Consolidated Financial Statements and Other Financial Information

Western Connecticut Health Network, Inc. and Subsidiaries
Years Ended September 30, 2011 and 2010
with Report of Independent Auditors

Ernst & Young LLP

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and Other Financial Information

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Contents

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Report of Independent Auditors

The Board of Directors
Western Connecticut Health Network, Inc.

We have audited the accompanying consolidated balance sheets of Western Connecticut Health Network, Inc. and Subsidiaries (the Network) as of September 30, 2011 and 2010, 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 Network's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Western Connecticut Health Network Insurance Co. Ltd (the Company), a subsidiary of The Danbury Hospital, which statements reflect total assets of 7% and 8% as of September 30, 2011 and 2010, respectively, and total revenues of 2% for the years then ended. In addition, we did not audit the financial statements of The New Milford Hospital, Incorporated and Subsidiaries (the Hospital), which statements reflect total assets of 10% as of September 30, 2010 and total revenues of 13% for the year then ended. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Company and the Hospital, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Network's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Western Connecticut Healthcare, Inc. and Subsidiaries at September 30, 2011 and 2010, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

January 27, 2012

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30 2011	September 30 2010 *(Restated)*
Assets		
Current assets:		
Cash and cash equivalents	**$ 56,787,869**	$ 44,650,227
Current portion of assets limited as to use	**2,780,279**	3,802,296
Current portion of pledges receivable	**1,768,111**	1,143,377
Accounts receivable, less allowance for uncollectible accounts of approximately $17,544,000 in 2011 and $15,943,000 in 2010	**74,395,713**	76,702,649
Inventories	**12,213,567**	10,833,964
Prepaid expenses and other	**16,364,779**	11,787,082
Total current assets	**164,310,318**	148,919,595
Investments	**210,629,807**	234,672,059
Assets limited as to use:		
Funds restricted by donor	**49,659,312**	53,508,088
Board designated funds	**7,461,876**	14,534,278
Trusts held by others	**6,439,298**	6,901,020
Construction funds	**125,248,424**	–
Total noncurrent assets limited as to use	**188,808,910**	74,943,386
Other assets	**13,551,622**	11,200,761
Property, plant, and equipment:		
Land and land improvements	**10,476,804**	9,247,160
Buildings and building improvements	**325,821,610**	295,164,304
Equipment and other	**291,542,729**	263,763,454
Construction in progress (estimated cost to complete at September 30, 2011: $137,977,000)	**27,578,848**	21,879,446
	655,419,991	590,054,364
Less accumulated depreciation	**388,704,091**	358,628,526
	266,715,900	231,425,838
Pledges receivable, less current portion	**6,462,823**	3,535,600
Bond issuance costs, net	**5,779,765**	3,117,386
Total assets	**$ 856,259,145**	$ 707,814,625

	September 30 2011	2010
Liabilities and net assets		*(Restated)*
Current liabilities:		
Accounts payable	**$ 32,026,942**	$ 25,893,742
Payroll-related accruals	**28,131,050**	24,800,451
Due to third-party payors	**15,337,343**	14,882,325
Interest payable	**1,803,683**	1,067,716
Other accrued expenses	**7,257,048**	11,409,220
Current portion of long-term debt and capital lease obligation	**3,024,773**	6,455,637
Long-term debt subject to short-term remarketing agreements	**–**	30,870,000
Total current liabilities	**87,580,839**	115,379,091
Self-insurance liabilities	**39,197,898**	34,983,997
Accrued pension liabilities and other	**127,561,248**	154,599,110
Long-term debt and capital lease obligation, less current portion and long-term debt subject to short-term remarketing agreement	**253,514,718**	92,471,763
Net assets:		
Unrestricted	**286,369,831**	244,887,741
Temporarily restricted	**30,149,404**	33,595,748
Permanently restricted	**31,885,207**	31,897,175
Total net assets	**348,404,442**	310,380,664
Total liabilities and net assets	**$ 856,259,145**	$ 707,814,625

See accompanying notes.

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2011	**2010**
		(Restated)
Unrestricted revenues:		
Net patient service revenue	**$720,525,178**	$702,067,144
Net assets released from restriction	**3,167,079**	2,790,050
Other operating revenue	**14,009,110**	12,102,843
	737,701,367	716,960,037
Expenses:		
Salaries, benefits and fees	**458,708,798**	436,499,663
Supplies and other	**200,275,229**	194,663,965
Insurance	**8,742,635**	9,434,195
Provision for uncollectible accounts	**26,465,527**	19,660,897
Depreciation and amortization	**36,236,656**	34,179,238
Interest	**5,333,933**	5,539,104
	735,762,778	699,977,062
Operating income before pension curtailment charge	**1,938,589**	16,982,975
Pension curtailment charge	**(10,337,542)**	–
Operating (loss) income	**(8,398,953)**	16,982,975
Income tax expense	**1,000**	1,000
Nonoperating gains (losses):		
Contributions	**3,166,972**	3,404,377
Investment income, net	**9,355,429**	7,650,146
Change in unrealized gains and losses on investments	**(3,715,643)**	12,609,784
Operating expenses of the New Milford Hospital Foundation, Inc. and Western Connecticut Health Network Foundation, Inc.	**(3,213,974)**	(1,887,589)
	5,592,784	21,776,718
(Deficiency) excess of revenues over expenses	**(2,807,169)**	38,758,693

Continued on next page.

Western Connecticut Health Network, Inc. and Subsidiaries

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

	Year Ended September 30 2011	2010 (Restated)
Unrestricted net assets:		
(Deficiency) excess of revenues over expenses (continued)	**(2,807,169)**	38,758,693
Change in unrealized gains and losses on investments	–	174,884
Change in fair value of interest rate swap	**156,640**	72,939
Net assets released from restrictions for property, plant and equipment	**5,618,089**	9,206,307
Transfers from temporarily restricted net assets	**3,301,137**	152,871
Change in pension funding obligation	**44,064,249**	(278,816)
Transfer to other entity	**(10,213,352)**	–
Other	**1,362,496**	263,109
Increase in unrestricted net assets	**41,482,090**	48,349,987
Temporarily restricted net assets:		
Contributions	**7,333,773**	2,308,467
Investment income, net	**4,305,181**	1,147,929
Change in unrealized gains and losses on investments	**(2,596,384)**	3,247,876
Net assets released from restriction	**(3,167,079)**	(2,790,050)
Net assets released from restrictions for property, plant and equipment	**(5,618,089)**	(9,206,307)
Transfer to unrestricted and permanently restricted net assets	**(3,703,746)**	(250,234)
Decrease in temporarily restricted net assets	**(3,446,344)**	(5,542,319)
Permanently restricted net assets:		
Change in unrealized gains and losses on trusts held by others	**(461,722)**	446,164
Contributions	**47,145**	593,104
Transfer from temporarily restricted net assets	**402,609**	97,363
(Decrease) increase in permanently restricted net assets	**(11,968)**	1,136,631
Increase in net assets	**38,023,778**	43,944,299
Net assets at beginning of year	**310,380,664**	266,436,365
Net assets at end of year	**$348,404,442**	$310,380,664

See accompanying notes.

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2011	**2010**
		(Restated)
Operating activities and other income		
Increase in net assets	**$ 38,023,778**	$ 43,944,299
Adjustments to reconcile increase in net assets to net cash provided by operating activities and other income:		
Depreciation and amortization	**36,236,656**	34,179,238
Change in unrealized gains and losses on investments	**6,312,027**	(16,032,544)
Change in pension funding obligation	**(44,064,249)**	278,815
Other	**(1,362,496)**	(263,109)
Restricted contributions and investment income	**(11,686,099)**	(4,049,500)
Change in unrealized gains and losses on trusts held by others	**461,722**	(446,164)
Provision for uncollectible accounts	**26,465,527**	19,660,897
Changes in operating assets and liabilities (*See Note 12*)	**(8,275,809)**	(30,022,973)
Net cash provided by operating activities and other income	**42,111,057**	47,248,959
Investing activities		
Additions to property, plant, and equipment, net	**(71,526,718)**	(47,517,504)
Increase in investments, net and assets limited as to use	**(94,212,508)**	(13,738,067)
Net cash used in investing activities	**(165,739,226)**	(61,255,571)
Financing activities		
Change in issuance costs	**(2,662,379)**	157,541
Proceeds from long-term debt	**175,105,000**	1,708,023
Payments of long-term debt	**(48,362,909)**	(4,760,401)
Restricted contributions and investment income	**11,686,099**	4,049,500
Net cash provided by financing activities	**135,765,811**	1,154,663
Net increase (decrease) in cash and cash equivalents	**12,137,642**	(12,851,949)
Cash and cash equivalents at beginning of year	**44,650,227**	57,502,176
Cash and cash equivalents at end of year	**$ 56,787,869**	$ 44,650,227

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization and Basis of Presentation

Western Connecticut Health Network, Inc. (the Network) was incorporated under the statutes of the State of Connecticut and is the parent company of the following subsidiaries: The Danbury Hospital (Danbury Hospital); Western Connecticut Health Network Foundation, Inc. (WCHNF); Western Connecticut Health Network Affiliates, Inc. (WCHNA); Business System, Inc. (BSI); Western Connecticut Home Care, Inc. (WCHC); Regional Hospice of Western Connecticut (Hospice); the Foundation for Community Health Care (Foundation); The New Milford Hospital Inc. and Subsidiaries (New Milford Hospital) and Western Connecticut Medical Group, P.C. (WCMG).

