

**Norwalk Hospital Association**  
**Consolidated Financial Statements**  
**September 30, 2012 and 2011**

# Norwalk Hospital Association

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September 30, 2012 and 2011

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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, 2012 and 2011, 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 noncontrolling 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 22 through 27, 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 29, 2013

# Norwalk Hospital Association

## Consolidated Balance Sheets

### September 30, 2012 and 2011

	2012	2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 80,412,466	\$ 66,806,594
Investments	8,710,885	8,693,538
Patient accounts receivable, less allowance for doubtful accounts of \$25,100,000 and \$25,800,000, respectively	31,143,215	37,323,187
Due from affiliates, net	4,330,064	2,640,682
Other receivables	389,206	949,635
Inventories	2,224,235	1,964,675
Prepaid expenses	2,435,281	2,785,293
Due from third party agencies	2,368,715	-
Assets whose use is limited - required for current liabilities	278,083	372,429
Total current assets	132,292,150	121,536,033
Assets whose use is limited		
Assets held by trustee under bond indenture agreements	2,366,125	15,111,873
Assets held in trust for self-insurance	2,450,281	4,567,394
Total assets whose use is limited	4,816,406	19,679,267
Long-term investments	46,403,962	21,526,072
Other assets	44,153,712	1,079,632
Noncompetes	6,753,304	7,547,810
Due from third party agencies	3,698,890	2,715,774
Notes receivable	983,780	1,387,672
Goodwill	13,843,749	15,097,582
Investment in joint venture	2,267,986	2,729,803
Beneficial interest in Norwalk Hospital Foundation, Inc.	49,220,441	36,399,874
Property, plant and equipment		
Land and land improvements	2,774,613	2,727,368
Buildings	174,778,639	146,977,766
Equipment	244,853,059	233,652,063
Construction in progress	8,602,012	22,713,647
Accumulated depreciation	(292,848,758)	(277,748,018)
Total property, plant and equipment	138,159,565	128,322,826
Total assets	\$ 442,593,945	\$ 358,022,345
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 26,143,810	\$ 26,817,229
Accrued compensation	17,920,526	19,374,751
Due to third party agencies	4,906,972	4,525,191
Due to affiliates	4,561,656	-
Accrued interest	757,682	809,088
Current portion of long-term debt	5,674,419	4,887,563
Current portion of capital lease	7,180	9,649
Total current liabilities	59,972,245	56,423,471
Accrued pension liability	64,741,651	60,019,814
Asset retirement obligation	10,866,380	11,509,090
Other liabilities	55,942,040	16,518,934
Due to third party agencies	28,938,889	14,726,335
Long-term debt, less current portion	56,096,399	61,717,853
Capital lease, less current portion	-	7,180
Total liabilities	276,557,604	220,922,677
Net assets		
Unrestricted attributable to Norwalk Hospital	121,389,239	105,557,071
Unrestricted attributable to noncontrolling interest	954,530	670,593
Temporarily restricted	34,246,719	21,432,761
Permanently restricted	9,445,853	9,439,243
Total net assets	166,036,341	137,099,668
Total liabilities and net assets	\$ 442,593,945	\$ 358,022,345

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

**Norwalk Hospital Association**  
**Consolidated Statements of Operations**  
**Years Ended September 30, 2012 and 2011**

	2012	2011
<b>Operating revenues</b>		
Net revenues from services to patients	\$ 368,415,721	\$ 350,618,665
Other operating revenues	20,311,534	22,891,536
Total operating revenues	<u>388,727,255</u>	<u>373,510,201</u>
<b>Operating expenses</b>		
Salaries and benefits	182,853,245	189,403,257
Supplies and other expenses	135,560,131	123,879,833
Depreciation	20,644,157	19,183,374
Provision for bad debts	23,689,476	20,654,069
Interest	2,226,437	1,565,210
Support for Norwalk Hospital Foundation, Inc.	1,182,308	1,042,576
Total operating expenses	<u>366,155,754</u>	<u>355,728,319</u>
Income from operations	22,571,501	17,781,882
<b>Nonoperating income (expense)</b>		
Investment income	1,275,016	799,311
Net unrealized gain (loss) on investments	3,763,749	(1,455,301)
Loss on sale of equipment	(483,772)	-
Provision for joint venture investment	(461,817)	-
Total nonoperating income (loss)	<u>4,093,176</u>	<u>(655,990)</u>
Excess of revenues over expenses, before noncontrolling interest in joint venture	26,664,677	17,125,892
Change in value attributable to noncontrolling interest in joint venture	<u>(283,937)</u>	<u>418,448</u>
Excess of revenues over expenses	26,380,740	17,544,340
<b>Other changes in net assets</b>		
Transfers (to) from Norwalk Health Services Corporation	(4,501,544)	1,914,723
Transfer of interest of Fairfield County Medical Services, Inc.	832,443	-
Transfers from Norwalk Hospital Foundation, Inc.	737,532	322,298
Funding of operations of Norwalk Hospital Foundation, Inc.	(889,780)	(765,289)
Transfers from Norwalk Surgery Center, LLC	-	1,089,041
Pension related changes other than net periodic benefit cost	(6,727,223)	(25,149,518)
Non controlling interest in joint venture	283,937	(418,448)
Increase/(decrease) in unrestricted net assets	<u>\$ 16,116,105</u>	<u>\$ (5,462,853)</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, 2012 and 2011**

