THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

SEPTEMBER 30, 2014 AND 2013

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Waterbury Hospital

We have audited the accompanying consolidated financial statements of The Waterbury Hospital, which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Waterbury Hospital as of September 30, 2014 and 2013, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Hartford, CT
December 19, 2014

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2014 AND 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	$ 31,909,931	$ 23,993,423
Restricted cash	675,000	4,519,908
Short-term investments	507,699	472,637
Patient accounts receivable, less allowance ($9,207,000 in 2014 and $15,022,000 in 2013)	30,793,644	29,441,126
Grants and other receivables	3,843,762	3,702,524
Inventories of supplies	3,913,945	3,581,595
Prepaid insurance and other expenses	1,923,352	1,571,465
Total Current Assets	73,567,333	67,282,678
Other Assets		
Funds held in trust by others	46,117,761	44,960,039
Long-term investments	11,118,017	10,814,695
Board-designated endowment funds	3,315,500	3,193,664
Other receivables	77,952	171,972
Goodwill	1,813,567	1,813,567
CHEFA obligations issue expense, less amortization	243,686	282,676
	62,686,483	61,236,613
Property, plant and equipment:		
Land	287,549	287,549
Buildings and improvements	94,308,166	94,052,332
Equipment	188,064,397	186,912,261
Construction in progress	--	73,654
	282,660,112	281,325,796
Less accumulated depreciation	(246,745,886)	(238,890,019)
	35,914,226	42,435,777
	$ 172,168,042	$ 170,955,068

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2014 AND 2013

	2014	2013
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 23,322,768	$ 21,578,227
Salaries, wages, payroll taxes and amounts withheld from employees	9,841,900	7,395,011
Due to third-party reimbursement agencies	4,171,981	2,969,391
Current portion of CHEFA obligations	493,776	472,136
Current portion of notes payable and capital lease obligations	461,705	694,549
Due to affiliates	600,116	2,042,951
Total Current Liabilities	38,892,246	35,152,265
Other Noncurrent Liabilities	25,354,977	21,813,507
CHEFA Obligations - less current portion	23,789,744	24,283,520
Notes Payable and Capital Lease Obligations - less current portion	438,984	852,568
Net Assets		
Unrestricted	23,336,473	29,976,833
Temporarily restricted	8,729,527	8,409,794
Permanently restricted	48,909,797	47,752,075
Total Net Assets Excluding Noncontrolling Interests	80,975,797	86,138,702
Noncontrolling Interests	2,716,294	2,714,506
Total Net Assets	83,692,091	88,853,208
	$ 172,168,042	$ 170,955,068

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Unrestricted Revenues		
Net patient service revenues	$ 248,836,314	$ 254,713,112
Provision for bad debts	(4,436,817)	(11,366,671)
Net patient service revenues less provision for bad debts	244,399,497	243,346,441
Other operating revenues	4,196,829	5,209,968
Net assets released from restrictions	5,542,491	5,419,591
	254,138,817	253,976,000
Operating Expenses		
Salaries	118,051,397	116,676,000
Employee benefits	29,379,803	30,913,497
Supplies and other	105,737,994	100,247,756
Depreciation	7,860,960	8,821,562
Interest and amortization	1,384,987	1,049,355
	262,415,141	257,708,170
Loss from Operations	(8,276,324)	(3,732,170)
Nonoperating Gains		
Unrestricted gifts and bequests	1,240,261	217,275
Investment income	1,840,688	1,737,423
	3,080,949	1,954,698
Deficiency of Revenues over Expenses Before Changes in Net Unrealized Gains on Investments	(5,195,375)	(1,777,472)
Changes in Net Unrealized Gains on Investments	92,827	268,235
Deficiency of Revenues over Expenses	(5,102,548)	(1,509,237)
Less Excess of Revenues over Expenses Attributable to Noncontrolling Interests	(926,677)	(874,685)
Deficiency of Revenues Over Expenses Attributable to Controlling Interest	(6,029,225)	(2,383,922)

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

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

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Unrestricted Net Assets, Controlling Interest		
Deficiency of revenues over expenses	$ (6,029,225)	$ (2,383,922)
Net assets released from restrictions used for purchase of property and equipment	13,360	19,654
Interest rate swap adjustment	217,110	1,209,256
Pension liability adjustments	(841,605)	903,495
Decrease in Unrestricted Net Assets, Controlling Interest	(6,640,360)	(251,517)
Unrestricted Net Assets, Noncontrolling Interest		
Excess of revenues over expenses	926,677	874,685
Distributions and other	(924,889)	(1,307,721)
Increase (Decrease) in Unrestricted Net Assets Noncontrolling Interest	1,788	(433,036)
Temporarily Restricted Net Assets		
Gifts and bequests	453,516	475,360
Income from investments	447,776	497,540
Net realized and unrealized gains on investments	604,989	810,002
Grants	4,369,303	4,420,717
Net assets released from restrictions	(5,555,851)	(5,439,245)
Increase in Temporarily Restricted Net Assets	319,733	764,374
Permanently Restricted Net Assets		
Increase in fair value of funds held in trust by others	1,157,722	2,741,876
Increase in Permanently Restricted Net Assets	1,157,722	2,741,876
(Decrease) Increase in Net Assets	(5,161,117)	2,821,697
Net Assets - Beginning	88,853,208	86,031,511
Net Assets - End	$ 83,692,091	$ 88,853,208

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities and Nonoperating Revenues		
Change in net assets	$ (5,161,117)	$ 2,821,697
Adjustments to reconcile change in net assets to net cash provided by operating activities and nonoperating revenues:		
Provision for bad debts	4,436,817	11,366,671
Depreciation and amortization	7,899,950	8,860,554
Pension liability adjustments	841,605	(903,495)
Distributions to noncontrolling interests	924,889	1,307,721
Net realized and unrealized gains and change in fair value of funds held in trust by others	(1,855,538)	(3,820,113)
Restricted gifts, bequests and income from investments	(901,292)	(972,900)
Change in market value of interest rate swap	(217,110)	(1,209,256)
	5,968,204	17,450,879
Changes in operating working capital other than cash and cash equivalents:		
Patient accounts receivable, net	(5,789,335)	(9,035,821)
Grants and other receivables	(141,238)	(725,020)
Inventories of supplies	(332,350)	(276,516)
Prepaid insurance and other expenses	(351,887)	(77,953)
Accounts payable and accrued expenses	1,744,541	(6,842,414)
Salaries, wages, payroll taxes and amounts withheld from employees	2,446,889	(930,163)
Due to third-party reimbursement agencies	1,202,590	2,368,120
Increase in other noncurrent liabilities	2,916,975	2,073,189
	1,696,185	(13,446,578)
Net Cash Provided by Operating Activities and Nonoperating Revenues	7,664,389	4,004,301

