

**Norwalk Health Services
Corporation and Subsidiaries**
Consolidated Financial Statements
September 30, 2011 and 2010

Norwalk Health Services Corporation and Subsidiaries

Index

September 30, 2011 and 2010

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Report of Independent Auditors

To the Board of Trustees of
Norwalk Health Services Corporation:

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 Health Services Corporation and its subsidiaries (the "System") at September 30, 2011 and 2010, and the results of their operations, their changes in net assets, and their 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 the System'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 System 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 24 through 31, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operation of the individual companies. Accordingly, we do not express an opinion on the financial position, results of operations, and changes in net assets 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 Health Services Corporation and Subsidiaries
Consolidated Balance Sheets
September 30, 2011 and 2010

| | 2011 | 2010 |
|---|-----------------------|-----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 77,594,791 | \$ 28,741,901 |
| Investments | 38,584,167 | 31,620,264 |
| Patient accounts receivable, less allowance for doubtful accounts of \$27,351,637 in 2011 and \$22,898,301 in 2010 | 38,601,542 | 42,567,297 |
| Inventories | 2,296,832 | 2,823,407 |
| Other current assets | 5,232,800 | 4,186,065 |
| Assets whose use is limited | 686,510 | 713,491 |
| Total current assets | <u>162,996,642</u> | <u>110,652,425</u> |
| Long-term investments | 75,128,737 | 81,001,828 |
| Assets whose use is limited | | |
| Assets held by trustee under bond indenture agreements | 16,662,446 | 2,663,939 |
| Assets held by trustee for self-insurance | 4,567,394 | 5,954,228 |
| Total assets whose use is limited | <u>21,229,840</u> | <u>8,618,167</u> |
| Beneficial interest in trust | 6,339,758 | 6,697,680 |
| Other assets | 15,749,194 | 3,694,114 |
| Due from third party agencies | 2,715,774 | 4,244,774 |
| Goodwill | 15,097,582 | 2,900,333 |
| Investment in joint venture | 2,729,803 | 2,729,803 |
| Property, plant and equipment | | |
| Land and land improvements | 3,665,010 | 5,448,883 |
| Buildings | 147,571,073 | 153,048,879 |
| Equipment | 234,180,654 | 223,642,114 |
| Construction in progress | 22,713,647 | 5,544,843 |
| Accumulated depreciation | <u>(278,652,974)</u> | <u>(268,542,864)</u> |
| Total property, plant and equipment | <u>129,477,410</u> | <u>119,141,855</u> |
| Total assets | <u>\$ 431,464,740</u> | <u>\$ 339,680,979</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable | \$ 28,263,882 | \$ 20,867,614 |
| Accrued compensation | 20,097,511 | 19,944,515 |
| Due to third party agencies | 4,640,299 | 1,116,300 |
| Accrued interest | 905,171 | 243,747 |
| Current portion of long-term debt | 12,692,563 | 2,197,606 |
| Current portion of capital lease | 9,649 | 8,447 |
| Other current liabilities | 973,017 | 1,052,284 |
| Total current liabilities | <u>67,582,092</u> | <u>45,430,513</u> |
| Accrued pension liability | 60,019,814 | 37,851,799 |
| Asset retirement obligation | 11,509,090 | 10,212,507 |
| Other liabilities | 45,982,679 | 38,276,182 |
| Due to third party agencies | 14,726,335 | 9,650,070 |
| Long-term debt, less current portion | 61,717,853 | 23,547,952 |
| Capital lease, less current portion | 7,180 | 16,826 |
| Total liabilities | <u>261,545,043</u> | <u>164,985,849</u> |
| Net assets | | |
| Unrestricted | 126,269,775 | 138,968,662 |
| Unrestricted attributable to noncontrolling interest | 670,593 | - |
| Temporarily restricted | 33,540,087 | 26,297,760 |
| Permanently restricted | 9,439,242 | 9,428,708 |
| Total net assets | <u>169,919,697</u> | <u>174,695,130</u> |
| Total liabilities and net assets | <u>\$ 431,464,740</u> | <u>\$ 339,680,979</u> |

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

Norwalk Health Services Corporation and Subsidiaries
Consolidated Statements of Operations
Year Ended September 30, 2011 and 2010

| | 2011 | 2010 |
|---|------------------------|-----------------------|
| Operating revenues | | |
| Net revenues from services to patients | \$ 374,982,882 | \$ 350,695,373 |
| Other operating revenues | 20,756,420 | 19,687,788 |
| Net assets released from restrictions used for operations | 2,634,499 | 4,999,683 |
| Total operating revenues | <u>398,373,801</u> | <u>375,382,844</u> |
| Operating expenses | | |
| Salaries and benefits | 203,734,342 | 204,239,901 |
| Supplies and other expenses | 136,291,176 | 123,728,419 |
| Depreciation and amortization | 19,689,489 | 20,478,576 |
| Provision for bad debts | 21,118,227 | 23,735,717 |
| Interest | 1,915,549 | 1,083,619 |
| Total operating expenses | <u>382,748,783</u> | <u>373,266,232</u> |
| Income from operations prior to restructuring expense | 15,625,018 | 2,116,612 |
| Restructuring expense | - | (3,934,121) |
| Income (loss) from operations | <u>15,625,018</u> | <u>(1,817,509)</u> |
| Nonoperating income (expense) | | |
| Investment income | 798,565 | 868,234 |
| Net unrealized (loss) gains on investments | (2,552,586) | 2,726,888 |
| Loss on sale of Nursing Home | (1,743,383) | - |
| Total nonoperating (loss) income | <u>(3,497,404)</u> | <u>3,595,122</u> |
| Excess of revenues over expenses, before non-controlling interest | 12,127,614 | 1,777,613 |
| Change in value attributable to non-controlling interest | (529,407) | - |
| Excess of revenues over expenses | 11,598,207 | 1,777,613 |
| Other changes in net assets | | |
| Net assets released from restrictions used for capital | 323,017 | 1,594,038 |
| Transfer 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>\$ (12,028,294)</u> | <u>\$ (6,102,928)</u> |

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

Norwalk Health Services Corporation and Subsidiaries
Consolidated Statements of Changes in Net Assets
Year Ended September 30, 2011 and 2010

| | 2011 | 2010 |
|--|-----------------------|-----------------------|
| Unrestricted net assets | | |
| Excess of revenues over expenses | \$ 11,598,207 | \$ 1,777,613 |
| Net assets released from restrictions used for capital | 323,017 | 1,594,038 |
| Transfer 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 | <u>(12,028,294)</u> | <u>(6,102,928)</u> |
| Temporarily restricted net assets | | |
| Contributions | 10,516,064 | 5,510,546 |
| (Decrease) increase in assets held in trust by others | (357,922) | 351,913 |
| Net realized and unrealized gains on investments and investment income | 41,700 | 1,301,520 |
| Net assets released from restrictions | <u>(2,957,515)</u> | <u>(6,593,721)</u> |
| Increase in temporarily restricted net assets | <u>7,242,327</u> | <u>570,258</u> |
| Permanently restricted net assets | | |
| Contributions | <u>10,534</u> | <u>85,066</u> |
| Increase in permanently restricted net assets | <u>10,534</u> | <u>85,066</u> |
| Decrease in net assets | (4,775,433) | (5,447,604) |
| Net assets, beginning of year | <u>174,695,130</u> | <u>180,142,734</u> |
| Net assets, end of year | <u>\$ 169,919,697</u> | <u>\$ 174,695,130</u> |