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	2012	2011
<b>Unrestricted net assets</b>		
Excess of revenues over expenses	\$ 26,380,740	\$ 17,014,933
Transfers (to) from Norwalk Health Services Corporation	(4,501,544)	1,914,723
Transfer of interest of Fairfield County Medical Services, Inc.	832,443	-
Transfers from Norwalk Hospital Foundation, Inc.	737,532	322,298
Funding of operations of Norwalk Hospital Foundation, Inc.	(889,780)	(765,289)
Transfers from Norwalk Surgery Center	-	1,200,000
Pension related changes other than net periodic benefit cost	(6,727,223)	(25,149,518)
Non controlling interest in joint venture	283,937	-
	<u>16,116,105</u>	<u>(5,462,853)</u>
<b>Temporarily restricted net assets</b>		
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	<u>12,813,958</u>	<u>7,585,808</u>
Increase in temporarily restricted net assets	12,813,958	7,585,808
<b>Permanently restricted net assets</b>		
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	<u>6,610</u>	<u>10,534</u>
Increase in permanently restricted net assets	<u>6,610</u>	<u>10,534</u>
Increase in net assets	28,936,673	2,133,489
<b>Net assets</b>		
Beginning of year	<u>137,099,668</u>	<u>134,966,179</u>
End of year	<u>\$ 166,036,341</u>	<u>\$ 137,099,668</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, 2012 and 2011

	2012	2011
<b>Operating activities</b>		
Change in net assets	\$ 28,936,673	\$ 2,133,489
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Noncash items		
Depreciation and amortization	20,644,157	19,175,533
Loss (gain) on sale of property, plant and equipment	476,292	(800)
Provision for bad debts	23,689,476	20,654,069
Writeoff of investment in joint venture	461,817	-
Net realized and unrealized (gain) loss on investments	(3,761,248)	659,747
Pension related changes other than net periodic benefit cost	6,727,223	25,149,518
Net asset items		
Transfers to (from) Norwalk Hospital Foundation, Inc.	152,248	442,991
Transfer from Norwalk Health Services Corporation	4,501,544	(1,914,723)
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	(12,820,567)	(7,596,342)
Changes in operating assets and liabilities		
Accounts receivable	(17,509,504)	(17,035,605)
Due from affiliates	2,872,274	(2,194,540)
Other receivables	560,429	523,050
Inventories	(259,560)	529,255
Prepaid expenses	350,012	(832,584)
Other assets	(43,074,080)	(275,321)
Notes receivable	-	(59,080)
Accounts payable and accrued expenses	4,159,742	2,031,313
Accrued compensation	(1,454,225)	721,764
Due to third-party reimbursement agencies, net	11,242,504	10,129,264
Accrued interest	(51,406)	667,314
Accrued pension liability	(2,005,386)	(2,981,503)
Asset retirement obligation	(642,710)	1,296,583
Other liabilities	394,231	1,787,384
Net cash provided by operating activities	<u>62,618,811</u>	<u>53,010,776</u>
<b>Investing activities</b>		
Net decrease (increase) in assets whose use is limited	14,954,705	(12,643,839)
Sale of investments	-	4,226
Purchase of investments	(21,131,487)	(698,524)
Additions to property, plant and equipment	(34,249,490)	(28,100,123)
Proceeds from sale of property, plant and equipment	507,480	4,000
Acquisition of radiology imaging center	-	(22,914,723)
Net cash used by investing activities	<u>(39,918,792)</u>	<u>(64,348,983)</u>
<b>Financing activities</b>		
Transfers (to) Norwalk Hospital Foundation, Inc.	(152,248)	(442,991)
Transfers (to) from Norwalk Health Services Corporation	(4,501,544)	1,914,723
Payments on notes receivable	403,892	691,355
Proceeds from long-term debt	-	50,840,000
Payments on capital lease	(9,649)	(8,444)
Payments on long-term debt	(4,834,598)	(1,645,142)
Net cash (used by) provided by financing activities	<u>(9,094,147)</u>	<u>51,349,501</u>
Increase in cash and cash equivalents	13,605,872	40,011,294
<b>Cash and cash equivalents</b>		
Beginning of year	66,806,594	26,795,300
End of year	<u>\$ 80,412,466</u>	<u>\$ 66,806,594</u>
<b>Noncash transactions</b>		
Fixed assets expenditures included in accounts payable	\$ 499,327	\$ 5,332,488
Capitalized interest	559,895	940,110