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Cash Flows from Investing Activities		
Decrease (increase) in restricted cash	$ 3,844,908	$ (1,008,510)
Purchases of investments	(23,946,145)	(23,516,332)
Sales of investments	24,183,741	24,199,444
Cash paid to affiliates	(1,442,835)	(956,989)
Other assets	94,020	118,444
Additions to property, plant and equipment	(1,339,409)	(2,122,895)
Net Cash Provided by (Used in) Investing Activities	1,394,280	(3,286,838)
Cash Flows from Financing Activities		
Restricted gifts, bequests and income from investments	901,292	972,900
Distributions to noncontrolling interests	(924,889)	(1,307,721)
Proceeds from issuance of debt	55,580	157,781
Principal payments on debt obligations	(1,174,144)	(1,154,775)
Net Cash Used in Financing Activities	(1,142,161)	(1,331,815)
Net Increase (Decrease) in Cash and Cash Equivalents	7,916,508	(614,352)
Cash and Cash Equivalents - Beginning	23,993,423	24,607,775
Cash and Cash Equivalents - End	$ 31,909,931	$ 23,993,423

Supplemental Cash Flow Information

Cash paid during the year for interest on borrowings was $1,217,495 and $1,224,496 for the years ended September 30, 2014 and 2013, respectively.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

ORGANIZATION

The Waterbury Hospital (the Hospital), a voluntary association incorporated under the General Statutes of the State of Connecticut, is a wholly-owned subsidiary of Greater Waterbury Health Network, Inc. (sole member) (the Network or GWHN). The Board of the Hospital, which is appointed by the Network, controls the operations of the Hospital. In addition to the Hospital, the accompanying financial statements include Access Rehab Centers, LLC (Access), Greater Waterbury Imaging Center Limited Partnership (GWIC), Imaging Partners, LLC, Alliance Medical Group, Inc. (AMG) and Cardiology Associates of Greater Waterbury, LLC (CAGW) to the extent of the Hospital's ownership interest in these subsidiaries and affiliated entities.

On October 29, 2012, the Network signed a Letter of Intent to develop a Joint Venture relationship with Vanguard Health Systems, Inc. (Vanguard) of Nashville, TN, a network of for-profit hospitals. Under terms of the proposed Joint Venture, the two organizations would form a Limited Liability Company in which Vanguard would have an 80 percent ownership interest and GWHN would have a 20 percent interest. The Joint Venture would acquire substantially all of the unrestricted assets and assume certain liabilities of the Hospital and GWHN. The Joint Venture would create a taxable, for-profit health system. On October 1, 2013, Tenet Healthcare Corporation (THC) completed its acquisition of Vanguard.

Approval from the State of Connecticut Office of Health Care Access (OHCA), the Office of the Attorney General, and from state and federal antitrust authorities is required.

A public hearing before the Office of the Attorney General and Office of Health Care Access was held on October 15, 2014. The Hospital received on December 1, 2014, proposed decision documents from the Office of the Attorney General and OHCA approving the proposed formation of the Joint Venture with Vanguard subject to certain conditions. Citing the number and restrictive nature of the conditions, Vanguard withdrew the application and on December 11, 2014 has publicly announced its decision not to pursue this transaction.

During November 2010, the Hospital established a limited liability company by the name of Cardiology Associates of Greater Waterbury, LLC to operate a cardiology practice. CAGW acquired the assets of Cardiology Associates of Waterbury (CAW), an unaffiliated entity, that were used by CAW physicians in the performance of their professional services.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

ORGANIZATION (CONTINUED)

The Waterbury 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 consolidated balance sheets 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 Hospital’s consolidated financial statements in long-term investments.

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 Hospital’s consolidated financial statements. During the year ended September 30, 2014, the Cancer Center provided a $1 million unrestricted grant to the Hospital that is included in unrestricted gifts and bequests in the consolidated statements of operations and changes in net assets.

The Hospital’s major accounting policies are as summarized below and in Note 2.

PRINCIPLES OF CONSOLIDATION

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectible accounts receivable for services to patients, and liabilities, including estimated net settlements with third-party reimbursement agencies and professional and pension liabilities, and disclosure of contingent assets and contingent liabilities at the date of the financial statements. Estimates also affect the amounts of revenues and expenses reported 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.

RECLASSIFICATIONS

Certain 2013 amounts were reclassified to conform to the 2014 presentation.

REGULATORY MATTERS

The Hospital is required to file annual operating information with OHCA.

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 Hospital in perpetuity or in funds held in trust by others.

DONOR RESTRICTED GIFTS

Unconditional promises to give cash 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 consolidated statements of operations and changes in net assets.

The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

CASH AND CASH EQUIVALENTS

The Hospital 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.

RESTRICTED CASH

At September 30, 2014, the Hospital had a $4.5 million surety bond with an insurance company to support its self-insured workers' compensation program that was collateralized by an investment held by a bank. As of September 30, 2014, there were no borrowings on the surety bond.

At September 30, 2013, the Hospital had letters of credit totaling $4.5 million with banks to support its self-insured workers' compensation program that were collateralized by certain investments held by the banks. As of September 30, 2013, there were no borrowings on the letters of credit.

ACCOUNTS RECEIVABLE

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

The amount of the allowance for doubtful 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 revenues and third-party payor programs.

INVENTORIES

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

INVESTMENTS

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

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 Hospital'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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. The Hospital and its subsidiaries provide for depreciation of property, plant and equipment and amortization of assets recorded under capital leases using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives which range from 3 to 40 years.

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.

Conditional asset retirement obligations of $2,801,923 and $2,684,704 as of September 30, 2014 and 2013, respectively, are recorded in other noncurrent liabilities related to future asbestos remediation. During 2014 and 2013, there were no retirement obligations incurred or 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 or whenever events or business conditions indicate that the carrying values of such assets may not be fully recoverable.

IMPAIRMENT OF LONG-LIVED ASSETS

The Hospital records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There were no impairment losses recorded in 2014 and 2013.

NONOPERATING GAINS

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating gains consist primarily of income on invested funds, gains and losses on sales of securities, changes in unrestricted unrealized gains and losses and unrestricted gifts and bequests.

DEFICIENCY OF REVENUES OVER EXPENSES

The consolidated 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), pension liability adjustments, and interest rate swap adjustments.

INCOME TAXES

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital is also exempt from state income taxes. Access, GWIC, CAGW, 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. AMG is tax exempt under Section 501 (c)(3) of the Internal Revenue Code.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

INCOME TAXES (CONTINUED)

Management has analyzed the tax positions taken and has concluded that as of September 30, 2014, 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 Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Hospital is no longer subject to income tax examinations prior to 2011.

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 $750,000 and $500,000 per claim for the years ended September 30, 2014 and 2013, respectively. Management records its best estimate of losses as they occur. The accrued workers' compensation self-insurance liabilities of $10,670,607 and $9,996,921 at September 30, 2014 and 2013, respectively, have been discounted at 2.25%.

Effective October 1, 2006, the Hospital obtained "claims-made" medical malpractice insurance coverage, through the Network, from Healthcare Alliance Insurance Company, Ltd. (HAIC) under retrospectively-rated policies whose ultimate premium is based primarily on the Hospital's experience. HAIC is a multi-provider captive insurance company domiciled in the Cayman Islands. The Network is a one half owner of HAIC with one other local hospital that also holds a 50% ownership. The Hospital's insurance coverage is $1,500,000 per occurrence and $5,000,000 in the aggregate. In addition to the coverage from HAIC, the Hospital recorded reserves of approximately $1,747,604 and $2,066,103 at September 30, 2014 and 2013, respectively, related to claims that were incurred subsequent to October 1, 2006, but not yet reported. These reserves were discounted at 2.25% at September 30, 2014 and 2013.