The Network's consolidated financial statements for the year ended September 30, 2010 have been restated for the consolidation of WCMG, which became a controlled affiliate of the Network, effective October 1, 2010.

The Network owns 100% of the capital stock of BSI. Western Connecticut Health Network, Inc. is the sole corporate member of Danbury Hospital, WCHNF, New Milford Hospital, WCHNA, and WCHC. As of December 1, 2010, the affiliation with Hospice was terminated.

The Network owned 100% of Ridgefield Surgical Center (RSC), a free-standing ambulatory surgical center located in Ridgefield, Connecticut, as of September 30, 2010. The operations of RSC became a department of Danbury Hospital in April 2011.

The Foundation is a corporation under the Nonstock Corporation Act of the State of Connecticut and requires contributions by the physician members. The Network is required to make contributions that match those made by the physician members. As of this date, no physicians have made contributions and the Foundation is currently inactive.

New Milford Hospital is a voluntary, not-for-profit, non-stock corporation incorporated under the General Statutes of the State of Connecticut and is the sole corporate member of its subsidiaries, New Milford Hospital Foundation, Inc. and New Milford Visiting Nurse Association, Inc. (the VNA). During 2011, the affiliation with the VNA was terminated.

Effective October 28, 2009, New Milford Hospital formed a strategic partnership with Radcorp of New Milford, LLC. The partnership, New Milford MRI JV, LLC, offers MRI services located at New Milford Hospital. New Milford Hospital owns a 51% share of New Milford MRI JV, LLC with the remaining 49% owned by Radcorp of New Milford, LLC. New Milford Hospital

1. Summary of Significant Accounting Policies (continued)

records a 51% interest in this company with the remaining 49% recorded as a minority interest. Due to the New Milford MRI JV, LLC reflecting negative equity as of September 30, 2011, no minority interest was recorded.

WCMG is incorporated under the general statutes of the State of Connecticut and provides physician services to patients primarily from Western Connecticut and Southeastern New York. WCMG also provides physician support to various Network affiliates.

The consolidated financial statements include the accounts of Western Connecticut Health Network, Inc., the Danbury Hospital, WCHNF, New Milford Hospital, WCHNA, BSI, WCHC, WCMG, and Foundation. All material intercompany transactions have been eliminated in consolidation.

Use of Estimates

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

Regulatory Matters

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with maturities of three months or less at date of purchase. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Network's policy to monitor the financial strength of these institutions.

1. Summary of Significant Accounting Policies (continued)

Investments

Substantially all of the Network's investment portfolio reported in the accompanying consolidated balance sheets is designated as trading, with realized and unrealized gains and losses included in the (deficiency) excess of revenues over expenses.

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

Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that the Network holds limited partnership interests, are stated at fair value as estimated in an unquoted market. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, the Network's holdings, may be determined by the investment manager or general partner, and for "fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Network 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 Network's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors.

Temporarily and Permanently Restricted Net Assets

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

1. Summary of Significant Accounting Policies (continued)

Contributions

For financial statement purposes, the Network distinguishes between contributions of unrestricted assets, temporarily restricted assets, and permanently restricted assets.

Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions, but which are met within the same reporting period, are reported as unrestricted support. Contributions, for which donors have imposed restrictions which limit the use of the donated assets, are reported as temporarily restricted net assets if the restrictions are not met in the same reporting period. When such donor imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributions of assets which donors have stipulated must be maintained in perpetuity, with only the income earned thereon available for current use, are classified as permanently restricted net assets.

Patient Accounts Receivable

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

The amount of the allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. During 2010, the Network recorded a positive change in estimate of approximately $2,570,000, related to the allowance for doubtful accounts. See Note 2 for additional information relative to third-party payor programs.

The Network's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies and private patients. The Network manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable include 43% and 10%, and 43% and 9% for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2011 and 2010, respectively.

1. Summary of Significant Accounting Policies (continued)

Assets Limited as to Use

Assets limited as to use represent investments with donor restrictions; assets set aside by the Board of Directors for the purpose of providing for future improvement, expansion and replacement of plant and equipment; assets held by trustees under indenture agreements related to financing activities with the State of Connecticut Health and Educational Facilities Authority (CHEFA); assets held in trusts by others in accordance with donor restrictions, cash designated for the Supplemental Executive Retirement Plans, and donated land held for sale. Board designated funds represent unrestricted funds set aside for specific purposes. The portion of amounts required for funding current liabilities is included in current assets.

Property, Plant and Equipment

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

Conditional asset retirement obligations amounted to $464,904 and $469,148 as of September 30, 2011 and 2010. These obligations are recorded in other long-term liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2011 and 2010, retirement obligations incurred and settled were minimal.

Bond Issuance Costs

Discounts and deferred costs related to the issuance of bonds are amortized over the period the obligation is outstanding, using the bonds outstanding method. Accumulated amortization of discounts and deferred costs were $1,347,238 and $1,283,533 at September 30, 2011 and 2010, respectively.

Inventories

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

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

1. Summary of Significant Accounting Policies (continued)

Nonoperating Gains (Losses)

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating gains (losses) primarily consist of contributions, income on invested funds, realized and unrealized gains and losses on investments, and the operating expenses of the WCHNF and the Foundation.

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include (deficiency) excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from (deficiency) excess of revenues over expenses, consistent with industry practice, include permanent transfers of assets for other than goods and services, contributions of long-lived assets, changes in unrealized gains and losses on non-trading investments, changes in pension funding obligation, changes in the fair value of interest rate swap and transfer to other entity in connection with the disaffiliation of the VNA and Hospice.

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities as of September 30, 2011 and 2010 approximate fair value based on current market conditions. The fair values of the Network's financial instruments are disclosed in the respective notes and/or in Note 4.

Investments include certificates of deposit with original maturities in excess of three months.

Income Taxes

The Network comprises not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Western Connecticut Health Network Insurance Co., Ltd. (WCHNIC), a subsidiary of the Danbury Hospital, is a foreign corporation exempt from US taxation.

1. Summary of Significant Accounting Policies (continued)

The Network has losses from unrelated business activities of approximately $41,800,000 which began expiring in 2009. A deferred tax asset for these losses of approximately $16,720,000 is offset by a corresponding valuation allowance of the same amount. The system also has a net operating loss carryforward of approximately $417,000 related to its taxable entity, Business Systems, Inc.

Adoption of New Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*, (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each "class" of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements.

In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2012, the guidance in ASU 2010-06 became effective for reporting periods beginning after December 15, 2009. The Network's adoption of ASU 2010-06 did not have an impact on the consolidated financial statements.

New Accounting Pronouncements

In August 2010, the FASB issued ASU 2010-23, *Measuring Charity Care for Disclosure* (ASU 2010-23). ASU 2010-23 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASU 2010-23 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASU 2010-23 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Network is evaluating the effect of ASU 2010-23 on its consolidated financial statements.

1. Summary of Significant Accounting Policies (continued)

In August 2010, the FASB also issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* (ASU 2010-24). Under ASU 2010-24 anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the balance sheet. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Network is evaluating the effect of ASU 2010-24 on its consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Debts, and Allowance for Doubtful Accounts for Certa*in *Health Care Entities* (ASU 2011-07). Under ASU 2011-07, provision for bad debts related to patient service revenue will be presented as a deduction from patient service revenue (net of contractual allowances and discounts) on the statement of operations with enhanced footnote disclosure on the policies for recognizing revenue and assessing bad debts and qualitative and quantitative information about changes in the allowance for doubtful accounts. The standard is effective for the first annual period ending after December 15, 2011. The Network will adopt the presentation changes to the consolidated statement of operations for periods beginning after December 15, 2011.

Subsequent Events

The Network evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date. For the year ended September 30, 2011, the Network evaluated subsequent events through January 27, 2012, which represents the date in which the consolidated financial statements were issued. Refer to Note 14 for events that required disclosure. No events occurred that require adjustment to the consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2010 balances previously reported in the consolidated balance sheets and consolidated statements of operations and changes in net assets in order to conform with the year ended September 30, 2011 presentation.

2. Net Patient Service Revenue and Charity Care

The following table summarizes net patient service revenue:

	Years Ended September 30	
	2011	**2010**
Gross patient service revenue	**$ 1,620,897,693**	$ 1,553,240,039
Deductions:		
Allowances	**884,704,840**	(834,830,614)
Charity care (at charges)	**15,667,675**	(16,342,281)
	900,372,515	(851,172,895)
Net patient service revenue	**$ 720,525,178**	$ 702,067,144

During 2011 and 2010, approximately 37% of net patient service revenue was received under the Medicare and Medicaid program. 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 Network believes it is in compliance with all applicable laws and regulations. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Network.

The Network has agreements with third-party payors that provide for payments at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. During 2011 and 2010, the Network recorded increases in net patient service revenue of approximately $2,300,000 and $2,484,000, respectively, related to changes in previously estimated third-party payor settlements.

