

**Norwalk Hospital Association**  
**Consolidated Financial Statements**  
**September 30, 2013 and 2012**

**Norwalk Hospital Association**  
**Index**  
**September 30, 2013 and 2012**

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## Independent Auditor's Report

To the Board of Trustees of  
Norwalk Hospital Association

We have audited the accompanying consolidated financial statements of Norwalk Hospital Association (the "Hospital"), which comprise the consolidated balance sheets as of September 30, 2013 and September 30, 2012, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Norwalk Hospital Association at September 30, 2013 and September 30, 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived

from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual organizations.

PriceWaterhouseCoopers LLP

Hartford, CT  
January 27, 2014

# Norwalk Hospital Association

## Consolidated Balance Sheets

### September 30, 2013 and 2012

	2013	2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 74,375,022	\$ 80,412,466
Investments	8,738,868	8,710,885
Patient accounts receivable, less allowance for doubtful accounts of \$22,000,000 and \$25,100,000, respectively	27,737,360	31,143,215
Due from affiliates, net	1,346,260	4,330,064
Other receivables	3,410,889	389,206
Inventories	2,304,389	2,224,235
Prepaid expenses	1,699,371	2,435,281
Due from third party agencies	-	2,368,715
Assets whose use is limited - required for current liabilities	-	278,083
Total current assets	119,612,159	132,292,150
Assets whose use is limited		
Assets held by trustee under bond indenture agreements	59,708,986	2,366,125
Assets held in trust for self-insurance	327	2,450,281
Total assets whose use is limited	59,709,313	4,816,406
Long-term investments	80,922,925	46,403,962
Other assets	47,164,396	44,153,712
Noncompete	5,958,797	6,753,304
Due from third party agencies	2,596,876	3,698,890
Notes receivable	912,778	983,780
Goodwill	13,843,749	13,843,749
Investment in joint venture	2,267,986	2,267,986
Beneficial interest in Norwalk Hospital Foundation, Inc.	45,162,957	49,220,441
Interest rate swap	4,554,026	-
Property, plant and equipment		
Land and land improvements	7,369,891	2,774,613
Buildings	177,642,150	174,778,639
Equipment	253,573,399	244,853,059
Construction in progress	34,252,962	8,602,012
Accumulated depreciation	(311,009,799)	(292,848,758)
Total property, plant and equipment	161,828,603	138,159,565
Total assets	\$ 544,534,565	\$ 442,593,945
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 29,645,094	\$ 26,143,810
Accrued compensation	22,168,309	17,920,526
Due to third party agencies	4,893,626	4,906,972
Due to affiliates	851,758	4,561,656
Accrued interest	818,694	757,682
Current portion of long-term debt	5,190,534	5,674,419
Current portion of capital lease	-	7,180
Total current liabilities	63,568,015	59,972,245
Accrued pension liability	13,061,730	64,741,651
Asset retirement obligation	10,653,327	10,866,380
Other liabilities	56,789,890	55,942,040
Due to third party agencies	28,187,936	28,938,889
Long-term debt, less current portion	125,030,298	56,096,399
Total liabilities	297,291,196	276,557,604
Net assets		
Unrestricted attributable to Norwalk Hospital	206,220,002	121,389,239
Unrestricted attributable to noncontrolling interest	1,388,280	954,530
Temporarily restricted	30,180,235	34,246,719
Permanently restricted	9,454,852	9,445,853
Total net assets	247,243,369	166,036,341
Total liabilities and net assets	\$ 544,534,565	\$ 442,593,945

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

**Norwalk Hospital Association**  
**Consolidated Statements of Operations**  
**Years Ended September 30, 2013 and 2012**

