

**Norwalk Hospital Association**  
**Consolidated Financial Statements**  
**September 30, 2011 and 2010**

**Norwalk Hospital Association**  
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**September 30, 2011 and 2010**

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## Report of Independent Auditors

To the Board of Trustees of  
Norwalk Hospital Association

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in net assets, and of cash flows present fairly, in all material respects, the consolidated financial position of Norwalk Hospital Association (the "Hospital") at September 30, 2011 and 2010, and the results of its operations, its changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Norwalk Hospital Association's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the Hospital adopted new guidance related to the presentation of non-controlling interests in consolidating entities.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information, on pages 21 through 26, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

January 26, 2012

# Norwalk Hospital Association

## Consolidated Balance Sheets

### Years Ended September 30, 2011 and 2010

	2011	2010
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 66,806,594	\$ 26,795,300
Investments	8,693,538	8,655,334
Patient accounts receivable, less allowance for doubtful accounts of \$25,800,000 and \$21,300,000, respectively	37,323,187	40,941,651
Due from affiliates, net	2,640,682	446,142
Other receivables	949,635	1,472,685
Inventories	1,964,675	2,361,637
Prepaid expenses	2,785,293	1,831,130
Assets whose use is limited - required for current liabilities	<u>372,429</u>	<u>371,800</u>
Total current assets	121,536,033	82,875,679
Assets whose use is limited		
Assets held by trustee under bond indenture agreements	15,111,873	1,075,930
Assets held in trust for self-insurance	<u>4,567,394</u>	<u>5,954,228</u>
Total assets whose use is limited	19,679,267	7,030,158
Long-term investments	21,526,072	21,535,624
Other assets	1,079,632	804,311
Non Compete	7,547,810	-
Due from third party agencies	2,715,774	4,244,774
Notes receivable	1,387,672	2,019,947
Goodwill	15,097,582	2,900,333
Investment in joint venture	2,729,803	2,729,803
Beneficial interest in Norwalk Hospital Foundation, Inc.	36,399,874	28,803,532
Property, plant and equipment		
Land and land improvements	2,727,368	2,677,639
Buildings	146,977,766	143,200,619
Equipment	233,652,063	221,634,356
Construction in progress	22,713,647	5,120,280
Accumulated depreciation	<u>(277,748,018)</u>	<u>(261,142,100)</u>
Total property, plant and equipment	128,322,826	111,490,794
Total assets	<u>\$ 358,022,345</u>	<u>\$ 264,434,955</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 26,817,229	\$ 19,791,066
Accrued compensation	19,374,751	18,652,987
Due to third party agencies	4,525,191	1,001,192
Accrued interest	809,088	141,774
Current portion of long-term debt	4,887,563	1,667,606
Current portion of capital lease	<u>9,649</u>	<u>8,447</u>
Total current liabilities	56,423,471	41,263,072
Accrued pension liability	60,019,814	37,851,799
Asset retirement obligation	11,509,090	10,212,507
Other liabilities	16,518,934	14,731,550
Due to third party agencies	14,726,335	9,650,070
Long-term debt, less current portion	61,717,853	15,742,952
Capital lease, less current portion	<u>7,180</u>	<u>16,826</u>
Total liabilities	220,922,677	129,468,776
Net assets		
Unrestricted attributable to Norwalk Hospital	105,557,071	111,690,517
Unrestricted attributable to non controlling interest	670,593	-
Temporarily restricted	21,432,761	13,846,953
Permanently restricted	<u>9,439,243</u>	<u>9,428,709</u>
Total net assets	137,099,668	134,966,179
Total liabilities and net assets	<u>\$ 358,022,345</u>	<u>\$ 264,434,955</u>

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

**Norwalk Hospital Association**  
**Consolidated Statements of Operations**  
**Years Ended September 30, 2011 and 2010**

	2011	2010
<b>Operating revenues</b>		
Net revenues from services to patients	\$ 350,611,400	\$ 326,580,262
Other operating revenues	22,891,536	24,258,085
Change in unrestricted interest in Norwalk Hospital Foundation, Inc.	-	32,601
Total operating revenues	<u>373,502,936</u>	<u>350,870,948</u>
<b>Operating expenses</b>		
Salaries and benefits	189,267,604	189,146,552
Supplies and other expenses	123,631,162	113,349,004
Depreciation	19,175,533	20,003,428
Provision for bad debts	20,654,069	23,255,695
Interest	1,530,916	646,398
Support for Norwalk Hospital Foundation, Inc.	1,042,576	1,428,713
Total operating expenses	<u>355,301,860</u>	<u>347,829,790</u>
Income from operations prior to restructuring expense	18,201,076	3,041,158
Restructuring expense	-	(3,934,121)
(Loss) income from operations	18,201,076	(892,963)
<b>Nonoperating income (expense)</b>		
Investment income	798,565	866,620
Net unrealized (loss) gain on investments	(1,455,301)	1,485,361
Total nonoperating (loss) income	<u>(656,736)</u>	<u>2,351,981</u>
Excess of revenues over expenses, before non-controlling interest	17,544,340	1,459,018
Change in value attributable to non controlling interest	(529,407)	-
Excess of revenues over expenses	17,014,933	1,459,018
<b>Other changes in net assets</b>		
Transfers from Norwalk Health Services Corporation	1,914,723	-
Transfers from Norwalk Hospital Foundation, Inc.	322,298	1,549,506
Funding of operations of Norwalk Hospital Foundation, Inc.	(765,289)	(362,133)
Transfers from Norwalk Surgery Center, LLC	1,200,000	-
Pension related changes other than net periodic benefit cost	(25,149,518)	(9,474,579)
Decrease in unrestricted net assets	<u>\$ (5,462,853)</u>	<u>\$ (6,828,188)</u>

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

**Norwalk Hospital Association**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended September 30, 2011 and 2010**

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	2011	2010
Unrestricted net assets		
Excess of revenues over expenses	\$ 17,014,933	\$ 1,459,018
Transfers from Norwalk Health Services Corporation	1,914,723	-
Transfers from Norwalk Hospital Foundation, Inc.	322,298	1,549,506
Funding of operations of Norwalk Hospital Foundation, Inc.	(765,289)	(362,133)
Transfers from Norwalk Surgery Center	1,200,000	-
Pension related changes other than net periodic benefit cost	<u>(25,149,518)</u>	<u>(9,474,579)</u>
Decrease in unrestricted net assets	(5,462,853)	(6,828,188)
Temporarily restricted net assets		
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	<u>7,585,808</u>	<u>120,510</u>
Increase in temporarily restricted net assets	7,585,808	120,510
Permanently restricted net assets		
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	<u>10,534</u>	<u>85,066</u>
Increase in permanently restricted net assets	<u>10,534</u>	<u>85,066</u>
Increase (decrease) in net assets	<u>2,133,489</u>	<u>(6,622,612)</u>
Net assets, beginning of year	<u>134,966,179</u>	<u>141,588,791</u>
Net assets, end of year	<u>\$ 137,099,668</u>	<u>\$ 134,966,179</u>