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

Norwalk Health Services Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Year Ended September 30, 2011 and 2010

| | 2011 | 2010 |
|--|----------------------|----------------------|
| Operating activities | | |
| Change in net assets | \$ (4,775,433) | \$ (5,447,604) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Noncash items | | |
| Depreciation and amortization | 19,689,489 | 20,478,576 |
| Gain on sale of property, plant and equipment | (800) | 5,530 |
| Provision for bad debts | 21,118,227 | 23,743,186 |
| Loss on sale of nursing home | 1,743,383 | - |
| Net realized and unrealized (gain) or loss on investments | 1,663,055 | (3,228,968) |
| Pension related changes other than periodic benefit cost | 25,149,518 | 9,474,579 |
| Net asset item | | |
| Restricted contributions | (5,097,953) | (4,922,536) |
| Changes in assets and liabilities, net of acquisition and sale of nursing home | | |
| Accounts receivable | (17,152,472) | (20,634,468) |
| Inventories | 625,242 | (30,182) |
| Other current assets | (982,287) | 1,765,823 |
| Other assets | (4,698,394) | (808,619) |
| Accounts payable | 2,122,184 | 1,967,209 |
| Accrued compensation | 564,353 | 3,145,327 |
| Due to third-party agencies, net | 10,129,264 | 853,120 |
| Accrued interest | 661,424 | (9,430) |
| Other current liabilities | (6,032) | 277,529 |
| Accrued pension liability | (2,981,503) | (2,852,989) |
| Asset retirement obligation | 1,296,583 | 1,972,357 |
| Other liabilities | 7,706,497 | 3,517,908 |
| Net cash provided by operating activities | <u>56,774,345</u> | <u>29,266,348</u> |
| Investing activities | | |
| Net additions to property, plant and equipment | (28,909,351) | (15,142,054) |
| Sales of investments | 5,965,467 | 11,262,413 |
| Purchases of investments | (8,719,334) | (17,504,549) |
| (Increase) decrease in beneficial interest in trust | 357,922 | (351,913) |
| Proceeds from sale of property, plant and equipment | 4,000 | 23,400 |
| Decrease in assets whose use is limited | (12,584,692) | 873,953 |
| Advances to investment in joint venture | - | (1,000) |
| Proceeds from sale of nursing home, net of expenses | 4,433,534 | - |
| Acquisition of radiology practice | (22,914,723) | - |
| Net cash used by investing activities | <u>(62,367,177)</u> | <u>(20,839,750)</u> |
| Financing activities | | |
| Payments on notes receivable | 691,355 | 162,842 |
| Payments on capital lease | (8,444) | (11,532) |
| Proceeds from long term debt | 50,840,000 | - |
| Payments on long-term debt | (2,175,142) | (2,310,462) |
| Restricted contributions | 5,097,953 | 4,922,536 |
| Net cash provided by financing activities | <u>54,445,722</u> | <u>2,763,384</u> |
| Increase in cash and cash equivalents | 48,852,890 | 11,189,982 |
| Cash and cash equivalents | | |
| Beginning of year | <u>28,741,901</u> | <u>17,551,919</u> |
| End of year | <u>\$ 77,594,791</u> | <u>\$ 28,741,901</u> |
| Supplemental disclosure of cash information | | |
| Interest paid | \$ 2,114,214 | \$ 1,243,019 |
| Noncash transactions | | |
| Fixed assets expenditures included in accounts payable | \$ 5,332,488 | \$ 674,785 |
| Capitalized interest | 940,110 | 149,970 |

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

Norwalk Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

1. Organization and Significant Accounting Policies

Norwalk Health Services Corporation (the "Corporation") was incorporated as a not-for-profit organization under the nonstock membership corporation laws of Connecticut in February 1985.

The Corporation is the sole member of its subsidiaries which include Norwalk Hospital Association, its wholly owned subsidiary, Farfield County Medical Services, Inc. and its majority interest in Norwalk Surgery Center, LLC. (the "Hospital"), Norwalk Health Care, Inc. ("NHC"), and Norwalk Hospital Foundation, Inc. (the "Foundation"). The Corporation also owns 100% of the stock of S.W.C. Corporation ("SWC"), a Connecticut stock corporation and Maple Street Indemnity Company, Ltd. ("MSI"). MSI is a captive insurance company incorporated under the laws of the Bermuda Monetary Authority.,

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. 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. The Corporation and its subsidiaries' significant estimates reflected in the consolidated financial statements include 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, reserves for malpractice, workers' compensation and other self-insured liabilities, and benefit plans assumptions.

Income Taxes

The Corporation and its subsidiaries, with the exception of SWC and MSI, are not-for-profit organizations 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. Tax provisions and related liabilities for SWC are not material to the consolidated financial statements. MSI is a foreign corporation exempt from United States taxation.

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 Corporation and its subsidiaries 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 these institutions.

Norwalk Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

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.

Fair Value Measurements

The Corporation and its subsidiaries 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 asset or liability. As a basis for considering assumptions, a three-tier fair value hierarchy has been established which prioritizes 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 Corporation and its subsidiaries have 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 value of the Corporation and its subsidiaries' investments are based on quoted market values.

The fair value of the Corporation's beneficial interest in trust is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

Fair Value Option

The Corporation and its subsidiaries 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 whose use is limited primarily include assets held by trustee under indenture agreements and investments held by trustee for self-insurance.

Norwalk Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Assets Held in Trust by Others

The Corporation and its subsidiaries have been named sole or participating beneficiary in one remainder trust. Under the terms of this trust, the Corporation and its subsidiaries have the irrevocable right to receive the remaining principal and income earned on the trust assets. The estimated present value of the future payments to the Corporation and its subsidiaries is recorded at the fair value of the Corporation and its subsidiaries' proportionate interest in the assets held in trust. In 2010 and 2011, no distributions were received from this trust.

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 Corporation and its subsidiaries have 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 Corporation and its subsidiaries provide for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to amortize the cost of the assets over their useful lives. Useful lives assigned to assets are as follows: Land Improvements – 2-25 years; Buildings – 15-40 years; and Equipment – 3-20 years.

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.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation and its subsidiaries are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions are met or when the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Pledges receivable at September 30, 2011 were discounted using rates ranging from .13% to 4%. Pledges receivable at September 30, 2010 were discounted using rates ranging from .27% to 4%. Amortization of the discount is included in contribution revenue. At September 30, 2011 and 2010, pledges receivable, which are included in other current assets or other assets, were approximately \$6,384,000 and \$1,079,000, respectively.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Norwalk Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

Medical Malpractice Self-Insurance

As of October 1, 2005, the Corporation and its subsidiaries are insured for general liability and professional liability claims by MSI. The Corporation and its subsidiaries 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 Corporation and its subsidiaries 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 consolidated 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, assets held in trust by others, investments, accounts payable and accrued liabilities at the balance sheet dates approximate their fair values. The fair value of debt, based on current market rates for similar debt, was approximately \$83,042,000 and \$29,663,000, in 2011 and 2010, respectively. The carrying value of debt is \$74,410,000 and \$25,746,000 in 2011 and 2010, respectively.

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, net assets released from restrictions used for capital, and a transfer from Norwalk Surgery Center, LLC.

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, unrealized and realized gains and losses on investments, and loss on sale of Nursing Home.

Asset Retirement Obligation

The Corporation and its subsidiaries record 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 Corporation and its subsidiaries prospectively adopted ASU 2010-7 *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 Corporation 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 noncontrolling interests separately within the *Statements of Changes in Net Assets*.

Norwalk Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2011 and 2010

The Corporation has consolidated certain noncontrolling 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 Corporation, but are required to be presented on the Corporation'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

The following table summarizes revenues from services to patients:

| | 2011 | 2010 |
|--|-----------------------|-----------------------|
| Gross revenues from services to patients | \$ 882,784,404 | \$ 770,351,995 |
| Deductions and exclusions | | |
| Allowances | <u>507,801,522</u> | <u>419,656,622</u> |
| Net revenues from services to patients | <u>\$ 374,982,882</u> | <u>\$ 350,695,373</u> |

Revenues and patient accounts receivable are recorded when patient services are performed. Amounts received from certain payors are different from established billing rates of the various providers, 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.

Inpatient Medicaid reimbursement through the Connecticut Department of Social Services ("DSS") is reimbursed on a per diem basis with settlement cost reports based in 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.

Norwalk Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2011 and 2010

The Corporation and its subsidiaries grant credit without collateral to their 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:

| | 2011 | 2010 |
|------------------|--------------|--------------|
| Commercial/other | 54 % | 50 % |
| Medicare | 27 | 30 |
| Self pay | 8 | 10 |
| Medicaid | 11 | 10 |
| | <u>100 %</u> | <u>100 %</u> |

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

| | 2011 | 2010 |
|------------------|--------------|--------------|
| Commercial/other | 71 % | 66 % |
| Medicare | 20 | 25 |
| Self pay | 5 | 5 |
| Medicaid | 4 | 4 |
| | <u>100 %</u> | <u>100 %</u> |

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. While management believes that the members of the System are in compliance with all such applicable laws and regulations, as referenced in footnote 13 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 System.