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

# Norwalk Hospital Association

## Notes to Consolidated Financial Statements

### September 30, 2012 and 2011

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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, 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. Norwalk Surgery Center LLC, is a Limited Liability Corporation and is taxed as a Partnership.

##### **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, 2012 and 2011

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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.

# Norwalk Hospital Association

## Notes to Consolidated Financial Statements

### September 30, 2012 and 2011

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#### **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.

#### **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 in the aggregate. MSI purchases \$30,000,000 of excess reinsurance coverage above a self-insured retention of \$5,000,000 per claim and \$18,000,000 in the aggregate.

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 \$70,561,730 and \$75,094,000 in 2012 and 2011, respectively. The carrying value of debt is \$61,770,818 and \$66,605,000 in 2012 and 2011, 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 to/from Norwalk Health Services Corporation, Norwalk Hospital Foundation, Inc., and Norwalk Surgery Center, LLC, funding of operations of Norwalk Hospital Foundation, Inc., transfer of interest of Fairfield Medical Services, Inc., and noncontrolling interest in joint venture.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2012 and 2011**

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**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, realized and unrealized gains and losses on investments, loss on sale of equipment, and provision for joint venture.

**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, 2012, the Hospital adopted the provisions of ASU 2010-24, "Presentation of Insurance Claims and Related Insurance Recoveries", which clarifies that health care entities should not net insurance recoveries against the related claims liabilities. In connection with the Hospital's adoption of ASU 2010-24, the Hospital recorded an increase in its assets and liabilities of approximately \$43,000,000 in the accompanying Consolidated Balance Sheet as of September 30, 2012.

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

The following table summarizes revenues from services to patients:

	2012	2011
Gross revenues from services to patients	\$ 922,882,975	\$ 853,958,106
Deductions and exclusions		
Allowances	<u>554,467,254</u>	<u>503,346,706</u>
Net revenues from services to patients	<u>\$ 368,415,721</u>	<u>\$ 350,611,400</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.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2012 and 2011**

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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, 2012 and 2011 are as follows:

	<b>2012</b>	<b>2011</b>
Commercial/other	57 %	56 %
Medicare	25	27
Self pay	9	8
Medicaid	9	9
	<u>100 %</u>	<u>100 %</u>

The mix of net receivables from patients and third-party payors at September 30, 2012 and 2011 are as follows:

	<b>2012</b>	<b>2011</b>
Commercial/other	63 %	76 %
Medicare	28	20
Self pay	1	-
Medicaid	8	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 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, 2012 and 2011, the Hospital provided charity care of approximately \$17,929,000 and \$17,327,000, respectively, in charges.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2012 and 2011**

**3. Investments**

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

	2012	2011
<b>General investments</b>		
Cash and cash equivalents	\$ 8,710,885	\$ 8,693,538
Mutual funds	<u>46,403,962</u>	<u>21,526,072</u>
	<u>\$ 55,114,847</u>	<u>\$ 30,219,610</u>
<b>Assets held in trust for self-insurance</b>		
Cash and cash equivalents	<u>\$ 2,450,281</u>	<u>\$ 4,567,394</u>
	<u>\$ 2,450,281</u>	<u>\$ 4,567,394</u>
<b>Assets held by trustee per bond indenture</b>		
Cash and cash equivalents	\$ 2,366,616	\$ 15,149,873
U.S. Treasury obligations	<u>277,592</u>	<u>334,429</u>
	<u>\$ 2,644,208</u>	<u>\$ 15,484,302</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:

	2012			Fair Value
	Level 1	Level 2	Level 3	
<b>General investments</b>				
Cash and cash equivalents	\$ 8,710,885	\$ -	\$ -	\$ 8,710,885
Mutual funds	<u>46,403,962</u>	<u>-</u>	<u>-</u>	<u>46,403,962</u>
	<u>55,114,847</u>	<u>-</u>	<u>-</u>	<u>55,114,847</u>
<b>Assets whose use is limited</b>				
Cash and cash equivalents	4,816,897	-	-	4,816,897
U.S. Treasury obligations	<u>277,592</u>	<u>-</u>	<u>-</u>	<u>277,592</u>
	<u>5,094,489</u>	<u>-</u>	<u>-</u>	<u>5,094,489</u>
	<u>\$ 60,209,336</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,209,336</u>

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2012 and 2011**

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

There were no transfers of assets between levels for the year ended September 30, 2012.