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

# Norwalk Hospital Association

## Consolidated Statements of Cash Flows

### Years Ended September 30, 2011 and 2010

	2011	2010
<b>Operating activities</b>		
Change in net assets	\$ 2,133,489	\$ (6,622,612)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Noncash items		
Depreciation and amortization	19,175,533	20,003,428
(Loss) gain on sale of property, plant and equipment	(800)	5,530
Provision for bad debts	20,654,069	23,255,695
Writeoff of investment in joint venture	-	-
Net realized and unrealized (gain) loss on investments	659,747	(1,620,261)
Pension related changes other than net periodic benefit cost	25,149,518	9,474,579
Net asset items		
Transfers to (from) Norwalk Hospital Foundation, Inc.	442,991	(1,187,373)
Transfer from Norwalk Health Services Corporation	(1,914,723)	-
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	(7,596,342)	(238,177)
Changes in operating assets and liabilities		
Accounts receivable	(17,035,605)	(21,851,482)
Due from affiliates	(2,194,540)	(485,695)
Other receivables	523,050	1,023,799
Inventories	529,255	(37,704)
Prepaid expenses	(832,584)	548,027
Other assets	(275,321)	(184,228)
Notes receivable	(59,080)	(105,960)
Accounts payable and accrued expenses	2,031,313	2,334,261
Accrued compensation	721,764	3,304,538
Due to third-party reimbursement agencies, net	10,129,264	853,120
Accrued interest	667,314	(11,820)
Accrued pension liability	(2,981,503)	(2,852,989)
Asset retirement obligation	1,296,583	1,972,357
Other liabilities	1,787,384	(3,058,645)
Net cash provided by operating activities	<u>53,010,776</u>	<u>24,518,388</u>
<b>Investing activities</b>		
Net (increase) decrease in assets whose use is limited	(12,643,839)	1,253,522
Sale of investments	4,226	612,308
Purchase of investments	(698,524)	(756,782)
Additions to property, plant and equipment	(28,100,123)	(15,003,326)
Proceeds from sale of property, plant and equipment	4,000	23,400
Acquisition of radiology imaging center	(22,914,723)	-
Advances to joint venture	-	(1,000)
Net cash used by investing activities	<u>(64,348,983)</u>	<u>(13,871,878)</u>
<b>Financing activities</b>		
Transfers (to) from Norwalk Hospital Foundation, Inc.	(442,991)	1,187,373
Transfers from Norwalk Health Services Corporation	1,914,723	-
Payments on notes receivable	691,355	162,842
Proceeds from long-term debt	50,840,000	-
Payments on capital lease	(8,444)	(11,532)
Payments on long-term debt	(1,645,142)	(1,800,462)
Net cash provided by (used by) financing activities	<u>51,349,501</u>	<u>(461,779)</u>
Increase in cash and cash equivalents	40,011,294	10,184,731
<b>Cash and cash equivalents</b>		
Beginning of year	26,795,300	16,610,569
End of year	<u>\$ 66,806,594</u>	<u>\$ 26,795,300</u>
<b>Noncash transactions</b>		
Fixed assets expenditures included in accounts payable	\$ 5,332,488	\$ 337,638
Capitalized interest	940,110	149,970

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

# **Norwalk Hospital Association**

## **Notes to Consolidated Financial Statements**

### **September 30, 2011 and 2010**

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#### **1. Organization and Significant Accounting Policies**

Norwalk Hospital Association (the "Hospital"), a not-for-profit organization incorporated under the General Statutes of the State of Connecticut, is a wholly-owned subsidiary of Norwalk Health Services Corporation. The Board of the Hospital, appointed by Norwalk Health Services Corporation, controls the operations of the Hospital.

##### **Principles of Consolidation**

The consolidated Norwalk Hospital Association financial statements include the accounts of the Hospital, its wholly-owned subsidiary, Fairfield County Medical Services, Inc., and its majority interest in Norwalk Surgery Center, LLC. 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 amounts reported in the financial statements and accompanying footnotes. Actual results could differ from those estimates. Significant estimates reflected in the consolidated financial statements include the contractual and bad debt allowances for patient service revenue and the related patient accounts receivable, valuation of the intangible asset from acquisition, estimated settlements due to or from third parties, the asset retirement obligation, reserves for malpractice, workers' compensation and other self-insured liabilities, and benefit plan assumptions.

##### **Income Taxes**

The Hospital and Fairfield County Medical Services, Inc. are not-for-profit corporations as described in Section 501(c) (3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

##### **Regulatory Matters**

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

##### **Cash Equivalents**

The Hospital and its subsidiary consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying value of cash equivalents approximates its fair value.

##### **Concentration of Credit Risk**

Cash and cash equivalents are maintained with domestic institutions. Management monitors the financial strength of those institutions.

##### **Investments**

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

# **Norwalk Hospital Association**

## **Notes to Consolidated Financial Statements**

### **September 30, 2011 and 2010**

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#### **Fair Value Measurements**

The Hospital records investments in the financial statements at fair value. Fair value is a market-based measurement based on assumptions that market participants would use in pricing an assets or liability. As a basis for considering assumptions, a three-tier fair value hierarchy has been established which priorities the inputs used to measure fair value. The three levels of the fair value hierarchy under this principle are as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets and liabilities in active markets that the Hospital has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets and liabilities in active markets;
- quoted prices for identical or similar assets and liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset and liability has a specified term, the level 2 input must be observable for substantially the full term of the asset and liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair values of the Hospital's investments are based on quoted market values.

#### **Fair Value Option**

The Hospital elected to measure its investments at fair value. Accordingly, unrealized gains and losses on investments are included in excess of revenues over expenses.

#### **Assets Whose Use is Limited**

Assets limited as to use primarily include assets held by trustees under indenture agreements and assets held by trustee for self insurance.

#### **Inventories**

Inventories are stated at the lower of cost, determined on the first-in, first-out (FIFO) method, or market.

#### **Investments in Joint Ventures**

The Hospital has invested in a joint venture which is accounted for under the equity method of accounting.

#### **Property, Plant and Equipment**

Property, plant and equipment are recorded at cost, or if received as a donation, at the fair value on the date received. The Hospital provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives. Useful lives assigned to assets are as follows: Land Improvements - 2-25 years; Buildings - 15-40 years; and Equipment - 3-20 years.

