GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

SEPTEMBER 30, 2011 AND 2010

GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

CONTENTS

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Greater Waterbury Health Network, Inc.

We have audited the accompanying consolidated balance sheets of Greater Waterbury Health Network, Inc. (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 conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Greater Waterbury Health Network, Inc. as of September 30, 2011 and 2010, and the consolidated results of their operations and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Marcum LLP

Hartford, CT
January 27, 2012

MARCUMGROUP
MEMBER

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GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2011 AND 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	$ 16,661,759	$ 22,269,814
Short-term investments	1,034,841	920,291
Other assets required for current liabilities	--	582,693
Accounts receivable, less allowance ($7,792,000 in 2011 and $8,011,000 in 2010)		
Patients	36,954,627	32,604,849
Grants and other	2,466,833	1,728,061
	39,421,460	34,332,910
Inventories	858,762	812,360
Prepaid insurance and other expenses	1,784,333	1,423,516
Due from third-party reimbursement agencies	2,634,481	--
Due from affiliates	205,399	197,863
Total Current Assets	62,601,035	60,539,447
Other Assets		
Under bond indenture agreements	29,288	2,633,822
Construction fund	3,958,301	--
	3,987,589	2,633,822
Less other assets that are required for current liabilities	--	(582,693)
	3,987,589	2,051,129
Property, Plant and Equipment		
Land	287,549	287,549
Buildings and improvements	92,064,340	89,818,022
Furniture, fixtures and equipment	181,753,747	169,708,247
Construction in progress (estimated additional cost to complete: 2011 - $10,300,000)	3,023,126	1,688,586
Accumulated depreciation	(225,120,225)	(215,664,310)
	52,008,537	45,838,094
Funds held in trust by others	37,339,264	39,561,090
Goodwill	1,813,567	--
CHEFA obligations issue expense, less amortization	360,656	674,201
Long-term investments	29,021,464	32,295,430
Board-designated endowment funds	2,615,009	2,787,502
Other investments	55,000	277,579
Loans and other receivables	230,070	363,404
Accrued interest and dividends receivable	29,563	54,434
	71,464,593	76,013,640
	$ 190,061,754	$ 184,442,310

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

GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2011 AND 2010

	2011	2010
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 38,843,422	$ 28,749,242
Current portion of CHEFA obligations	488,779	910,000
Current portion of notes payable	584,216	502,875
Due to third-party reimbursement agencies	--	414,546
Due to affiliates	9,984	10,409
Total Current Liabilities	39,926,401	30,587,072
CHEFA Obligations - less current portion and discount	26,647,100	19,661,864
Notes Payable - less current portion	1,499,034	736,885
Other Noncurrent Liabilities	19,806,617	14,667,421
Net Assets		
Unrestricted	52,391,696	65,190,041
Temporarily restricted	6,477,454	8,315,873
Permanently restricted	40,131,275	42,353,101
Total Net Assets Excluding Noncontrolling Interests	99,000,425	115,859,015
Noncontrolling Interests	3,182,177	2,930,053
Total Net Assets	102,182,602	118,789,068
	$ 190,061,754	$ 184,442,310

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

GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Revenues		
Net revenues from services to patients	$ 270,732,398	$ 259,811,962
Investment related income	1,534,896	1,308,292
Other operating revenues	7,977,981	6,754,745
Services, sales and rental income	1,596,854	3,595,324
Unrestricted gifts and bequests	312,248	198,765
Net assets released from restrictions	5,919,545	5,405,414
	288,073,922	277,074,502
Expenses		
Salaries, wages and benefits	174,319,493	158,857,461
Supplies, utilities and other	96,796,153	90,947,561
Bad debt expense	11,672,243	15,713,175
Depreciation	9,490,443	9,815,349
Operations improvement	285,998	2,695,434
Interest and amortization	1,303,514	1,915,699
	293,867,844	279,944,679
Deficiency of Revenues over Expenses Before Net Unrealized (Losses) Gains on Investments and Other Losses	(5,793,922)	(2,870,177)
Loss on Extinguishment of Debt	(1,149,155)	--
Changes in Net Unrealized (Losses) Gains on Investments	(1,720,752)	1,419,128
Deficiency of Revenues Over Expenses	(8,663,829)	(1,451,049)
Less Excess of Revenues over Expenses Attributable to Noncontrolling Interests	(1,111,268)	(1,030,015)
Deficiency of Revenues Over Expenses Attributable to Controlling Interest	(9,775,097)	(2,481,064)

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

GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

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

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Unrestricted Net Assets, Controlling Interest		
Deficiency of revenues over expenses	$ (9,775,097)	$ (2,481,064)
Net assets released from restrictions used for purchase of property and equipment	1,207,613	135,818
Interest rate swap adjustment	(2,414,415)	--
Pension liability adjustments	(1,816,446)	(1,719,951)
Decrease in Unrestricted Net Assets, Controlling Interest	(12,798,345)	(4,065,197)
Unrestricted Net Assets, Noncontrolling Interest		
Excess of revenues over expenses	1,111,268	1,030,015
Distributions and other	(859,144)	(630,307)
Increase in Unrestricted Net Assets, Noncontrolling Interest	252,124	399,708
Temporarily Restricted Net Assets		
Gifts and bequests	446,319	571,957
Income from investments	481,072	427,309
Net realized and unrealized losses on investments	(347,727)	568,896
Grants	4,709,075	4,523,991
Net assets transferred and released from restrictions	(7,127,158)	(5,541,232)
(Decrease) Increase in Temporarily Restricted Net Assets	(1,838,419)	550,921
Permanently Restricted Net Assets		
Gifts and bequests	--	20
(Decrease) increase in funds held in trust by others	(2,221,826)	1,696,112
(Decrease) Increase in Permanently Restricted Net Assets	(2,221,826)	1,696,132
Decrease in Net Assets	(16,606,466)	(1,418,436)
Net Assets - Beginning	118,789,068	120,207,504
Net Assets - End	$ 102,182,602	$ 118,789,068

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

GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Cash Flows from Operating Activities		
Change in net assets	$ (16,606,466)	$ (1,418,436)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	11,672,243	15,713,175
Depreciation and amortization	9,620,785	10,385,459
Loss on extinguishment of debt	1,082,212	--
Pension liability adjustments	1,816,446	1,719,951
Distributions to noncontrolling interests	859,144	630,307
Net realized and unrealized losses (gains) and change in fair value of funds held in trust by others	3,345,411	(3,775,255)
Restricted gifts, bequests and income from investments	(927,391)	(999,286)
Change in market value of interest rate swap	2,414,415	--
	13,276,799	22,255,915
Change in operating working capital, other than cash and cash equivalents and short-term investments:		
Accounts receivable, net	(16,760,195)	(15,913,597)
Inventories	(46,402)	(228,021)
Prepaid insurance and other expenses	(360,817)	(18,761)
Other assets that are required for current liabilities	582,693	(8,806)
Accounts payable and accrued expenses	10,094,182	3,696,240
Due to third-party reimbursement agencies	(3,049,027)	(780,491)
Increase in other noncurrent liabilities	908,338	302,257
	(8,631,228)	(12,951,179)
Net Cash Provided by Operating Activities	4,645,571	9,304,736