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

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

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

3. Investments and Assets Limited as to Use

The composition of investments, current portion of assets limited as to use, funds restricted by donor, board designated funds and construction funds is set forth in the following table:

	September 30			
	2011		2010	
	Cost	Market	Cost	Market
Cash and cash equivalents	**$ 130,187,390**	**$ 130,187,390**	$ 2,371,200	$ 2,371,200
Common collective funds	**93,295,290**	**86,113,308**	110,971,430	105,581,612
Fixed income securities	**51,952,722**	**51,993,062**	79,108,577	79,567,026
Mutual funds	**105,543,211**	**105,355,048**	97,653,375	103,350,742
Equities	–	–	235,261	258,787
U.S. government bonds	–	–	110,971	102,344
Commodities	**494,430**	**533,890**	–	–
Alternative investments	**17,276,281**	**18,816,721**	10,505,080	11,482,714
	$ 398,749,324	**$ 392,999,419**	$ 300,955,894	$ 302,714,425
Current portion of assets limited as to use:				
Cash and cash equivalents	**$ 1,580,279**	**$ 1,580,279**	$ 2,602,296	$ 2,602,296
	$ 1,580,279	**$ 1,580,279**	$ 2,602,296	$ 2,602,296

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

Also included within assets limited as to use is $1,200,000 of land held for sale as of September 30, 2011 and 2010 and trusts held by others of $6,439,298 and $6,901,020 as of September 30, 2011 and 2010, respectively.

Investment income included in non-operating gains (losses) for the year ended September 30, 2011 consists of:

Interest and dividend income	$ 5,401,831
Realized gains and losses	3,953,598
	$ 9,355,429

4. Fair Values of Financial Instruments

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

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

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

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

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

4. Fair Values of Financial Instruments (continued)

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

Financial assets carried at fair value in the accompanying consolidated balance sheets, excluding assets invested in the Network's defined benefit pension plan, are classified in the table below in one of the three categories described above:

	September 30, 2011			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 56,787,869	$ –	$ –	$ 56,787,869
Investments and assets limited as to use:				
Cash and cash equivalents	131,767,974	–	–	131,767,974
Mutual funds:	–	–	–	–
Fixed income	105,355,048	–	–	105,355,048
Common collective funds:				
Large cap equity	–	57,538,708	–	57,538,708
International equity	–	19,429,089	–	19,429,089
Other	–	9,145,511	–	9,145,511
Securities:				
Fixed income	50,738,895	–	–	50,738,895
Government and corporate bonds	1,254,167	–	–	1,254,167
Other:				
Commodities	533,890	–	–	533,890
Trusts held by others:				
Cash and cash equivalents	129,233	–	–	129,233
Mutual funds:				
US Large cap equity	1,760,978	–	–	1,760,978
US Mid cap equity	457,537	–	–	457,537
US Small cap equity	218,193	–	–	218,193
International developed	591,821	–	–	591,821
Emerging markets	254,955	–	–	254,955
Fixed income	1,914,353	–	–	1,914,353
Other	295,190	–	–	295,190
Real assets	95,024	–	–	95,024
Commodities	46,273	–	–	46,273
Common collective funds:				
US large cap equity	–	287,309	–	287,309
US mid cap equity	–	25,727	–	25,727
US small cap equity	–	17,977	–	17,977
International developed	–	96,422	–	96,422
Emerging markets	–	19,323	–	19,323
Fixed income	–	202,723	–	202,723
Other	–	26,260	–	26,260
	$ 352,201,400	$ 86,789,049	$ –	$ 438,990,448

4. Fair Values of Financial Instruments (continued)

	September 30, 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 44,650,227	$ –	$ –	$ 44,650,227
				–
Investments and assets limited as to use:	–	–	–	–
Cash and cash equivalents	6,338,391	–	–	6,338,391
Mutual funds:	–	–	–	–
Mid cap equity	2,781,884	–	–	2,781,884
International equity	3,469,633	–	–	3,469,633
Fixed income	90,587,096	–	–	90,587,096
Common collective funds:	–	–	–	–
Large cap equity	–	88,836,381	–	88,836,381
International equity	7,825,249	–	–	7,825,249
Other	6,769,276	8,919,982	–	15,689,258
Securities:	–	–	–	–
Fixed income	76,414,324	–	–	76,414,324
Government and corporate bonds	1,389,420	502,371	–	1,891,791
Trusts held by others:	–	–	–	–
Cash and cash equivalents	190,599	–	–	190,599
Mutual funds:	–	–	–	–
Large cap equity	1,846,152	–	–	1,846,152
Mid cap equity	385,098	–	–	385,098
Small cap equity	264,168	–	–	264,168
International equity	591,967	–	–	591,967
Emerging markets	346,991	–	–	346,991
Fixed income	2,073,340	–	–	2,073,340
Other	319,002	–	–	319,002
Real assets	121,247	–	–	121,247
Commodities	19,113	–	–	19,113
Common collective funds:	–	–	–	-
US large cap equity	–	254,042	–	254,042
US mid cap equity	–	40,613	–	40,613
US small cap equity	–	27,421	–	27,421
International developed	–	161,042	–	161,042
Fixed income	–	260,227	–	260,227
Liabilities	–	–	–	–
Interest rate swap agreement	–	623,890	–	623,890
	$ 246,383,176	$ 99,625,968	$ –	$ 346,009,144

The amounts reported in the tables above do not include alternative investments totaling $18,816,721 and $11,482,714 as of September 30, 2011 and 2010, respectively, that are accounted for under the equity method of accounting.

The above tables do not include $1,200,000 of land held for sale as of September 30, 2011 and 2010, respectively, included within the current portion of assets limited as to use.

4. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value included in the defined benefit pension plans are classified in the table below in one of the three categories described above:

	September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 4,008,665	$ –	$ –	$ 4,008,665
Mutual funds:				
Large cap equity	9,043,789	–	–	9,043,789
Mid cap equity	2,348,284	–	–	2,348,284
Small cap equity	1,208,321	–	–	1,208,321
Fixed income	145,650,859	–	–	145,650,859
International equity	1,995,582	–	–	1,995,582
Other	2,085,655	–	–	2,085,655
Common collective funds:				
Large cap equity	–	110,465,006	–	110,465,006
International equity	–	49,180,804	–	49,180,804
Alternative investments	–	–	27,947,917	27,947,917
	$166,341,155	$159,645,810	$ 27,947,917	$ 353,934,882

4. Fair Values of Financial Instruments (continued)

	September 30, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 276,031	$ –	$ –	$ 276,031
Mutual funds:				
Large cap equity	10,437,323	–	–	10,437,323
Mid cap equity	2,752,789	–	–	2,752,789
Small cap equity	1,583,099	–	–	1,583,099
Fixed income	135,710,517	–	–	135,710,517
International equity	26,191,207	–	–	26,191,207
Other	9,148,559	–	–	9,148,559
Common collective funds:				
Large cap equity	–	114,275,285	–	114,275,285
International equity	–	7,271,298	–	7,271,298
Alternative investments	–	–	27,989,880	27,989,880
	$186,099,525	$121,546,583	$27,989,880	$335,635,988

Fair value for Level 1 assets is based upon quoted market prices. Fair value for Level 2 assets is based upon model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers. Fair value for the interest rate swap agreement classified as Level 2 is determined using information provided by TD securities. The fair value estimate considers the underlying notional debt principal amounts and the current interest rates paid by the Network and TD securities under the swap contract. Level 3 assets consist of alternative investments held by the defined benefit plans, the valuation for which is described in Note 1. Many of the investments classified in Levels 2 and 3 in the above tables consist of shares or units in investment funds, as opposed to direct interests in the funds' underlying holdings, which may be marketable. As the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the Network's interest therein, its classification in Level 2 or 3 is based on the Network's ability to redeem its interest at or near the measurement date. If the interest can be redeemed in the near term, the investment is classified in Level 2. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Network believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

4. Fair Values of Financial Instruments (continued)

For the year ended September 30, 2011, the changes in the fair value of assets measured using significant unobservable inputs (Level 3) comprised the following:

Beginning balance at October 1, 2010	$ 27,989,880
Change in unrealized gains and losses	1,988,325
Realized gains	99,652
Purchases	13,000,000
Sales	(15,129,940)
Ending balance at September 30, 2011	$ 27,947,917

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

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

5. Pledges Receivable

Pledges receivable include the following unconditional promises to give:

	September 30	
	2011	**2010**
Due within one year	**$ 2,100,559**	$ 1,367,319
Due within one to five years	**7,506,255**	3,786,426
Due within greater than five years	**214,386**	216,886
	9,821,200	5,370,631
Allowance and discount	**(1,590,266)**	(691,654)
Present value of pledges receivable	**$ 8,230,934**	$ 4,678,977

The allowance recognizes the estimated uncollectible portion of pledges and the discount of pledges to net present value.