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.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

MEDICAL MALPRACTICE AND WORKERS' COMPENSATION INSURANCE (CONTINUED)

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 $25,000,000 total limit for all policy years. These aggregate limits are eroded by claims previously paid by the Hospital or other insurance.

RETIREMENT BENEFIT PLANS

The Hospital maintains a defined benefit pension plan for eligible individuals and participates in two multi-employer pension plans that cover certain union employees. Reference is made to Note 9.

OTHER NONCURRENT LIABILITIES

Other noncurrent liabilities include the long-term portion of liabilities for medical malpractice, workers' compensation, retirement benefits, the interest rate swap, and conditional asset retirement obligations.

RISKS AND UNCERTAINTIES

The Hospital 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 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 Hospital's September 30, 2014 financial statements, in addition to the funded status of its defined benefit pension plan.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

BAD DEBTS

ASU 2011-07, *Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*, requires certain health care entities to present the provision for bad debts associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than as an operating expense with enhanced footnote disclosures on the policies for recognizing revenue and assessing bad debts, in addition to qualitative and quantitative information about changes in the allowance for doubtful accounts. Refer to Note 2 for the additional disclosures required by ASU 2011-07.

NOTE 2 - NET PATIENT SERVICE REVENUES AND CHARITY CARE

The following table summarizes net patient service revenues:

	2014	2013
Gross patient service revenues	$ 985,407,726	$ 936,820,801
Deductions (additions)		
Allowances	734,714,169	683,010,134
Regulatory	1,857,243	(902,445)
	736,571,412	682,107,689
Net patient service revenues	248,836,314	254,713,112
Provision for bad debts	4,436,817	11,366,671
Net patient service revenues less provision for bad debts	$ 244,399,497	$ 243,346,441

Patient accounts receivable and revenues are recorded when patient services are performed.

Amounts received from most payors are different from the established billing rates of the Hospital, and these differences are accounted for as allowances. Net revenues have been affected by State of Connecticut Disproportionate Share program in 2014 and 2013 which is reflected in the regulatory amounts in the table above.

NOTE 2 - NET PATIENT SERVICE REVENUES AND CHARITY CARE (CONTINUED)

Net patient service revenues are 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, 2014 and 2013, the Hospital recorded approximately $2,500,000 and $2,400,000, respectively, as a decrease to net patient service revenues as changes in estimates related to third-party payor settlements and adjustments to accruals recorded in prior years.

During 2014 and 2013, approximately 44% and 37%, respectively, of net patient service revenues were received under the Medicare program, 10% and 16%, respectively, under the state Medicaid program, and 46% and 47%, 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 Hospital. The State of Connecticut has implemented reductions in the State's Disproportionate Share Reimbursement Program for the period from July 1, 2012 through June 30, 2015.

The current Connecticut Medicaid inpatient hospital reimbursement model of interim per diem rates and case rate settlements will transition to an All Patient Refined Diagnosis Related Group System (APR-DRG) where hospital payments will be established prospectively. Connecticut Medicaid outpatient hospital reimbursement will move from the current system of reimbursement based on Revenue Center Codes to a prospective payment system based on the complexity of services performed. The specific transition plan has not been finalized by the State of Connecticut, but the new inpatient reimbursement methodology may be implemented as early as January 1, 2015; while the new outpatient reimbursement methodology will not be implemented until at least the second half of fiscal year 2016. The Hospital has not determined the estimated impact of these proposed changes on net patient service revenues in future years.

The significant concentrations of net accounts receivable for services to patients include 44% from Medicare, 15% from Medicaid, 28% from commercial insurance carriers and 13% from others at September 30, 2014 (44%, 13%, 24% and 19%, respectively, in 2013).

NOTE 2 - NET PATIENT SERVICE REVENUES 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 Hospital believes that it is in compliance with all applicable laws and regulations. Cost reports for the Hospital, which serve as a basis for final settlement with government payors, have been settled by final settlement through 2011 for Medicare and 1995 for Medicaid. Other years remain open for settlement.

The Hospital 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 Hospital for certain covered services based upon discounted fee schedules.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Hospital’s estimation of the allowance for doubtful accounts is based primarily upon the type and age of the patient accounts receivable and the effectiveness of the Hospital’s collection efforts. The Hospital’s policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as the charges are recorded. On a monthly basis, the Hospital reviews its accounts receivable balances, the effectiveness of the Hospital’s reserve policies and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

- Revenue and volume trends by payor, particularly the self-pay components;
- Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients;
- Various allowance coverage statistics.

The Hospital regularly performs hindsight procedures to evaluate historical write-off and collection experience throughout the year to assist in determining the reasonableness of its process for estimating the allowance for doubtful accounts.

NOTE 2 - NET PATIENT SERVICE REVENUES AND CHARITY CARE (CONTINUED)

ALLOWANCE FOR DOUBTFUL ACCOUNTS (CONTINUED)

A summary of the Hospital's allowance for doubtful accounts activity for the years ended September 30, 2014 and 2013 is as follows:

	Balance at Beginning of Period	Additions Recorded in the Provision for Bad Debts	Accounts Written off, Net of Recoveries and Other	Balance at End of Period
Allowance for doubtful accounts:				
Year ended September 30, 2013	$ (11,683,000)	$ (11,366,671)	$ 8,027,671	$ (15,022,000)
Year ended September 30, 2014	(15,022,000)	(4,436,817)	10,251,817	(9,207,000)

MEASURING CHARITY CARE

The Hospital 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 Hospital. Essentially, these policies define charity services as those services for which no payment is possible. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized Federal poverty income levels, but also includes certain cases where incurred charges are significant when compared to incomes and assets. These services are not included in net patient service revenues for financial reporting purposes.

The Hospital implemented effective October 1, 2013 a change to its charity care policy to discount all self-pay receivables by 50 percent upon final billing. These self-pay discounts amounted to approximately $5.2 million for the year ended September 30, 2014 and were previously included in the provision for bad debts and the allowance for doubtful accounts.

Self-pay revenues are derived primarily from patients who do not have any form of health care coverage. The Hospital evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other governmental assistance programs, as well as the Hospital's policy for charity care. The Hospital provides care without charge to certain patients that qualify under its charity care policy. For the years ended September 30, 2014 and 2013, the Hospital estimates that its costs of care provided under its charity care programs approximated $1,383,000 and $440,000, respectively.

NOTE 2 - NET PATIENT SERVICE REVENUES AND CHARITY CARE (CONTINUED)

MEASURING CHARITY CARE (CONTINUED)

The Hospital's management estimates its costs of care provided under its charity care programs utilizing a calculated ratio of costs to gross charges multiplied by the Hospital's gross charity care charges provided. The Hospital's gross charity care charges include only services provided to patients who are unable to pay and qualify under the Hospital's charity care policy. To the extent the Hospital receives reimbursement through the various governmental assistance programs in which it participates to subsidize its care of indigent patients, the Hospital does not include these patients' charges in its cost of care provided under its charity care program. Additionally, the Hospital does not report a charity care patient's charges in revenues or in the provision for doubtful accounts as it is the Hospital's policy not to pursue collection of amounts related to these patients.