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

GREATER WATERBURY HEALTH NETWORK, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Cash Flows from Investing Activities		
Other current assets	$ --	$ 145,408
Due from affiliates	(1,925)	1,344,448
Other assets	(4,272,509)	(1,595,493)
Additions to property, plant and equipment	(15,660,885)	(5,556,141)
Purchases of investments	(22,927,089)	(4,800,774)
Sales of investments	25,133,033	4,392,381
Net Cash Used in Investing Activities	(17,729,375)	(6,070,171)
Cash Flows from Financing Activities		
Restricted gifts, bequests and income from investments	927,391	999,286
Distributions to noncontroling interests	(859,144)	(630,307)
Net proceeds from issuance of debt	27,373,773	663,881
Principal payments on debt obligations	(19,966,271)	(1,341,117)
Net Cash Provided by (Used in) Financing Activities	7,475,749	(308,257)
Net (Decrease) Increase in Cash and Cash Equivalents	(5,608,055)	2,926,308
Cash and Cash Equivalents - Beginning	22,269,814	19,343,506
Cash and Cash Equivalents - End	$ 16,661,759	$ 22,269,814

Cash paid during the year for interest on borrowings was $1,281,045 and $1,304,624 for the years ended September 30, 2011 and 2010, respectively.

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

ORGANIZATION

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

On August 17, 2011, the Network entered into a nonbinding letter of intent to enter into a joint venture known as Southwest Connecticut Health System, LLC (JV) being formed among LHP Hospital Group, Inc., its subsidiary, LHP Southwest Connecticut, LLC (LHP Sub) and Saint Mary's Health System, Inc. (Saint Mary's) which will combine the two health systems in Waterbury, Connecticut and construct a replacement hospital.

The obligations of the parties to close the transaction will be subject to the negotiation of definitive agreements, the receipt of all required regulatory approvals, licenses and permissions, the lack of a material adverse change to the condition or results of operations of GWHN, the solvency of the parties and other customary closing obligations.

During November, 2010, the Hospital established a new limited liability company by the name of Cardiology Associates of Greater Waterbury, LLC (CAGW) to operate a cardiology practice. CAGW acquired the assets of Cardiology Associates of Waterbury (CAW) that were used by CAW physicians in the performance of their professional services. The Hospital also acquired the assets of CAW that were used by CAW to perform diagnostic ancillary services. The Hospital converted these ancillary services to provider-based services, which are provided at a diagnostic center located near the Hospital. The goodwill recorded on the September 30, 2011 consolidated balance sheet relates to the purchase of CAW.

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

The Hospital entered into a members' agreement, making it an equal member with St. Mary's Hospital, located in Waterbury, Connecticut, in a joint venture to form The Harold Leever Regional Cancer Center, Inc. (the Cancer Center). The Cancer Center is a Connecticut non-stock corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The purpose of the joint venture is to develop, construct, own and operate the Cancer Center. Both member hospitals transferred the revenue and related expenses of their respective radiation oncology services to the Cancer Center in October 2002. Both member hospitals made working capital advances to the Cancer Center. The Cancer Center is not included in the Corporation's consolidated financial statements.

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

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. Recognition has been given to noncontrolling interests in the Hospital's affiliates which is reflected as a component of unrestricted net assets. All significant intercompany accounts and transactions are eliminated in consolidation.

USE OF ESTIMATES

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

TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

DONOR RESTRICTED GIFTS

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

PROMISES TO GIVE

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

CASH AND CASH EQUIVALENTS

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

ACCOUNTS RECEIVABLE

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

The amount of the allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to net patient service revenue and third-party payor programs.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

INVENTORIES

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

RISKS AND UNCERTAINTIES

The Corporation invests in a variety of investment securities which are exposed to various risks, such as interest rate risk, financial market risk, currency risk and credit risk. Due to the level of risk associated with investment securities, coupled with the economic events, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Corporation's September 30, 2011 financial statements, in addition to the funded status of the Hospital's defined benefit pension plan.

INVESTMENTS

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value (quoted market prices) in the accompanying consolidated balance sheets. Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that the Corporation holds limited partnership interests, are stated at fair value as estimated in an inactive market. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, the Corporation's holdings may be determined by the investment manager or general partner and for "fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Corporation to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, the Corporation's risk with respect to such transactions is limited to its capital balance in each investment. Reference is made to Note 4 for fair value disclosures.

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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

OTHER ASSETS

Other assets held by trustees are under indenture agreements related to financing activities with the State of Connecticut Health and Educational Facilities Authority. The portion of these amounts required for funding current liabilities in 2010 is included in current assets.

PROPERTY, PLANT AND EQUIPMENT

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

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

Conditional asset retirement obligations of $2,716,459 and $2,639,365 as of September 30, 2011 and 2010, respectively, are recorded in other noncurrent liabilities. During 2011, no retirement obligations were incurred or settled. During 2010, $82,000 of retirement obligations were incurred and $58,175 of obligations were settled.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

GOODWILL

Goodwill, which has an indefinite life, is not amortized and is evaluated for impairment at least annually.

IMPAIRMENT OF LONG-LIVED ASSETS

The Corporation records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There was $291,731 of impairment losses recorded in 2010 and no impairment losses recorded in 2011.

DEFICIENCY OF REVENUES OVER EXPENSES

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

Operations improvement expenses represent consulting and other costs incurred by the Hospital in 2011 and 2010 to improve the revenue cycle, increase cash flows, and improve the Hospital's overall financial performance. The majority of these costs are not expected to recur in 2012.

INCOME TAXES

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

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

GWMRI has approximately $6,800,000 in net operating losses. This results in a deferred tax asset of $2,720,000 which is offset by a corresponding valuation allowance of the same amount.

Management has analyzed the tax positions taken and has concluded that as of September 30, 2011, there are no uncertain tax positions taken or expected to be taken in that would require recognition of a liability (or asset) or disclosure in the financial statements. The Corporation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Corporation is no longer subject to income tax examinations prior to 2008.

MEDICAL MALPRACTICE AND WORKERS' COMPENSATION INSURANCE

The Hospital has a policy of self-insuring the deductible portion of its workers' compensation claims. The deductible limit is $400,000 per claim. The Hospital maintains a letter of credit with a bank in support of its self-insured workers' compensation program. This letter of credit limit was $3.5 million at September 30, 2011 and 2010.