# **Norwalk Hospital Association**

## **Notes to Consolidated Financial Statements**

### **September 30, 2011 and 2010**

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#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

#### **Medical Malpractice Self-Insurance**

As of October 1, 2005, the Hospital is insured for general liability and professional liability claims by Maple Street Indemnity Company, Ltd. ("MSI"). MSI, a wholly owned subsidiary of Norwalk Health Services Corporation, is a captive insurance company, incorporated under the laws of the Bermuda Monetary Authority. The Hospital has obtained professional liability coverage through MSI of \$35,000,000 per claim and \$48,000,000 and \$50,000,000 in the aggregate in fiscal 2011 and 2010, respectively. MSI purchases \$30,000,000 of excess reinsurance coverage above a self-insured retention of \$5,000,000 per claim and \$18,000,000 and \$20,000,000 in the aggregate for fiscal 2011 and 2010, respectively.

The Hospital established an irrevocable trust for the purpose of setting aside assets to pay general and professional liability claims incurred prior to the formation of MSI on October 1, 2005 based on actuarial funding recommendations. Under the trust agreement, the trust assets can only be used for payment of malpractice losses, related expenses, and the cost of administering the trust. The assets of, and contributions to, the trust are reported as part of unrestricted net assets; income from the trust assets and administrative costs are reported in the statement of operations. Management accrues its best estimate of malpractice losses as they occur.

#### **Fair Value of Financial Instruments**

The carrying value of cash and cash equivalents, short term investments, accounts receivable, other receivables, assets limited as to use, investments, accounts payable and accrued liabilities at the balance sheet dates approximate their fair values. The fair value of long-term debt at the balance sheet dates, based on current market rates for similar debt, was approximately \$75,094,000 and \$19,233,000 in 2011 and 2010, respectively. The carrying value of debt is \$66,605,000 and \$17,410,558 in 2011 and 2010, respectively.

#### **Beneficial Interest in the Norwalk Hospital Foundation, Inc.**

The Hospital has recorded its beneficial interest in the net assets of Norwalk Hospital Foundation, Inc. (the "Foundation").

#### **Statement of Operations**

The consolidated statement of operations includes the excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, includes pension-related changes other than net periodic benefit cost, transfers from Norwalk Health Services Corporation, Norwalk Hospital Foundation, Inc., and Norwalk Surgery Center, LLC, and funding of operations of Norwalk Hospital Foundation, Inc.

#### **Nonoperating Income**

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating income (expense) primarily consists of investment income and realized and unrealized gains and losses on investments.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2011 and 2010**

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**Asset Retirement Obligation**

The Hospital records a liability for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. The fair value of a liability for a conditional asset retirement obligation is recognized in the period in which it occurred if a reasonable estimate of fair value can be made.

**Implementation of Accounting Standards**

Effective October 1, 2010, the Hospital adopted ASU *Not-for-Profit Entities Mergers and Acquisitions*. This guidance impacts the financial statement treatment of non-controlling interests in consolidated entities. This guidance requires the Hospital to report non-controlling interests in consolidated entities as a separate component of net assets on the Balance Sheet and the change in net assets attributable to the non-controlling interests separately within the *Statements of Changes in Net Assets*. The Hospital has consolidated non-controlling interests relating to its investment in Norwalk Surgery Center, LLC under ASU 2010 - 7. These non-controlling interests represent the portion of the Norwalk Surgery Center, LLC not controlled by the Hospital, but are required to be presented on the Hospital's balance sheet under generally accepted accounting principles. These interests were approximately \$671,000 as of September 30, 2011.

**2. Revenues From Services to Patients and Charity Write-Offs**

The following table summarizes revenues from services to patients:

	2011	2010
Gross revenues from services to patients	\$ 853,958,106	\$ 741,032,515
Deductions and exclusions		
Allowances	<u>503,346,706</u>	<u>414,452,253</u>
Net revenues from services to patients	<u>\$ 350,611,400</u>	<u>\$ 326,580,262</u>

Revenues and patient accounts receivable are recorded when patient services are performed. Amounts received from certain payors are different from established billing rates, and these differences are accounted for as allowances.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payor settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Inpatient acute care services rendered to Medicare program recipients are paid at prospectively determined rates per discharge varying according to the intensity of services required. Inpatient acute care services are paid based on Diagnosis-Related Groups ("DRG"), inpatient rehabilitation services are paid based on Case Mix Groups ("CMG"), and inpatient psychiatry services are paid on a prospective per diem rate. Outpatient services are reimbursed by Medicare on an Ambulatory Payment Classification ("APC") basis and fee screens. Hospital claims for reimbursement are subject to review and audit. The Hospital's Medicare costs reports have been final settled with the Medicare fiscal intermediary through 2006.

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Inpatient Medicaid reimbursement through the Connecticut Department of Social Services (“DSS”) is reimbursed on a per diem basis with settlement cost reports based on discharges filed in the subsequent fiscal year. Outpatient activity through DSS is reimbursed based on fee schedules in effect at the time the service is provided. Managed Medicaid services are reimbursed according to per diems and fee schedules in place at the time the service is provided.

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

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net revenue from patients and third-party payors at September 30, 2011 and 2010 are as follows:

	<b>2011</b>	<b>2010</b>
Commercial/other	56 %	52 %
Medicare	27	30
Self pay	8	10
Medicaid	9	8
	<u>100 %</u>	<u>100 %</u>

The mix of net receivables from patients and third-party payors at September 30, 2011 and 2010 are as follows:

	<b>2011</b>	<b>2010</b>
Commercial/other	76 %	70 %
Medicare	20	26
Self pay	-	1
Medicaid	4	3
	<u>100 %</u>	<u>100 %</u>

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. While the Hospital believes it is in compliance with all such applicable laws and regulations, as referenced in footnote 11 compliance with such laws and regulations is subject to government review and interpretation and can result in significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates can change by material amounts. In addition, changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

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. These policies define charity services as those services for which no payment is anticipated. In assessing a patient’s ability to pay, the Hospital utilizes the generally recognized poverty income levels for the state, but also includes certain cases where incurred charges are significant when compared to income published in the Federal Register. For the years ended September 30, 2011 and 2010, the Hospital provided charity care of approximately \$17,327,000 and \$18,026,000, respectively, in charges.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2011 and 2010**

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**3. Investments**

Investments are stated at fair value. The composition of investments as of September 30 is as follows:

	<b>2011</b>	<b>2010</b>
General investments		
Cash and cash equivalents	\$ 8,693,538	\$ 8,655,334
Mutual funds	<u>21,526,072</u>	<u>21,535,624</u>
	<u>\$ 30,219,610</u>	<u>\$ 30,190,958</u>
Assets held in trust for self-insurance		
Cash and cash equivalents	\$ 4,567,394	\$ 2,765,603
Mutual funds	<u>-</u>	<u>3,188,625</u>
	<u>\$ 4,567,394</u>	<u>\$ 5,954,228</u>
Assets held by trustee per bond indenture		
Cash and cash equivalents	\$ 15,149,873	\$ 1,076,626
U.S. Treasury obligations	<u>334,429</u>	<u>371,104</u>
	<u>\$ 15,484,302</u>	<u>\$ 1,447,730</u>

As described in Note 1, investments are recorded at fair value. The Hospital endeavors to utilize the best available information in measuring fair value. The following table presents the financial instruments carried at fair value:

	<b>2011</b>			<b>Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
General investments				
Cash and cash equivalents	\$ 8,693,537	\$ -	\$ -	\$ 8,693,537
Mutual funds	<u>21,526,073</u>			<u>21,526,073</u>
	<u>30,219,610</u>	<u>-</u>	<u>-</u>	<u>30,219,610</u>
Assets whose use is limited				
Cash and cash equivalents	19,717,267			19,717,267
U.S. Treasury obligations	334,429			334,429
Mutual funds	<u>-</u>			<u>-</u>
	<u>20,051,696</u>	<u>-</u>	<u>-</u>	<u>20,051,696</u>
	<u>\$ 50,271,306</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,271,306</u>

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
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	2010			Fair Value
	Level 1	Level 2	Level 3	
General investments				
Cash and cash equivalents	\$ 8,655,334	\$ -	\$ -	\$ 8,655,334
Mutual funds	21,535,624	-	-	21,535,624
	<u>30,190,958</u>	<u>-</u>	<u>-</u>	<u>30,190,958</u>
Assets whose use is limited				
Cash and cash equivalents	3,842,229	-	-	3,842,229
U.S. Treasury obligations	371,104	-	-	371,104
Mutual funds	3,188,626	-	-	3,188,626
	<u>7,401,959</u>	<u>-</u>	<u>-</u>	<u>7,401,959</u>
	<u>\$ 37,592,917</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,592,917</u>

There were no transfers of assets between levels for the year ended September 30, 2011.

Interest income and net realized gains and losses from investments, cash equivalents, and other investments comprise the following:

	2011	2010
Investment return		
Interest income	\$ 840,283	\$ 1,052,037
Net realized gains on sales of securities	795,554	134,900
	<u>\$ 1,635,837</u>	<u>\$ 1,186,937</u>

The Hospital has recorded \$796,825 and \$866,620 of the investment return as nonoperating gains for the years ended September 30, 2011 and 2010, respectively. The remaining investment income in 2011 and 2010 has been recorded as other operating revenues as certain investments relate to operating activities of the Hospital.

**4. Leases**

The Hospital leases property and equipment under noncancelable operating leases that expire in various years through 2028. Certain leases may be renewed at the end of their term.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
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Future minimum payments under noncancelable operating leases, and future receipts under noncancelable subleases where the Hospital is receiving rental receipts, with initial terms of one year or more consisted of the following at September 30, 2011:

	<b>Operating Lease Payments</b>	<b>Sublease Rental Receipts</b>
2012	\$ 6,932,000	\$ 2,827,000
2013	6,775,000	2,840,000
2014	6,742,000	2,869,000
2015	6,676,000	2,934,000
2016	6,750,000	3,007,000
Thereafter	<u>66,378,000</u>	<u>11,987,000</u>
	<u>\$ 100,253,000</u>	<u>\$ 26,464,000</u>

Rental expense was approximately \$8,336,000 and \$7,435,000 for the years ended September 30, 2011 and 2010, respectively. Rental expense was offset by rental revenue of approximately \$2,525,000 and \$2,208,000, respectively, for net rental expense of approximately \$5,811,000 and \$5,227,000, respectively. An amount of \$393,000 and \$801,000, respectively, of the net rental expense is included in other operating revenues and \$5,418,000 and \$4,426,000, respectively, is included in supplies and other expenses on the consolidated statements of operations.

**5. Goodwill**

In 2011, the Hospital recorded goodwill of \$13,843,749 related to the acquisition of Norwalk Radiology and Mammography Center ("NRM"). The Hospital will assess the goodwill for impairment on an annual basis.

In 2009, the Hospital purchased a physician practice. The Hospital paid consideration of \$1,866,755 of which \$1,620,000 was recorded as goodwill. Accumulated impairment as of September 30, 2011 and 2010 amounted to \$837,000 and \$513,000, respectively.

The Hospital maintains goodwill associated with a purchase of a diagnostic imaging service practice. The Hospital paid \$3,362,500 in consideration all of which was recorded as goodwill. In fiscal 2011, the Hospital recorded impairment of goodwill associated with the purchase due to reduced radiology volume. Accumulated impairment as of September 30, 2011 and 2010 amounted to \$2,891,667 and \$1,569,167, respectively.

**6. Long-Term Debt**

The Hospital has outstanding State of Connecticut Health and Educational Facilities Authority ("CHEFA") Revenue Bonds, Series E issued under a Master Trust Indenture with the Hospital, Norwalk Health Care, Inc., and the Foundation (collectively, the "Obligated Group"). The Series E bonds mature serially through 2022 with interest at a net average annual rate of 4.41%. Interest on the bonds is payable semi annually each January 1 and July 1. As of September 30, 2011, the Series E outstanding debt is \$9,220,000.

## **Norwalk Hospital Association**

### **Notes to Consolidated Financial Statements**

#### **September 30, 2011 and 2010**

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The bonds are collateralized by the debt service reserve fund, and other funds held by the Bond Trustee as well as the gross receipts of the Obligated Group. The outstanding principal amount of the Obligated Group's loan obligation at September 30, 2011 and 2010 is \$63,865,000 and \$18,180,000, respectively.

The Series E are subject to early redemption at the option of the Hospital, at established redemption prices.

The Series E bonds are subject to mandatory sinking fund redemptions on each July 1, commencing July 1, 2015. The Series E bonds maturing on July 1, 2022, are subject to mandatory sinking fund redemption on each July 1, commencing July 1, 2020.

In 2011, the Hospital financed the construction of the parking garage and other equipment through a private placement as CHEFA Series G, H and I, which issued \$46,840,000 in debt under the existing Master Trust Indenture.

The Series G bonds totaling \$25,000,000 mature serially through 2025 with interest at an annual rate of 5.12%. Interest on the bonds is payable semi annually each June and December 1. As of September 30, 2011, the Series G outstanding debt is \$25,000,000.