6. Long-Term Debt and Credit Facility

Long-term debt consisted of the following:

	September 30	
	2011	**2010**
Danbury Hospital revenue bonds financed with CHEFA:		
Series G	**$ 39,700,000**	$ 40,650,000
Series H	**41,560,000**	41,560,000
Series J	–	32,465,000
Network revenue bonds financed with CHEFA:		
Series K	**31,325,000**	–
Series L	**96,000,000**	–
Series M	**46,030,000**	–
New Milford Hospital term loans	**607,285**	7,814,640
New Milford Hospital promissory notes	–	429,338
New Milford Hospital capital lease obligations	**1,317,206**	956,254
RSC term loan	–	4,926,881
RSC revolving line of credit	–	920,287
RSC members' loans	–	75,000
	256,539,491	129,797,400
Less current portion	**3,024,773**	6,455,637
Less long-term debt subject to short-term remarketing agreements	–	30,870,000
	$253,514,718	$ 92,471,763

The following is a summary of the combined aggregate amount of maturities and sinking fund requirements of the aforementioned obligations at September 30, 2011 according to their long-term amortization schedule:

2012	$ 3,024,773
2013	3,133,421
2014	3,272,523
2015	4,921,511
2016	5,147,263
Thereafter	237,040,000
	$256,539,491

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

The fair value of the bonds, as determined by the Network's investment advisor, was approximately $248,699,000 at September 30, 2011. The Network paid interest of $4,970,685 and $5,205,308 in 2011 and 2010, respectively. Debt service funds held under bond indenture agreements for Series G Bonds, Series H Bonds and Series J Bonds were $1,273,013 and $1,679,707 at September 30, 2011 and 2010, respectively.

The Series G revenue bonds (Series G Bonds) mature from 2012 through 2029 at an average coupon rate of 5.63%. The proceeds of the Series G Bonds were used to construct a new Cancer Center and reimburse the Network for equipment purchases made during fiscal year 1999. The scheduled payment of principal and interest on the Series G Bonds is guaranteed by an insurance policy issued by a commercial insurer.

In November 2011, the Series G Bonds were refunded by Western Connecticut Health Network Issue, Series N CHEFA revenue bonds (Series N Bonds) issued in the amount of $39,880,000. The Series N Bonds bear interest at rates between 3.0% and 5.0% and are scheduled to mature from July 1, 2014 to July 1, 2029.

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

The Series J Revenue bonds (Series J Bonds) were issued as variable rate debt to initially bear interest at a weekly rate (ranging from 0.2% to 7.5%) and are scheduled to mature from 2009 through 2036. The Series J Bonds were guaranteed by an irrevocable, direct-pay letter of credit issued by Wells Fargo, which expired on June 24, 2011. As a result, Series J Bonds were included in current liabilities at September 30, 2010. The Series J Bonds were refinanced during 2011.

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

Under the terms of the Series H Bonds, Series G Bonds and Series J Bonds financing arrangements between Danbury Hospital and the Western Connecticut Health Network Foundation, Inc. (the Obligated Group) and CHEFA, the proceeds of the revenue bonds were loaned to Danbury Hospital. Danbury Hospital is obligated to provide amounts sufficient to pay the principal and interest due on the Series H Bonds, Series G Bonds and Series J Bonds. The Master Indentures and Supplemental Master Indentures provide for the potential establishment and maintenance of a Debt Service Reserve Fund, a pledge of gross receipts, as defined, and parity with the Series G Bonds that remain outstanding. The Master Indentures also establish a debt service coverage ratio requirement and restricts the incurrence of certain indebtedness by the Obligated Group.

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

The Series K revenue bonds (Series K Bonds) were issued in the amount of $33,035,000. The proceeds were used to refund, on a current basis, the Series J Bonds. The Series K Bonds bear interest at the bank purchase rate (1.972% at September 30, 2011) and mature serially from September 30, 2011 to September 30, 2036.

The Series M revenue bonds (Series M Bonds) were issued in the aggregate principle of $46,030,000, with interest payable initially on January 1, 2012 and semiannually on each January 1 and July 1 thereafter. The Series M Bonds bear interest at rates ranging from 5.000% to 5.375% and are scheduled to mature from July 1, 2031 to July 1, 2041. The Series M Bonds are also subject to annual sinking fund installments commencing in 2024 through scheduled maturity. The Series L Revenue Bonds (Series L Bonds) of $96,000,000 were issued concurrently with Series M Bonds and are subject to annual sinking fund installments commencing July 1, 2015 and continuing through final maturity on July 1, 2041. The Series L Bonds bear interest at the bank purchase rate (1.348% at September 30, 2011). The proceeds of the Series L Bonds and Series M Bonds will be used for funding the planning, design, acquisition, construction, equipping and furnishing of Danbury Hospital's new patient tower, expansion of a parking garage, capital improvements and to fund capitalized interest.

On September 21, 2005, New Milford Hospital entered into an agreement with TD Bank, N.A. (formerly Banknorth) to provide a term loan in the amount of $11,000,000 to fund New Milford Hospital's defined benefit pension plan. As of September 30, 2010, the outstanding balance of the term loan was $6,315,524. This loan was paid in full in June 2011.

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

Effective September 28, 2005, New Milford Hospital entered into an interest rate swap contract which effectively converts the variable rate on the $11,000,000 term loan to a fixed rate of 5.99%. This interest rate swap had been designated as a cash flow hedge of the base interest rate. Management determined that the interest rate swap was highly effective and reflected the changes in the effective portion of the hedge as a change in unrestricted net assets on the accompanying statement of changes in net assets. The ineffective portion of the interest rate swap, if any, was recorded as a non-operating item in the accompanying statement of operations. The Network's interest rate swap liability recorded in other accrued expenses as of September 30, 2010 was $623,890. The interest rate swap was terminated in June 2011 in connection with the term loan being paid in full.

Effective June 29, 2004, New Milford Hospital entered into an agreement with TD Bank, N.A. to provide a term loan in the amount of $2,724,825. In connection with the term loan, New Milford Hospital had a revolving credit facility of $5,250,000, which bore interest at TD Bank, N.A.'s prime lending rate plus 1%. As of September 30, 2010, the outstanding balance of the term loan and revolving credit facility was $799,116. This loan was paid in full in June 2011.

On December 11, 2006, New Milford Hospital entered into a mortgage agreement in the amount of $450,000 for the purchase of land and a building. As of September 30, 2010, the outstanding balance of the promissory note was $429,338. This loan was paid in full in June 2011.

On June 11, 2010, New Milford Hospital entered into a leasing agreement with First Litchfield Leasing Corporation to lease a 64-slice CT Scanner in the amount of $1,008,023. Lease payments of $56,993 are due quarterly beginning July 1, 2010 through July 1, 2015, at which point New Milford Hospital has the option to purchase the machine for $1. The equipment lease agreement bears interest at 1.33%. The outstanding balance of the capital lease obligation was $820,498 and $956,254 as of September 30, 2011 and 2010, respectively.

On October 7, 2010, New Milford Hospital entered into a leasing agreement with First Litchfield Leasing Corporation to lease a medical linear accelerator in the amount of $722,405. Lease payments of $40,845 are due quarterly beginning November 1, 2010 through November 1, 2015, at which point New Milford Hospital has the option to purchase the machine for $1. The equipment lease agreement bears interest at 1.33%. The outstanding balance of the capital lease obligation was $479,893 as of September 30, 2011.

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

On June 9, 2010, New Milford MRI JV, LLC entered into a loan agreement with Siemens Financial Services, Inc. in the amount of $700,000 to help finance the construction and legal costs associated with the joint venture MRI project. Principal and interest are paid monthly in the amount of $13,092 beginning in October 2010 through October 2015. The loan agreement bears interest at 4.63%. The outstanding balance as of September 30, 2011 and 2010 was $572,631 and $700,000, respectively.

Substantially, all assets owned by New Milford Hospital are pledged as collateral for the term loans.

In October, 2007, RSC entered into a term loan with a bank secured by business assets and a revolving line of credit. The term loan and revolving line of credit were paid in full in June 2011.

7. Commitments and Contingencies

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

The Network has entered into several lease agreements for real estate and equipment. Certain of these leases have renewal options for periods up to five years and escalation clauses. Rent is payable in equal monthly installments. Rent expense was $11,867,542 and $9,896,294 for the years ended September 30, 2011 and 2010, respectively.

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

2012	$ 9,707,576
2013	8,341,118
2014	8,096,142
2015	7,718,936
2016	7,086,909
Thereafter	22,053,454
	$ 63,004,135

8. Pension Plans

The Network has defined benefit pension plans, for which plan benefits are based on years of service and the employee's compensation (collectively referred to as the Plans). Effective May 26, 2011, the Board of Directors adopted a resolution to freeze the Danbury Hospital retirement plan (the Plan) for non-union employees effective December 31, 2011. As a result of this resolution, the Plan liabilities were re-measured for non-union employees as of September 30, 2011. All outstanding prior service cost related to these employees totaling $10,337,542 was expensed as of the date of the re-measurement. This curtailment charge is included in the consolidated statement of operations. Contributions to the Plans are intended to provide for benefits attributed to services rendered to date and benefits expected to be earned in the future. Future benefits are based on the employee's average compensation and years of service as defined by the plan documents. Western Connecticut Health Network, Inc. plan participants vest in their benefits on a percentage basis with years of service. The Network makes contributions in amounts sufficient to meet the required benefits to be paid to plan participants as they become due as required by the Employee Retirement Income Security Act of 1974.