Management records its best estimate of losses as they occur. The accrued workers' compensation self-insurance liabilities of $7,763,172 and $6,815,650 at September 30, 2011 and 2010, respectively, have been discounted at 2.25% and 2.5%.

Effective October 1, 2006, the Corporation became a member of Healthcare Alliance Insurance Company, Ltd (HAIC). HAIC is a multi-provider captive, domiciled in the Cayman Islands, which provides medical malpractice insurance coverage to its members, which include two other local hospital networks. The Corporation owns 120,000 shares of Class C stock, which entitles it to appoint three members of HAIC's Board of Directors. The other two hospital networks own 120,000 shares of Class A stock and 120,000 shares of Class B stock, respectively, which entitles them to appoint seven and three members of HAIC's Board of Directors, respectively. The Corporation has recorded its investment in HAIC at September 30, 2011 and 2010 in other investments on the consolidated balance sheets under the equity method of accounting. The Corporation has obtained "claims-made" medical malpractice insurance coverage with HAIC up to $1,500,000 per occurrence and $5,000,000 ($4,500,000 for 2010) in the aggregate. In addition to the coverage provided by HAIC, the Corporation recorded reserves of approximately $1,732,980 and $1,345,955 at September 30, 2011 and 2010, respectively, related to claims that were incurred subsequent to October 1, 2006, but not yet reported. These reserves were discounted at 2.25% and 2.5% at September 30, 2011 and 2010, respectively.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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

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

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

REGULATORY MATTERS

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

RETIREMENT BENEFIT PLANS

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

SUBSEQUENT EVENTS

The Network evaluates the impact of subsequent events, events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date or for disclosure in the notes to the financial statements. The Network evaluated events occurring subsequent to September 30, 2011 through January 27, 2012, the date on which the accompanying consolidated financial statements were available to be issued. During this period, there were no subsequent events that required disclosure or recognition in the consolidated financial statements.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, which establishes accounting and disclosure requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition, how to account for each, and the required disclosures. In addition, ASU 2010-07 includes amendments to FASB's Accounting Standards Codification (the Codification, or ASC) Topic 350, *Intangibles – Goodwill and Other*, and ASC Topic 810, *Consolidation*, to make both applicable to not-for-profit entities. ASC Topic 350 clarifies the accounting for goodwill and indefinite-lived identifiable intangible assets recognized in a not-for-profit entity's acquisition of a business or nonprofit activity. Such assets are not amortized and are tested for impairment at least annually. ASC Topic 810 clarifies the accounting for noncontrolling interests and establishes accounting and reporting standards for the noncontrolling interest in a subsidiary, including classification as a component of net assets. The Network adopted the guidance relative to ASU 2010-07 related to its accounting for noncontrolling interests and reclassified the 2010 financial statements to conform to the 2011 presentation.

The adoption of this guidance did not have a significant impact on the Network's consolidated financial statements for the year ended September 30, 2011.

In January 2010, the FASB issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amended certain of the disclosures required under ASC 820, *Fair Value Measurements*, and requires the following additional disclosures:

- Transfers in and out of Level 1 and 2 classification categories, including the dollar amount and the reasons for the transfers.

- Level 3 rollforward detail disclosures for purchases, sales, issuances, settlements on a gross basis.

The adoption of this guidance did not have a significant impact on the Network's consolidated financial statements for the year ended September 30, 2011.

NOTE 2 – REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE

The following summarizes net revenues from services to patients:

	2011	2010
Gross revenues from services to patients	$ 906,251,993	$ 872,701,324
Deductions (additions):		
Allowances	634,760,401	613,061,915
Free care	3,361,605	3,081,466
Regulatory	(2,602,411)	(3,254,019)
	635,519,595	612,889,362
Net revenues from services to patients	$ 270,732,398	$ 259,811,962

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from most payors are different from established billing rates, and these differences are accounted for as allowances. Gross revenues have been affected by the State of Connecticut Disproportionate Share program in 2011 and 2010.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For the years ended September 30, 2011 and 2010, the Corporation recorded approximately $3,900,000 and $700,000, respectively, as an increase to net revenues from services to patients as changes in estimates related to third-party payor settlements and adjustments to accruals in prior years.

During 2011 and 2010 approximately 45% and 43%, respectively, of net patient service revenue was received under the Medicare program, 14% and 10%, respectively, under the state Medicaid program, and 35% and 40%, respectively, from contracts with other third-parties. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Network.

The significant concentrations of net accounts receivable for services to patients include 42% from Medicare, 16% from Medicaid, 27% from commercial insurance carriers and 15% from others at September 30, 2011 (40%, 11%, 34% and 15%, respectively, in 2010).

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Corporation believes that it is in compliance with all applicable laws and regulations. Cost reports for the Corporation, which serve as a basis for final settlement with government payors, have been settled by final settlement through 2006 for Medicare and 1995 for Medicaid. Other years remain open for settlement.

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

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

NOTE 3 - INVESTMENTS

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

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Short-term investments:				
U.S. Treasury notes and other bonds	$ 110,220	$ 115,740	$ 155,186	$ 161,742
Marketable equity securities	233,675	301,504	207,982	220,238
Mutual funds	446,738	589,329	474,407	502,551
Certificates of deposit and money market funds	28,268	28,268	35,760	35,760
	$ 818,901	$ 1,034,841	$ 873,335	$ 920,291

NOTE 3 – INVESTMENTS (CONTINUED)

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Escrow funds for long-term debt:				
U.S. Government obligations	$ --	$ --	$ 580,868	$ 580,016
Guaranteed investment contracts	--	--	2,020,082	2,020,082
Cash and money market funds	3,987,589	3,987,589	33,724	33,724
	$ 3,987,589	$ 3,987,589	$ 2,634,674	$ 2,633,822
Funds held in trust by others	$35,350,210	$37,339,264	$35,233,635	$39,561,090
Long-term investments and Board-designated endowment funds:				
Certificates of deposit and money market funds	$ 949,927	$ 949,927	$ 1,116,055	$ 1,116,055
Marketable equity securities	23,919	73,307	23,919	63,665
U.S. government obligations	4,227,139	4,335,046	5,404,062	5,614,564
Corporate bonds	4,485,718	4,516,494	4,597,816	5,073,487
Annuity contract	100,000	165,923	100,000	156,542
Mutual funds	12,005,206	10,839,327	10,736,429	11,865,586
Alternative investments	11,385,293	10,433,613	11,309,839	10,870,197
	$33,177,202	$31,313,637	$33,288,120	$34,760,096

The Corporation had long-term investments in partnerships and joint ventures that were recorded at cost of $322,836 as of September 30, 2011 and 2010 as it was not practicable to estimate fair value.