The Series H bonds totaling \$10,040,000 mature serially through 2020 with interest at an annual rate of 3.49%. Interest on the bonds is payable semi annually each June and December 1. As of September 30, 2011, the Series H outstanding debt is \$10,040,000.

The Series I bonds totaling \$11,800,000 mature serially through 2020 with interest at an annual rate of 3.4%. Interest on the bonds is payable semi annually each June and December 1. As of September 30, 2011, the Series I outstanding debt is \$11,800,000.

In 2011, Norwalk Surgery Center, LLC obtained a \$4,000,000 seven year term loan from The Bank of Fairfield. The loan bears interest at a fixed rate of 4.875%. Monthly payments of interest only are required for the first eighteen months of the loan. Thereafter, monthly payments of principal and interest are required based upon a five and one-half year amortization schedule. The loan is secured by a first lien on all business assets of Norwalk Surgery Center, LLC.

In 2007, the Hospital financed certain equipment related to an energy project through CHEFA, which issued \$9,066,025 in debt under a Master Financing Agreement (the "Agreement"), dated as of April 1, 2007 with Bank of America Public Capital Corp. as the lender (the "Lender"). The loan is payable in 120 equal installment of \$93,432 beginning June 3, 2007, with interest of 4.38%. The Hospital has granted a collateral interest to the Lender in the equipment financed. As of September 30, 2011, the CHEFA outstanding debt is \$5,604,000.

In connection with this borrowing, the Hospital applied to the Department of Public Utility Control ("DPUC") for a capital grant for customer-side distributed resources. Pursuant to the application, DPUC has approved a rate reduction subsidy with regard to certain of the equipment financed under this Agreement. Effective July 3, 2010, the rate reduction subsidy of \$1,302 per month is remitted by the Connecticut Light and Power Company directly to the Lender.

In 2007, the Hospital entered into an agreement with the Connecticut Hospital Association Trust (the "Trust") to borrow up to \$2,000,000 from the energy conservation and load management loan fund. The loan, which is interest free, will enable the Hospital to convert electrical energy and to manage its electrical energy needs. As of September 30, 2011 and 2010, \$941,496 and

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
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\$1,188,602, respectively, was outstanding under the agreement. The loan is payable in 84 equal monthly installments of \$22,462, beginning April 1, 2008. As of September 30, 2011, the Trust outstanding debt is \$941,000.

The following table summarizes the long-term debt outstanding as of September 30, 2011:

	<b>Norwalk Hospital</b>	<b>Norwalk Surgery Center, LLC</b>	<b>Total</b>
2012	\$ 4,834,597	\$ 52,966	\$ 4,887,563
2013	5,025,862	652,628	5,678,490
2014	5,223,589	685,164	5,908,753
2015	5,296,052	719,323	6,015,375
2016	5,389,094	755,184	6,144,278
Thereafter	<u>36,836,222</u>	<u>1,134,735</u>	<u>37,970,957</u>
	62,605,416	4,000,000	66,605,416
Less current portion of long-term debt	<u>4,834,597</u>	<u>52,966</u>	<u>4,887,563</u>
Long-term debt	<u>\$ 57,770,819</u>	<u>\$ 3,947,034</u>	<u>\$ 61,717,853</u>

During 2011 and 2010, the Hospital paid interest of \$1,723,690 and \$808,188, respectively, on its long-term debt obligations. Interest capitalized for the years ended September 30, 2011 and 2010 was approximately \$940,000 and \$150,000, respectively.

**7. Benefit Plans**

The Hospital has a defined benefit pension plan covering all eligible employees. The benefits are based on years of service and the employee's average compensation (as defined in the Plan document). The Hospital's funding policy is to contribute, for each plan year, an amount necessary to satisfy the Employee Retirement Income Security Act ("ERISA") minimum funding requirements.

Effective December 31, 2006, an amendment froze participation in the plan. Individuals hired on or after January 1, 2007 are ineligible to participate in the plan.

Amounts included as a reduction of unrestricted net assets that are not yet recognized as a component of net periodic benefit cost are as follows:

	<b>2011</b>	<b>2010</b>
Net actuarial loss	\$ 94,565,193	\$ 68,803,670
Prior service cost	<u>1,130,837</u>	<u>1,742,842</u>
	<u>\$ 95,696,030</u>	<u>\$ 70,546,512</u>

The amount of prior service cost and actuarial loss expected to be recognized in net periodic benefit cost in 2012 is \$4,822,292.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
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The following is a summary of the changes in the projected benefit obligation and plan assets:

Funded status and accrued pension liability	<u>\$ (60,019,814)</u>	<u>\$ (37,851,799)</u>
	<b>2011</b>	<b>2010</b>
<b>Accumulated benefit obligation</b>	<u>\$ 183,920,145</u>	<u>\$ 166,752,098</u>
<b>Change in projected benefit obligation</b>		
Benefit obligation, beginning of period	\$ 175,101,725	\$ 154,845,948
Service cost	6,250,268	6,225,852
Interest cost	8,875,690	8,467,557
Actuarial loss	16,603,824	12,583,922
Benefits paid	<u>(7,567,879)</u>	<u>(7,021,554)</u>
Benefit obligation, end of period	<u>\$ 199,263,628</u>	<u>\$ 175,101,725</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of period	\$ 137,249,926	\$ 123,615,739
Actuarial return on plan assets	(438,233)	11,655,741
Contributions	10,000,000	9,000,000
Benefits paid	<u>(7,567,879)</u>	<u>(7,021,554)</u>
Fair value of plan assets, end of period	<u>\$ 139,243,814</u>	<u>\$ 137,249,926</u>
Funded status and accrued pension liability	<u>\$ (60,019,814)</u>	<u>\$ (37,851,799)</u>

Components of net periodic benefit cost for the year ended September 30:

	<b>2011</b>	<b>2010</b>
Service cost	\$ 6,250,268	\$ 6,225,852
Interest cost	8,875,690	8,467,557
Expected return on plan assets	(12,010,289)	(11,290,183)
Net amortization and deferral	<u>3,902,828</u>	<u>2,743,785</u>
Net periodic benefit cost	<u>\$ 7,018,497</u>	<u>\$ 6,147,011</u>

**Assumptions**

The weighted-average assumptions used to determine the year-end benefit obligation at September 30, 2011 and 2010 are as follows:

	<b>2011</b>	<b>2010</b>
Discount rate	4.68 %	5.17 %
Rate of compensation increase	3.50%	3.50 %

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2011 and 2010**

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

	2011	2010
Discount rate	5.17 %	5.60 %
Expected return on assets	8.00 %	8.00 %
Rate of compensation increase	3.50 %	4.00 %

The Hospital's expected long-term rate of return on assets assumption is derived from a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the plan to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. While the review gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate.