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

	2012	2011
<b>Investment return</b>		
Interest income	\$ 1,291,916	\$ 840,283
Net realized (losses) gains on sales of securities	(2,502)	795,554
	<u>\$ 1,289,414</u>	<u>\$ 1,635,837</u>

The Hospital has recorded \$1,275,016 and \$796,825 of the investment return as nonoperating gains for the years ended September 30, 2012 and 2011, respectively. The remaining investment income in 2012 and 2011 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**  
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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, 2012:

	<b>Operating Lease Payments</b>	<b>Sublease Rental Receipts</b>
2013	\$ 7,238,000	\$ 2,875,000
2014	7,182,000	2,869,000
2015	7,111,000	2,934,000
2016	7,191,000	3,007,000
2017	6,990,000	3,082,000
Thereafter	<u>62,467,000</u>	<u>8,904,000</u>
	<u>\$ 98,179,000</u>	<u>\$ 23,671,000</u>

Rental expense was approximately \$9,153,000 and \$8,336,000 for the years ended September 30, 2012 and 2011, respectively. Rental expense was offset by rental revenue of approximately \$2,909,000 and \$2,525,000, respectively.

**5. Goodwill**

In 2011, the Hospital recorded goodwill of \$13,843,749 related to the acquisition of Norwalk Radiology and Mammography Center ("NRMC"). The Hospital will assess the goodwill for impairment on an annual basis. There is no impairment as of September 30, 2012 and 2011.

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. In fiscal 2012, the hospital recorded impairment of goodwill associated with the purchase due to reduced practice volume. Accumulated impairment as of September 30, 2012 and 2011 amounted to \$1,620,000 and \$837,000, 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, 2012 and 2011 amounted to \$3,362,500 and \$2,891,667, 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, 2012, the Series E outstanding debt is \$8,560,000.

# Norwalk Hospital Association

## Notes to Consolidated Financial Statements

### September 30, 2012 and 2011

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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, 2012 and 2011 is \$52,395,000 and \$63,865,000, 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, 2012, the Series G outstanding debt is \$23,860,000.

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, 2012, the Series H outstanding debt is \$9,185,000.

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, 2012, the Series I outstanding debt is \$10,790,000.

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. As of September 30, 2012, the term loan outstanding debt is \$3,351,443.

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, 2012, the CHEFA outstanding debt is \$4,703,893.

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

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
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manage its electrical energy needs. As of September 30, 2012 and 2011, \$671,926 and \$941,496, 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, 2012, the Trust outstanding debt is \$671,926.

The following table summarizes the long-term debt outstanding as of September 30, 2012:

	<b>Norwalk Hospital</b>	<b>Norwalk Surgery Center, LLC</b>	<b>Total</b>
2013	\$ 5,025,862	\$ 648,557	\$ 5,674,419
2014	5,223,589	681,916	5,905,505
2015	5,296,052	716,395	6,012,447
2016	5,389,094	752,390	6,141,484
2017	5,231,221	790,661	6,021,882
Thereafter	<u>31,605,000</u>	<u>410,081</u>	<u>32,015,081</u>
	57,770,818	4,000,000	61,770,818
Less: Current portion of long-term debt	<u>5,025,862</u>	<u>648,557</u>	<u>5,674,419</u>
Long-term debt	<u>\$ 52,744,956</u>	<u>\$ 3,351,443</u>	<u>\$ 56,096,399</u>

During 2012 and 2011, the Hospital paid interest of \$2,637,137 and \$1,723,690, respectively, on its long-term debt obligations. Interest capitalized for the years ended September 30, 2012 and 2011 was approximately \$560,000 and \$940,000, 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>2012</b>	<b>2011</b>
Net actuarial loss	\$ 101,904,421	\$ 94,565,193
Prior service cost	<u>518,832</u>	<u>1,130,837</u>
	<u>\$ 102,423,253</u>	<u>\$ 95,696,030</u>

The amount of prior service cost and actuarial loss expected to be recognized in net periodic benefit cost in 2013 is \$6,375,980.