Unrestricted investment (loss) income, including income on funds held in trust by others, and gains are comprised of the following for the years ended September 30, 2011 and 2010:

	2011	2010
Income:		
Investment income	$ 590,002	$ 1,217,173
Realized gains on sales of investments	944,894	91,119
Changes in unrealized (losses) gains on investments	(1,720,752)	1,419,128
	$ (185,856)	$ 2,727,420

NOTE 3 – INVESTMENTS (CONTINUED)

A summary of interest cost and investment income on borrowed funds held by the trustee under revenue bond indentures during the years ended September 30, 2011 and 2010 follows:

	2011	2010
Interest cost charged to operations	$ 1,108,105	$ 1,156,778
Investment income	$ 26,989	$ 116,842

NOTE 4 – FAIR VALUE MEASUREMENTS

The Network categorizes, for disclosure purposes, assets and liabilities recorded at fair value in the financial statements based on whether the inputs used to determine their fair values are observable or unobservable. The Network utilizes a three-level fair value hierarchy that prioritizes the inputs used to measure assets at fair value. Level inputs are as follows:

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

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

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

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

The fair value of the interest rate swap was determined by the counterparty based on an estimate of the net present value of the expected cash flows using relevant mid-market data inputs and based on the assumptions of no unusual market conditions or forced liquidation.

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

Reference is made to Note 1 regarding the determination of the fair value of private equity and commingled funds classified as alternative investments.

The following table summarizes fair value measurements, by level, at September 30, 2011, for all assets and liabilities which are measured at fair value on a recurring basis in the financial statements:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 27,169,326	$ --	$ --	$ 27,169,326
Common stock-Insurance	73,307	--	--	73,307
Mutual funds:				
U.S. large cap	18,394,401	--	--	18,394,401
U.S. mid cap	2,815,051	--	--	2,815,051
U.S. small cap	1,771,662	--	--	1,771,662
International developed	3,671,285	--	--	3,671,285
Emerging markets	1,841,832	--	--	1,841,832
Bonds	451,851	--	--	451,851
Fixed income securities:				
Investment grade taxable	3,267,222	11,704,481	--	14,971,703
International developed bonds	5,829	638,299	--	644,128
Global high yield taxable	237,905	1,794,477	--	2,032,382
U.S. Government obligations	3,860,525	590,261	--	4,450,786
Mortgage backed securities	--	863,883	--	863,883
Other investments:				
Commingled funds U.S. equity	--	--	4,006,202	4,006,202
Commingled funds real estate	--	--	142,556	142,556
Private equity funds	--	--	6,284,855	6,284,855
Real estate investment trusts	598,921	137,515	--	736,436
Other	15,444	--	--	15,444
Total investments at fair value	$ 64,174,561	$ 15,728,916	$ 10,433,613	$ 90,337,090
Liabilities:				
Interest rate swap	$ --	$ 2,414,415	$ --	$ 2,414,415

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

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

	Long-term Investments
Balance, as of September 30, 2010	$ 10,870,197
Net realized and unrealized losses on investments	(488,268)
Purchases	51,684
Balance, as of September 30, 2011	$ 10,433,613

The following table summarizes fair value measurements, by level, at September 30, 2010, for all assets and liabilities which are measured at fair value on a recurring basis in the financial statements:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 25,587,163	$ --	$ --	$ 25,587,163
Common stock-Insurance:	63,665	--	--	63,665
Mutual funds:				
U.S. large cap	20,150,276	--	--	20,150,276
U.S. mid cap	3,399,501	--	--	3,399,501
U.S. small cap	2,304,871	--	--	2,304,871
International developed	3,581,773	--	--	3,581,773
Emerging markets	1,586,574	--	--	1,586,574
Index funds	3,431,241	--	--	3,431,241
Fixed income securities:				
Investment grade taxable	3,799,347	14,598,184	--	18,397,531
International developed bonds	9,571	767,596	--	777,167
Global high yield taxable	238,885	1,740,156	--	1,979,041
U.S. Government obligations	4,417,760	1,938,562	--	6,356,322
Mortgage backed securities	2,213	860,705	--	862,918

NOTE 4 – FAIR VALUE MEASUREMENTS (CONTINUED)

	Level 1	Level 2	Level 3	Total
Other investments:				
Commingled funds U.S. equity	--	--	4,765,857	4,765,857
Commingled funds real estate	--	--	192,392	192,392
Private equity funds	--	--	5,911,948	5,911,948
Real estate investment trusts	448,442	330,023	--	778,465
Other	18,408	--	--	18,408
Total investments at fair value	$ 69,039,690	$ 20,235,226	$ 10,870,197	$100,145,113

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

	Long-term Investments
Balance, as of September 30, 2009	$ 9,807,608
Net realized and unrealized losses on investments	824,888
Purchases	237,701
Balance, as of September 30, 2010	$ 10,870,197

NOTE 5 – RESTRICTED ENDOWMENTS

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

The Hospital's Board of Directors has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and, if applicable (c) accumulations to the permanent endowment made in

NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

accordance with the related gift's donor instructions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard for expenditure as proscribed by UPMIFA.

In accordance with UPMIFA, the Hospital considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment funds:

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

RETURN OBJECTIVES AND RISK PARAMETERS

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

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

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

NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

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

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ --	$ 5,696,591	$ 40,131,275	$ 45,827,866
Board-designated endowment funds	2,615,009	--	--	2,615,009
Total funds	$ 2,615,009	$ 5,696,591	$ 40,131,275	$ 48,442,875

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	$ 2,787,502	$ 6,317,021	$ 42,353,101	$ 51,457,624
Investment return:				
Investment income (loss)	70,866	(175,906)	--	(105,040)
Net depreciation (realized and unrealized)	(119,892)	(338,055)	(2,221,826)	(2,679,773)
Total investment return	(49,026)	(513,961)	(2,221,826)	(2,784,813)
Appropriation of endowment assets for expenditure	(123,467)	(106,469)	--	(229,936)
Endowment net assets, ending balance	$ 2,615,009	$ 5,696,591	$ 40,131,275	$ 48,442,875

NOTE 5 – RESTRICTED ENDOWMENTS (CONTINUED)

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2010

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

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

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

NOTE 6 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at September 30, 2011 and 2010, are restricted amounts which are to be held in perpetuity, the income from which is expendable to provide free care, scholarships for Waterbury Hospital employee's children, and for the operations of the Hospital. Also included in permanently restricted net assets are funds held in trust by others. The Corporation is the restricted income beneficiary of funds held in trust by others. The total trust assets, as reported by the trustee, had an aggregate fair value at September 30, 2011 and 2010 of $37,339,264 and $39,561,090, respectively. Income of $1,742,185 and $1,597,759 earned on these assets for the years ended September 30, 2011 and 2010, respectively, is included in investment related income in the statements of operations.