The Hospital and NHC accept all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to established policies. These policies define charity services as those services for which no payment is anticipated. In assessing a patient's ability to pay, the Hospital and NHC utilize the generally recognized poverty income levels for the state published in the Federal Register, but also include certain cases where incurred charges are significant when compared to income. 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 Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2011 and 2010

3. Investments

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

| | 2011 | 2010 |
|------------------------------------|-----------------------|-----------------------|
| Investments | | |
| Cash and cash equivalents | \$ 55,151,284 | \$ 45,545,510 |
| U.S. Treasury obligations | 2,875,790 | 9,129,053 |
| Mutual funds | <u>55,685,830</u> | <u>57,947,529</u> |
| | <u>\$ 113,712,904</u> | <u>\$ 112,622,092</u> |
| Assets whose use is limited | | |
| Cash and cash equivalents | \$ 21,581,921 | \$ 5,505,687 |
| U.S. Treasury obligations | 334,429 | 637,345 |
| Mutual funds | <u>-</u> | <u>3,188,626</u> |
| | <u>\$ 21,916,350</u> | <u>\$ 9,331,658</u> |

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

| | 2011 | | | Total Fair Value |
|-------------------------------------|-----------------------|-------------|---------------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | |
| General investments | | | | |
| Cash and cash equivalents | \$ 55,151,284 | \$ - | \$ - | \$ 55,151,284 |
| U.S. Treasury obligations | 2,875,790 | | | 2,875,790 |
| Mutual funds | <u>55,685,830</u> | | | <u>55,685,830</u> |
| | <u>113,712,904</u> | <u>-</u> | <u>-</u> | <u>113,712,904</u> |
| Assets whose use is limited | | | | |
| Cash and cash equivalents | 21,581,921 | | | 21,581,921 |
| U.S. Treasury obligations | <u>334,429</u> | | | <u>334,429</u> |
| | <u>21,916,350</u> | <u>-</u> | <u>-</u> | <u>21,916,350</u> |
| Beneficial interest in trust | | | | |
| | | | <u>6,339,758</u> | <u>6,339,758</u> |
| | <u>\$ 135,629,254</u> | <u>\$ -</u> | <u>\$ 6,339,758</u> | <u>\$ 141,969,012</u> |

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| | 2010 | | | Total Fair Value |
|-------------------------------------|-----------------------|-------------|---------------------|-----------------------|
| | Level 1 | Level 2 | Level 3 | |
| General investments | | | | |
| Cash and cash equivalents | \$ 45,545,510 | \$ - | \$ - | \$ 45,545,510 |
| U.S. Treasury obligations | 9,129,053 | - | - | 9,129,053 |
| Mutual funds | 57,947,529 | - | - | 57,947,529 |
| | <u>112,622,092</u> | <u>-</u> | <u>-</u> | <u>112,622,092</u> |
| Assets whose use is limited | | | | |
| Cash and cash equivalents | 5,505,687 | - | - | 5,505,687 |
| U.S. Treasury obligations | 637,345 | - | - | 637,345 |
| Mutual funds | 3,188,626 | - | - | 3,188,626 |
| | <u>9,331,658</u> | <u>-</u> | <u>-</u> | <u>9,331,658</u> |
| Beneficial interest in trust | <u>-</u> | <u>-</u> | <u>6,697,680</u> | <u>6,697,680</u> |
| | <u>\$ 121,953,750</u> | <u>\$ -</u> | <u>\$ 6,697,680</u> | <u>\$ 128,651,430</u> |

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

The table below presents the change in fair value measurements for the Corporation and its subsidiaries' Level 3 investments during the year ended September 30, 2011:

| | |
|------------------------------|---------------------|
| Beginning balance | \$ 6,697,680 |
| Realized and unrealized loss | <u>(357,922)</u> |
| Ending balance | <u>\$ 6,339,758</u> |

Investment income includes the following for the years ended September 30, 2011 and 2010:

| | 2011 | 2010 |
|---|---------------------|---------------------|
| Interest and dividend income | \$ 2,326,066 | \$ 2,987,616 |
| Net realized gains on sales of securities | <u>1,221,064</u> | <u>94,104</u> |
| | <u>\$ 3,547,130</u> | <u>\$ 3,081,720</u> |
| Investment income included in other operating and nonoperating revenues | \$ 3,179,149 | \$ 2,392,859 |
| Investment income included in the change in temporarily restricted net assets | <u>367,981</u> | <u>688,861</u> |
| | <u>\$ 3,547,130</u> | <u>\$ 3,081,720</u> |

4. Leases

The Corporation and its subsidiaries lease 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.

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Future minimum payments under noncancelable operating leases, and future receipts under noncancelable subleases where the Corporation and its subsidiaries are receiving rental receipts, with initial terms of one year or more consisted of the following at September 30, 2011:

| Year | Operating Lease Payments | Sublease Rental Receipts |
|------------|--------------------------------|--------------------------------|
| 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 \$8,348,000 and \$7,451,000 for the years ended September 30, 2011 and 2010, respectively. Rent expense was offset by rental revenue of approximately \$2,525,000 and \$2,208,000 for net rental expense of approximately \$5,823,000 and \$5,243,000, respectively. An amount of \$393,000 and \$801,000, respectively, of the net rental expense is included in other operating revenue and \$5,430,000 and \$4,442,000, 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 Mamography Center ("NRMC"). 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. Beneficial Interest in Trust

The Corporation is the beneficiary of assets held in trust by others. The total trust assets, as reported by the trustee, had an aggregate fair value, based on quoted market prices, at September 30, 2011 and 2010 of \$6,339,758 and \$6,697,680, respectively. The timing and amounts of the principal distributions are based upon various factors established in a will. During 2011 and 2010, the Corporation did not receive any distributions.

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7. 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, NHC, and the Foundation (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.

NHC has outstanding CHEFA Revenue Bonds, Series F issued under a Master Trust Indenture with the Obligated Group. The Series F bonds mature serially through 2022 with interest at a net average annual rate of 4.55%. Interest on the bonds is payable semi annually each January 1 and July 1. As of September 30, 2011, Series F outstanding debt is \$7,805,000.

The bonds are collateralized by the debt service reserve fund and other funds held by the Bond Trustees 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 and F bonds are subject to early redemption at the option of the Hospital and NHC or by the operation of the Redemption Fund, at established redemption prices.

The Series E and F bonds maturing on July 1, 2019, 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.

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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 the Bank of America Public Capital Corp. as the Lender (the "Lender"). The loan is payable in 120 equal installments 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 was finalized. 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, 2010 and 2009, \$1,188,602 and \$1,480,637, 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:

| | Norwalk Health Services Corporation | Norwalk Surgery Center, LLC | Total |
|--|--|--|----------------------|
| 2012 | \$ 12,639,597 | \$ 52,966 | \$ 12,692,563 |
| 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> |
| | 70,410,416 | 4,000,000 | 74,410,416 |
| Less current portion of long-term debt | <u>12,639,597</u> | <u>52,966</u> | <u>12,692,563</u> |
| Long-term debt | <u>\$ 57,770,819</u> | <u>\$ 3,947,034</u> | <u>\$ 61,717,853</u> |

During 2011 and 2010, the Corporation and its subsidiaries paid interest of \$2,114,214 and \$1,243,019, respectively, on its long-term obligations. Interest capitalized for the years ended September 30, 2011 and 2010 was approximately \$940,000 and \$150,000, respectively.

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8. Benefit Plans

The Hospital has a defined benefit pension plan covering substantially all of its 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:

| | 2011 | 2010 |
|--------------------|----------------------|----------------------|
| Net actuarial loss | \$ 94,565,193 | \$ 68,803,670 |
| Prior service cost | 1,130,837 | 1,742,842 |
| | <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.

The following is a summary of the changes in the projected benefit obligation and plan assets:

| | 2011 | 2010 |
|--|------------------------|------------------------|
| Accumulated benefit obligation | <u>\$ 183,920,145</u> | <u>\$ 166,752,098</u> |
| Change in projected benefit obligation | | |
| 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 | (7,567,879) | (7,021,554) |
| Benefit obligation, end of period | <u>\$ 199,263,628</u> | <u>\$ 175,101,725</u> |
| Change in plan assets | | |
| Fair value of plan assets, beginning of period | \$ 137,249,926 | \$ 123,615,739 |
| Actual return on plan assets | (438,233) | 11,655,741 |
| Contributions | 10,000,000 | 9,000,000 |
| Benefits paid | (7,567,879) | (7,021,554) |
| 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> |

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

| | 2011 | 2010 |
|--------------------------------|---------------------|---------------------|
| 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 are as follows:

| | 2011 | 2010 |
|-------------------------------|-------------|-------------|
| Discount rate | 4.68 % | 5.17 % |
| Rate of compensation increase | 3.50 % | 3.50 % |

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

| | Percentage of Plan Assets | |
|-------------------|----------------------------------|--------------|
| | 2011 | 2010 |
| Equity securities | 56 % | 58 % |
| Debt securities | <u>44 %</u> | <u>42 %</u> |
| Total | <u>100 %</u> | <u>100 %</u> |

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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 equity securities 60%, and debt securities 40%. 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 plan 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 measurements 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 |
| | <u>\$ 139,052,285</u> | <u>\$ 191,529</u> | <u>\$ -</u> | <u>\$ 139,243,814</u> |

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:

| Fiscal Year | Benefit Payments |
|-------------|----------------------|
| 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 Corporation and Hospital also sponsor defined contribution savings plans covering substantially all of their respective employees. Effective January 1, 2007, the plans were 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 Corporation and Hospital provide a partial matching contribution on the first 3% of an employee's elective deferred and/or after tax contributions.

