cost	(1,150,693)	(1,065,635)
Interest cost	(1,830,619)	(2,065,099)
Actuarial (loss) gain	(1,326,106)	1,094,303
Benefits paid	1,258,212	1,271,159
Benefit Obligation - end of year	$ (37,725,464)	$ (34,676,258)

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

	2010	2009
Change in plan assets		
Fair value of plan assets, beginning of year	$ 26,914,181	$ 31,692,647
Actual return on plan assets	2,102,750	(3,505,041)
Employer contributions	914,000	437,000
Benefits paid	(1,258,212)	(1,271,159)
Benefit payments during gap period	--	(439,266)
Fair Value of Plan Assets - end of year	$ 28,672,719	$ 26,914,181
Funded status	$ (9,052,745)	$ (7,762,077)
Accrued Pension Liability	$ (9,052,745)	$ (7,762,077)
Components of net periodic pension cost		
Service cost	$ 1,150,693	$ 1,065,635
Interest cost	1,830,619	2,065,099
Expected return on plan assets	(2,661,262)	(2,702,674)
Amortization of actuarial loss	129,140	--
Amortization of prior service cost	35,527	35,527
Net periodic pension cost	$ 484,717	$ 463,587
Accumulated benefit obligation	$ 36,479,923	$ 33,404,451

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

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

	2010	2009
Unrecognized prior service cost	$ (263,040)	$ (298,567)
Unrecognized actuarial losses	(14,120,108)	(12,364,630)
Benefit obligation, end of year	$ (14,383,148)	$ (12,663,197)

Changes in benefit obligations recognized in unrestricted net assets include:

	2010	2009
Prior service cost	$ --	$ (266,409)
Current year actuarial losses	(1,884,618)	(5,295,568)
Change in measurement date	--	(343,000)
Amortization of prior service cost	35,527	35,527
Amortization of net loss	129,140	--
	$ (1,719,951)	$ (5,869,450)

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, 2011 are $35,527 and $431,281 respectively.

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

ASSUMPTIONS

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

	2010	2009
Discount rate	4.83%	5.50%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	2% for 5 year select period, 3% ultimate	3.00%

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

	2010	2009
Discount rate	5.50%	6.85%
Expected return on assets	8.00%	8.00%
Rate of compensation increase	3.00%	3.00%

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.

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

INVESTMENT POLICY

The Plan's weighted-average asset allocation at September 30, 2010 and 2009, by asset category are as follows:

	Plan Assets at September 30		Asset Allocation Policy	
Asset Category	2010	2009	Target	Range
Equity securities	71%	64%	70%	60% - 80%
Debt securities	25%	26%	30%	20% - 40%
Cash and cash equivalents	4%	10%		

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.

CONTRIBUTIONS

The Hospital expects to make $1,082,000 in contributions to the Plan in 2011.

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

ESTIMATED FUTURE BENEFIT PAYMENTS

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

2011	$ 3,316,689
2012	2,458,860
2013	2,585,154
2014	2,645,146
2015	2,549,851
2016 - 2020	13,643,834
	$ 27,199,534

The following tables set forth by level within the fair value hierarchy the investment assets and investment liabilities at fair value, as of September 30, 2010. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total
Equities	$ 8,434,030	$ --	$ --	$ 8,434,030
BSDT Reserve Deposit Accounts	--	126	--	126
Commingled Funds and Private Equity	--	--	12,956,286	12,956,286
U.S. Government Obligations	3,881,847	680,950	--	4,562,797
Corporate Bonds	--	2,656,597	--	2,656,597
Interest and Dividends	62,883	--	--	62,883
	$12,378,760	$ 3,337,673	$12,956,286	$28,672,719

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

The following is a reconciliation of Level 3 assets, collective investments and common trust funds, for which significant unobservable inputs were used to determine fair value:

Balance as of September 30, 2009	$ 13,390,946
Change in unrealized appreciation	1,242,813
Net sales	(1,677,473)
Balance as of September 30, 2010	$ 12,956,286

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, 2010 and 2009 was $3,865,343 and $3,953,029, 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, 2010 and 2009, liabilities of $1,211,615 and $1,133,531, respectively, have been reflected in the consolidated balance sheets.

NOTE 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, 2010 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.

NOTE 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.

NOTE 12 – DUE FROM (TO) AFFILIATES

As of September 30, 2010, GWMRI had a receivable of $197,863 and AMG had a payable of $10,409 to Alliance for services provided and the reimbursement of expenses. Similarly, the Hospital and GWMRI had receivables from Alliance of $1,014,665 and $517,237 at September 30, 2009, respectively.

NOTE 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:

	2010	2009
Health care services	$ 207,465,192	$ 218,460,432
General and administrative	72,119,197	62,699,612
Fundraising	360,290	417,343
	$ 279,944,679	$ 281,577,387

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ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Greater Waterbury Health Network, Inc.