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

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

During 2011, net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes in providing grant related services, free care, and various miscellaneous services in the amounts of $4,709,075, $695,241 and $515,229, respectively, in 2010, $4,497,224, $521,983 and $386,207, respectively. In addition, $1,207,612 and $135,818 were released for the purchase of property and equipment in 2011 and 2010, respectively.

NOTE 7 - DEBT

HOSPITAL SERIES C BOND FINANCING

On December 1, 1999, the Hospital entered into Series C financing arrangements with CHEFA under a Master Indenture for the financing of, among other things, renovations, equipment purchases or replacements, and the defeasance of the Series B Bonds. To finance the above, CHEFA sold $27,140,000 of Series C revenue bonds, with interest at a net average annual rate of approximately 5.48%.

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

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

NOTE 7 – DEBT (CONTINUED)

HOSPITAL SERIES D BOND FINANCING

In December 2010, the Hospital refinanced its Series C bond financing and financed an additional $8,000,000 for various capital projects to be completed over a two year period. The par amount of the new Series D debt was $25,918,000 and interest is variable at the interest rate that is equal to the product of (i) sixty-eight percent (68%) and (ii) the sum of the LIBOR Rate and three hundred basis points (2.19% at September 30, 2011). The new bonds require monthly principal and interest payments, based upon a 10 year amortization schedule, from 2011 through 2020 with the remaining principal balance due in 2020.

The terms of the bonds provide for, among other things, a pledge of gross receipts of the Hospital, restriction on the incurrence of certain indebtedness of the Hospital and provide for covenants regarding the Hospital's debt service coverage ratios, minimum levels of cash on hand, sale and lease of assets and other covenants similar in financings of this type.

In connection with this refinancing, the Hospital entered into an interest rate swap with a bank which allowed it to convert its variable interest rate liability to a fixed interest rate liability of 4.475% without changing the structure of the underlying debt.

The Hospital uses the interest rate swap agreement to manage interest rate risk associated with its outstanding debt. At September 30, 2011, the notional value of outstanding interest rate swap was $25,630,879.

The Hospital recognizes the fair value of its interest rate swap in the consolidated balance sheet as a liability, recorded in other noncurrent liabilities. At September 30, 2011, the fair value of interest rate swap was in a liability position of $2,414,415.

The Hospital designated its interest rate swap as a cash flow hedge for accounting purposes, and accordingly defers gains or losses associated with the swap in net assets.

CHILDREN'S CENTER SERIES D BOND FINANCING

On August 1, 2000, the Children's Center of Greater Waterbury Health Network, Inc. entered into Series D financing arrangements with CHEFA under a Master Indenture for the financing of the construction of a new child care center building. To finance the above, CHEFA sold $1,945,000 of Series D revenue bonds, maturing serially from 2002 through 2030, with interest at a net average annual rate of approximately 5.31%.

NOTE 7 – DEBT (CONTINUED)

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

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

CHILDREN'S CENTER SERIES 2011 BONDS

In August 2011, CHEFA sold $28,840,000 of Series 2011 revenue bonds, the proceeds of which were used to redeem a number of bond series, including the Children's Center Series D bonds described above. As a result of the sale of the Series 2011 bonds, the Children's Center's loan with CHEFA was refinanced and reduced from $1,560,000 to $1,505,000. The Series 2011 bonds mature serially from 2012 through 2030, with interest rates ranging from 1% to 5%. Under the Series 2011, First Union National Bank is no longer a Trustee and the requirement to have bond insurance was eliminated. All other terms and covenants of the original loan agreement remain the same in the new loan agreement

Pursuant to Public Act No. 97-259 (the School Readiness Act), the State of Connecticut has encouraged the development of a network of school readiness programs that meet the standards developed by the State Department of Education. To encourage such development, the School Readiness Act established, among other things, the Child Care Facilities Program to finance low interest loans for the purpose of new construction of child care centers. The State of Connecticut, acting through the Commissioner of the Department of Social Services, may allow actual debt service on such loans and a debt service reserve fund to be paid by the State of Connecticut provided that such debt service terms are determined by the Commissioner to be reasonable. The State of Connecticut has funded the debt service reserve fund and has agreed to fund, subject to available appropriations, 80.5% of the debt service on the Series 2011 Bonds and to replenish any deficiencies in the debt service reserve fund. During 2011 and 2010, the total debt service funded by the State of Connecticut was $100,492 and $107,875, respectively.

NOTE 7 – DEBT (CONTINUED)

Future minimum payments by year and in the aggregate, subject to early redemption provisions discussed above, under the CHEFA bonds are as follows at September 30, 2011:

2012	$ 488,779
2013	506,444
2014	532,136
2015	548,776
2016	576,408
Aggregate thereafter	24,483,336
	$ 27,135,879

Access has a $250,000 line of credit with a bank. There were no borrowings under this line of credit at September 30, 2011 and 2010.

The Hospital had a $3.5 million letter of credit with a bank available at September 30, 2011 and 2010, to support its self-insured workers' compensation program that is collateralized by certain investments held by the bank. As of September 30, 2011 and 2010, there were no borrowings on this letter of credit.

The Hospital entered into an equipment lease during 2009. The lease calls for equal monthly payments of $7,278 through June 2011 and is secured by the equipment. The balance of the capital lease liability was zero at September 30, 2011 and $64,625 at September 30, 2010.

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

AMG entered into an equipment lease during 2008. The lease calls for monthly payments of $1,485 through April 2013 and is secured by the equipment. The balances of the capital lease liability at September 30, 2011 and 2010 were $25,987 and $41,549, respectively.

AMG entered into an equipment lease during 2009. The lease calls for monthly payments of $593 through January 2014 and is secured by the equipment. The balances of the capital lease liability at September 30, 2011 and 2010 were $14,365 and $18,600, respectively.

NOTE 7 – DEBT (CONTINUED)

AMG entered into an equipment lease during 2010. The lease calls for monthly payments of \$353 through March 2015 and is secured by the equipment. The balance of the capital lease liability September 30, 2011 and 2010 was \$12,724 and \$15,976, respectively.

AMG entered into an equipment lease during 2010. The lease calls for monthly payments of \$447 through May 2015 and is secured by the equipment. The balance of the capital lease liability at September 30, 2011 and 2010 was \$17,140 and \$20,853, respectively.

AMG entered into a term note during 2010 at an interest rate of 9.8%. The note calls for monthly payments of \$13,216 through November 2014 and is secured by the assets of AMG. The balance of the term note liability at September 30, 2011 and 2010 was \$427,917 and \$536,950, respectively.