**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:

	<b>2012</b>	<b>2011</b>
<b>Accumulated benefit obligation</b>	\$ 210,119,166	\$ 183,920,145
<b>Change in projected benefit obligation</b>		
Benefit obligation, beginning of year	\$ 199,263,628	\$ 175,101,725
Service cost	6,630,998	6,250,268
Interest cost	9,167,766	8,875,690
Actuarial loss	22,832,432	16,603,824
Benefits paid	<u>(8,462,072)</u>	<u>(7,567,879)</u>
Benefit obligation, end of year	<u>229,432,752</u>	<u>199,263,628</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	139,243,814	137,249,926
Actuarial return on plan assets	23,909,359	(438,233)
Contributions	10,000,000	10,000,000
Benefits paid	<u>(8,462,072)</u>	<u>(7,567,879)</u>
Fair value of plan assets, end of year	<u>164,691,101</u>	<u>139,243,814</u>
Funded status and accrued pension liability	<u>\$ (64,741,651)</u>	<u>\$ (60,019,814)</u>

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

	<b>2012</b>	<b>2011</b>
Service cost	\$ 6,630,998	\$ 6,250,268
Interest cost	9,167,766	8,875,690
Expected return on plan assets	(12,626,442)	(12,010,289)
Net amortization and deferral	<u>4,822,292</u>	<u>3,902,828</u>
Net periodic benefit cost	<u>\$ 7,994,614</u>	<u>\$ 7,018,497</u>

**Assumptions**

The weighted-average assumptions used to determine the year-end benefit obligation at September 30, 2012 and 2011 are as follows:

	<b>2012</b>	<b>2011</b>
Discount rate	3.90 %	4.68 %
Rate of compensation increase	3.50 %	3.50 %

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

	<b>2012</b>	<b>2011</b>
Discount rate	4.68 %	5.17 %
Expected return on assets	8.00	8.00
Rate of compensation increase	3.50	3.50

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
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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, 2012 and 2011 are as follows:

	<b>2012</b>	<b>2011</b>
<b>Asset category</b>		
Equity securities	60 %	56 %
Debt securities	40	44
	<u>100 %</u>	<u>100 %</u>

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:

	<b>2012</b>			<b>Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Cash and cash equivalents	\$ 1,704,147	\$ -	\$ -	\$ 1,704,147
Mutual funds	162,808,780			162,808,780
Unallocated immediate participation group annuity contract	-	178,174	-	178,174
	<u>\$ 164,512,927</u>	<u>\$ 178,174</u>	<u>\$ -</u>	<u>\$ 164,691,101</u>

**Contributions**

The Hospital expects to contribute \$10,000,000 to the plan in fiscal 2013.

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**Estimated Future Benefit Payments**

The following future benefit payments are expected to be paid:

<b>Fiscal Years</b>	<b>Benefit Payments</b>
2013	\$ 7,124,000
2014	7,438,000
2015	7,748,000
2016	8,149,000
2017	8,611,000
2018 - 2021	<u>52,913,000</u>
	<u>\$ 91,983,000</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 \$3,189,000 and \$2,841,000 for the years ended September 30, 2012 and 2011, 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>2012</b>	<b>2011</b>
Healthcare services	\$ 34,246,719	\$ 21,432,761

Permanently restricted net assets at September 30, 2012 and 2011 are restricted to:

	<b>2012</b>	<b>2011</b>
Healthcare services	\$ 9,445,852	\$ 9,439,243

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
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**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 \$0 and \$1,590,000 in 2012 and 2011, respectively.

Following are the balances due from (to) affiliates:

	<b>2012</b>	<b>2011</b>
Norwalk Health Care, Inc.	\$ -	\$ 1,990,712
Norwalk Hospital Physicians & Surgeons	4,139,259	-
Norwalk Health Services Corporation	(4,501,544)	271,630
Norwalk Hospital Foundation, Inc.	190,805	342,032
SWC Corporation	(60,112)	36,308
	<u>\$ (231,592)</u>	<u>\$ 2,640,682</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	121,579
	<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 noncompete intangible over the ten year length of the noncompete agreement on a straight-line basis. Accumulated amortization as of September 30, 2012 amounted to \$1,191,760.

**11. Transfer of Assets to Norwalk Surgery Center, LLC**

On May 31, 2012, The Hospital transferred assets associated with its offsite ambulatory surgery business to Norwalk Surgery Center, LLC. The Hospital owns 70% of Norwalk Surgery Center, LLC. The Hospital recorded a gain on the sale of the assets to Norwalk Surgery Center, LLC of \$3,838,416 which is eliminated in consolidation.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2012 and 2011**

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**12. Transfer of Interest in Norwalk Hospital Physicians and Surgeons**

On October 1, 2011, The Hospital transferred its interest in Fairfield County Medical Services, Inc. to Norwalk Health Services Corporation. The Hospital recorded an entry for \$832,000 to reverse the deficit previously recorded in net assets. Subsequent to the transfer of interest, Fairfield County Medical Services, Inc. changed its name to Norwalk Hospital Physicians & Surgeons, Inc.