ELECTRONIC HEALTH RECORD INCENTIVE PAYMENTS

The American Recovery and Reinvestment Act of 2009 (ARRA) included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are also available to providers that adopt, implement or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

Income from Medicare incentive payments is recognized as revenue after the Hospital has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period. The Hospital recognized revenue from Medicaid and Medicare for incentive payments after it adopted certified EHR technology. Medicaid incentive payments were $322,653 and $483,979 for the years ended September 30, 2014 and 2013, respectively. Medicare incentive payments were $1,184,857 and $1,793,771 for the years ended September 30, 2014 and 2013, respectively. Incentive payments are included in other operating revenues in the accompanying consolidated statements of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Hospital's compliance with the meaningful use criteria is subject to audit by the federal government.

NOTE 2 - NET PATIENT SERVICE REVENUES AND CHARITY CARE (CONTINUED)

ICD-10 IMPLEMENTATION

The Hospital is subject to the administrative simplification provisions of HIPAA which require the use of uniform electronic data transmission standards for health care claims and payment transactions submitted or received electronically.

In January 2009, the Centers for Medicare and Medicaid Services (CMS) published its tenth revision of International Statistical Classification of Diseases and Related Health Problems (ICD-10) and related changes to the formats used for certain electronic transactions. ICD-10 contains significantly more diagnostic and procedural codes than the existing ICD-9 coding system, and as a result, the coding for the patient services provided in the Hospital will require much greater specificity when ICD-10 becomes effective on October 1, 2015.

The implementation of ICD-10 will require a significant investment in technology and training. The Hospital may experience delays in reimbursement while the Hospital and the payors from which it seeks reimbursement make the transition to ICD-10. If the Hospital fails to implement the new coding systems by the deadline, the Hospital will not be paid for services. Management is not able to reasonably estimate the overall financial statement impact of the Hospital's transition to ICD-10.

NOTE 3 - INVESTMENTS

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

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Short-term investments:				
Certificates of deposit and mutual funds	$ 424,925	$ 507,699	$ 406,088	$ 472,637
Investments of funds held in trust by others	$ 42,013,991	$ 46,117,761	$ 36,611,831	$ 44,960,039
Long-term investments and Board - designated endowment funds:				
Certificates of deposit and money market funds	$ 873,669	$ 873,669	$ 901,472	$ 901,472
Marketable equity securities	197,835	351,238	197,835	287,008
U.S. Government obligations	108,451	149,445	108,451	154,567
Corporate bonds	3,680,469	3,686,721	3,412,334	3,396,880
Mutual funds	7,799,302	9,013,644	7,708,657	8,908,523
	$ 12,659,726	$ 14,074,717	$ 12,328,749	$ 13,648,450

The Hospital had long-term investments in partnerships and joint ventures that were recorded at cost of $358,800 and $359,909 as of September 30, 2014 and 2013, respectively, as it was not practicable to estimate fair value. These investments are not included in the tables above.

Unrestricted investment income, including income on funds held in trust by others and gains are comprised of the following for the years ended September 30, 2014 and 2013:

	2014	2013
Income		
Interest and dividends	$ 1,832,085	$ 1,737,423
Realized gains on sales of investments	8,603	--
Changes in net unrealized gains on investments	92,827	268,235
	$ 1,933,515	$ 2,005,658

NOTE 4 - FAIR VALUE MEASUREMENTS

The Hospital categorizes assets and liabilities for disclosure purposes based on whether the inputs used to determine their fair values are observable or unobservable. The Hospital 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 Hospital 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 or 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 assumption of no unusual market conditions or forced liquidation.

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes fair value measurements, by level, at September 30, 2014, for all assets and liabilities which are measured at fair value on a recurring basis in the consolidated financial statements:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 35,728,709	$ --	$ --	$ 35,728,709
Common stock-Insurance	133,496	--	--	133,496
Mutual funds:				
U.S. large cap	21,147,966	--	--	21,147,966
U.S. mid cap	3,399,506	--	--	3,399,506
U.S. small cap	2,786,261	--	--	2,786,261
International developed	4,979,700	--	--	4,979,700
Emerging markets	3,076,127	--	--	3,076,127
Fixed income securities:				
Investment grade taxable	1,978,762	12,122,021	--	14,100,783
International developed bonds	--	695,404	--	695,404
Global high yield taxable	5,296	2,420,636	--	2,425,932
Real estate investment trusts	2,506,598	--	--	2,506,598
Other	1,758,038	546,588	--	2,304,626
Total investments at fair value	$ 77,500,459	$ 15,784,649	$ --	$ 93,285,108
Liabilities:				
Interest rate swap	$ --	$ 1,512,596	$ --	$ 1,512,596

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes fair value measurements, by level, at September 30, 2013, for all assets and liabilities which are measured at fair value on a recurring basis in the consolidated financial statements:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 31,081,328	$ --	$ --	$ 31,081,328
Common stock-Insurance	93,309	--	--	93,309
Mutual funds:				
U.S. large cap	23,645,248	--	--	23,645,248
U.S. mid cap	3,460,785	--	--	3,460,785
U.S. small cap	3,034,881	--	--	3,034,881
International developed	4,960,376	--	--	4,960,376
Emerging markets	2,705,380	--	--	2,705,380
Fixed income securities:				
Investment grade taxable	2,042,330	11,202,070	--	13,244,400
International developed bonds	1,237	719,184	--	720,421
Global high yield taxable	261,841	2,027,557	--	2,289,398
Real estate investment trusts	1,972,747	--	--	1,972,747
Other	101,506	284,678	--	386,184
Total investments at fair value	$ 73,360,968	$ 14,233,489	$ --	$ 87,594,457
Liabilities:				
Interest rate swap	$ --	$ 1,729,706	$ --	$ 1,729,706

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

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

RETURN OBJECTIVES AND RISK PARAMETERS

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

NOTE 5 - RESTRICTED ENDOWMENTS (CONTINUED)

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

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

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

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

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ --	$ 7,607,185	$ 48,909,797	$ 56,516,982
Board-designated endowment funds	3,315,500	--	--	3,315,500
Total funds	$ 3,315,500	$ 7,607,185	$ 48,909,797	$ 59,832,482

NOTE 5 - RESTRICTED ENDOWMENTS (CONTINUED)

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	$ 3,193,664	$ 7,446,152	$ 47,752,075	$ 58,391,891
Investment return:				
Investment income	56,642	184,580	--	241,222
Net appreciation (realized and unrealized)	203,276	612,338	1,157,722	1,973,336
Total investment return	259,918	796,918	1,157,722	2,214,558
Appropriation of endowment assets for expenditure	(138,082)	(635,885)	--	(773,967)
Endowment net assets, ending balance	$ 3,315,500	$ 7,607,185	$ 48,909,797	$ 59,832,482

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ --	$ 7,446,152	$ 47,752,075	$ 55,198,227
Board-designated endowment funds	3,193,664	--	--	3,193,664
Total funds	$ 3,193,664	$ 7,446,152	$ 47,752,075	$ 58,391,891