AMG assumed a note payable for the fit-up of office space. The original amount of the note was \$320,000 and is repayable in installments of principal plus interest at 7.50% totaling \$4,908 per month through January 2014. In addition, this note calls for a final payment of principal and interest of \$113,981 in February 2014. The balance of this note at September 30, 2011 and 2010 was \$220,858 and \$258,248, respectively.

The Hospital entered into a capital lease for equipment during 2011. The lease calls for equal monthly payments of \$20,885 through May 2016 and is secured by the equipment. The balance of the capital lease liability was \$1,048,436 at September 30, 2011.

The Hospital entered into a capital lease for equipment during 2011. The lease calls for equal monthly payments of \$14,031 through July 2013 and is secured by the equipment. The balance of the capital lease liability was \$295,505 at September 30, 2011.

Imaging Partners, LLC entered into a master equipment lease during 2006. The lease calls for unequal periodic payments through October 2011 and is secured by the equipment. The balance of the capital lease liability was \$232,641 and \$252,959 at September 30, 2011 and 2010, respectively.

NOTE 7 – DEBT (CONTINUED)

Future minimum payments by year and in the aggregate for all non-CHEFA obligations were as follows at September 30, 2011:

2012	$ 584,216
2013	563,704
2014	519,395
2015	271,657
2016	144,278
	$ 2,083,250

The fair value of the debt, using the discounted cash flow analyses, was approximately $29,200,000 at September 30, 2011.

NOTE 8 – RENTAL EXPENSE AND LEASE COMMITMENTS

The Hospital, VNA and GWMRI have entered into operating leases for office space and office equipment. Rental expense for the years ended September 30, 2011 and 2010 was $4,321,003 and $4,571,797, respectively. The minimum rental commitments under all noncancellable operating leases with initial or remaining terms of more than one year are as follows:

2012	$ 3,884,379
2013	3,665,371
2014	3,499,733
2015	3,161,768
2016	2,416,100
Thereafter	3,366,827
	$ 19,994,178

NOTE 9 – EMPLOYEE BENEFIT PLANS

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

Following is a summary of the Plan's funded status using the measurement dates of September 30, 2011 and 2010 and amounts recognized in the Corporation's consolidated financial statements.

	2011	2010
Change in benefit obligation		
Benefit obligation beginning of year	$ (37,725,464)	$ (34,676,258)
Service cost	(1,212,075)	(1,150,693)
Interest cost	(1,740,830)	(1,830,619)
Actuarial gain (loss)	311,362	(1,326,106)
Benefits paid	2,993,524	1,258,212
Benefit Obligation - end of year	$ (37,373,483)	$ (37,725,464)
Change in plan assets		
Fair value of plan assets, beginning of year	$ 28,672,719	$ 26,914,181
Actual return on plan assets	79,583	2,102,750
Employer contributions	781,735	914,000
Benefits paid	(2,993,524)	(1,258,212)
Fair Value of Plan Assets - end of year	$ 26,540,513	$ 28,672,719
Funded status	$ (10,832,970)	$ (9,052,745)
Accrued Pension Liability	$ (10,832,970)	$ (9,052,745)

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

	2011	2010
Components of net periodic pension cost		
Service cost	$ 1,212,075	$ 1,150,693
Interest cost	1,740,830	1,830,619
Expected return on plan assets	(2,674,199)	(2,661,262)
Amortization of actuarial loss	431,281	129,140
Amortization of prior service cost	35,527	35,527
Net periodic pension cost	$ 745,514	$ 484,717
Accumulated benefit obligation	$ 35,847,835	$ 36,479,923

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

	2011	2010
Unrecognized prior service cost	$ (227,513)	$ (263,040)
Unrecognized actuarial losses	(15,972,081)	(14,120,108)
Benefit obligation, end of year	$ (16,199,594)	$ (14,383,148)

Changes in benefit obligations recognized in unrestricted net assets include:

	2011	2010
Current year actuarial losses	$ (2,283,254)	$ (1,884,618)
Amortization of prior service cost	35,527	35,527
Amortization of net loss	431,281	129,140
	$ (1,816,446)	$ (1,719,951)

The prior service cost and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic cost during the year ending September 30, 2012 are $35,527 and $623,737, respectively.

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

ASSUMPTIONS

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

	2011	2010
Discount rate	5.07%	4.83%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	2% for 5 year select period, 3% ultimate	2% for 5 year select period, 3% ultimate

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

	2011	2010
Discount rate	4.83%	5.50%
Expected return on assets	8.00%	8.00%
Rate of compensation increase	2.00% for 5 year select period, 3.00%	3.00%

EXPECTED LONG-TERM RETURN ON PLAN ASSETS

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

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

INVESTMENT POLICY

The Plan's weighted-average asset allocation at September 30, 2011 and 2010, by asset category are as follows:

	Plan Assets at September 30		Asset Allocation Policy	
Asset Category	2011	2010	Target	Range
Equity securities	40%	71%	45%	40% - 50%
Debt securities	36%	25%	35%	25% - 45%
Multi-strategy hedge fund of funds	21%	0%	20%	15% - 25%
Cash and cash equivalents	3%	4%		

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

CONTRIBUTIONS

The Hospital expects to make $1,500,000 in contributions to the Plan in 2012.

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

ESTIMATED FUTURE BENEFIT PAYMENTS

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

2012	$ 3,843,417
2013	2,794,086
2014	2,978,445
2015	3,002,848
2016	3,336,941
2017-2021	17,271,448
	$ 33,227,185

The following tables set forth by level within the fair value hierarchy the investment assets and investment liabilities at fair value, as of September 30, 2011. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Level 1	Level 2	Level 3	Total
Equities	$ 1,222,719	$ --	$ --	$ 1,222,719
Commingled funds and private equity	--	--	17,038,042	17,038,042
U.S. Government obligations	367,376	3,439,683	--	3,807,059
Corporate bonds	--	3,804,741	--	3,804,741
Distribution receivable	610,079	--	--	610,079
Interest and dividends	57,873	--	--	57,873
	$ 2,258,047	$ 7,244,424	$17,038,042	$26,540,513

NOTE 9 – EMPLOYEE BENEFIT PLANS (CONTINUED)

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

Balance as of September 30, 2010	$ 12,956,286
Change in unrealized depreciation	(1,081,776)
Purchases	18,117,388
Sales	(12,953,856)
Balance as of September 30, 2011	$ 17,038,042

OTHER BENEFIT PLANS

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

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

Total pension expense for the above noted plans charged to operations during the years ended September 30, 2011 and 2010 was $3,939,934 and $3,865,343, respectively.