**13. Noncontrolling Interest**

The Hospital adopted ASU *Not-for-Profit Entities Mergers and Acquisitions*. This guidance impacts the financial statement treatment of noncontrolling interests in consolidated entities. This guidance requires the Hospital to report noncontrolling 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*. The Hospital has consolidated noncontrolling interests relating to its investment in Norwalk Surgery Center, LLC under ASU 2010 - 7. These noncontrolling 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 \$955,000 as of September 30, 2012.

Changes in Consolidated Unrestricted Net Assets Attributable to Norwalk Hospital are as follows;

	<b>Norwalk Hospital</b>	<b>Non-Controlling Interest</b>	<b>Total</b>
<b>Balances at October 1, 2010</b>	\$ 111,690,517	\$ -	\$ 111,690,517
Excess of revenues over expenses	17,544,338	(418,448)	17,125,890
Other changes	<u>(23,677,784)</u>	<u>1,089,041</u>	<u>(22,588,743)</u>
Changes in unrestricted net assets	<u>(6,133,446)</u>	<u>670,593</u>	<u>(5,462,853)</u>
<b>Balances at September 30, 2011</b>	105,557,071	670,593	106,227,664
Excess of revenues over expenses (from continuing operations)	26,380,740	283,937	26,664,677
Other changes	<u>(10,548,572)</u>	<u></u>	<u>(10,548,572)</u>
Changes in unrestricted net assets	<u>15,832,168</u>	<u>283,937</u>	<u>16,116,105</u>
<b>Balances at September 30, 2012</b>	<u>\$ 121,389,239</u>	<u>\$ 954,530</u>	<u>\$ 122,343,769</u>

**14. 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.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2012 and 2011**

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**15. 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>2012</b>	<b>2011</b>
Health care services	\$ 256,975,077	\$ 251,839,907
General and administrative	109,180,677	103,888,412
	<u>\$ 366,155,754</u>	<u>\$ 355,728,319</u>

**16. Subsequent Events**

The Hospital and its subsidiary have performed an evaluation of subsequent events through January 29, 2013, which is the date the financial statements were issued.

On December 7, 2012, the Hospital issued \$82,000,000 of additional bonds through a private placement as CHEFA Series J. In connection with this financing the Master Trust Indenture was amended and restated. The Hospital also entered into a swap agreement with a notional principal of \$82,000,000.

On December 7, 2012 Norwalk Health Care, Inc. withdrew from the obligated group.

## **Supplementary Consolidating Information**

**Norwalk Hospital Association  
Supplementary Consolidating Balance Sheet  
Year Ended September 30, 2012**

	<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>					
Current assets					
Cash and cash equivalents	\$ 79,838,027	\$ 574,439	\$ -	\$ -	\$ 80,412,466
Investments	8,710,885	-	-	-	8,710,885
Patient accounts receivable, net	30,103,755	1,039,460	-	-	31,143,215
Other receivables	389,206	-	-	-	389,206
Due from affiliates, net	4,330,064	-	-	-	4,330,064
Inventories	1,860,656	363,579	-	-	2,224,235
Prepaid expenses	2,373,762	61,519	-	-	2,435,281
Due from third party agencies	2,368,715	-	-	-	2,368,715
Assets whose use is limited - required for current liabilities	278,083	-	-	-	278,083
Total current assets	<u>130,253,153</u>	<u>2,038,997</u>	<u>-</u>	<u>-</u>	<u>132,292,150</u>
Assets limited as to use					
Assets held by trustee per bond indenture	2,366,125	-	-	-	2,366,125
Assets held in trustee for self-insurance	2,450,281	-	-	-	2,450,281
Total assets whose use is limited	<u>4,816,406</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,816,406</u>
Long-term investments	46,403,962	-	-	-	46,403,962
Other assets	44,141,095	12,617	-	-	44,153,712
Noncompete	6,753,304	-	-	-	6,753,304
Due from third party agencies	3,698,890	-	-	-	3,698,890
Notes receivable	983,780	-	-	-	983,780
Goodwill	13,843,749	4,142,240	-	(4,142,240)	13,843,749
Investment in joint venture	2,267,986	-	-	-	2,267,986
Beneficial interest in Norwalk Hospital Foundation, Inc.	49,220,441	-	-	-	49,220,441
Property, plant and equipment					
Land and land improvements	2,774,613	-	-	-	2,774,613
Buildings	174,778,639	-	-	-	174,778,639
Equipment	242,977,946	1,571,289	-	303,824	244,853,059
Construction in progress	8,602,012	-	-	-	8,602,012
Accumulated depreciation	(292,559,901)	(288,857)	-	-	(292,848,758)
Total property, plant and equipment	<u>136,573,309</u>	<u>1,282,432</u>	<u>-</u>	<u>303,824</u>	<u>138,159,565</u>
Total assets	<u>\$ 438,956,075</u>	<u>\$ 7,476,286</u>	<u>\$ -</u>	<u>\$ (3,838,416)</u>	<u>\$ 442,593,945</u>