**Plan Assets**

The Hospital's pension plan asset allocations at September 30, 2011 and 2010 are as follows:

Asset Category	2011	2010
Equity securities	56 %	58 %
Debt securities	44 %	42 %
Total	100 %	100 %

The Hospital maintains target allocation percentages among various asset classes based on an investment policy established for the pension plan which is designed to achieve; long-term objectives of return, while mitigating against downside risk and considering expected cash flows. The current weighted-average target asset allocation is 60% equity securities and 40% debt securities. The investment policy is reviewed from time to time to ensure consistency with the long-term objective of funding the plan to a level sufficient to pay benefits as they become due.

The defined benefit plan assets categorization is based upon the lowest level of input that is significant to the fair value measurement within the valuation hierarchy. The following table summarizes the Hospital's fair values of investments by major type held by the defined benefit plan at September 30:

	2011			Fair Value
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 636,617	\$ -	\$ -	\$ 636,617
Mutual funds	138,415,668			138,415,668
Unallocated immediate participation group annuity contract		191,529		191,529
	\$ 139,052,285	\$ 191,529	\$ -	\$ 139,243,814

**Norwalk Hospital Association**  
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**Contributions**

The Hospital expects to contribute \$10,000,000 to the plan in fiscal 2012.

**Estimated Future Benefit Payments**

The following future benefit payments are expected to be paid:

<b>Fiscal Year</b>	<b>Benefit Payments</b>
2012	\$ 6,742,000
2013	7,038,000
2014	7,351,000
2015	7,709,000
2016	8,180,000
2017 - 2021	50,459,000
	<u>\$ 87,479,000</u>

The Hospital also sponsors a defined contribution savings plan covering substantially all of its employees. Effective January 1, 2007, the plan was split into two parts. Part I is for eligible employees who have a date of employment on or before December 31, 2006. Part II is for eligible employees who have a date of employment on January 1, 2007 or thereafter. Elective deferrals and after tax contributions are made pursuant to a salary reduction agreement for Part I and Part II employees.

For Part I employees, the Hospital provides a partial matching contribution on the first 3% of an employee's elective deferred and/or after tax contributions.

For Part II employees, the Hospital provides a partial matching contribution on the first 3% of an employee's elective deferral and/or after tax contributions. Part II employees will also receive a required employer contribution equal to 3% of such employee's compensation.

Expense related to the Hospital's defined contribution plan was approximately \$2,841,000 and \$2,697,000 for the years ended September 30, 2011 and 2010, respectively.

**8. Temporarily and Permanently Restricted Net Assets**

The Hospital's temporarily and permanently restricted net assets represent its beneficial interest in the Foundation.

Temporarily restricted net assets are available for the following purposes at September 30:

	<b>2011</b>	<b>2010</b>
Healthcare services	<u>\$ 21,432,761</u>	<u>\$ 13,846,953</u>

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2011 and 2010**

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Permanently restricted net assets at September 30, 2011 and 2010 are restricted to:

	<b>2011</b>	<b>2010</b>
Healthcare services	<u>\$ 9,439,243</u>	<u>\$ 9,428,709</u>

**9. Transactions with Affiliates**

The Hospital records other operating revenues from an affiliated entity, Norwalk Health Care, Inc., a wholly owned subsidiary of Norwalk Health Services Corporation. Revenues for services provided to this entity, at cost, totaled approximately \$1,590,000 and \$1,549,000 in 2011 and 2010, respectively.

Following are the balances due from (to) affiliates:

	<b>2011</b>	<b>2010</b>
Norwalk Health Care, Inc.	\$ 1,990,712	\$ 138,018
Norwalk Health Services Corporation	271,630	45,000
Norwalk Hospital Foundation, Inc.	342,032	250,927
SWC Corporation	<u>36,308</u>	<u>12,197</u>
	<u>\$ 2,640,682</u>	<u>\$ 446,142</u>

**10. Acquisition of Norwalk Radiology and Mammography Center**

In 2011, a medical imaging Joint Venture between SWC Corporation, an affiliate of the Hospital, and a group of physicians was terminated. The Hospital purchased the medical imaging business from the group of physicians that was previously part of the Joint Venture for \$20,000,000. The Hospital has recorded as purchase consideration an additional \$1,914,723 which represents SWC investment in the Joint Venture at the time of sale and an accrual of \$1,000,000 as an estimate of the potential earn out based on volume. This earn out is also recorded as a liability. The transaction was recorded as follows:

Goodwill	\$ 13,843,749
Covenant not to compete intangible	7,945,063
Property, plant and equipment	872,039
Inventory	132,293
Prepaid expenses	<u>121,579</u>
Total	<u>\$ 22,914,723</u>

The value of the Covenant Not to Compete ("CNC") is based on the management's assessment of a 50% probability of radiologist competition and a maximum 60% reduction in volume over a three year period. The CNC was projected to have an impact in perpetuity. The Hospital is amortizing the non-compete intangible over the 10 year length of the non-compete agreement on a straight-line basis. Accumulated amortization as of September 30, 2011 amounted to \$397,253.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2011 and 2010**

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**11. Contingencies**

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. While the outcomes of the lawsuits and claims cannot be determined at this time, management believes that any loss that may arise from these lawsuits and claims will not have a material adverse effect on the financial position or on the net assets of the Hospital.

The Hospital has received requests for information from governmental authorities relating to, among other things, patient billings. These requests relate to compliance with certain laws and regulations. Management is cooperating with these governmental authorities in their information requests and ongoing investigations. While management does not believe that any of these inquiries or investigations will result in a material future loss, the ultimate results of these inquiries and investigations, including the impact on the Hospital, cannot be determined at this time.

**12. Functional Expenses**

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

	<b>2011</b>	<b>2010</b>
Health care services	\$ 251,839,907	\$ 243,699,012
General and administrative	103,461,953	104,130,778
Restructuring expense	<u>-</u>	<u>3,934,121</u>
	<u>\$ 355,301,860</u>	<u>\$ 351,763,911</u>

**13. Subsequent Events**

The Hospital and its subsidiary have performed an evaluation of subsequent events through January 26, 2012, which is the date the financial statements were issued.