NOTE 5 - RESTRICTED ENDOWMENTS (CONTINUED)

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	$ 2,974,503	$ 6,806,683	$ 45,010,199	$ 54,791,385
Investment return:				
Investment income	72,896	238,568	--	311,464
Net appreciation (realized and unrealized)	277,353	829,688	2,741,876	3,848,917
Total investment return	350,249	1,068,256	2,741,876	4,160,381
Appropriation of endowment assets for expenditure	(131,088)	(428,787)	--	(559,875)
Endowment net assets, ending balance	$ 3,193,664	$ 7,446,152	$ 47,752,075	$ 58,391,891

NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at September 30, 2014 and 2013 are restricted amounts which are to be held in perpetuity, the income from which is expendable to provide free care, scholarships for the children of the Hospital’s employees, and for the operations of the Hospital. Also included in permanently restricted net assets are funds held in trust by others. The Hospital is the restricted income beneficiary of funds held in trust by others. The total trust assets, as reported by the trustees, had an aggregate fair value at September 30, 2014 and 2013 of $46,117,761 and $44,960,039, respectively. Distributions of $2,023,580 and $1,896,981 from these assets for the years ended September 30, 2014 and 2013, respectively, is included in investment income.

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

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

During 2014 and 2013, 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 $4,369,303, $688,243 and $484,945, respectively in 2014 and $4,420,717, $657,253 and $341,621, respectively in 2013. In addition, $13,360 and $19,654 were released for the purchase of property and equipment in 2014 and 2013, respectively.

NOTE 7 - DEBT

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 that were completed over a two-year period. The par amount of the 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 (2.15% at September 30, 2014). The 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, 2014 and 2013, the notional value of outstanding interest rate swap was $24,283,520 and $24,755,656, respectively.

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, 2014 and 2013, the fair value of interest rate swap was in a liability position of $1,512,596 and $1,729,706, respectively.

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.

NOTE 7 - DEBT (CONTINUED)

Future minimum payments by year and in the aggregate under the Series D bond financing are as follows at September 30, 2014:

2015	$ 493,776
2016	516,408
2017	540,080
2018	564,832
2019	590,716
Aggregate thereafter	21,577,708
	$ 24,283,520

OTHER DEBT

Access has a $250,000 line of credit with a bank. There were no borrowings under this line of credit at September 30, 2014 and 2013.

AMG had a capital lease for equipment that called for monthly payments of $593 through January 2014 and was secured by the equipment. The balance of the capital lease liability was zero at September 30, 2014 and $2,858 at September 30, 2013.

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 was $1,993 at September 30, 2014 and $5,877 at September 30, 2013.

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 was $3,883 at September 30, 2014 and $8,687 at September 30, 2013.

AMG entered into a capital lease for equipment during 2014. The balance of the capital lease liability was $48,121 at September 30, 2014.

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 $379,070 at September 30, 2014 and $609,435 at September 30, 2013.

NOTE 7 - DEBT (CONTINUED)

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 was $26,101 at September 30, 2014 and $173,794 at September 30, 2013.

AMG assumed a note payable during 2009 for the fit-up of office space. The original amount of the note was $320,000 and was repayable in installments of principal plus interest at 7.50% totaling $4,908 per month through January 2014. In addition, this note called for a final payment of principal and interest of $113,981 in February 2014. The balance of this note was zero at September 30, 2014 and $129,815 at September 30, 2013.

The Hospital entered into a capital lease for equipment during 2012. The lease calls for equal monthly payments of $11,469 through August 2017 and is secured by the equipment. The balance of the capital lease liability was $376,940 at September 30, 2014 and $495,826 at September 30, 2013.

The Hospital entered into a capital lease for equipment during 2013. The lease calls for equal monthly payments of $4,779 through November 2015. The balance of capital lease liability was $64,581 at September 30, 2014 and $120,825 at September 30, 2013.

Future minimum payments by year and in the aggregate for all obligations other than the CHEFA Series D bonds were as follows at September 30, 2014:

2015	$ 461,705
2016	294,554
2017	138,132
2018	6,298
	$ 900,689

The fair value of the debt, using the discounted cash flow analyses, was approximately $26,697,000 at September 30, 2014 and $28,032,000 at September 30, 2013.

NOTE 8 - RENTAL EXPENSE AND LEASE COMMITMENTS

The Hospital has entered into operating leases for office space and office equipment. Rental expense is recorded on a straight-line basis over the terms of the leases. Rental expense for the years ended September 30, 2014 and 2013 was $4,441,474 and $4,740,477, respectively. The minimum rental commitments under all noncancellable operating leases with initial or remaining terms of more than one year are as follows:

2015	$ 4,241,725
2016	3,914,897
2017	2,892,657
2018	1,547,444
2019	114,032
Thereafter	195,408
	$ 12,906,163

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 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.

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

Following is a summary of the Plan's funded status using the measurement dates of September 30, 2014 and 2013 and amounts recognized in the Hospital's consolidated financial statements.

	2014	2013
Change in benefit obligation		
Benefit obligation beginning of year	$ (35,562,211)	$ (37,888,825)
Service cost	(1,466,890)	(1,702,273)
Interest cost	(1,324,043)	(1,154,537)
Actuarial (loss) gain	(1,095,038)	2,126,771
Benefits paid	3,211,209	3,056,653
Benefit obligation, end of year	$ (36,236,973)	$ (35,562,211)
Change in plan assets		
Fair value of plan assets, beginning of year	$ 27,201,671	$ 28,843,113
Actual return on plan assets	696,625	253,055
Employer contributions	1,301,618	1,162,156
Benefits paid	(3,211,209)	(3,056,653)
Fair value of plan assets, end of year	$ 25,988,705	$ 27,201,671
Funded status	$ (10,248,268)	$ (8,360,540)
Accrued pension liability	$ (10,248,268)	$ (8,360,540)
Components of net periodic pension cost		
Service cost	$ 1,466,890	$ 1,702,273
Interest cost	1,324,043	1,154,537
Expected return on plan assets	(1,294,305)	(2,483,658)
Amortization of actuarial loss	816,016	971,872
Amortization of prior service cost	35,097	35,455
Net periodic pension cost	$ 2,347,741	$ 1,380,479
Accumulated benefit obligation	$ 35,271,477	$ 34,675,898

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

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

	2014	2013
Unrecognized prior service cost	$ (121,434)	$ (156,531)
Unrecognized actuarial losses	(15,649,501)	(14,772,799)
Benefit obligation, end of year	$ (15,770,935)	$ (14,929,330)

Changes in benefit obligations recognized in unrestricted net assets include:

	2014	2013
Current year actuarial losses	$ (1,692,718)	$ (103,832)
Amortization of prior service cost	35,097	35,455
Amortization of net loss	816,016	971,872
	$ (841,605)	$ 903,495

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, 2015 are $35,097 and $1,108,503, respectively.

ASSUMPTIONS

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

	2014	2013
Discount rate	3.55%	3.99%
Expected return on plan assets	4.50%	8.00%
Rate of compensation increase	2.00% for 2 year select period, 3.00% ultimate	2.00% for 3 year select period, 3.00% ultimate

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

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

	2014	2013
Discount rate	3.99%	3.17%
Expected return on plan assets	4.50%	8.00%
Rate of compensation increase	2.00% for 3 year select period, 3.00% ultimate	2.00% for 4 year select period, 3.00% ultimate

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 4.5% and 8.0% long-term rate of return at September 30, 2014 and 2013, respectively.