The Network also maintains noncontributory, supplemental defined-benefit retirement plans (Supplemental Plans) for certain executive employees. As of September 30, 2011 and 2010, the projected benefit obligation for the Supplemental Plans amounted to $1,115,988 and $1,928,066, respectively, which was included in accrued pension liabilities and other in the accompanying consolidated balance sheets. The expenses incurred related to the Supplemental Plans amounted to $671,711 and $169,846 for the years ended September 30, 2011 and 2010, respectively. Effective October 1, 2009, the New Milford Hospital Supplemental Plan was frozen. Provisions have been made to "grandfather" those participants in the plan that are sixty years old and have at least ten years of service.

Included in unrestricted net assets at September 30, 2011 and 2010, are the following amounts that have not yet been recognized in net periodic pension cost: Unrecognized actuarial loss of $146,442,650 and $190,506,899, respectively. The actuarial loss included in unrestricted net assets at September 30, 2011 and expected to be recognized in net periodic pension cost during the year ending September 30, 2012 is $18,120,964.

8. Pension Plans (continued)

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

	2011	2010
Change in benefit obligation		
Benefit obligation at beginning of year	$ (470,711,462)	$ (419,278,744)
Service cost	(16,813,970)	(14,955,500)
Assumption changes	64,119	(969,445)
Interest cost	(26,762,028)	(24,212,751)
Benefits paid	11,613,929	10,211,503
Curtailment	31,748,565	4,126,972
Actuarial loss	10,708,186	(25,633,497)
Benefit obligation at end of year	$ (460,152,661)	$ (470,711,462)
Change in plan assets		
Fair value of plan assets at beginning of year	$ 335,635,988	$ 288,051,281
Contributions	24,873,882	24,000,000
Actual return on plan assets	5,038,941	33,796,210
Benefits paid	(11,613,929)	(10,211,503)
Fair value of plan assets at end of year	353,934,882	335,635,988
Underfunded status of the plans	$ (106,217,779)	$ (135,075,474)
Components of net periodic benefit cost		
Service cost	$ 16,813,970	$ 14,955,500
Interest cost	26,762,028	24,212,751
Expected return on plan assets	(27,190,423)	(23,469,330)
Net amortization and deferral	10,546,672	10,033,613
Recognized net loss	1,444,829	1,317,004
Curtailment costs	10,337,542	–
Prior service cost	1,365,818	1,365,818
Benefit cost	$ 40,080,436	$ 28,415,356

8. Pension Plans (continued)

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

	September 30	
	2011	**2010**
Discount rate used for net periodic benefit cost	**5.55%**	5.78 – 6.00%
Discount rate used for projected benefit obligation	**5.56 – 5.58%**	5.55%
Expected long-term rate of return on plan assets	**8.00%**	8.00%
Average rate of increase in compensation	**3.00 – 3.50%**	3.00 – 4.00%

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

The accumulated benefit obligation for the Plans at September 30, 2011 and 2010 was $446,972,234 and $416,960,354, respectively.

Plan Assets

The Plans' investment objectives are to achieve long-term growth in excess of long-term inflation and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets over a long-term time horizon. In order to minimize the risk, the Plans aim to minimize the variability in yearly returns. The Plans also aim to diversify its holding among sectors, industries, and companies. The target allocation for the Network plans' assets are 50% in equities, 35% in fixed income securities and 15% in alternative investments. The assets of the New Milford Hospital's plan are all held in mutual funds.

The weighted average asset allocations for the Plans' assets by category are as follows:

	September 30	
Asset Category	**2011**	**2010**
Equity securities	**51%**	57%
Debt securities	**39**	35
Other investments	**10**	8
	100%	100%

8. Pension Plans (continued)

As discussed in the Fair Value Measurements note (Note 4), the Network follows a three-level hierarchy to categorize assets measured at fair value. In accordance with this hierarchy, as of September 30, 2011, 47%, 45% and 8% of the Plans' assets which are measured at fair value on a recurring basis were categorized as Level 1, Level 2 and Level 3 investments, respectively. Securities with readily determinable values are carried at fair value as determined based on independent published sources. Alternative investments, as described in Note 1, are stated at fair value, as estimated in an unquoted market but corroborated by market data.

Contributions

The Network expects to contribute $26,798,114 to its plans in fiscal year 2012.

Estimated Future Benefit Payments

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

Fiscal Year	Pension Benefits
2012	$ 15,618,222
2013	17,365,443
2014	19,370,951
2015	21,333,651
2016	23,332,102
Years 2017 – 2021	155,256,761

New Milford Hospital has a Tax Sheltered Annuity (TSA) plan whereby New Milford Hospital will match the contribution at a rate equal to that contributed by the participant on an annual basis. The TSA is available to substantially all employees. New participants may elect to contribute up to 20% of pretax compensation not to exceed $16,500 in calendar year 2011 and 2010, respectively, with certain "catch-up" provisions for employees over fifty years of age. The participants are fully vested in their contributions from the date of contribution. Effective January 1, 2003, employees with hire dates after October 1, 1988 are eligible to receive a Hospital TSA matching contribution equal to 1% of their salary provided the employee deposits at least that same amount to their TSA account. This percentage increased to 2% in calendar year 2004 and to 3% beginning in calendar year 2005. In 2011, a new core contribution program was

8. Pension Plans (continued)

established. Employer contributions to the TSA during fiscal year 2011 and 2010 amounted to $1,777,328 and $626,233, respectively.

9. Professional Liability Insurance

Effective October 1, 2004, the Network formed a captive insurance company, Western Connecticut Health Network Insurance Co., Ltd. (WCHNIC). WCHNIC is domiciled in the Cayman Islands and provides alternative professional liability insurance to the Network, as well as providing community doctors with a competitive professional liability insurance option.

Coverage for medical malpractice insurance is on a claims-made basis. The coverage limits are $5,000,000 per claim and $25,000,000 in the aggregate. The excess indemnity coverage is $20,000,000 per claim and $20,000,000 in the aggregate. Professional liability for New Milford Hospital was also provided under claims-made policies. The Network has recorded a liability of $9,111,700 and $9,717,769 at September 30, 2011 and 2010, respectively, based on discount rates ranging from 3.0% – 3.5% as of September 30, 2011 and 2010, for incurred-but-not-reported claims, which is included in accrued pension liabilities and other on the accompanying consolidated balance sheets.

Assets held by WCHNIC approximate $56,572,000 and $58,806,000 as of September 30, 2011 and 2010, respectively, of which a majority is reflected as investments in the accompanying consolidated balance sheets. Liabilities recorded by WCHNIC approximate $39,372,000 and $35,179,000 as of September 30, 2011 and 2010, respectively, of which a majority is reflected as self-insurance liabilities in the accompanying consolidated balance sheets.

9. Professional Liability Insurance (continued)

The reserve for losses and loss adjustment expenses for WCHNIC are included in self-insurance liabilities in the accompanying consolidated balance sheets. Activity in the reserve for losses and loss adjustment expenses for the years ended September 30, 2011 and 2010 is summarized as follows:

	2011	2010
Balance at the beginning of period	**$ 32,294,365**	$ 30,434,952
Incurred related to:		
Current period	**8,782,963**	10,203,734
Prior period	**(2,689,921)**	(3,934,625)
Total incurred	**6,093,042**	6,269,109
Paid related to:		
Current period	**(92,030)**	(85,731)
Prior period	**(2,619,811)**	(4,323,965)
Total paid	**(2,711,841)**	(4,409,696)
Balance at the end of period	**$ 35,675,566**	$ 32,294,365

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

9. Professional Liability Insurance (continued)

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

	2011	2010
Balance at the beginning of period	**$ 2,533,888**	$ 6,262,910
Losses paid	**(88,040)**	(3,514,180)
Gain on deposit liability transferred to statement of income	**909,661**	(214,842)
Balance at the end of period	**$ 3,355,509**	$ 2,533,888

Also included in self-insurance liabilities as of September 30, 2011 and 2010 are unearned premiums of $166,823 and $155,744, respectively.

The actuary estimated the liability for unpaid losses based on industry data, as well as entity-specific data. Management considers the liability to be adequate as of September 30, 2011 and 2010; however, no assurance can be given that the ultimate settlement of losses may not vary materially from the liability recorded. Future adjustments to the amounts recorded resulting from the continual review process, as well as differences between estimates and ultimate payments, will be reflected in the consolidated statements of operations and changes in net assets of future years when such adjustments, if any, become known.

10. Net Assets

Temporarily restricted net assets of $30,149,404 and $33,595,748 as of September 30, 2011 and 2010, respectively, are available to the Network for health care services. Permanently restricted net assets of $31,885,207 and $31,897,175 as of September 30, 2011 and 2010, respectively, are investments to be held in perpetuity, the income which is expendable to support health care services.