## **Supplemental Consolidating Information**

**Norwalk Hospital Association**  
**Supplemental Consolidating Balance Sheet**  
**Year Ended September 30, 2011**

	<b>Norwalk Hospital Association</b>	<b>Norwalk Surgery Center LLC</b>	<b>Fairfield County Medical Services, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 61,458,676	\$ 5,078,647	\$ 269,271	\$ -	\$ 66,806,594
Investments	8,693,538	-	-	-	8,693,538
Patient accounts receivable, net	37,299,759	23,428	-	-	37,323,187
Other receivables	81,421	-	868,214	-	949,635
Due from affiliates, net	2,640,682	-	-	-	2,640,682
Inventories	1,879,253	85,422	-	-	1,964,675
Prepaid expenses	2,698,590	86,703	-	-	2,785,293
Assets whose use is limited - required for current liabilities	372,429	-	-	-	372,429
<b>Total current assets</b>	<b>115,124,348</b>	<b>5,274,200</b>	<b>1,137,485</b>	<b>-</b>	<b>121,536,033</b>
<b>Assets limited as to use</b>					
Assets held by trustee per bond indenture	15,111,873	-	-	-	15,111,873
Assets held in trustee for self-insurance	4,567,394	-	-	-	4,567,394
<b>Total assets whose use is limited</b>	<b>19,679,267</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,679,267</b>
Long-term investments	21,526,072	-	-	-	21,526,072
Other assets	1,066,103	13,529	-	-	1,079,632
Non Compete	7,547,810	-	-	-	7,547,810
Due from third party agencies	2,715,774	-	-	-	2,715,774
Notes receivable	1,387,672	-	-	-	1,387,672
Goodwill	15,097,582	-	-	-	15,097,582
Investment in joint venture	2,729,803	-	-	-	2,729,803
Beneficial interest in Norwalk Hospital Foundation, Inc.	36,399,874	-	-	-	36,399,874
<b>Property, plant and equipment</b>					
Land and land improvements	2,727,368	-	-	-	2,727,368
Buildings	146,418,075	559,691	-	-	146,977,766
Equipment	232,771,161	880,902	-	-	233,652,063
Construction in progress	22,713,647	-	-	-	22,713,647
Accumulated depreciation	(277,722,033)	(25,985)	-	-	(277,748,018)
<b>Total property, plant and equipment</b>	<b>126,908,218</b>	<b>1,414,608</b>	<b>-</b>	<b>-</b>	<b>128,322,826</b>
<b>Total assets</b>	<b>\$ 350,182,523</b>	<b>\$ 6,702,337</b>	<b>\$ 1,137,485</b>	<b>\$ -</b>	<b>\$ 358,022,345</b>

**Norwalk Hospital Association**  
**Supplemental Consolidating Balance Sheet**  
**Year Ended September 30, 2011**

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Fairfield County Medical Services, Inc.	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>					
Current liabilities					
Accounts payable and accrued expenses	\$ 26,154,825	\$ 445,231	\$ 217,173	\$ -	\$ 26,817,229
Salaries, wages, payroll taxes and amounts withheld from employees	17,600,200	21,796	1,752,755	-	19,374,751
Due to third party agencies	4,525,191	-	-	-	4,525,191
Due to affiliates, net	-	-	-	-	-
Accrued interest payable	809,088	-	-	-	809,088
Current portion of long-term debt	4,834,597	52,966	-	-	4,887,563
Current portion of capital lease	9,649	-	-	-	9,649
Total current liabilities	<u>53,933,550</u>	<u>519,993</u>	<u>1,969,928</u>	-	<u>56,423,471</u>
Accrued pension liability	60,019,814	-	-	-	60,019,814
Asset retirement obligation	11,509,090	-	-	-	11,509,090
Other liabilities	16,518,934	-	-	-	16,518,934
Due to third party agencies	14,726,335	-	-	-	14,726,335
Long-term debt, less current portion	57,770,819	3,947,034	-	-	61,717,853
Long-term capital lease, less current portion	7,180	-	-	-	7,180
Total liabilities	<u>214,485,722</u>	<u>4,467,027</u>	<u>1,969,928</u>	-	<u>220,922,677</u>
Net assets (deficit)					
Unrestricted	104,154,204	2,235,310	(832,443)	-	105,557,071
Unrestricted attributable to noncontrolling interest	670,593	-	-	-	670,593
Temporarily restricted	21,432,761	-	-	-	21,432,761
Permanently restricted	9,439,243	-	-	-	9,439,243
Total net assets	<u>135,696,801</u>	<u>2,235,310</u>	<u>(832,443)</u>	-	<u>137,099,668</u>
Total liabilities and net assets	<u>\$ 350,182,523</u>	<u>\$ 6,702,337</u>	<u>\$ 1,137,485</u>	<u>\$ -</u>	<u>\$ 358,022,345</u>

**Norwalk Hospital Association**  
**Supplemental Consolidating Statement of Operations**  
**Year Ended September 30, 2011**

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Fairfield County Medical Services, Inc.	Eliminations	Consolidated
<b>Operating revenues</b>					
Net revenues from services to patients	\$ 350,594,448	\$ 16,952	\$ -	\$ -	\$ 350,611,400
Other operating revenues	12,324,861	-	14,929,787	(4,363,112)	22,891,536
Total operating revenues	362,919,309	16,952	14,929,787	(4,363,112)	373,502,936
<b>Operating expenses</b>					
Salaries and benefits	174,865,641	316,521	14,085,442	-	189,267,604
Supplies and other expenses	121,421,335	580,234	5,992,705	(4,363,112)	123,631,162
Depreciation and amortization	19,041,348	18,296	115,889	-	19,175,533
Provision for bad debts	20,654,069	-	-	-	20,654,069
Interest	1,450,895	80,021	-	-	1,530,916
Support for Norwalk Hospital Foundation, Inc.	1,042,576	-	-	-	1,042,576
Total operating expenses	338,475,864	995,072	20,194,036	(4,363,112)	355,301,860
Income (loss) from operations	24,443,445	(978,120)	(5,264,249)	-	18,201,076
<b>Nonoperating income (expense)</b>					
Investment income	796,825	1,740	-	-	798,565
Net unrealized loss on investments	(1,455,301)	-	-	-	(1,455,301)
Total nonoperating income (expense)	(658,476)	1,740	-	-	(656,736)
Excess (deficiency) of revenues over expenses, before non controlling interest	23,784,969	(976,380)	(5,264,249)	-	17,544,340
Change in value attributable to non controlling interest	-	(529,407)	-	-	(529,407)
Excess (deficiency) of revenues over expenses	23,784,969	(1,505,787)	(5,264,249)	-	17,014,933
<b>Other changes in net assets</b>					
Transfers from Norwalk Health Services Corporation	1,914,723	-	-	-	1,914,723
Transfer to Fairfield County Medical Services, Inc.	(4,642,266)	-	4,642,266	-	-
Transfers from Norwalk Hospital Foundation, Inc.	322,298	-	-	-	322,298
Funding of operations of Norwalk Hospital Foundation, Inc.	(765,289)	-	-	-	(765,289)
Transfer to Norwalk Surgery Center, LLC	(2,100,000)	3,300,000	-	-	1,200,000
Pension related changes other than net periodic benefit cost	(25,149,518)	-	-	-	(25,149,518)
(Decrease) increase in unrestricted net assets	\$ (6,635,083)	\$ 1,794,213	\$ (621,983)	\$ -	\$ (5,462,853)