INVESTMENT POLICY

The Plan's weighted-average asset allocations at September 30, 2014, by asset category are as follows:

		Asset Allocation Policy	
Asset Category	Plan Assets	Target	Range
U.S. Equity	5%	5%	3% - 7%
Non-U.S. Equity	5%	5%	3% - 7%
Core fixed income	90%	90%	86% - 94%

The Plan's weighted-average asset allocations at September 30, 2013, by asset category are as follows:

		Asset Allocation Policy	
Asset Category	Plan Assets	Target	Range
Global defensive equity unhedged	10%	10%	5% - 15%
Custom fixed income	90%	90%	85% - 95%

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

The Pension Committee of the Board of Trustees (the Committee) is responsible for employee benefit program policies with respect to plan assets 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 and 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 $1,204,000 in contributions to the Plan in 2015.

ESTIMATED FUTURE BENEFIT PAYMENTS

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

2015	$ 3,388,000
2016	3,431,000
2017	3,305,000
2018	3,619,000
2019	3,287,000
2020-2024	15,109,000
	$ 32,139,000

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.

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

The following table sets forth by level within the fair value hierarchy the investment assets and investment liabilities at fair value, as of September 30, 2014.

	Level 1	Level 2	Level 3	Total
Commingled funds and private equity	$ --	$ --	$25,988,705	$25,988,705

The following table sets forth by level within the fair value hierarchy the investment assets and investment liabilities at fair value, as of September 30, 2013.

	Level 1	Level 2	Level 3	Total
Commingled funds and private equity	$ --	$ --	$27,201,671	$27,201,671

The following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

	2014	2013
Balance as of beginning of fiscal year	$ 27,201,671	$ 19,307,214
Change in unrealized appreciation (depreciation)	570,424	(487,433)
Purchases	5,571,007	52,316,941
Sales	(7,354,397)	(43,935,051)
Balance as of September 30,	$ 25,988,705	$ 27,201,671

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

OTHER BENEFIT PLANS

The Hospital participates in multi-employer pension plans that cover substantially all union employees. Contributions to the plans are based upon a percentage of each participant's total salary. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer.

- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers.

- If the Hospital chose to stop participating in the multi-employer plans, it would be required to pay those plans an amount based on the underfunded status of the plans, referred to as a withdrawal liability.

The following table presents the Hospital's participation in these plans as of and for the years ended September 30, 2014 and 2013.

Pension Trust Fund	Pension Plan Employer Identification Number	Pension Protection Act ("PPA") Certified Zone Status[1]		FIP / RP Status Pending / Implemented[2]	Contributions		Surcharge Imposed	Expiration Date of Collection Bargaining Agreement[3]
		2014	2013		2014	2013		
Connecticut Health Care Associates Pension Fund	06-1313462	Green	Green	N/A	$ 2,074,142	$ 2,077,612	No	September 30, 2017
New England Health Care Employees Pension Fund	22-3071963	Green	Green	N/A	688,949	783,235	No	February 29, 2016
				Total Contributions:	$ 2,763,091	$ 2,860,847		

[1] The most recent PPA zone status available in 2014 and 2013 is for the plan's year-ending during 2013 and 2012, respectively. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

[2] The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented.

[3] Lists the expiration dates of the collective-bargaining agreements to which the plans are subject.

During the years ended September 30, 2014 and 2013, the Hospital's contributions to the Connecticut Health Care Associates Pension Plan represented 98.6% and 96.0% of the total contributions made to the plan by all participating employers, respectively.

During the years ended September 30, 2014 and 2013, the Hospital's contributions to the New England Health Care Employees Pension Plan represented 2.8% and 3.0% of the total contributions made to the plan by all participating employers, respectively.

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. The Hospital has explored the costs to withdraw from the Connecticut Health Care Associates (CHCA) Pension Plan in the event that the Hospital enters into a transaction. If the Hospital was to withdraw, it is expected that CHCA will likewise withdraw from the pension plan making a total withdrawal liability for the Hospital of approximately $27,700,000.

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, 2014 and 2013, liabilities of $330,148 and $240,869, respectively, have been reflected in the consolidated balance sheets.

As noted above, the Hospital also has a noncontributory defined benefit cash balance plan covering substantially all non-union employees age 21 and older with one year of service. Total pension expense, relating to this plan, charged to operations during the years ended September 30, 2014 and 2013 was $2,347,741 and $1,380,479, respectively.

NOTE 10 - SELF-INSURANCE CLAIMS

There have been medical malpractice and workers’ compensation claims that fall within the Hospital’s partially self-insured program which have been asserted against the Hospital. In addition, there are known incidents that have occurred through September 30, 2014 that may result in the assertion of claims. Hospital 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. Hospital management has provided reserves for these contingent liabilities.

NOTE 11 - CONTINGENCIES

The Hospital is a party to various lawsuits incidental to its business.

NOTE 12 - DUE TO AFFILIATES

The amounts due to affiliates of $600,116 and $2,042,951 at September 30, 2014 and 2013, respectively, represent (payables) to and receivables from affiliates that do not eliminate in consolidation. These balances are comprised of the following:

	2014	2013
Greater Waterbury Health Network, Inc.	$ (430,440)	$ (1,885,946)
Alliance Medical Group of Greater Waterbury, P.C.	(9,983)	(9,983)
Greater Waterbury Management Resources, Inc.	(162,693)	(162,693)
GI Co-Management Company	3,000	1,500
Children's Center of Greater Waterbury Health Network, Inc.	--	14,171
	$ (600,116)	$ (2,042,951)

NOTE 13 - FUNCTIONAL EXPENSES

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	2014	2013
Health care services	$ 194,695,917	$ 193,831,378
General and administrative	67,341,789	63,524,487
Fundraising	377,435	352,305
	$ 262,415,141	$ 257,708,170

NOTE 14 - SUBSEQUENT EVENTS

The Hospital 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 Hospital evaluated events occurring subsequent to September 30, 2014 through December 19, 2014, the date on which the accompanying consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements. Reference is made to Note 1 regarding the disclosure of subsequent events related to the proposed Joint Venture with Vanguard.

INDEPENDENT AUDITORS' REPORT
ON OTHER FINANCIAL INFORMATION

Board of Trustees
The Waterbury Hospital

We have audited the consolidated financial statements of The Waterbury Hospital as of and for the years ended September 30, 2014 and 2013, and our report thereon dated December 19, 2014, which contained an unmodified opinion on those consolidated financial statements, appears on pages 1-2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for the purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements taken as a whole.