11. Endowments

The Network endowment consists of approximately 32 individuals funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

11. Endowments (continued)

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

(1) The duration and preservation of the fund
(2) The purposes of the Network 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 Network
(7) The investment policies of the Network

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

11. Endowments (continued)

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 14,345,583	$ 25,445,909	$ 39,791,491
Board-designated endowment funds	7,218,125	–	–	7,218,125
Endowment net assets at end of year	$ 7,218,125	$ 14,345,583	$ 25,445,909	$ 47,009,617

11. Endowments (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of the year	$ 12,020,250	$ 18,999,710	$ 24,996,155	$ 56,016,115
Investment return:				
Investment income, net	1,156,098	3,898,117	–	5,054,215
Change in unrealized gains and losses	(513,521)	(2,459,072)	–	(2,972,593)
Total investment return	642,577	1,439,045	–	2,081,622
Contributions	–	274,835	47,145	321,980
Net asset reclassification- net change in loss on endowments	–	24,840	–	24,840
Appropriation of endowment assets for expenditures	(5,444,702)	(6,212,604)	–	(11,657,306)
Other changes:				
Transfers to permanently restricted endowment	–	(180,243)	402,609	422,366
Endowment net assets at end of year	$ 7,218,125	$ 14,345,583	$ 25,445,909	$ 47,209,617

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

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

11. Endowments (continued)

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

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

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level fund of the corpus that UPMIFA requires the Network to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There was $28,482 and $3,642 in deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2011 and 2010, respectively.

12. Changes in Components of Operating Assets and Liabilities

	Year Ended September 30	
	2011	**2010**
(Increase) decrease in operating assets:		
Pledges receivable	**$ (3,551,957)**	$ (55,329)
Accounts receivable, net	**(24,158,591)**	(27,001,320)
Inventories	**(1,379,603)**	(156,744)
Prepaid expenses and other assets	**(6,928,558)**	(118,751)
	(36,018,709)	(27,332,144)
Increase (decrease) in operating liabilities:		
Accounts payable	**6,133,200**	(564,749)
Payroll-related accruals	**3,330,599**	(559,141)
Due to third-party payors	**455,018**	(357,229)
Interest payable	**735,967**	(1,194)
Other accrued expenses	**(4,152,172)**	(4,242,715)
Self-insurance liabilities	**4,213,901**	(1,883,862)
Accrued pension liabilities and other	**17,026,387**	4,918,061
	27,742,900	(2,690,829)
Decrease in operating assets and liabilities	**$ (8,275,809)**	$ (30,022,973)

13. Functional Expenses

The Network provides general health care services to residents within its geographic location. Expenses related to providing these services, including the operating expenses of the Western Connecticut Health Network Foundation, Inc., are as follows:

	Year Ended September 30	
	2011	**2010**
Healthcare services	**$ 621,925,321**	$ 589,710,534
General and administrative	**124,174,999**	110,266,528
Fundraising	**3,213,974**	1,887,589
	$ 749,314,294	$ 701,864,651

14. Subsequent Events

In December 2011, the Network entered into a letter of intent to sell its outpatient renal dialysis center to a for profit provider. The proposed sale is subject to regulatory approval. The Network is still evaluating the impact this will have to the consolidated financial statements.

See Note 5 for the discussion of the refunding of Series G Bonds in November 2011. No other events have occurred that require disclosure or adjustment of the financial statements.

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Report of Independent Auditors on Other Financial Information

The Board of Directors
Western Connecticut Health Network, Inc.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating financial statements are presented for purposes of additional analysis and are not a required part of the combined financial statements. We did not audit the financial statements of Western Connecticut Health Network Insurance Co. Ltd (the Company), a subsidiary of The Danbury Hospital, which statements reflect total assets of 7% and 8% as of September 30, 2011 and 2010, respectively, and total revenues of 2% for the years then ended. In addition, we did not audit the financial statements of The New Milford Hospital, Incorporated and Subsidiaries (the Hospital), which statements reflect total assets of 10% as of September 30, 2010 and total revenues of 13% for the year then ended. These statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Company and the Hospital, is based solely on the reports of the other auditors. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst + Young LLP

January 27, 2012

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2011

Revisions since January 10th report

	Danbury Hospital	Health Network Foundation, Inc	Western Connecticut Health Network, Inc	New Milford Hospital	Western Connecticut Medical Group, P.C.	Eliminations	Obligated Group	Foundation For Community Healthcare	Western Connecticut Health Network Affiliates, Inc	Business Systems, Inc	Western Connecticut Home Care, Inc	Regional Hospice of Western Connecticut, Inc.	Eliminations	Total
Assets														
Current assets														
Cash and cash equivalents	$ 36,610,270	$ 498,362	$ 1,099,961	$ 12,675,086	$ 3,213,882	$ -	$ 54,097,501	$ 1,000	$ 760,628	$ 271,934	$ 1,656,806	$ -	$ -	$ 56,787,869
Current portion of assets limited as to use	1,273,013	-	-	1,507,266	-	-	2,780,279	-	-	-	-	-		2,780,279
Current portion of pledges receivable	-	1,650,451	-	117,660	-	-	1,768,111	-	-	-	-	-		1,768,111
Accounts receivable, less allowance for uncollectible accounts of $17,544,000	53,313,528	-	11,785	10,457,444	6,609,543	-	70,392,300	-	2,326,583	1,061,456	615,374	-		74,395,713
Current portion of due from related parties	6,009,891	-	-	-	1,100,027	(5,083,934)	2,025,984	-	-	-	-	-	(2,025,984)	-
Inventories	8,853,966	-	-	1,944,478	243,785	-	11,042,229	-	-	962,796	208,542	-	-	12,213,567
Prepaid expenses and other	15,544,259	-	124,299	1,415,605	298,675	(227,800)	17,155,038	-	54,653	18,164	144,023	-	(1,007,098)	16,364,779
Total current assets	121,604,927	2,148,813	1,235,985	28,117,539	11,465,912	(5,311,734)	159,261,442	1,000	3,141,864	2,314,350	2,624,745	-	(3,033,082)	164,310,318
Investments	202,361,192	8,068,873	-	199,742	-	-	210,629,807	-	-	-	-	-	-	210,629,807
Assets limited as to use														
Funds restricted by donor	-	46,477,328	-	3,081,975	-	-	49,559,301	-	-	-	100,009	-	-	49,659,312
Board designated funds	-	7,461,876	-	-	-	-	7,461,876	-	-	-	-	-	-	7,461,876
Trusts held by others	-	2,752,457	-	3,686,841	-	-	6,439,298	-	-	-	-	-	-	6,439,298
Construction funds	125,248,424	-	-	-	-	-	125,248,424	-	-	-	-	-	-	125,248,424
Total noncurrent assets limited as to use	125,248,424	56,691,661	-	6,768,816	-	-	188,708,901	-	-	-	100,009	-	-	188,808,910
Other assets		-	6,098,237	1,095,567	6,357,818		13,551,622	-	-	-	-	-	-	13,551,622
Interest in Western Connecticut Health Network Foundation, Inc	73,125,721	-	-	-	-	(73,125,721)	-	-	-	-	-	-	-	-
Due from related parties	5,985,152	-	-	-	-	(5,985,152)	-	-	-	-	-	-		-
Property, plant and equipment:														
Land and land improvements	8,458,354	471,593	-	1,546,857	-	-	10,476,804	-	-	-	-	-		10,476,804
Buildings and building improvements	265,771,375	706,417	11,789	50,178,336	5,986,586	-	322,654,503	-	3,129,272	34,000	3,835	-	-	325,821,610
Equipment and other	218,310,465	191,760	-	54,763,793	10,156,128	-	283,422,146	-	7,231,117	187,467	701,999	-	-	291,542,729
Construction in progress (estimated cost to complete at September 30, 2011 - $ 117,977,000)	27,578,848	-	-	-	-	-	27,578,848	-	-	-	-	-	-	27,578,848
	520,119,042	1,369,770	11,789	106,488,986	16,142,714	-	644,132,301	-	10,360,389	221,467	705,834	-	-	655,419,991
Less accumulated depreciation	(299,833,683)	(251,909)	(5,989)	(71,743,955)	(7,709,054)	-	(379,544,590)	-	(8,304,090)	(168,908)	(686,503)	-	-	(388,704,091)
	220,285,359	1,117,861	5,800	34,745,031	8,433,660	-	264,587,711	-	2,056,299	52,559	19,331	-	-	266,715,900
Pledges receivable, less current portion	-	6,306,675	-	156,148	-	-	6,462,823	-	-	-	-	-	-	6,462,823
Bond issuance costs, net	5,779,765	-	-	-	-	-	5,779,765	-	-	-	-	-	-	5,779,765
Total assets	$ 754,310,540	$ 74,333,883	$ 7,340,022	$ 71,082,843	$ 26,257,390	$ (84,342,607)	$ 848,982,071	$ 1,000	$ 5,198,162	$ 2,366,909	$ 2,744,085	$ -	$ (3,033,082)	$ 856,259,145
Liabilities and net assets														
Current liabilities														
Accounts payable	$ 27,363,171	$ -	$ 1,448	$ 4,262,947	$ -	$ (227,820)	$ 31,399,746	$ -	$ 285,633	$ -	$ 341,563	$ -	$ -	32,026,942
Payroll related accounts	12,263,559	68,525	-	2,329,129	12,970,467	-	27,631,680	-	276,989	52,633	169,748	-	-	28,131,050
Due to third-party payors	11,107,547	-	-	4,184,788	-	-	15,292,335	-	-	-	45,008	-	-	15,337,343
Current portion of due to related parties	-	765,775	-	4,028,167	294,100	(5,088,042)	-	-	408,534	2,543,248	81,300	-	(3,033,082)	-
Interest payable	1,803,683	-	-	-	-	-	1,803,683	-	-	-	-	-	-	1,803,683
Other accrued expenses	4,070,796	361,446	28,853	2,322,418	771,078	-	7,554,591	-	(302,372)	4,829	-	-	-	7,257,048
Current portion of long term debt and capital lease obligation	2,515,000	-	-	509,773	-	-	3,024,773	-	-	-	-	-	-	3,024,773
Total current liabilities	59,123,756	1,195,746	30,301	17,637,222	14,035,645	(5,315,862)	86,706,808	-	668,784	2,600,710	637,619	-	(3,033,082)	87,580,839
Self insurance liabilities	39,197,898	-	-	-	-	-	39,197,898	-	-	-	-	-	-	39,197,898
Accrued pension liabilities and other	15,647,308	12,416	94,177,011	16,438,757	1,042,268	-	127,317,760	-	12,658	-	230,830	-	-	127,561,248
Due to related parties	-	-	-	5,203,150	697,874	(5,901,024)	-	-	-	-	-	-	-	-
Long term debt and capital lease obligations, less current portion and long term debt subject to short term remarketing agreement	252,100,000	-	-	1,414,718	-	-	253,514,718	-	-	-	-	-	-	253,514,718
Net assets														
Unrestricted	332,255,763	17,139,907	(86,867,290)	24,440,209	10,481,603	(17,139,907)	280,310,285	1,000	4,516,720	(233,801)	1,775,627	-	-	286,369,831
Temporarily restricted	27,787,449	27,787,448	-	2,261,946	-	(27,787,448)	30,049,395	-	-	-	100,009	-	-	30,149,404
Permanently restricted	28,198,366	28,198,366	-	3,686,841	-	(28,198,366)	31,885,207	-	-	-	-	-	-	31,885,207
Total net assets	388,241,578	73,125,721	(86,867,290)	30,388,996	10,481,603	(73,125,721)	342,244,887	1,000	4,516,720	(233,801)	1,875,636	-	-	348,404,442
Total liabilities and net assets	$ 754,310,540	$ 74,333,883	$ 7,340,022	$ 71,082,843	$ 26,257,390	$ (84,342,607)	$ 848,982,071	$ 1,000	$ 5,198,162	$ 2,366,909	$ 2,744,085	$ -	$ (3,033,082)	$ 856,259,145