**Norwalk Hospital Association**  
**Supplemental Consolidating Balance Sheet**  
**Year Ended September 30, 2010**

	Norwalk Hospital Association	Fairfield County Medical Services, Inc.	Eliminations	Consolidated
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 26,310,543	\$ 484,757	\$ -	\$ 26,795,300
Investments	8,655,334	-	-	8,655,334
Patient accounts receivable, net	40,941,651	-	-	40,941,651
Other receivables	573,584	899,101	-	1,472,685
Due from affiliates, net	446,142	-	-	446,142
Inventories	2,361,637	-	-	2,361,637
Prepaid expenses	1,831,130	-	-	1,831,130
Assets whose use is limited - required for current liabilities	371,800	-	-	371,800
Total current assets	81,491,821	1,383,858	-	82,875,679
Assets limited as to use				
Assets held by trustee per bond indenture	1,075,930	-	-	1,075,930
Assets held in trustee for self-insurance	5,954,228	-	-	5,954,228
Total assets whose use is limited	7,030,158	-	-	7,030,158
Long-term investments	21,535,624	-	-	21,535,624
Other assets	804,311	-	-	804,311
Due from third party agencies	4,244,774	-	-	4,244,774
Notes receivable	2,019,947	-	-	2,019,947
Goodwill	2,900,333	-	-	2,900,333
Investment in joint venture	2,729,803	-	-	2,729,803
Beneficial interest in Norwalk Hospital Foundation, Inc.	28,803,532	-	-	28,803,532
Property, plant and equipment				
Land and land improvements	2,677,639	-	-	2,677,639
Buildings	143,200,619	-	-	143,200,619
Equipment	221,634,356	-	-	221,634,356
Construction in progress	5,120,280	-	-	5,120,280
Accumulated depreciation	(261,142,100)	-	-	(261,142,100)
Total property, plant and equipment	111,490,794	-	-	111,490,794
Total assets	\$ 263,051,097	\$ 1,383,858	\$ -	\$ 264,434,955

**Norwalk Hospital Association  
Supplemental Consolidating Balance Sheet  
Year Ended September 30, 2010**

	<b>Norwalk Hospital Association</b>	<b>Fairfield County Medical Services, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Liabilities and Net Assets</b>				
Current liabilities				
Accounts payable and accrued expenses	\$ 19,616,137	\$ 174,929	\$ -	\$ 19,791,066
Salaries, wages, payroll taxes and amounts withheld from employees	17,233,599	1,419,388	-	18,652,987
Due to third party agencies	1,001,192	-	-	1,001,192
Accrued interest payable	141,774	-	-	141,774
Current portion of long-term debt	1,667,606	-	-	1,667,606
Current portion of capital lease	8,447	-	-	8,447
Total current liabilities	39,668,755	1,594,317	-	41,263,072
Accrued pension liability	37,851,799	-	-	37,851,799
Asset retirement obligation	10,212,507	-	-	10,212,507
Other liabilities	14,731,550	-	-	14,731,550
Due to third party agencies	9,650,070	-	-	9,650,070
Long-term debt, less current portion	15,742,952	-	-	15,742,952
Long-term capital lease, less current portion	16,826	-	-	16,826
Total liabilities	127,874,459	1,594,317	-	129,468,776
Net assets (deficit)				
Unrestricted	111,900,976	(210,459)	-	111,690,517
Temporarily restricted	13,846,953	-	-	13,846,953
Permanently restricted	9,428,709	-	-	9,428,709
Total net assets	135,176,638	(210,459)	-	134,966,179
Total liabilities and net assets	\$ 263,051,097	\$ 1,383,858	\$ -	\$ 264,434,955

**Norwalk Hospital Association**  
**Supplemental Consolidating Statement of Operations**  
**Year Ended September 30, 2010**

	<b>Norwalk Hospital Association</b>	<b>Fairfield County Medical Services, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Operating revenues</b>				
Net revenues from services to patients	\$ 326,580,262	\$ -	\$ -	\$ 326,580,262
Other operating revenues	13,724,309	14,143,989	(3,610,213)	24,258,085
Change in unrestricted interest in Norwalk Hospital Foundation, Inc.	32,601	-	-	32,601
Total operating revenues	<u>340,337,172</u>	<u>14,143,989</u>	<u>(3,610,213)</u>	<u>350,870,948</u>
<b>Operating expenses</b>				
Salaries and benefits	176,944,811	12,201,741	-	189,146,552
Supplies and other expenses	111,346,413	5,612,804	(3,610,213)	113,349,004
Depreciation and amortization	19,888,350	115,078	-	20,003,428
Provision for bad debts	23,255,695	-	-	23,255,695
Interest	646,398	-	-	646,398
Support for Norwalk Hospital Foundation, Inc.	1,428,713	-	-	1,428,713
Total operating expenses	<u>333,510,380</u>	<u>17,929,623</u>	<u>(3,610,213)</u>	<u>347,829,790</u>
Income from operations prior to restructuring expense	6,826,792	(3,785,634)	-	3,041,158
Restructuring expense	<u>(3,934,121)</u>	<u>-</u>	<u>-</u>	<u>(3,934,121)</u>
Income (loss) from operations	2,892,671	(3,785,634)	-	(892,963)
<b>Nonoperating income</b>				
Investment income	866,620	-	-	866,620
Net unrealized gains on investments	1,485,361	-	-	1,485,361
Total nonoperating income	<u>2,351,981</u>	<u>-</u>	<u>-</u>	<u>2,351,981</u>
Excess (deficiency) of revenues over expenses	5,244,652	(3,785,634)	-	1,459,018
<b>Other changes in net assets</b>				
Transfers to Fairfield County Medical Services, Inc.	(10,906,307)	10,906,307	-	-
Transfers from Norwalk Hospital Foundation, Inc.	1,549,506	-	-	1,549,506
Funding of operations of Norwalk Hospital Foundation, Inc.	(362,133)	-	-	(362,133)
Pension related changes other than net periodic benefit cost	<u>(9,474,579)</u>	<u>-</u>	<u>-</u>	<u>(9,474,579)</u>
(Decrease) increase in unrestricted net assets	<u>\$ (13,948,861)</u>	<u>\$ 7,120,673</u>	<u>\$ -</u>	<u>\$ (6,828,188)</u>