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For Part II employees, the Corporation and Hospital provide 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. Expense related to the Corporation's defined contribution plan was approximately \$86,000 and \$88,000 for the years ended September 30, 2011 and 2010, respectively.

NHC sponsors a defined contribution pension plan for eligible employees who have attained age 21 and have worked at least 1,000 hours and have one year of service. NHC at its discretion contributes a defined percentage of an employee's salary to the plan each year. Plan credit was approximately \$158,000 for 2011 and plan expense was approximately \$72,000 for 2010.

9. Temporarily and Permanently Restricted Net Assets

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

| | 2011 | 2010 |
|---------------------|----------------------|----------------------|
| Healthcare services | <u>\$ 33,540,087</u> | <u>\$ 26,297,760</u> |

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

| | 2011 | 2010 |
|---------------------|---------------------|---------------------|
| Healthcare services | <u>\$ 9,439,242</u> | <u>\$ 9,428,708</u> |

10. Endowments

The Corporation's endowment funds consist of donor restricted funds to be invested in perpetuity to provide a permanent source of income. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

The Corporation and its subsidiaries classify net assets of donor-restricted endowment funds for organizations subject to an enacted Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). Connecticut enacted its UPMIFA statute effective October 1, 2007. This standard requires not-for-profit organizations subject to an enacted version of UPMIFA to classify the portion of the endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure by the organization. The portion to be classified as temporarily restricted consists of accumulated unspent income and appreciation.

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The Corporation has interpreted the Connecticut UPMIFA statute as requiring the preservation 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 Corporation classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Corporation 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 Corporation
- 7) The investment policies of Corporation.

Prior to enactment of UPMIFA, the Corporation followed the provisions of the Uniform Management of Institutional Funds Act.

Endowment net asset composition by type of fund as of September 30:

| | 2011 | | | |
|----------------------------------|---------------------|-------------------------------|-------------------------------|---------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor restricted endowment funds | \$ - | \$ 2,457,426 | \$ 9,439,242 | \$ 11,896,668 |
| | | | | |
| | 2010 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Donor restricted endowment funds | \$ - | \$ 2,879,894 | \$ 9,428,708 | \$ 12,308,602 |

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Changes in endowment net assets for the year ended September 30:

| | 2011 | | | |
|--|--------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ - | \$ 2,879,894 | \$ 9,428,708 | \$ 12,308,602 |
| Investment return | | | | |
| Investment income | | 219,946 | | 219,946 |
| Net realized and unrealized loss | | (467,833) | | (467,833) |
| Total investment return | - | (247,887) | - | (247,887) |
| Contributions | | | 10,534 | 10,534 |
| Appropriation of investment return for expenditure | | (174,581) | | (174,581) |
| Endowment net assets, end of year | \$ - | \$ 2,457,426 | \$ 9,439,242 | \$ 11,896,668 |

| | 2010 | | | |
|--|--------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Endowment net assets, beginning of year | \$ - | \$ 4,181,240 | \$ 9,343,642 | \$ 13,524,882 |
| Investment return | | | | |
| Investment income | - | 353,219 | - | 353,219 |
| Net realized and unrealized gain | - | 618,479 | - | 618,479 |
| Total investment return | - | 971,698 | - | 971,698 |
| Contributions | - | - | 85,066 | 85,066 |
| Appropriation of investment return for expenditure | - | (2,273,044) | - | (2,273,044) |
| Endowment net assets, end of year | \$ - | \$ 2,879,894 | \$ 9,428,708 | \$ 12,308,602 |

The primary long-term management objective for the Corporation's endowment funds is to maintain the permanent nature of each endowment fund, while providing a predictable, stable, and constant stream of earnings. Consistent with that objective, the primary investment goal is to earn annual interest and dividends.

11. Sale of Norwalk Health Care

On September 30, 2011 Norwalk Health Care, Inc, closed on the sale of the nursing home business, for a sales price of \$5,850,000. An escrow for \$700,000 was established for a three year period for indemnification obligations under the Medicare and Medicaid programs and such escrow has been recorded as other assets. A loss of \$1,743,383 was recorded on the sale. The outstanding debt of Norwalk Health Care, Inc. as of September 30, 2011 of \$7,805,000 will be defeased and repaid to bondholders on November 15, 2011.

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12. Acquisition of Norwalk Radiology & Mamography 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 | 121,579 |
| 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.

13. Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital and NHC [members of the System]. 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 System.

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 System, cannot be determined at this time.

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14. Functional Expenses

The Corporation and its subsidiaries provide general health care services to residents within its geographic location. In addition, the Foundation performs fund raising activities on behalf of the Corporation and its subsidiaries. Expenses related to providing these services are as follows:

| | 2011 | 2010 |
|----------------------------|-----------------------|-----------------------|
| Health care services | \$ 273,250,445 | \$ 267,492,069 |
| General and administrative | 109,498,338 | 105,774,163 |
| Restructuring expense | - | 3,934,121 |
| | <u>\$ 382,748,783</u> | <u>\$ 377,200,353</u> |

15. Subsequent Events

On November 15, 2011, NHC redeemed the CHEFA Series F bonds, outstanding principal of \$7,805,000.

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

Supplemental Consolidating Information

Supplemental Norwalk Health Services Corporation and Subsidiaries
Consolidating Balance Sheet
September 30, 2011

| | Norwalk Hospital Association and Subsidiary | Norwalk Health Care, Inc. | Norwalk Hospital Foundation, Inc. | Eliminations | Obligated Group | Norwalk Health Services Corporation | S.W.C. Corporation | Maple Street Indemnity Company Ltd. | Eliminations | Consolidated |
|--|--|---------------------------------|--|-----------------|--------------------|--|-----------------------|--|--------------|----------------|
| Assets | | | | | | | | | | |
| Current assets | | | | | | | | | | |
| Cash and cash equivalents | \$ 66,806,594 | \$ 6,408,446 | \$ 3,004,244 | \$ - | \$ 76,219,284 | \$ 96,219 | \$ 543,954 | \$ 735,334 | \$ - | \$ 77,594,791 |
| Investments | 8,693,538 | - | - | - | 8,693,538 | - | - | 29,890,629 | - | 38,584,167 |
| Patient accounts receivable, net | 37,323,187 | 1,032,349 | - | - | 38,355,536 | - | 246,006 | - | - | 38,601,542 |
| Due from third party agencies | - | - | - | - | - | - | - | - | - | - |
| Due from affiliates | 2,640,682 | 45,315 | - | (2,378,059) | 307,938 | - | 520 | - | (308,458) | - |
| Inventories | 1,964,675 | - | - | - | 1,964,675 | - | 332,157 | - | - | 2,296,832 |
| Other current assets | 3,734,928 | - | 1,450,324 | - | 5,185,252 | - | 21,501 | 26,047 | - | 5,232,800 |
| Assets whose use is limited | 372,429 | 314,081 | - | - | 686,510 | - | - | - | - | 686,510 |
| Total current assets | 121,536,033 | 7,800,191 | 4,454,568 | (2,378,059) | 131,412,733 | 96,219 | 1,144,138 | 30,652,010 | (308,458) | 162,996,642 |
| Long-term investments | 21,526,072 | - | 27,748,248 | - | 49,274,320 | 20,269,811 | - | 5,584,606 | - | 75,128,737 |
| Assets whose use is limited | | | | | | | | | | |
| Assets held by trustee per bond indenture | 15,111,873 | 1,550,573 | - | - | 16,662,446 | - | - | - | - | 16,662,446 |
| Assets held in trust for self-insurance | 4,567,394 | - | - | - | 4,567,394 | - | - | - | - | 4,567,394 |
| | 19,679,267 | 1,550,573 | - | - | 21,229,840 | - | - | - | - | 21,229,840 |
| Beneficial interest in trust | - | - | - | - | - | 6,339,758 | - | - | - | 6,339,758 |
| Other assets | 10,015,114 | 700,000 | 5,034,080 | - | 15,749,194 | 305,860 | - | - | (305,860) | 15,749,194 |
| Due from third party agencies | 2,715,774 | - | - | - | 2,715,774 | - | - | - | - | 2,715,774 |
| Beneficial interest in Norwalk Hospital Foundation, Inc. | 36,399,874 | - | - | (36,399,874) | - | - | - | - | - | - |
| Goodwill | 15,097,582 | - | - | - | 15,097,582 | - | - | - | - | 15,097,582 |
| Investment in joint venture | 2,729,803 | - | - | - | 2,729,803 | - | - | - | - | 2,729,803 |
| Property, plant and equipment | | | | | | | | | | |
| Land and land improvements | 2,727,368 | - | - | - | 2,727,368 | 937,642 | - | - | - | 3,665,010 |
| Buildings | 146,977,766 | - | - | - | 146,977,766 | 362,326 | 405,517 | - | (174,536) | 147,571,073 |
| Equipment | 233,652,063 | - | 131,033 | - | 233,783,096 | - | 397,558 | - | - | 234,180,654 |
| Construction in progress and deferred project costs | 22,713,647 | - | - | - | 22,713,647 | - | - | - | - | 22,713,647 |
| Accumulated depreciation | (277,748,018) | - | (131,033) | - | (277,879,051) | (275,753) | (604,349) | - | 106,179 | (278,652,974) |
| Total property, plant, and equipment | 128,322,826 | - | - | - | 128,322,826 | 1,024,215 | 198,726 | - | (68,357) | 129,477,410 |
| Total assets | \$ 358,022,345 | \$ 10,050,764 | \$ 37,236,896 | \$ (38,777,933) | \$ 366,532,072 | \$ 28,035,863 | \$ 1,342,864 | \$ 36,236,616 | \$ (682,675) | \$ 431,464,740 |