Marcum LLP

Hartford, CT
December 19, 2014

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2014

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Assets								
Current Assets								
Cash and cash equivalents	$ 26,817,453	$ 1,246,774	$ 2,192,258	$ 421,661	$ 1,048,604	$ 183,181	$ --	$ 31,909,931
Restricted cash	675,000	--	--	--	--	--	--	675,000
Short-term investments	--	--	507,699	--	--	--	--	507,699
Patient accounts receivable, net	26,853,209	874,082	1,610,880	--	1,428,376	479,375	(452,278)	30,793,644
Grants and other receivables	3,603,082	--	--	338	92,192	172,024	(23,874)	3,843,762
Inventories of supplies	3,694,606	--	30,346	--	185,876	3,117	--	3,913,945
Prepaid insurance and other expenses	1,493,653	--	54,850	4,814	235,813	134,222	--	1,923,352
Total Current Assets	63,137,003	2,120,856	4,396,033	426,813	2,990,861	971,919	(476,152)	73,567,333
Other Assets								
Funds held in trust by others	46,117,761	--	--	--	--	--	--	46,117,761
Long-term investments	11,017,660	38,776	61,581	--	--	--	--	11,118,017
Board-designated endowment funds	3,315,500	--	--	--	--	--	--	3,315,500
Other receivables	77,952	--	--	--	--	--	--	77,952
Goodwill	200,500	--	--	--	--	1,613,067	--	1,813,567
CHEFA obligations issue expense, less amortization	243,686	--	--	--	--	--	--	243,686
	60,973,059	38,776	61,581	--	--	1,613,067	--	62,686,483
Property, plant and equipment:								
Land	287,549	--	--	--	--	--	--	287,549
Buildings and improvements	89,842,088	1,150,645	557,686	1,670	2,634,456	121,621	--	94,308,166
Equipment	177,709,110	5,970,379	840,854	1,058,109	2,147,088	338,857	--	188,064,397
Less accumulated depreciation	(236,509,671)	(5,489,858)	(928,604)	(1,051,748)	(2,529,839)	(236,166)	--	(246,745,886)
	31,329,076	1,631,166	469,936	8,031	2,251,705	224,312	--	35,914,226
	$ 155,439,138	$ 3,790,798	$ 4,927,550	$ 434,844	$ 5,242,566	$ 2,809,298	$ (476,152)	$ 172,168,042

See independent auditors' report on other financial information.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2014

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Liabilities and Net Assets								
Current Liabilities								
Accounts payable and accrued expenses	$ 21,414,080	$ 523,448	$ 519,922	$ 12,854	$ 1,240,758	$ 87,858	$ (476,152)	$ 23,322,768
Salaries, wages, payroll taxes and amounts withheld from employees	7,138,794	--	215,139	--	1,051,000	1,436,967	--	9,841,900
Due to third-party reimbursement agencies	4,171,981	--	--	--	--	--	--	4,171,981
Current portion of CHEFA obligations	493,776	--	--	--	--	--	--	493,776
Current portion of notes payable and capital lease obligations	416,447	--	--	--	45,258	--	--	461,705
Due to (from) affiliates	2,916,986	--	--	(62,523)	(1,723,479)	(530,868)	--	600,116
Total Current Liabilities	36,552,064	523,448	735,061	(49,669)	613,537	993,957	(476,152)	38,892,246
Other Noncurrent Liabilities	25,163,807	--	--	--	191,170	--	--	25,354,977
CHEFA Obligations - less current portion	23,789,744	--	--	--	--	--	--	23,789,744
Notes Payable and Capital Lease Obligations - less current portion	404,144	--	--	--	34,840	--	--	438,984
Net Assets								
Unrestricted	11,890,055	2,091,104	2,725,118	411,836	4,403,019	1,815,341	--	23,336,473
Temporarily restricted	8,729,527	--	--	--	--	--	--	8,729,527
Permanently restricted	48,909,797	--	--	--	--	--	--	48,909,797
Total Net Assets Excluding Noncontrolling Interests	69,529,379	2,091,104	2,725,118	411,836	4,403,019	1,815,341	--	80,975,797
Noncontrolling Interests	--	1,176,246	1,467,371	72,677	--	--	--	2,716,294
Total Net Assets	69,529,379	3,267,350	4,192,489	484,513	4,403,019	1,815,341	--	83,692,091
	$ 155,439,138	$ 3,790,798	$ 4,927,550	$ 434,844	$ 5,242,566	$ 2,809,298	$ (476,152)	$ 172,168,042

See independent auditors' report on other financial information.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2013

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Assets								
Current Assets								
Cash and cash equivalents	$ 19,142,392	$ 1,262,636	$ 1,706,736	$ 359,845	$ 1,317,437	$ 204,377	$ --	$ 23,993,423
Restricted cash	4,519,908	--	--	--	--	--	--	4,519,908
Short-term investments	--	--	472,637	--	--	--	--	472,637
Patient accounts receivable, net	25,010,738	751,229	1,842,494	352	1,952,597	430,068	(546,352)	29,441,126
Grants and other receivables	3,065,683	--	--	--	503,555	185,477	(52,191)	3,702,524
Inventories of supplies	3,416,317	--	--	--	162,966	2,312	--	3,581,595
Prepaid insurance and other expenses	1,291,734	--	71,843	4,686	80,404	122,798	--	1,571,465
Total Current Assets	56,446,772	2,013,865	4,093,710	364,883	4,016,959	945,032	(598,543)	67,282,678
Other Assets								
Funds held in trust by others	44,960,039	--	--	--	--	--	--	44,960,039
Long-term investments	10,713,229	42,426	59,040	--	--	--	--	10,814,695
Board-designated endowment funds	3,193,664	--	--	--	--	--	--	3,193,664
Other receivables	171,972	--	--	--	--	--	--	171,972
Goodwill	200,500	--	--	--	--	1,613,067	--	1,813,567
CHEFA obligations issue expense, less amortization	282,676	--	--	--	--	--	--	282,676
	59,522,080	42,426	59,040	--	--	1,613,067	--	61,236,613
Property, plant and equipment:								
Land	287,549	--	--	--	--	--	--	287,549
Buildings and improvements	89,664,119	1,150,646	488,740	--	2,634,456	114,371	--	94,052,332
Equipment	176,657,750	5,970,380	766,531	1,134,076	2,040,925	342,599	--	186,912,261
Construction in progress	73,654	--	--	--	--	--	--	73,654
Less accumulated depreciation	(229,493,366)	(5,279,792)	(822,193)	(1,113,060)	(1,999,154)	(182,454)	--	(238,890,019)
	37,189,706	1,841,234	433,078	21,016	2,676,227	274,516	--	42,435,777
	$ 153,158,558	$ 3,897,525	$ 4,585,828	$ 385,899	$ 6,693,186	$ 2,832,615	$ (598,543)	$ 170,955,068

See independent auditors' report on other financial information.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2013