**Norwalk Hospital Association**  
**Supplementary Consolidating Balance Sheet**  
**Year Ended September 30, 2012**

	<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>Liabilities and Net Assets</b>					
Current liabilities					
Accounts payable and accrued expenses	\$ 25,888,666	\$ 255,144	\$ -	\$ -	\$ 26,143,810
Salaries, wages, payroll taxes and amounts withheld from employees	17,881,149	39,377	-	-	17,920,526
Due to third party agencies	4,906,972	-	-	-	4,906,972
Due to affiliates, net	4,561,656	-	-	-	4,561,656
Accrued interest payable	757,682	-	-	-	757,682
Current portion of long-term debt	5,025,862	648,557	-	-	5,674,419
Current portion of capital lease	7,180	-	-	-	7,180
Total current liabilities	<u>59,029,167</u>	<u>943,078</u>	<u>-</u>	<u>-</u>	<u>59,972,245</u>
Accrued pension liability	64,741,651	-	-	-	64,741,651
Asset retirement obligation	10,866,380	-	-	-	10,866,380
Other liabilities	55,942,040	-	-	-	55,942,040
Due to third party agencies	28,938,889	-	-	-	28,938,889
Long-term debt, less current portion	52,744,956	3,351,443	-	-	56,096,399
Long-term capital lease, less current portion	-	-	-	-	-
Total liabilities	<u>272,263,083</u>	<u>4,294,521</u>	<u>-</u>	<u>-</u>	<u>276,557,604</u>
Net assets (deficit)					
Unrestricted	122,045,890	3,181,765	-	(3,838,416)	121,389,239
Unrestricted attributable to noncontrolling interest in joint venture	954,530	-	-	-	954,530
Temporarily restricted	34,246,719	-	-	-	34,246,719
Permanently restricted	9,445,853	-	-	-	9,445,853
Total net assets	<u>166,692,992</u>	<u>3,181,765</u>	<u>-</u>	<u>(3,838,416)</u>	<u>166,036,341</u>
Total liabilities and net assets	<u>\$ 438,956,075</u>	<u>\$ 7,476,286</u>	<u>\$ -</u>	<u>\$ (3,838,416)</u>	<u>\$ 442,593,945</u>

**Norwalk Hospital Association**  
**Supplementary Consolidating Statement of Operations**  
**Year Ended September 30, 2012**

	<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>Operating revenues</b>					
Net revenues from services to patients	\$ 363,267,877	\$ 5,147,844	\$ -	\$ -	\$ 368,415,721
Other operating revenues	20,310,592	942	-	-	20,311,534
Total operating revenues	<u>383,578,469</u>	<u>5,148,786</u>	<u>-</u>	<u>-</u>	<u>388,727,255</u>
<b>Operating expenses</b>					
Salaries and benefits	181,353,127	1,500,118	-	-	182,853,245
Supplies and other expenses	133,479,325	2,080,806	-	-	135,560,131
Depreciation and amortization	20,380,372	263,785	-	-	20,644,157
Provision for bad debts	23,530,477	158,999	-	-	23,689,476
Interest	2,025,836	200,601	-	-	2,226,437
Support for Norwalk Hospital Foundation, Inc.	1,182,308	-	-	-	1,182,308
Total operating expenses	<u>361,951,445</u>	<u>4,204,309</u>	<u>-</u>	<u>-</u>	<u>366,155,754</u>
Income from operations	21,627,024	944,477	-	-	22,571,501
<b>Nonoperating income (expense)</b>					
Investment income	1,273,038	1,978	-	-	1,275,016
Net unrealized gain on investments	3,763,749	-	-	-	3,763,749
Loss on sale of equipment	(483,772)	-	-	-	(483,772)
Provision for joint venture investment	(461,817)	-	-	-	(461,817)
Gain on sale of ambulatory surgery	3,838,416	-	-	(3,838,416)	-
Total nonoperating income	<u>7,929,614</u>	<u>1,978</u>	<u>-</u>	<u>(3,838,416)</u>	<u>4,093,176</u>
Excess (deficiency) of revenues over expenses, before noncontrolling interest in joint venture	29,556,638	946,455	-	(3,838,416)	26,664,677
Change in value attributable to noncontrolling interest in joint venture	-	(283,937)	-	-	(283,937)
Excess of revenues over expenses	<u>29,556,638</u>	<u>662,518</u>	<u>-</u>	<u>(3,838,416)</u>	<u>26,380,740</u>
<b>Other changes in net assets</b>					
Transfers to Norwalk Health Services Corporation	(4,501,544)	-	-	-	(4,501,544)
Transfer of interest of Fairfield County Medical Services, Inc.	-	-	832,443	-	832,443
Transfers from Norwalk Hospital Foundation, Inc.	737,532	-	-	-	737,532
Funding of operations of Norwalk Hospital Foundation, Inc.	(889,780)	-	-	-	(889,780)
Pension related changes other than net periodic benefit cost	(6,727,223)	-	-	-	(6,727,223)
Noncontrolling interests in joint venture	-	283,937	-	-	283,937
Increase in unrestricted net assets	<u>\$ 18,175,623</u>	<u>\$ 946,455</u>	<u>\$ 832,443</u>	<u>\$ (3,838,416)</u>	<u>\$ 16,116,105</u>