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2011

	Danbury Hospital	Western Connecticut Health Network Foundation, Inc.	Western Connecticut Health Network, Inc.	New Milford Hospital	Western Connecticut Medical Group, P.C.	Eliminations	Obligated Group	Western Connecticut Health Network Affiliates, Inc.	Business System, Inc.	Western Connecticu Home Care, Inc.	Regional Hospice of Western Connecticut, Inc.	Eliminations	Total
Unrestricted revenues													
Net patient service revenue	$ 497,720,490	$ -	$ 2,746,465	$ 90,588,107	$ 96,212,442	$ (493,259)	$ 686,774,245	$ 15,492,962	$ 13,311,707	$ 4,088,750	$ 1,366,962	$ (509,448)	$ 720,525,178
Net assets released from restriction	2,894,766	-	-	204,673	-	-	3,099,439	-	-	67,640	-	-	3,167,079
Other operating revenues	16,951,609	-	11,852	2,623,754	42,752,573	(48,516,363)	13,823,425	129,589	446,766	163,802	-	(554,472)	14,009,110
	517,566,865	-	2,758,317	93,416,534	138,965,015	(49,009,622)	703,697,109	15,622,551	13,758,473	4,320,192	1,366,962	(1,063,920)	737,701,367
Expenses													
Salaries, benefits and fees	308,540,688	-	2,723,282	52,253,080	123,223,653	(41,783,413)	444,957,290	7,240,578	1,887,198	3,477,917	1,153,460	(7,645)	458,708,798
Supplies and other	130,649,238	-	2,836,058	31,034,625	19,836,126	(2,489,054)	181,866,993	5,976,212	11,872,667	1,125,964	355,020	(921,627)	200,275,229
Insurance	8,742,635	-	-	1,611,492	3,155,388	(4,766,880)	8,742,635	92,800	11,236	29,340	1,272	(134,648)	8,742,635
Provision for uncollectible accounts	18,183,085	-	127,402	2,545,989	5,256,573	-	26,113,049	291,310	8,886	48,657	3,625	-	26,465,527
Depreciation and amortization	27,369,949	-	426,703	5,855,136	1,279,271	-	34,931,059	1,256,413	12,027	22,736	14,421	-	36,236,656
Interest	4,587,742	-	234,265	511,926	49,870	(49,870)	5,333,933	54,967	-	-	-	(54,967)	5,333,933
	498,073,337	-	6,347,710	93,812,248	152,800,881	(49,089,217)	701,944,959	14,912,280	13,792,014	4,704,614	1,527,798	(1,118,887)	735,762,778
Operating income before pension curtailment charge	19,493,528	-	(3,589,393)	(395,714)	(13,835,866)	79,595	1,752,150	710,271	(33,541)	(384,422)	(160,836)	54,967	1,938,589
Pension curtailment charge	-	-	(10,337,542)	-	-	-	(10,337,542)	-	-	-	-	-	(10,337,542)
Operating (loss) income	19,493,528	-	(13,926,935)	(395,714)	(13,835,866)	79,595	(8,585,392)	710,271	(33,541)	(384,422)	(160,836)	54,967	(8,398,953)
Income tax expense	-	-	(750)	-	-	-	(750)	-	(250)	-	-	-	(1,000)
Nonoperating gains (losses)													
Contributions	-	1,255,518	-	1,536,643	-	-	2,792,161	-	-	35,168	339,643	-	3,166,972
Investment income, net	6,100,396	3,280,259	(101,324)	235,285	3,746	(151,510)	9,366,852	3,830	-	16,955	22,759	(54,967)	9,355,429
Change in unrealized gains and losses on investments	(1,979,439)	(1,717,438)	-	-	-	-	(3,696,877)	-	-	(18,766)	-		(3,715,643)
Change in equity interest in unrestricted net assets of the Western Connecticut Health Network Foundation, Inc	71,435	-	-	-	-	(71,435)	-	-	-	-	-	-	-
Operating expenses of the New Milford Hospital Foundation, Inc. and Western Connecticut Health Network Foundation, Inc	-	(2,746,901)	-	(538,988)	-	71,915	- (3,213,974)	-	-	-	-	-	(3,213,974)
	4,192,392	71,438	(101,324)	1,232,940	3,746	(151,030)	5,248,162	3,830	-	33,357	362,402	(54,967)	5,592,784
Excess (deficiency) of revenues over expenses	$ 23,685,920	$ 71,438	$ (14,029,009)	$ 837,226	$ (13,832,120)	$ (71,435)	$ (3,337,980)	$ 714,101	$ (33,791)	$ (351,065)	$ 201,566	$ -	$ (2,807,169)