Supplemental Norwalk Health Services Corporation and Subsidiaries
Consolidating Balance Sheet
September 30, 2011

| | Norwalk Hospital Association and Subsidiary | Norwalk Health Care, Inc. | Norwalk Hospital Foundation, Inc. | Eliminations | Obligated Group | Norwalk Health Services Corporation | S.W.C. Corporation | Maple Street Indemnity Company Ltd. | Eliminations | Consolidated |
|---|--|---------------------------------|--|-----------------|--------------------|--|-----------------------|--|--------------|----------------|
| Liabilities and Net Assets | | | | | | | | | | |
| Current liabilities | | | | | | | | | | |
| Accounts payable | \$ 26,817,229 | \$ 125,574 | \$ 209,978 | \$ - | \$ 27,152,781 | \$ 357,371 | \$ 584,660 | \$ 169,070 | \$ - | \$ 28,263,882 |
| Accrued compensation | 19,374,751 | 306,724 | - | - | 19,681,475 | - | 416,036 | - | - | 20,097,511 |
| Due to third party agencies | 4,525,191 | 115,108 | - | - | 4,640,299 | - | - | - | - | 4,640,299 |
| Due to affiliates | - | 1,991,232 | 387,347 | (2,378,059) | 520 | 271,630 | 36,308 | - | (308,458) | - |
| Accrued interest payable | 809,088 | 96,083 | - | - | 905,171 | - | - | - | - | 905,171 |
| Current portion of long-term debt | 4,887,563 | 7,805,000 | - | - | 12,692,563 | - | - | - | - | 12,692,563 |
| Current portion capital lease | 9,649 | - | - | - | 9,649 | - | - | - | - | 9,649 |
| Other current liabilities | - | 973,017 | - | - | 973,017 | - | - | - | - | 973,017 |
| Total current liabilities | 56,423,471 | 11,412,738 | 597,325 | (2,378,059) | 66,055,475 | 629,001 | 1,037,004 | 169,070 | (308,458) | 67,582,092 |
| Accrued pension liability | 60,019,814 | - | - | - | 60,019,814 | - | - | - | - | 60,019,814 |
| Asset retirement obligations | 11,509,090 | - | - | - | 11,509,090 | - | - | - | - | 11,509,090 |
| Other liabilities | 16,518,934 | 511,418 | - | - | 17,030,352 | - | - | 28,952,327 | - | 45,982,679 |
| Due to third party agencies | 14,726,335 | - | - | - | 14,726,335 | - | - | - | - | 14,726,335 |
| Long-term debt, less current portion | 61,717,853 | - | - | - | 61,717,853 | - | - | - | - | 61,717,853 |
| Long-term capital lease, less current portion | 7,180 | - | - | - | 7,180 | - | - | - | - | 7,180 |
| Total liabilities | 220,922,677 | 11,924,156 | 597,325 | (2,378,059) | 231,066,099 | 629,001 | 1,037,004 | 29,121,397 | (308,458) | 261,545,043 |
| Net assets | | | | | | | | | | |
| Unrestricted | 105,557,071 | (1,873,392) | - | (5,527,870) | 98,155,809 | 21,067,104 | - | 7,115,219 | (68,357) | 126,269,775 |
| Unrestricted attributable to non-controlling interest | 670,593 | - | - | - | 670,593 | - | - | - | - | 670,593 |
| Temporarily restricted | 21,432,761 | - | 27,200,329 | (21,432,761) | 27,200,329 | 6,339,758 | - | - | - | 33,540,087 |
| Permanently restricted | 9,439,243 | - | 9,439,242 | (9,439,243) | 9,439,242 | - | - | - | - | 9,439,242 |
| Shareholder's equity | - | - | - | - | - | - | 305,860 | - | (305,860) | - |
| Total net assets and shareholder's equity | 137,099,668 | (1,873,392) | 36,639,571 | (36,399,874) | 135,465,973 | 27,406,862 | 305,860 | 7,115,219 | (374,217) | 169,919,697 |
| Total liabilities, net assets and shareholders' equity | \$ 358,022,345 | \$ 10,050,764 | \$ 37,236,896 | \$ (38,777,933) | \$ 366,532,072 | \$ 28,035,863 | \$ 1,342,864 | \$ 36,236,616 | \$ (682,675) | \$ 431,464,740 |

Supplemental Norwalk Health Services Corporation and Subsidiaries
Consolidating Statement of Operations
Year Ended September 30, 2011