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Liabilities and Net Assets								
Current Liabilities								
Accounts payable and accrued expenses	$ 20,802,742	$ 348,614	$ 479,401	$ 19,215	$ 502,553	$ 24,245	$ (598,543)	$ 21,578,227
Salaries, wages, payroll taxes and amounts withheld from employees	5,298,046	--	159,713	--	505,210	1,432,042	--	7,395,011
Due to third-party reimbursement agencies	2,969,391	--	--	--	--	--	--	2,969,391
Current portion of CHEFA obligations	472,136	--	--	--	--	--	--	472,136
Current portion of notes payable and capital lease obligations	405,496	--	--	--	289,053	--	--	694,549
Due to (from) affiliates	1,795,348	--	--	(3,634)	690,250	(439,013)	--	2,042,951
Total Current Liabilities	31,743,159	348,614	639,114	15,581	1,987,066	1,017,274	(598,543)	35,152,265
Other Noncurrent Liabilities	21,482,020	--	--	--	331,487	--	--	21,813,507
CHEFA Obligations - less current portion	24,283,520	--	--	--	--	--	--	24,283,520
Notes Payable and Capital Lease Obligations - less current portion	820,591	--	--	--	31,977	--	--	852,568
Net Assets								
Unrestricted	18,667,399	2,271,303	2,565,364	314,770	4,342,656	1,815,341	--	29,976,833
Temporarily restricted	8,409,794	--	--	--	--	--	--	8,409,794
Permanently restricted	47,752,075	--	--	--	--	--	--	47,752,075
Total Net Assets Excluding Noncontrolling Interests	74,829,268	2,271,303	2,565,364	314,770	4,342,656	1,815,341	--	86,138,702
Noncontrolling Interests	--	1,277,608	1,381,350	55,548	--	--	--	2,714,506
Total Net Assets	74,829,268	3,548,911	3,946,714	370,318	4,342,656	1,815,341	--	88,853,208
	$ 153,158,558	$ 3,897,525	$ 4,585,828	$ 385,899	$ 6,693,186	$ 2,832,615	$ (598,543)	$ 170,955,068

See independent auditors' report on other financial information.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Unrestricted Revenues								
Net patient service revenues	$ 212,319,638	$ 4,424,791	$ 11,147,032	$ --	$ 16,873,540	$ 6,530,662	$ (2,459,349)	$ 248,836,314
Provision for (bad debts) recoveries	(3,692,986)	14,875	(108,185)	1,691	(518,641)	(133,571)	--	(4,436,817)
Net patient service revenues less provision for bad debts	208,626,652	4,439,666	11,038,847	1,691	16,354,899	6,397,091	(2,459,349)	244,399,497
Other operating revenues	2,671,751	--	1,039	163,293	4,595,487	1,762,014	(4,996,755)	4,196,829
Net assets released from restrictions	5,542,491	--	--	--	--	--	--	5,542,491
	216,840,894	4,439,666	11,039,886	164,984	20,950,386	8,159,105	(7,456,104)	254,138,817
Operating Expenses								
Salaries	83,908,937	727,282	6,832,163	--	17,793,489	8,789,526	--	118,051,397
Employee benefits	23,614,397	60,000	1,345,857	--	3,210,651	1,148,898	--	29,379,803
Supplies and other	100,656,298	1,916,231	1,756,019	44,660	7,534,825	1,286,065	(7,456,104)	105,737,994
Depreciation	6,921,086	213,716	110,717	6,034	531,675	77,732	--	7,860,960
Interest and amortization	1,352,572	--	--	--	32,415	--	--	1,384,987
	216,453,290	2,917,229	10,044,756	50,694	29,103,055	11,302,221	(7,456,104)	262,415,141
Income (Loss) from Operations	387,604	1,522,437	995,130	114,290	(8,152,669)	(3,143,116)	--	(8,276,324)
Nonoperating Gains								
Unrestricted gifts and bequests	1,240,261	--	--	--	--	--	--	1,240,261
Investment income	1,819,310	--	21,378	--	--	--	--	1,840,688
	3,059,571	--	21,378	--	--	--	--	3,080,949
Excess (Deficiency) of Revenues Over Expenses Before Changes in Net Unrealized Gains on Investments	3,447,175	1,522,437	1,016,508	114,290	(8,152,669)	(3,143,116)	--	(5,195,375)
Changes in Net Unrealized Gains on Investments	76,602	--	16,225	--	--	--	--	92,827
Excess (Deficiency) of Revenues Over Expenses	3,523,777	1,522,437	1,032,733	114,290	(8,152,669)	(3,143,116)	--	(5,102,548)
Less Excess of Revenue over Expenses Attributable to Noncontrolling Interests	--	--	--	--	--	--	(926,677)	(926,677)
Excess (Deficiency) of Revenues Over Expenses Attributable to Controlling Interest	$ 3,523,777	$ 1,522,437	$ 1,032,733	$ 114,290	$ (8,152,669)	$ (3,143,116)	$ (926,677)	$ (6,029,225)

See independent auditors' report on other financial information.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Unrestricted Revenues								
Net patient service revenues	$ 218,481,776	$ 4,496,888	$ 10,608,492	$ 172,403	$ 16,720,615	$ 6,426,998	$ (2,194,060)	$ 254,713,112
Provision for bad debts	(10,783,760)	29,929	(21,275)	--	(384,485)	(207,080)	--	(11,366,671)
Net patient service revenues less provision for bad debts	207,698,016	4,526,817	10,587,217	172,403	16,336,130	6,219,918	(2,194,060)	243,346,441
Other operating revenues	3,615,057	--	1,182	6,347	4,425,680	1,644,871	(4,483,169)	5,209,968
Net assets released from restrictions	5,419,591	--	--	--	--	--	--	5,419,591
	216,732,664	4,526,817	10,588,399	178,750	20,761,810	7,864,789	(6,677,229)	253,976,000
Operating Expenses								
Salaries	84,495,149	694,748	6,034,037	--	16,932,997	8,519,069	--	116,676,000
Employee benefits	25,316,268	85,023	1,245,184	--	3,120,845	1,146,177	--	30,913,497
Supplies and other	94,673,089	1,926,379	2,353,046	97,435	6,696,550	1,178,486	(6,677,229)	100,247,756
Depreciation	7,674,744	298,106	103,183	11,235	658,908	75,386	--	8,821,562
Interest and amortization	1,011,579	--	--	--	37,776	--	--	1,049,355
	213,170,829	3,004,256	9,735,450	108,670	27,447,076	10,919,118	(6,677,229)	257,708,170
Income (Loss) from Operations	3,561,835	1,522,561	852,949	70,080	(6,685,266)	(3,054,329)	--	(3,732,170)
Nonoperating Gains								
Unrestricted gifts and bequests	217,275	--	--	--	--	--	--	217,275
Investment income	1,722,250	--	15,173	--	--	--	--	1,737,423
	1,939,525	--	15,173	--	--	--	--	1,954,698
Excess (Deficiency) of Revenues Over Expenses Before Changes in Net Unrealized Gains on Investments	5,501,360	1,522,561	868,122	70,080	(6,685,266)	(3,054,329)	--	(1,777,472)
Changes in Net Unrealized Gains on Investments	233,353	--	34,882	--	--	--	--	268,235
Excess (Deficiency) of Revenues Over Expenses	5,734,713	1,522,561	903,004	70,080	(6,685,266)	(3,054,329)	--	(1,509,237)
Less Excess of Revenue over Expenses Attributable to Noncontrolling Interests	--	--	--	--	--	--	(874,685)	(874,685)
Excess (Deficiency) of Revenues Over Expenses Attributable to Controlling Interest	$ 5,734,713	$ 1,522,561	$ 903,004	$ 70,080	$ (6,685,266)	$ (3,054,329)	$ (874,685)	$ (2,383,922)

See independent auditors' report on other financial information.