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2010

	Danbury Hospital	Western Connecticut Health Network Foundation, Inc	Western Connecticut Health Network, Inc	New Milford Hospital	Western Connecticut Medical Group, P.C.	Eliminations	Obligated Group	Foundation For Community Healthcare	Western Connecticut Health Network Affiliates, Inc	Business Systems, Inc	Western Connecticut Home Care, Inc	Regional Hospice of Western Connecticut, Inc	Eliminations	Total
Assets														
Current assets														
Cash and cash equivalents	$ 20,488,364	$ 1,265,060	$ 160,339	$ 7,581,902	$ 3,588,773	$ -	$ 39,084,438	$ 1,000	$ 1,442,013	$ 181,177	$ 2,060,790	$ 1,880,899	$	$ 44,650,327
Current portion of assets limited as to use	1,679,707		-	2,122,589		-	3,802,296			-				3,802,296
Current portion of pledges receivable		925,466	-	217,911			1,143,377	-	-		-	-		1,143,377
Accounts receivable, less allowance for uncollectible accounts of $15,943,091	51,429,630		350,521	10,587,187	10,614,681	-	72,982,019		1,686,460	650,585	550,637	823,948		76,792,649
Current portion of due from related parties	5,341,743	-	-			(3,056,063)	2,285,680	-	-		-		(2,285,680)	-
Inventories	7,518,558		133,315	2,043,790	186,591		9,922,254			911,710	-			10,833,964
Prepaid expenses and other	9,655,767	-	747,000	2,498,889	195,077	(109,543)	12,987,190		45,723	26,612	314,911	31,223	(1,618,577)	11,787,082
Total current assets	102,131,769	2,190,526	1,411,175	25,052,268	14,585,122	(3,165,606)	142,207,254	1,000	3,174,196	1,779,084	2,926,248	2,736,970	(3,904,257)	148,919,595
Investments	226,190,145	6,281,797	-	2,200,117			234,672,059		-				-	234,672,059
Assets limited as to use														
Funds restricted by donor		49,818,772		3,646,762	-	-	53,465,534	-			42,554		-	53,508,088
Board designated funds		12,255,537	-	-	-		12,255,537					2,278,741		14,534,278
Trusts held by others		2,950,456		1,950,564			6,901,020	-	-		-			6,901,020
Total noncurrent assets limited as to use	-	65,024,765		7,597,326		-	72,622,091	-			42,554	2,278,741		74,943,386
Other assets	30,864,385		21,100,915	1,004,712	3,407,919	(47,390,950)	11,195,981			-		4,780		11,200,761
Interest in Western Connecticut Health Network Foundation, Inc	77,105,507	-	-	-		(77,105,507)				-				-
Due from related parties	15,865,954		-	-		(15,865,954)			-					
Property, plant, and equipment														
Land and land improvements	7,228,710	471,593		1,546,857			9,247,160	-	-					9,247,160
Buildings and building improvements	234,120,403	760,417	4,109,328	48,167,495	4,685,607	-	291,780,252		3,044,000	34,000	3,835	293,317		295,164,404
Equipment and other	196,721,202	146,049	3,246,163	47,608,978	8,053,802		255,776,194	-	6,838,345	170,981	704,763	273,131		263,763,454
Construction in progress (estimated cost to complete at September 30, 2010: $15,774,000)	19,811,944	-		2,034,805			21,846,749	-	32,697					21,879,446
	457,882,261	1,324,059	7,355,491	99,358,135	12,739,409	-	578,650,355	-	9,915,042	204,981	708,598	566,388	-	590,054,364
Less accumulated depreciation	(274,705,979)	(201,004)	(2,740,264)	(66,345,362)	(6,484,980)	-	(350,477,589)		(7,047,677)	(156,883)	(676,634)	(269,743)		(358,628,526)
	183,176,282	1,123,055	4,615,227	33,012,773	6,254,429		228,181,766		2,867,365	48,098	31,964	296,645		231,425,838
Pledges receivable, less current portion	-	4,338,575		197,025			4,535,600		-			-		4,535,600
Bond issuance costs, net	3,117,386					-	3,117,386	-						3,117,386
Total assets	$ 638,453,428	$ 77,958,718	$ 29,336,317	$ 69,069,221	$ 24,242,470	$ (143,528,017)	$ 695,532,137	$ 1,000	$ 6,041,561	$ 1,827,182	$ 3,000,766	$ 5,316,236	$ (3,904,257)	$ 707,814,625
Liabilities and net assets														
Current liabilities														
Accounts payable	$ 20,722,686	$	$ 361,243	$ 1,307,401	$ 912,746	$	$ 25,304,076	$ -	$ 310,100	$	$ 216,898	$ 42,758	$	$ 25,893,742
Payroll related accruals	14,821,485	41,210	25,475	1,350,121	7,923,405		24,161,705		306,932	78,722	140,951	106,101		24,806,451
Due to third-party payors	11,079,933			1,703,516			14,783,489			-	35,436	63,490	-	14,882,325
Due to related parties	-	327,998	2,728,085	-	15,168,055	(18,224,118)	-	-	1,712,534	1,943,902	163,925	83,896	(3,904,257)	-
Interest payable	1,057,389	-	10,327	-			1,067,716	-	-					1,067,716
Other accrued expenses	2,929,146	480,008	5,435,119	2,327,733	-		11,172,196	-	(119,164)	4,568	268,400	83,220	-	11,409,220
Current portion of long term debt and capital lease obligation	2,545,000	-	1,654,595	2,256,042		-	6,455,637		-					6,455,637
Long term debt subject to short term remarketing agreements	30,870,000	-		-			30,870,000							30,870,000
Total current liabilities	84,925,879	849,225	10,214,824	12,944,803	24,004,206	(18,224,118)	113,814,819	-	2,230,442	2,027,192	831,559	379,375	(3,904,257)	115,379,094
Self insurance liabilities	34,983,997	-					34,983,997				-			34,983,997
Accrued pension liabilities and other	14,178,475	3,986	172,560,099	14,475,624	763,426	(47,390,950)	154,590,010	-	8,500		-	-	-	154,599,110
Due to related parties					807,442	(807,442)	-							
Long term debt and capital lease obligation, less current portion and long term debt subject to short-term remarketing agreement	81,260,000	-	4,267,571	6,944,190			92,471,763							92,471,763
Net assets														
Unrestricted	368,124,236	21,134,016	(157,706,179)	25,430,433	(1,332,604)	(21,134,016)	234,425,886	1,000	3,802,619	(200,010)	2,126,692	4,731,554		244,887,741
Temporarily restricted	28,224,280	28,224,280	-	5,323,607	-	(28,224,280)	33,547,887	-	-	-	42,554	5,307	-	33,595,748
Permanently restricted	27,746,611	27,746,611	-	3,950,564		(27,746,611)	31,697,175	-				200,000		31,897,175
Total net assets	424,095,127	77,105,507	(157,706,179)	34,704,604	(1,332,604)	(77,105,507)	299,670,948	1,000	3,802,619	(200,010)	2,169,246	4,936,861		310,380,664
Total liabilities and net assets	$ 638,453,428	$ 77,958,718	$ 29,336,317	$ 69,069,221	$ 24,242,470	$ (143,528,017)	$ 695,532,137	$ 1,000	$ 6,041,561	$ 1,827,182	$ 3,000,766	$ 5,316,236	$ (3,904,257)	$ 707,814,625

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2010

	Danbury Hospital	Western Connecticut Health Network Foundation, Inc.	Western Connecticut Health Network, Inc.	New Milford Hospital	Western Connecticut Medical Group, P.C.	Eliminations	Obligated Obligated Group	Western Connecticut Health Network Affiliates, Inc.	Business System, Inc.	Western Connecticut Home Care, Inc.	Regional Hospice of Western Connecticut, Inc.	Eliminations	Total
Unrestricted revenues													
Net patient service revenue	$ 473,298,383	$ -	$ 5,468,462	$ 91,604,813	$ 95,201,166	$ -	$ 665,572,824	$ 15,436,649	$ 13,049,875	$ 4,749,290	$ 3,767,954	$ (509,448)	$ 702,067,144
Net assets released from restriction	962,456	806,357	-	897,007	-	-	2,665,820	-		32,165	92,065	-	2,790,050
Other operating revenues	11,367,379	-	1,609	3,713,825	36,545,711	(39,816,373)	11,812,151	201,639	481,288	181,674	-	(573,909)	12,102,843
	485,628,218	806,357	5,470,071	96,215,645	131,746,877	(39,816,373)	680,050,795	15,638,288	13,531,163	4,963,129	3,860,019	(1,083,357)	716,960,037
Expenses													
Salaries, benefits and fees	290,962,055	-	3,490,331	52,344,838	110,153,608	(34,906,237)	422,044,595	6,596,548	1,921,048	3,391,145	2,552,477	(6,159)	436,499,663
Supplies and other	121,925,292	-	4,651,760	33,469,254	17,114,211	(2,001,516)	175,159,001	5,970,687	11,794,903	1,297,350	1,563,601	(941,577)	194,663,965
Insurance	8,026,756	-	-	1,407,439	2,932,128	(2,932,128)	9,434,195	89,092	11,630	27,276	7,632	(135,630)	9,434,195
Provision for uncollectible accounts	10,687,109	-	89,191	3,084,305	5,431,473	-	19,292,078	244,102	38,327	71,784	14,606	-	19,660,897
Depreciation and amortization	25,703,935	-	687,431	5,488,727	880,195	-	32,760,288	1,334,183	14,754	31,313	38,360	-	34,179,238
Interest	4,557,278	-	443,632	538,204	55,979	(55,979)	5,539,104	151,340	-	-	-	(151,340)	5,539,104
	461,862,425	-	9,362,335	96,332,767	136,567,594	(39,895,860)	664,229,261	14,385,952	13,690,662	4,729,268	4,176,616	(1,234,697)	699,977,062
Income (loss) from operations	23,765,793	806,357	(3,892,264)	(117,122)	(4,820,717)	79,487	15,821,534	1,252,336	(159,499)	233,861	(316,597)	151,340	16,982,975
Income tax expense	-	-	(750)	-	-	-	(750)	-	(250)	-	-		(1,000)
Nonoperating gains (losses)													
Contributions	-	2,478,712	-	201,836	-	-	2,680,548	-	-	53,333	670,496	-	3,404,377
Investment income, net	6,894,427	849,947	13,664	105,533	17,977	(157,619)	7,723,979	4,579	-	14,187	58,741	(151,340)	7,656,146
Change in unrealized gains and losses on investments	19,679,998	1,876,492	-	-	-	-	12,556,490	-	-	53,294	-		12,609,784
Change in equity interest in unrestricted net assets of the Western Connecticut Health Network Foundation, Inc	3,239,430	-	-	-	-	(3,239,430)	-	-	-	-	-	-	-
Operating expenses of the New Milford Hospital Foundation, Inc. and Western Connecticut Health Network Foundation, Inc	-	(1,965,721)	-	-	-	78,132	(1,887,589)	-	-	-	-	-	(1,887,589)
	29,813,905	3,239,430	13,664	307,369	17,977	(3,318,917)	21,073,428	4,579	-	120,814	729,237	(151,340)	21,776,718
Excess (deficiency) of revenues over expenses	$ 44,579,698	$ 4,045,787	$ (3,879,350)	$ 190,247	$ (4,802,740)	$ (3,239,430)	$ 36,894,212	$ 1,256,915	$ (159,749)	$ 354,675	$ 412,640	$ -	$ 38,758,693

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