**Norwalk Hospital Association  
Supplementary 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>					
Current assets					
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
Total current assets	<u>115,124,348</u>	<u>5,274,200</u>	<u>1,137,485</u>	<u>-</u>	<u>121,536,033</u>
Assets limited as to use					
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
Total assets whose use is limited	<u>19,679,267</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,679,267</u>
Long-term investments	21,526,072	-	-	-	21,526,072
Other assets	1,066,103	13,529	-	-	1,079,632
Noncompete	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
Property, plant and equipment					
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)
Total property, plant and equipment	<u>126,908,218</u>	<u>1,414,608</u>	<u>-</u>	<u>-</u>	<u>128,322,826</u>
Total 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**  
**Supplementary 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>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>-</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>-</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>-</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**  
**Supplementary 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	\$ 24,217	\$ -	\$ -	\$ 350,618,665
Other operating revenues	12,324,861		14,929,787	(4,363,112)	22,891,536
Total operating revenues	<u>362,919,309</u>	<u>24,217</u>	<u>14,929,787</u>	<u>(4,363,112)</u>	<u>373,510,201</u>
<b>Operating expenses</b>					
Salaries and benefits	174,865,641	452,174	14,085,442	-	189,403,257
Supplies and other expenses	121,421,335	828,905	5,992,705	(4,363,112)	123,879,833
Depreciation and amortization	19,041,348	26,137	115,889	-	19,183,374
Provision for bad debts	20,654,069	-	-	-	20,654,069
Interest	1,450,895	114,315	-	-	1,565,210
Support for Norwalk Hospital Foundation, Inc.	1,042,576	-	-	-	1,042,576
Total operating expenses	<u>338,475,864</u>	<u>1,421,531</u>	<u>20,194,036</u>	<u>(4,363,112)</u>	<u>355,728,319</u>
Income (loss) from operations	24,443,445	(1,397,314)	(5,264,249)	-	17,781,882
<b>Nonoperating income (expense)</b>					
Investment income	796,825	2,486	-	-	799,311
Net unrealized loss on investments	(1,455,301)	-	-	-	(1,455,301)
Total nonoperating (loss) income	<u>(658,476)</u>	<u>2,486</u>	<u>-</u>	<u>-</u>	<u>(655,990)</u>
Excess (deficiency) of revenues over expenses, before noncontrolling interest in joint venture	23,784,969	(1,394,828)	(5,264,249)	-	17,125,892
Change in value attributable to noncontrolling interest in joint venture	-	418,448	-	-	418,448
Excess (deficiency) of revenues over expenses	<u>23,784,969</u>	<u>(976,380)</u>	<u>(5,264,249)</u>	<u>-</u>	<u>17,544,340</u>
<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)	3,189,041	-	-	1,089,041
Pension related changes other than net periodic benefit cost	(25,149,518)	-	-	-	(25,149,518)
Noncontrolling interests in joint venture	-	(418,448)	-	-	(418,448)
(Decrease) increase in unrestricted net assets	<u>\$ (6,635,083)</u>	<u>\$ 1,794,213</u>	<u>\$ (621,983)</u>	<u>\$ -</u>	<u>\$ (5,462,853)</u>