Our report on our audit of the 2010 basic consolidated financial statements of the Greater Waterbury Health Network, Inc. of and for the year ended September 30, 2010 appears on page 1. That audit was conducted for the purpose of forming an opinion on the 2010 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 as of and for the year ended September 30, 2010 has been subjected to the auditing procedures applied in our audit of the 2010 basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2010 basic consolidated financial statements taken as a whole.

The 2009 consolidating information was subjected to the auditing procedures applied by the other auditors in their audit of the 2009 basic consolidated financial statements whose report on other financial information expressed an opinion that the 2009 consolidating information was fairly stated in all material respects in relation to the 2009 basic consolidated financial statements taken as a whole.

Marcum LLP

Hartford, CT
January 27, 2011

Marcum LLP ▪ City Place II ▪ 185 Asylum Street ▪ 17th Floor ▪ Hartford, CT 06103 ▪ Phone 860.549.8500 / 877.231.5351 ▪ Fax 860.549.8501 ▪ marcumllp.com

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2010

	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	$ 129,443	$ 21,406,848	$ 352,338	$ --	$ 869	$ 380,316	$ --	$ 22,269,814
Short-term investments	--	391,878	528,413	--	--	--	--	920,291
Other assets required for current liabilities	--	582,693	--	--	--	--	--	582,693
Accounts receivable - patients, net	--	31,845,438	542,289	--	598	218,179	(1,655)	32,604,849
Accounts receivable - grants and other	--	1,728,061	--	--	--	--	--	1,728,061
Inventories	--	812,360		--	--		--	812,360
Prepaid insurance and other expenses	--	1,376,780	9,719	--	--	37,017	--	1,423,516
Due from affiliates	(118,943)	--	--	(11,764)	497,298	--	(168,728)	197,863
Other current assets	--	--	--	--	--	--	--	--
Total Current Assets	10,500	58,144,058	1,432,759	(11,764)	498,765	635,512	(170,383)	60,539,447
Other Assets								
Certificates of deposit and money market funds	--	--	--	--	--	--	--	--
U.S. Government obligations and other bonds	--	--	--	--	--	--	--	--
Under bond indenture agreements	--	2,602,775	--	--	--	31,047	--	2,633,822
	--	2,602,775	--	--	--	31,047	--	2,633,822
Less assets that are required for current liabilities	--	582,693	--	--	--	--	--	582,693
Total Other Assets	--	2,020,082	--	--	--	31,047	--	2,051,129
Property, Plant and Equipment								
Land	--	287,549	--	--	--	--	--	287,549
Buildings and improvements	--	86,741,575	20,776	--	--	3,055,671	--	89,818,022
Furniture, fixtures and equipment	--	168,836,349	711,590	--	--	160,308	--	169,708,247
Construction in progress	--	1,688,586	--	--	--	--	--	1,688,586
Accumulated depreciation	--	(214,263,664)	(558,911)	--	--	(841,735)	--	(215,664,310)
	--	43,290,395	173,455	--	--	2,374,244	--	45,838,094
Funds held in trust by others	--	39,561,090	--	--	--	--	--	39,561,090
CHEFA obligations issue expense, less amortization	--	575,582	--	--	--	98,619	--	674,201
Long-term investments	22,071,502	10,067,386	--	--	--	156,542	--	32,295,430
Board-designated endowment funds	--	2,787,502	--	--	--	--	--	2,787,502
Other investments	277,579	--	--	--	--	--	--	277,579
Investment in subsidiary	719,418	--	--	--	--	--	(719,418)	--
Due from affiliates, less current portion	(5,695,627)	5,695,627						--
Loans and other receivables	246,212	136,573	--		226,831	--	(246,212)	363,404
Accrued interest and dividends receivable	54,434	--	--	--	--	--	--	54,434
	17,673,518	58,823,760	--	--	226,831	255,161	(965,630)	76,013,640
	$ 17,684,018	$ 162,278,295	$ 1,606,214	$ (11,764)	$ 725,596	$ 3,295,964	$ (1,136,013)	$ 184,442,310

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2010

	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	$ 60,797	$ 28,168,862	$ 366,867	$ --	$ --	$ 154,371	$ (1,655)	$ 28,749,242
Current portion of CHEFA obligations	--	865,000	--	--	--	45,000	--	910,000
Current portion of notes payable	--	472,875	30,000	--	--	7,032	(7,032)	502,875
Due to third-party reimbursement agencies	--	230,310	184,236	--	--	--	--	414,546
Due to affiliates	--	179,137	--	--	--	--	(168,728)	10,409
Total Current Liabilities	60,797	29,916,184	581,103	--	--	206,403	(177,415)	30,587,072
CHEFA Obligations - less current portion and discount	--	18,142,716	--	--	--	1,519,148	--	19,661,864
Notes Payable - less current portion	--	736,885	--	--	--	239,180	(239,180)	736,885
Other Noncurrent Liabilities	--	14,667,421	--	--	--	--	--	14,667,421
Minority Interest in Net Assets of Consolidated Affiliates	--	2,930,053	--	--	--	--	--	2,930,053
Net Assets								
Unrestricted	17,623,221	45,216,062	1,025,111	(11,764)	725,596	1,331,233	(719,418)	65,190,041
Temporarily restricted	--	8,315,873	--	--	--	--	--	8,315,873
Permanently restricted	--	42,353,101	--	--	--	--	--	42,353,101
	17,623,221	95,885,036	1,025,111	(11,764)	725,596	1,331,233	(719,418)	115,859,015
	$ 17,684,018	$ 162,278,295	$ 1,606,214	$ (11,764)	$ 725,596	$ 3,295,964	$ (1,136,013)	$ 184,442,310