In addition, the Hospital has a supplemental employee retirement plan for certain executives. The plan provides for a total benefit and is partially funded. As of September 30, 2011 and 2010, liabilities of $76,031 and $1,211,615, respectively, have been reflected in the consolidated balance sheets.

NOTE 10 – SELF INSURANCE CLAIMS

There have been malpractice and workers' compensation claims that fall within the Corporation's partially self-insured programs, which have been asserted against the Corporation. In addition, there are known incidents that have occurred through September 30, 2011 that may result in the assertion of claims. Corporation management has accrued its best estimate of these contingent losses. Other claims may be asserted arising from services provided to patients or workers' compensation incidents in the past. Corporation management has provided reserves for these contingent liabilities.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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

NOTE 12 – DUE FROM (TO) AFFILIATES

The amounts due from affiliates of $195,415 and $187,454 at September 30, 2011 and 2010, respectively represent receivables from and (payables) to affiliates that do not eliminate in consolidation. These balances are comprised of the following:

	2011	2010
Greater Waterbury Management Resources	$ 203,899	$ 197,863
Alliance Medical Group	(9,984)	(10,409)
GI Co-Management Company	1,500	--
	$ 195,415	$ 187,454

NOTE 13 – FUNCTIONAL EXPENSES

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

	2011	2010
Health care services	$ 215,031,835	$ 207,465,192
General and administrative	78,501,613	72,119,197
Fundraising	334,396	360,290
	$ 293,867,844	$ 279,944,679

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ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
Greater Waterbury Health Network, Inc.

Our report on our audits of the basic consolidated financial statements of Greater Waterbury Health Network, Inc. as of and for the years ended September 30, 2011 and 2010 appears on page 1. Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The following consolidating information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Marcum LLP

Hartford, CT
January 27, 2012

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

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2011

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Assets								
Current Assets								
Cash and cash equivalents	$ 51,051	$ 15,410,669	$ 752,596	$ --	$ 869	$ 446,574	$ --	$ 16,661,759
Short-term investments	--	401,931	632,910	--	--	--	--	1,034,841
Accounts receivable - patients, net	--	36,400,710	420,480	--	598	134,219	(1,380)	36,954,627
Accounts receivable - grants and other	--	2,466,833	--	--	--	--	--	2,466,833
Inventories	--	858,762	--	--	--	--	--	858,762
Prepaid insurance and other expenses	--	1,747,158	10,852	--	--	26,323	--	1,784,333
Due from third-party reimbursement agencies		2,858,086	(223,605)					2,634,481
Due from affiliates	(118,943)	3,848,949	--	(11,764)	497,298	--	(4,010,141)	205,399
Total Current Assets	(67,892)	63,993,098	1,593,233	(11,764)	498,765	607,116	(4,011,521)	62,601,035
Other Assets								
Under bond indenture agreements	--	--	--	--	--	29,288	--	29,288
Construction Fund	--	3,958,301	--	--	--	--	--	3,958,301
	--	3,958,301	--	--	--	29,288	--	3,987,589
Less assets that are required for current liabilities	--	--	--	--	--	--	--	--
	--	3,958,301	--	--	--	29,288	--	3,987,589
Property, Plant and Equipment								
Land	--	287,549	--	--	--	--	--	287,549
Buildings and improvements	--	88,987,893	20,776	--	--	3,055,671	--	92,064,340
Furniture, fixtures and equipment	--	180,860,538	732,900	--	--	160,309	--	181,753,747
Construction in progress	--	3,023,126	--	--	--	--	--	3,023,126
Accumulated depreciation	--	(223,542,449)	(638,020)	--	--	(939,756)	--	(225,120,225)
	--	49,616,657	115,656	--	--	2,276,224	--	52,008,537
Funds held in trust by others	--	37,339,264	--	--	--	--	--	37,339,264
Goodwill	--	1,813,567	--	--	--	--	--	1,813,567
CHEFA obligations issue expense, less amortization	--	360,656	--	--	--	--	--	360,656
Long-term investments	20,094,914	8,760,627	--	--	--	165,923	--	29,021,464
Board-designated endowment funds	--	2,615,009	--	--	--	--	--	2,615,009
Other investments	55,000	--	--	--	--	--	--	55,000
Investment in subsidiary	719,418	--	--	--	--	--	(719,418)	--
Loans and other receivables	239,181	3,240	--	--	226,830	--	(239,181)	230,070
Accrued interest and dividends receivable	29,563	--	--	--	--	--	--	29,563
	21,138,076	50,892,363	--	--	226,830	165,923	(958,599)	71,464,593
	$ 21,070,184	$ 168,460,419	$ 1,708,889	$ (11,764)	$ 725,595	$ 3,078,551	$ (4,970,120)	$ 190,061,754

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2011

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Liabilities and Net Assets								
Current Liabilities								
Accounts payable and accrued expenses	$ 1,006,587	$ 37,415,763	$ 292,430	$ --	$ --	$ 130,022	$ (1,380)	$ 38,843,422
Current portion of CHEFA obligations	--	423,779	--	--	--	65,000	--	488,779
Current portion of notes payable	--	584,216	--	--	--	7,971	(7,971)	584,216
Due to affiliates	4,020,125	--	--	--	--	--	(4,010,141)	9,984
Total Current Liabilities	5,026,712	38,423,758	292,430	--	--	202,993	(4,019,492)	39,926,401
CHEFA Obligations - less current portion and discount	--	25,207,100	--	--	--	1,440,000	--	26,647,100
Notes Payable - less current portion	--	1,499,034	--	--	--	231,210	(231,210)	1,499,034
Other Noncurrent Liabilities	--	19,806,617	--	--	--	--	--	19,806,617
Net Assets								
Unrestricted	16,043,472	33,733,004	1,416,459	(11,764)	725,595	1,204,348	(719,418)	52,391,696
Temporarily restricted	--	6,477,454	--	--	--	--	--	6,477,454
Permanently restricted	--	40,131,275	--	--	--	--	--	40,131,275
Total Net Assets Excluding Noncontrolling Interests	16,043,472	80,341,733	1,416,459	(11,764)	725,595	1,204,348	(719,418)	99,000,425
Noncontrolling Interests	--	3,182,177	--	--	--	--	--	3,182,177
Total Net Assets	16,043,472	83,523,910	1,416,459	(11,764)	725,595	1,204,348	(719,418)	102,182,602
	$ 21,070,184	$ 168,460,419	$ 1,708,889	$ (11,764)	$ 725,595	$ 3,078,551	$ (4,970,120)	$ 190,061,754