| | Norwalk Hospital Association and Subsidiary | Norwalk Health Care, Inc. | Norwalk Hospital Foundation, Inc. | Eliminations | Obligated Group | Norwalk Health Services Corporation | S.W.C. Corporation | Maple Street Indemnity Company Ltd. | Eliminations | Consolidated |
|--|--|---------------------------------|--|--------------------|-----------------------|--|-----------------------|--|--------------------|------------------------|
| Net revenues from services to patients | \$ 350,611,400 | \$ 16,229,072 | \$ - | \$ (8,363) | \$ 366,832,109 | \$ - | \$ 8,150,773 | \$ - | \$ - | \$ 374,982,882 |
| Other operating revenues | 22,891,536 | 11,908 | 1,042,576 | (4,711,014) | 19,235,006 | 1,328,407 | 3,005,350 | 6,800,993 | (9,613,336) | 20,756,420 |
| Equity in earnings of subsidiary | - | - | - | - | - | (329,199) | - | - | 329,199 | - |
| Change in unrestricted beneficial interest in Norwalk Hospital Foundation | - | - | - | - | - | - | - | - | - | - |
| Net assets released from restrictions used for operations | - | - | 2,634,499 | - | 2,634,499 | - | - | - | - | 2,634,499 |
| Total operating revenues | <u>373,502,936</u> | <u>16,240,980</u> | <u>3,677,075</u> | <u>(4,719,377)</u> | <u>388,701,614</u> | <u>999,208</u> | <u>11,156,123</u> | <u>6,800,993</u> | <u>(9,284,137)</u> | <u>398,373,801</u> |
| Operating expenses | | | | | | | | | | |
| Salaries and benefits | 189,267,604 | 8,506,309 | 1,378,054 | - | 199,151,967 | - | 4,582,375 | - | - | 203,734,342 |
| Supplies and other expenses | 123,631,162 | 6,577,358 | 3,064,310 | (3,676,801) | 129,596,029 | 355,000 | 6,778,226 | 9,175,257 | (9,613,336) | 136,291,176 |
| Depreciation and amortization | 19,175,533 | 436,742 | - | - | 19,612,275 | 7,469 | 75,563 | - | (5,818) | 19,689,489 |
| Provision for bad debts | 20,654,069 | 415,000 | - | - | 21,069,069 | - | 49,158 | - | - | 21,118,227 |
| Funding operations of Norwalk Hospital Foundation | 1,042,576 | - | - | (1,042,576) | - | - | - | - | - | - |
| Interest | 1,530,916 | 384,633 | - | - | 1,915,549 | - | - | - | - | 1,915,549 |
| Total operating expenses | <u>355,301,860</u> | <u>16,320,042</u> | <u>4,442,364</u> | <u>(4,719,377)</u> | <u>371,344,889</u> | <u>362,469</u> | <u>11,485,322</u> | <u>9,175,257</u> | <u>(9,619,154)</u> | <u>382,748,783</u> |
| Income (loss) from operations prior to restructuring expense | 18,201,076 | (79,062) | (765,289) | - | 17,356,725 | 636,739 | (329,199) | (2,374,264) | 335,017 | 15,625,018 |
| Restructuring expense | - | - | - | - | - | - | - | - | - | - |
| Income (loss) from operations | <u>18,201,076</u> | <u>(79,062)</u> | <u>(765,289)</u> | <u>-</u> | <u>17,356,725</u> | <u>636,739</u> | <u>(329,199)</u> | <u>(2,374,264)</u> | <u>335,017</u> | <u>15,625,018</u> |
| Nonoperating income (expense) | | | | | | | | | | |
| Investment income | 798,565 | - | - | - | 798,565 | - | - | - | - | 798,565 |
| Net unrealized gains on investments | (1,455,301) | 390 | - | - | (1,454,911) | (1,013,940) | - | (83,735) | - | (2,552,586) |
| Loss on Sale of Nursing Home | - | (1,743,383) | - | - | (1,743,383) | - | - | - | - | (1,743,383) |
| Total non-operating income (expense) | <u>(656,736)</u> | <u>(1,742,993)</u> | <u>-</u> | <u>-</u> | <u>(2,399,729)</u> | <u>(1,013,940)</u> | <u>-</u> | <u>(83,735)</u> | <u>-</u> | <u>(3,497,404)</u> |
| Excess (deficiency) of revenues over expenses, before non-controlling interest | 17,544,340 | (1,822,055) | (765,289) | - | 14,956,996 | (377,201) | (329,199) | (2,457,999) | 335,017 | 12,127,614 |
| Change in value attributable to non-controlling interest | (529,407) | - | - | - | (529,407) | - | - | - | - | (529,407) |
| Excess (deficiency) of revenues over expenses | <u>17,014,933</u> | <u>(1,822,055)</u> | <u>(765,289)</u> | <u>-</u> | <u>14,427,589</u> | <u>(377,201)</u> | <u>(329,199)</u> | <u>(2,457,999)</u> | <u>335,017</u> | <u>11,598,207</u> |
| Other changes in net assets | | | | | | | | | | |
| Net assets realized from restrictions used for capital | - | - | 323,017 | - | 323,017 | - | - | - | - | 323,017 |
| Transfers from Norwalk Health Services Corporation | 1,914,723 | - | - | - | 1,914,723 | (1,914,723) | 385,277 | - | (385,277) | - |
| Transfer from Norwalk Surgery Center | 1,200,000 | - | - | - | 1,200,000 | - | - | - | - | 1,200,000 |
| Pension related changes other than net periodic benefit cost | (25,149,518) | - | - | - | (25,149,518) | - | - | - | - | (25,149,518) |
| Transfers from Norwalk Hospital Foundation, Inc. | 322,298 | 719 | (323,017) | - | - | - | - | - | - | - |
| Funding operations of Norwalk Hospital Foundation, Inc. | (765,289) | - | 765,289 | - | - | - | - | - | - | - |
| (Decrease) increase in unrestricted net assets | <u>\$ (5,462,853)</u> | <u>\$ (1,821,336)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (7,284,189)</u> | <u>\$ (2,291,924)</u> | <u>\$ 56,078</u> | <u>\$ (2,457,999)</u> | <u>\$ (50,260)</u> | <u>\$ (12,028,294)</u> |

Supplemental Norwalk Health Services Corporation and Subsidiaries
Consolidating Statement of Changes in Net Assets
Year Ended September 30, 2011

| | Norwalk Hospital Association and Subsidiary | Norwalk Health Care, Inc. | Norwalk Hospital Foundation, Inc. | Eliminations | Obligated Group | Norwalk Health Services Corporation | S.W.C. Corporation | Maple Street Indemnity Company Ltd. | Eliminations | Consolidated |
|--|--|---------------------------------|--|------------------------|-----------------------|--|-----------------------|--|---------------------|-----------------------|
| Unrestricted net assets | | | | | | | | | | |
| Excess (deficiency) of revenues over expenses | \$ 17,014,933 | \$ (1,822,055) | \$ (765,289) | \$ - | \$ 14,427,589 | \$ (377,201) | \$ (329,199) | \$ (2,457,999) | \$ 335,017 | \$ 11,598,207 |
| Net assets released from restrictions used for capital | - | - | 323,017 | - | 323,017 | - | - | - | - | 323,017 |
| Transfers from Norwalk Health Services Corporation | 1,914,723 | - | - | - | 1,914,723 | (1,914,723) | 385,277 | - | (385,277) | - |
| Transfer from Norwalk Surgery Center | 1,200,000 | - | - | - | 1,200,000 | - | - | - | - | 1,200,000 |
| Pension related charges other than net periodic benefit cost | (25,149,518) | - | - | - | (25,149,518) | - | - | - | - | (25,149,518) |
| Spent for capital by the Foundation | 322,298 | 719 | (323,017) | - | - | - | - | - | - | - |
| Transfers (to) from affiliates | (765,289) | - | 765,289 | - | - | - | - | - | - | - |
| Decrease (increase) in unrestricted net assets | <u>(5,462,853)</u> | <u>(1,821,336)</u> | <u>-</u> | <u>-</u> | <u>(7,284,189)</u> | <u>(2,291,924)</u> | <u>56,078</u> | <u>(2,457,999)</u> | <u>(50,260)</u> | <u>(12,028,294)</u> |
| Temporarily restricted net assets | | | | | | | | | | |
| Contributions | - | - | 10,516,064 | - | 10,516,064 | - | - | - | - | 10,516,064 |
| Decrease in assets held in trust by others | - | - | - | - | - | (357,922) | - | - | - | (357,922) |
| Change in beneficial interest in Norwalk Hospital Foundation, Inc. | 7,585,808 | - | - | (7,585,808) | - | - | - | - | - | - |
| Net realized and unrealized losses on investments | - | - | 41,700 | - | 41,700 | - | - | - | - | 41,700 |
| Net assets released from restrictions | - | - | (2,957,515) | - | (2,957,515) | - | - | - | - | (2,957,515) |
| Decrease (increase) in temporarily restricted net assets | <u>7,585,808</u> | <u>-</u> | <u>7,600,249</u> | <u>(7,585,808)</u> | <u>7,600,249</u> | <u>(357,922)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,242,327</u> |
| Permanently restricted net assets | | | | | | | | | | |
| Contributions | - | - | 10,534 | - | 10,534 | - | - | - | - | 10,534 |
| Change in beneficial interest in Norwalk Hospital Foundation, Inc. | 10,534 | - | - | (10,534) | - | - | - | - | - | - |
| Increase in permanently restricted net assets | <u>10,534</u> | <u>-</u> | <u>10,534</u> | <u>(10,534)</u> | <u>10,534</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>10,534</u> |
| Increase (decrease) in net assets | <u>2,133,489</u> | <u>(1,821,336)</u> | <u>7,610,783</u> | <u>(7,596,342)</u> | <u>326,594</u> | <u>(2,649,846)</u> | <u>56,078</u> | <u>(2,457,999)</u> | <u>(50,260)</u> | <u>(4,775,433)</u> |
| Net assets beginning of year | <u>134,966,179</u> | <u>(52,056)</u> | <u>29,028,788</u> | <u>(28,803,532)</u> | <u>135,139,379</u> | <u>30,056,708</u> | <u>249,782</u> | <u>9,573,218</u> | <u>(323,957)</u> | <u>174,695,130</u> |
| Net assets (liabilities), at end of year | <u>\$ 137,099,668</u> | <u>\$ (1,873,392)</u> | <u>\$ 36,639,571</u> | <u>\$ (36,399,874)</u> | <u>\$ 135,465,973</u> | <u>\$ 27,406,862</u> | <u>\$ 305,860</u> | <u>\$ 7,115,219</u> | <u>\$ (374,217)</u> | <u>\$ 169,919,697</u> |