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	--	--	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
	--	2,593,969	--	--	--	35,861	--	2,629,830
Less assets that are required for current liabilities	--	573,887	--	--	--	--	--	573,887
Total Other Assets	--	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	2,769,440	--	--	--	--	--	(2,769,440)	--
Loans and other receivables	254,130	732,690	--	--	210,720	--	(254,198)	943,342
Accrued interest and dividends receivable	54,076	--	--	--	--	--	--	54,076
	23,704,922	51,479,930	--	--	210,720	248,164	(3,023,638)	72,620,098
	$ 18,646,798	$ 160,044,637	$ 1,342,355	$ (11,764)	$ 2,965,923	$ 3,372,119	$ (3,050,501)	$ 183,309,567

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

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	18,596,715	49,273,360	769,851	(11,764)	2,051,022	1,345,494	(2,769,440)	69,255,238
Temporarily restricted	--	7,764,952	--	--	--	--	--	7,764,952
Permanently restricted	--	40,656,969	--	--	--	--	--	40,656,969
	18,596,715	97,695,281	769,851	(11,764)	2,051,022	1,345,494	(2,769,440)	117,677,159
	$ 18,646,798	$ 160,044,637	$ 1,342,355	$ (11,764)	$ 2,965,923	$ 3,372,119	$ (3,050,501)	$ 183,309,567

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	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	$ --	$ 254,787,935	$ 5,038,332	$ --	$ --	$ --	$ (14,305)	$ 259,811,962
Investment related income	581,638	698,934	27,720	--	--	--	--	1,308,292
Other operating revenues	3,100	6,638,378	68,184	--		95,081	(49,998)	6,754,745
Services, sales and rental income	--	--	--	--	2,052,721	1,662,170	(119,567)	3,595,324
Unrestricted gifts and bequests	--	157,191	41,574	--	--	--	--	198,765
Net assets released from restrictions	--	5,405,414	--	--	--	--	--	5,405,414
	584,738	267,687,852	5,175,810	--	2,052,721	1,757,251	(183,870)	277,074,502
Expenses								
Salaries, wages and benefits	--	153,196,573	3,538,150	--	827,466	1,295,272	--	158,857,461
Supplies, utilities and other	668,375	87,611,221	1,323,740	--	1,257,272	270,823	(183,870)	90,947,561
Bad debt expense	--	15,699,588	13,587	--	--	--	--	15,713,175
Depreciation	--	9,597,526	77,416		41,918	98,489	--	9,815,349
Operations improvement	--	2,695,434	--	--	--	--	--	2,695,434
Interest and amortization	--	1,803,577	3,480	--	1,714	106,928	--	1,915,699
	668,375	270,603,919	4,956,373	--	2,128,370	1,771,512	(183,870)	279,944,679
(Deficiency) Excess of Revenues Over Expenses Before Minority Interest	(83,637)	(2,916,067)	219,437	--	(75,649)	(14,261)	--	(2,870,177)
Minority Interest in Income of Consolidated Affiliates	--	(1,030,015)	--	--	--	--	--	(1,030,015)
(Deficiency) Excess of Revenues Over Expenses Before Net Unrealized Gains on Investments	(83,637)	(3,946,082)	219,437	--	(75,649)	(14,261)	--	(3,900,192)
Net Unrealized Gains on Investments	1,237,850	145,455	35,823	--	--	--	--	1,419,128
Excess (Deficiency) of Revenues Over Expenses	$ 1,154,213	$ (3,800,627)	$ 255,260	$ --	$ (75,649)	$ (14,261)	$ --	$ (2,481,064)

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE 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	--	12,908,481	--	--	--	--	--	12,908,481
Interest and amortization	55,177	1,484,698	7,037	--	8,089	107,698	(55,177)	1,607,522
	4,024,615	263,226,513	4,859,046	--	8,438,168	1,848,333	(819,288)	281,577,387
(Deficiency) Excess of Revenues Over Expenses Before Minority Interest	(3,957,474)	1,782,674	(46,858)	--	(254,157)	(48,403)	--	(2,524,218)
Minority Interest in Income of Consolidated Affiliates	--	(1,317,466)	--	--	--	--	--	(1,317,466)
(Deficiency) Excess of Revenues Over Expenses Before Net Unrealized Gains and Losses on Investments	(3,957,474)	465,208	(46,858)	--	(254,157)	(48,403)	--	(3,841,684)
Net Unrealized Gains (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)