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2010

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

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2010

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Liabilities and Net Assets								
Current Liabilities								
Accounts payable and accrued expenses	$ 60,797	$ 28,168,862	$ 366,867	$ --	$ --	$ 154,371	$ (1,655)	$ 28,749,242
Current portion of CHEFA obligations	--	865,000	--	--	--	45,000	--	910,000
Current portion of notes payable	--	472,875	30,000	--	--	7,032	(7,032)	502,875
Due to third-party reimbursement agencies	--	230,310	184,236	--	--	--	--	414,546
Due to affiliates	--	179,137	--	--	--	--	(168,728)	10,409
Total Current Liabilities	60,797	29,916,184	581,103	--	--	206,403	(177,415)	30,587,072
CHEFA Obligations - less current portion and discount	--	18,142,716	--	--	--	1,519,148	--	19,661,864
Notes Payable - less current portion	--	736,885	--	--	--	239,180	(239,180)	736,885
Other Noncurrent Liabilities	--	14,667,421	--	--	--	--	--	14,667,421
Net Assets								
Unrestricted	17,623,221	45,216,062	1,025,111	(11,764)	725,596	1,331,233	(719,418)	65,190,041
Temporarily restricted	--	8,315,873	--	--	--	--	--	8,315,873
Permanently restricted	--	42,353,101	--	--	--	--	--	42,353,101
Total Net Assets Excluding Noncontrolling Interests	17,623,221	95,885,036	1,025,111	(11,764)	725,596	1,331,233	(719,418)	115,859,015
Noncontrolling Interests	--	2,930,053	--	--	--	--	--	2,930,053
Total Net Assets	17,623,221	98,815,089	1,025,111	(11,764)	725,596	1,331,233	(719,418)	118,789,068
	$ 17,684,018	$ 162,278,295	$ 1,606,214	$ (11,764)	$ 725,596	$ 3,295,964	$ (1,136,013)	$ 184,442,310

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Revenues								
Net revenues from services to patients	$ --	$ 265,862,860	$ 4,872,788	$ --	$ --	$ --	$ (3,250)	$ 270,732,398
Investment related income	40,901	1,479,475	14,520	--	--	--	--	1,534,896
Other operating revenues	2,800	7,877,475	59,739	--	--	92,967	(55,000)	7,977,981
Services, sales and rental income	--	--	--	--	--	1,602,454	(5,600)	1,596,854
Unrestricted gifts and bequests	--	276,737	35,511	--	--	--	--	312,248
Net assets released from restrictions	--	5,919,545	--	--	--	--	--	5,919,545
	43,701	281,416,092	4,982,558	--	--	1,695,421	(63,850)	288,073,922
Expenses								
Salaries, wages and benefits	--	169,653,641	3,376,255	--	--	1,289,597	--	174,319,493
Supplies, utilities and other	347,527	95,039,162	1,204,066	--	--	269,248	(63,850)	96,796,153
Bad debt expense	--	11,658,167	14,076	--	--	--	--	11,672,243
Depreciation	--	9,313,313	79,109	--	--	98,021	--	9,490,443
Operations improvement	--	285,998	--	--	--	--	--	285,998
Interest and amortization	--	1,202,403	235	--	--	100,876	--	1,303,514
	347,527	287,152,684	4,673,741	--	--	1,757,742	(63,850)	293,867,844
Deficiency of Revenues Over Expenses Before Net Unrealized (Losses) Gains on Investments and Other Losses	(303,826)	(5,736,592)	308,817	--	--	(62,321)	--	(5,793,922)
Loss on Extinguishment of Debt	--	(1,082,212)	--	--	--	(66,943)	--	(1,149,155)
Changes in Net Unrealized (Losses) Gains on Investments	(1,275,925)	(529,738)	82,531	--	--	2,380	--	(1,720,752)
Deficiency of Revenues Over Expenses	(1,579,751)	(7,348,542)	391,348	--	--	(126,884)	--	(8,663,829)
Less Excess of Revenues over Expenses Attributable to Noncontroling Interests	--	(1,111,268)	--	--	--	--	--	(1,111,268)
Deficiency of Revenues Over Expenses Attributable to Controlling Interest	$ (1,579,751)	$ (8,459,810)	$ 391,348	$ --	$ --	$ (126,884)	$ --	$ (9,775,097)

GREATER WATERBURY HEALTH NETWORK, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Greater Waterbury Health Network, Inc.	The Waterbury Hospital	VNA Health at Home, Inc.	Greater Waterbury Health Services, Inc.	Greater Waterbury Management Resources, Inc.	Children's Center of Greater Waterbury Health Network, Inc.	Eliminations	Consolidated
Revenues								
Net revenues from services to patients	$ --	$ 254,787,935	$ 5,038,332	$ --	$ --	$ --	$ (14,305)	$ 259,811,962
Investment related income	581,638	698,934	27,720	--	--	--	--	1,308,292
Other operating revenues	3,100	6,638,378	68,184	--		95,081	(49,998)	6,754,745
Services, sales and rental income	--	--	--	--	2,052,721	1,662,170	(119,567)	3,595,324
Unrestricted gifts and bequests	--	157,191	41,574	--	--	--	--	198,765
Net assets released from restrictions	--	5,405,414	--	--	--	--	--	5,405,414
	584,738	267,687,852	5,175,810	--	2,052,721	1,757,251	(183,870)	277,074,502
Expenses								
Salaries, wages and benefits	--	153,196,573	3,538,150	--	827,466	1,295,272	--	158,857,461
Supplies, utilities and other	668,375	87,611,221	1,323,740	--	1,257,272	270,823	(183,870)	90,947,561
Bad debt expense	--	15,699,588	13,587	--	--	--	--	15,713,175
Depreciation	--	9,597,526	77,416		41,918	98,489	--	9,815,349
Operations improvement	--	2,695,434	--	--	--	--	--	2,695,434
Interest and amortization	--	1,803,577	3,480	--	1,714	106,928	--	1,915,699
	668,375	270,603,919	4,956,373	--	2,128,370	1,771,512	(183,870)	279,944,679
Deficiency of Revenues Over Expenses Before Net Unrealized Gains on Investments	(83,637)	(2,916,067)	219,437	--	(75,649)	(14,261)	--	(2,870,177)
Changes in Net Unrealized Gains on Investments	1,237,850	145,455	35,823	--	--	--	--	1,419,128
Deficiency of Revenues Over Expenses	1,154,213	(2,770,612)	255,260	--	(75,649)	(14,261)	--	(1,451,049)
Less Excess of Revenues over Expenses Attributable to Noncontroling Interests	--	(1,030,015)	--	--	--	--	--	(1,030,015)
Deficiency of Revenues Over Expenses Attributable to Controlling Interest	$ 1,154,213	$ (3,800,627)	$ 255,260	$ --	$ (75,649)	$ (14,261)	$ --	$ (2,481,064)