Supplemental Norwalk Health Services Corporation and Subsidiaries
Consolidating Balance Sheet
September 30, 2010

| | Norwalk Hospital Association and Subsidiary | Norwalk Health Care, Inc. | Norwalk Hospital Foundation, Inc. | Eliminations | Obligated Group | Norwalk Health Services Corporation | S.W.C. Corporation | Maple Street Indemnity Company Ltd. | Eliminations | Consolidated |
|--|--|---------------------------------|--|-----------------|--------------------|--|-----------------------|--|--------------|----------------|
| Assets | | | | | | | | | | |
| Current assets | | | | | | | | | | |
| Cash and cash equivalents | \$ 26,795,300 | \$ 833,664 | \$ 392,798 | \$ - | \$ 28,021,762 | \$ 32,317 | \$ 623,992 | \$ 63,830 | \$ - | \$ 28,741,901 |
| Investments | 8,655,334 | - | - | - | 8,655,334 | - | - | 22,964,930 | - | 31,620,264 |
| Patient accounts receivable, net | 40,941,651 | 1,410,699 | - | - | 42,352,350 | - | 214,947 | - | - | 42,567,297 |
| Due from third party agencies | - | - | - | - | - | - | - | - | - | - |
| Due from affiliates | 446,142 | 44,596 | - | (433,541) | 57,197 | - | 520 | - | (57,717) | - |
| Inventories | 2,361,637 | 33,626 | - | - | 2,395,263 | - | 428,144 | - | - | 2,823,407 |
| Other current assets | 3,303,815 | 209,625 | 552,188 | - | 4,065,628 | - | 43,285 | 77,152 | - | 4,186,065 |
| Assets whose use is limited | 371,800 | 341,691 | - | - | 713,491 | - | - | - | - | 713,491 |
| Total current assets | 82,875,679 | 2,873,901 | 944,986 | (433,541) | 86,261,025 | 32,317 | 1,310,888 | 23,105,912 | (57,717) | 110,652,425 |
| Long-term investments | 21,535,624 | - | 27,891,739 | - | 49,427,363 | 22,369,800 | - | 9,204,665 | - | 81,001,828 |
| Assets whose use is limited | | | | | | | | | | |
| Assets held by trustee per bond indenture | 1,075,930 | 1,588,009 | - | - | 2,663,939 | - | - | - | - | 2,663,939 |
| Assets held in trust for self-insurance | 5,954,228 | - | - | - | 5,954,228 | - | - | - | - | 5,954,228 |
| | 7,030,158 | 1,588,009 | - | - | 8,618,167 | - | - | - | - | 8,618,167 |
| Beneficial interest in trust | - | - | - | - | - | 6,697,680 | - | - | - | 6,697,680 |
| Other assets | 2,824,258 | 218,769 | 651,087 | - | 3,694,114 | 249,782 | - | - | (249,782) | 3,694,114 |
| Due from third party agencies | 4,244,774 | - | - | - | 4,244,774 | - | - | - | - | 4,244,774 |
| Beneficial interest in Norwalk Hospital Foundation, Inc. | 28,803,532 | - | - | (28,803,532) | - | - | - | - | - | - |
| Goodwill | 2,900,333 | - | - | - | 2,900,333 | - | - | - | - | 2,900,333 |
| Investment in joint venture | 2,729,803 | - | - | - | 2,729,803 | - | - | - | - | 2,729,803 |
| Property, plant and equipment | | | | | | | | | | |
| Land and land improvements | 2,677,639 | 1,833,602 | - | - | 4,511,241 | 937,642 | - | - | - | 5,448,883 |
| Buildings | 143,200,619 | 9,660,470 | - | - | 152,861,089 | 362,326 | - | - | (174,536) | 153,048,879 |
| Equipment | 221,634,356 | 1,105,710 | 131,033 | - | 222,871,099 | - | 771,015 | - | - | 223,642,114 |
| Construction in progress and deferred project costs | 5,120,280 | 424,563 | - | - | 5,544,843 | - | - | - | - | 5,544,843 |
| Accumulated depreciation | (261,142,100) | (6,573,022) | (131,033) | - | (267,846,155) | (268,284) | (528,786) | - | 100,361 | (268,542,864) |
| Total property, plant, and equipment | 111,490,794 | 6,451,323 | - | - | 117,942,117 | 1,031,684 | 242,229 | - | (74,175) | 119,141,855 |
| Total assets | \$ 264,434,955 | \$ 11,132,002 | \$ 29,487,812 | \$ (29,237,073) | \$ 275,817,696 | \$ 30,381,263 | \$ 1,553,117 | \$ 32,310,577 | \$ (381,674) | \$ 339,680,979 |

Supplemental Norwalk Health Services Corporation and Subsidiaries
Consolidating Balance Sheet
September 30, 2010

| | Norwalk Hospital Association and Subsidiary | Norwalk Health Care, Inc. | Norwalk Hospital Foundation, Inc. | Eliminations | Obligated Group | Norwalk Health Services Corporation | S.W.C. Corporation | Maple Street Indemnity Company Ltd. | Eliminations | Consolidated |
|---|--|---------------------------------|--|-----------------|--------------------|--|-----------------------|--|--------------|----------------|
| Liabilities and Net Assets | | | | | | | | | | |
| Current liabilities | | | | | | | | | | |
| Accounts payable | \$ 19,791,066 | \$ 228,496 | \$ 476 | \$ - | \$ 20,020,038 | \$ 279,555 | \$ 520,121 | \$ 47,900 | \$ - | \$ 20,867,614 |
| Accrued compensation | 18,652,987 | 847,554 | - | - | 19,500,541 | - | 443,974 | - | - | 19,944,515 |
| Due to third party agencies | 1,001,192 | 115,108 | - | - | 1,116,300 | - | - | - | - | 1,116,300 |
| Due to affiliates | - | 138,538 | 295,523 | (433,541) | 520 | 45,000 | 12,197 | - | - | 57,717 |
| Accrued interest payable | 141,774 | 101,973 | - | - | 243,747 | - | - | - | - | 243,747 |
| Current portion of long-term debt | 1,667,606 | 530,000 | - | - | 2,197,606 | - | - | - | - | 2,197,606 |
| Current portion capital lease | 8,447 | - | - | - | 8,447 | - | - | - | - | 8,447 |
| Other current liabilities | - | 889,259 | 163,025 | - | 1,052,284 | - | - | - | - | 1,052,284 |
| Total current liabilities | 41,263,072 | 2,850,928 | 459,024 | (433,541) | 44,139,483 | 324,555 | 976,292 | 47,900 | - | 45,488,230 |
| Accrued pension liability | 37,851,799 | - | - | - | 37,851,799 | - | - | - | - | 37,851,799 |
| Asset retirement obligations | 10,212,507 | - | - | - | 10,212,507 | - | - | - | - | 10,212,507 |
| Other liabilities | 14,731,550 | 528,130 | - | - | 15,259,680 | - | 327,043 | 22,689,459 | - | 38,276,182 |
| Due to third party agencies | 9,650,070 | - | - | - | 9,650,070 | - | - | - | - | 9,650,070 |
| Long-term debt, less current portion | 15,742,952 | 7,805,000 | - | - | 23,547,952 | - | - | - | - | 23,547,952 |
| Long-term capital lease, less current portion | 16,826 | - | - | - | 16,826 | - | - | - | - | 16,826 |
| Total liabilities | 129,468,776 | 11,184,058 | 459,024 | (433,541) | 140,678,317 | 324,555 | 1,303,335 | 22,737,359 | - | 165,043,566 |
| Net assets | | | | | | | | | | |
| Unrestricted | 111,690,517 | (52,056) | - | (5,527,870) | 106,110,591 | 23,359,028 | - | 9,573,218 | (74,175) | 138,968,662 |
| Temporarily restricted | 13,846,953 | - | 19,600,080 | (13,846,953) | 19,600,080 | 6,697,680 | - | - | - | 26,297,760 |
| Permanently restricted | 9,428,709 | - | 9,428,708 | (9,428,709) | 9,428,708 | - | - | - | - | 9,428,708 |
| Shareholder's equity | - | - | - | - | - | - | 249,782 | - | (249,782) | - |
| Total net assets and shareholder's equity | 134,966,179 | (52,056) | 29,028,788 | (28,803,532) | 135,139,379 | 30,056,708 | 249,782 | 9,573,218 | (323,957) | 174,695,130 |
| Total liabilities, net assets and shareholders' equity | \$ 264,434,955 | \$ 11,132,002 | \$ 29,487,812 | \$ (29,237,073) | \$ 275,817,696 | \$ 30,381,263 | \$ 1,553,117 | \$ 32,310,577 | \$ (323,957) | \$ 339,738,696 |

Supplemental Norwalk Health Services Corporation and Subsidiaries
Consolidating Statement of Operations
Year Ended September 30, 2010

| | Norwalk Hospital Association and Subsidiary | Norwalk Health Care, Inc. | Norwalk Hospital Foundation, Inc. | Eliminations | Obligated Group | Norwalk Health Services Corporation | S.W.C. Corporation | Maple Street Indemnity Company Ltd. | Eliminations | Consolidated |
|--|--|---------------------------------|--|--------------------|-----------------------|--|-----------------------|--|--------------------|-----------------------|
| Net revenues from services to patients | \$ 326,580,262 | \$ 15,987,091 | \$ - | \$ (10,151) | \$ 342,557,202 | \$ - | \$ 8,138,171 | \$ - | \$ - | \$ 350,695,373 |
| Other operating revenues | 24,258,085 | 13,081 | 1,428,713 | (7,574,762) | 18,125,117 | 742,636 | 3,306,685 | 7,100,652 | (9,587,302) | 19,687,788 |
| Equity in earnings of subsidiary | - | - | - | - | - | (191,059) | - | - | 191,059 | - |
| Change in unrestricted beneficial interest in Norwalk Hospital Foundation | 32,601 | - | - | (32,601) | - | - | - | - | - | - |
| Net assets released from restrictions used for operations | - | - | 4,999,683 | - | 4,999,683 | - | - | - | - | 4,999,683 |
| Total operating revenues | 350,870,948 | 16,000,172 | 6,428,396 | (7,617,514) | 365,682,002 | 551,577 | 11,444,856 | 7,100,652 | (9,396,243) | 375,382,844 |
| Operating expenses | | | | | | | | | | |
| Salaries and benefits | 189,146,552 | 8,885,923 | 1,411,106 | - | 199,443,581 | - | 4,796,320 | - | - | 204,239,901 |
| Supplies and other expenses | 113,349,004 | 6,335,694 | 5,368,871 | (6,156,200) | 118,897,369 | 429,271 | 6,735,405 | 7,253,676 | (9,587,302) | 123,728,419 |
| Depreciation and amortization | 20,003,428 | 373,169 | 23,160 | - | 20,399,757 | 7,469 | 77,168 | - | (5,818) | 20,478,576 |
| Provision for bad debts | 23,255,695 | 453,000 | - | - | 23,708,695 | - | 27,022 | - | - | 23,735,717 |
| Funding operations of Norwalk Hospital Foundation | 1,428,713 | - | - | (1,428,713) | - | - | - | - | - | - |
| Interest | 646,398 | 437,221 | - | - | 1,083,619 | - | - | - | - | 1,083,619 |
| Total operating expenses | 347,829,790 | 16,485,007 | 6,803,137 | (7,584,913) | 363,533,021 | 436,740 | 11,635,915 | 7,253,676 | (9,593,120) | 373,266,232 |
| Income (loss) from operations prior to restructuring expense | 3,041,158 | (484,835) | (374,741) | (32,601) | 2,148,981 | 114,837 | (191,059) | (153,024) | 196,877 | 2,116,612 |
| Restructuring expense | (3,934,121) | - | - | - | (3,934,121) | - | - | - | - | (3,934,121) |
| Income (loss) from operations | (892,963) | (484,835) | (374,741) | (32,601) | (1,785,140) | 114,837 | (191,059) | (153,024) | 196,877 | (1,817,509) |
| Nonoperating income (expense) | | | | | | | | | | |
| Investment income | 866,620 | 1,614 | - | - | 868,234 | - | - | - | - | 868,234 |
| Net unrealized gains on investments | 1,485,361 | 68 | 12,608 | - | 1,498,037 | 1,369,045 | - | (140,194) | - | 2,726,888 |
| Total non-operating income (expense) | 2,351,981 | 1,682 | 12,608 | - | 2,366,271 | 1,369,045 | - | (140,194) | - | 3,595,122 |
| Excess (deficiency) of revenues over expenses | 1,459,018 | (483,153) | (362,133) | (32,601) | 581,131 | 1,483,882 | (191,059) | (293,218) | 196,877 | 1,777,613 |
| Other changes in net assets | | | | | | | | | | |
| Net assets realized from restrictions used for capital | - | - | 1,594,038 | - | 1,594,038 | - | - | - | - | 1,594,038 |
| Pension related changes other than net periodic benefit cost | (9,474,579) | - | - | - | (9,474,579) | - | - | - | - | (9,474,579) |
| Transfers from Norwalk Hospital Foundation, Inc. | 1,549,506 | 44,532 | (1,594,038) | - | - | - | - | - | - | - |
| Funding operations of Norwalk Hospital Foundation, Inc. | (362,133) | - | 362,133 | - | - | - | - | - | - | - |
| (Decrease) increase in unrestricted net assets | \$ (6,828,188) | \$ (438,621) | \$ - | \$ (32,601) | \$ (7,299,410) | \$ 1,483,882 | \$ (191,059) | \$ (293,218) | \$ 196,877 | \$ (6,102,928) |

Supplemental Norwalk Health Services Corporation and Subsidiaries
Consolidating Statement of Changes in Net Assets
Year Ended September 30, 2010

| | Norwalk Hospital Association and Subsidiary | Norwalk Health Care, Inc. | Norwalk Hospital Foundation, Inc. | Eliminations | Obligated Group | Norwalk Health Services Corporation | S.W.C. Corporation | Maple Street Indemnity Company Ltd. | Eliminations | Consolidated |
|--|--|---------------------------------|--|-----------------|--------------------|--|-----------------------|--|--------------|----------------|
| Unrestricted net assets | | | | | | | | | | |
| Excess (deficiency) of revenues over expenses | \$ 1,459,018 | \$ (483,153) | \$ (362,133) | \$ (32,601) | \$ 581,131 | \$ 1,483,882 | \$ (191,059) | \$ (293,218) | \$ 196,877 | \$ 1,777,613 |
| Net assets released from restrictions used for capital | - | - | 1,594,038 | - | 1,594,038 | - | - | - | - | 1,594,038 |
| Pension related charges other than net periodic benefit cost | (9,474,579) | - | - | - | (9,474,579) | - | - | - | - | (9,474,579) |
| Spent for capital by the Foundation | 1,549,506 | 44,532 | (1,594,038) | - | - | - | - | - | - | - |
| Transfers (to) from affiliates | (362,133) | - | 362,133 | - | - | - | - | - | - | - |
| Decrease (increase) in unrestricted net assets | (6,828,188) | (438,621) | - | (32,601) | (7,299,410) | 1,483,882 | (191,059) | (293,218) | 196,877 | (6,102,928) |
| Temporarily restricted net assets | | | | | | | | | | |
| Contributions | - | - | 5,510,546 | - | 5,510,546 | - | - | - | - | 5,510,546 |
| Decrease in assets held in trust by others | - | - | - | - | - | 351,913 | - | - | - | 351,913 |
| Change in beneficial interest in Norwalk Hospital Foundation, Inc. | 120,510 | (41,604) | - | (78,906) | - | - | - | - | - | - |
| Net realized and unrealized losses on investments | - | - | 1,301,520 | - | 1,301,520 | - | - | - | - | 1,301,520 |
| Net assets released from restrictions | - | - | (6,593,721) | - | (6,593,721) | - | - | - | - | (6,593,721) |
| Decrease (increase) in temporarily restricted net assets | 120,510 | (41,604) | 218,345 | (78,906) | 218,345 | 351,913 | - | - | - | 570,258 |
| Permanently restricted net assets | | | | | | | | | | |
| Contributions | - | - | 85,066 | - | 85,066 | - | - | - | - | 85,066 |
| Change in beneficial interest in Norwalk Hospital Foundation, Inc. | 85,066 | - | - | (85,066) | - | - | - | - | - | - |
| Increase in permanently restricted net assets | 85,066 | - | 85,066 | (85,066) | 85,066 | - | - | - | - | 85,066 |
| Increase (decrease) in net assets | (6,622,612) | (480,225) | 303,411 | (196,573) | (6,995,999) | 1,835,795 | (191,059) | (293,218) | 196,877 | (5,447,604) |
| Net assets beginning of year | 141,588,791 | 428,169 | 28,725,377 | (28,606,959) | 142,135,378 | 28,220,913 | 440,841 | 9,866,436 | (520,834) | 180,142,734 |
| Net assets (liabilities), at end of year | \$ 134,966,179 | \$ (52,056) | \$ 29,028,788 | \$ (28,803,532) | \$ 135,139,379 | \$ 30,056,708 | \$ 249,782 | \$ 9,573,218 | \$ (323,957) | \$ 174,695,130 |