	2013	2012
<b>Operating revenues</b>		
Net revenues from services to patients	\$ 343,737,280	\$ 344,726,245
Other operating revenues	<u>16,846,309</u>	<u>20,311,534</u>
Total operating revenues	<u>360,583,589</u>	<u>365,037,779</u>
<b>Operating expenses</b>		
Salaries and benefits	192,053,379	182,853,245
Supplies and other expenses	130,173,477	135,560,131
Depreciation	18,969,779	20,644,157
Interest	2,695,623	2,226,437
Support for Norwalk Hospital Foundation, Inc.	<u>628,184</u>	<u>1,182,308</u>
Total operating expenses	<u>344,520,442</u>	<u>342,466,278</u>
Income from operations	16,063,147	22,571,501
<b>Nonoperating income (expense)</b>		
Investment income	2,307,725	1,275,016
Net unrealized gain on investments	7,760,507	3,763,749
Loss on sale of equipment	-	(483,772)
Write off financing fees	(246,698)	-
Provision for joint venture investment	<u>-</u>	<u>(461,817)</u>
Total nonoperating income	<u>9,821,534</u>	<u>4,093,176</u>
Excess of revenues over expenses, before noncontrolling interest in joint venture	25,884,681	26,664,677
Change in value attributable to noncontrolling interest in joint venture	<u>(1,345,837)</u>	<u>(283,937)</u>
Excess of revenues over expenses	24,538,844	26,380,740
<b>Other changes in net assets</b>		
Transfers to Norwalk Health Services Corporation	(5,302,411)	(4,501,544)
Transfer of interest of Fairfield County Medical Services, Inc.	-	832,443
Transfers from Norwalk Hospital Foundation, Inc.	10,627,037	737,532
Funding of operations of Norwalk Hospital Foundation, Inc.	(1,155,442)	(889,780)
Pension related changes other than net periodic benefit cost	51,307,939	(6,727,223)
Interest rate swap	4,554,026	-
Net unrestricted other changes in joint venture	(651,317)	-
Non controlling interest in joint venture	<u>1,345,837</u>	<u>283,937</u>
Increase in unrestricted net assets	<u>\$ 85,264,513</u>	<u>\$ 16,116,105</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, 2013 and 2012**

	2013	2012
<b>Unrestricted net assets</b>		
Excess of revenues over expenses	\$ 24,538,844	\$ 26,380,740
Transfers to Norwalk Health Services Corporation	(5,302,411)	(4,501,544)
Transfer of interest of Fairfield County Medical Services, Inc.	-	832,443
Transfers from Norwalk Hospital Foundation, Inc.	10,627,037	737,532
Funding of operations of Norwalk Hospital Foundation, Inc.	(1,155,442)	(889,780)
Pension related changes other than net periodic benefit cost	51,307,939	(6,727,223)
Interest rate swap	4,554,026	-
Net unrestricted other changes in joint venture	(651,317)	-
Non controlling interest in joint venture	1,345,837	283,937
Increase in unrestricted net assets	<u>85,264,513</u>	<u>16,116,105</u>
<b>Temporarily restricted net assets</b>		
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	<u>(4,066,484)</u>	<u>12,813,958</u>
(Decrease)/Increase in temporarily restricted net assets	(4,066,484)	12,813,958
<b>Permanently restricted net assets</b>		
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	<u>8,999</u>	<u>6,610</u>
Increase in permanently restricted net assets	8,999	6,610
Increase in net assets	81,207,028	28,936,673
<b>Net assets</b>		
Beginning of year	<u>166,036,341</u>	<u>137,099,668</u>
End of year	<u>\$ 247,243,369</u>	<u>\$ 166,036,341</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, 2013 and 2012

	2013	2012
<b>Operating activities</b>		
Change in net assets	\$ 81,207,028	\$ 28,936,673
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Noncash items		
Depreciation and amortization	18,969,779	20,644,157
(Gain) loss on sale of property, plant and equipment	(15,374)	476,292
Provision for bad debts	18,167,718	23,689,476
Writeoff of investment in joint venture		461,817
Net realized and unrealized (gain) on investments	(7,759,626)	(3,761,248)
Pension related changes other than net periodic benefit cost	(51,307,939)	6,727,223
Net asset items		
Transfers (from) to Norwalk Hospital Foundation, Inc.	(9,471,595)	152,248
Transfer from Norwalk Health Services Corporation	5,302,411	4,501,544
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	4,057,484	(12,820,567)
Changes in operating assets and liabilities		
Accounts receivable	(14,761,863)	(17,509,504)
Due from affiliates	(726,094)	2,872,274
Other receivables	(3,021,683)	560,429
Inventories	(80,154)	(259,560)
Prepaid expenses	735,910	350,012
Other assets	(3,010,684)	(43,074,080)
Accounts payable and accrued expenses	(625,963)	4,159,742
Accrued compensation	4,247,783	(1,454,225)
Due to third-party reimbursement agencies, net	2,706,430	11,242,504
Accrued interest	61,012	(51,406)
Accrued pension liability	(371,982)	(2,005,386)
Asset retirement obligation	(213,053)	(642,710)
Other liabilities	847,850	39,423,106
Net cash provided by operating activities	<u>44,937,395</u>	<u>62,618,811</u>
<b>Investing activities</b>		
Net (increase) decrease in assets whose use is limited	(54,615,705)	14,954,705
Purchase of investments	(26,786,439)	(21,131,487)
Additions to property, plant and equipment	(37,772,826)	(34,249,490)
Proceeds from sale of property, plant and equipment	71,137	507,480
Net cash used by investing activities	<u>(119,103,833)</u>	<u>(39,918,792)</u>
<b>Financing activities</b>		
Transfers from (to) Norwalk Hospital Foundation, Inc.	9,471,595	(152,248)
Transfers to Norwalk Health Services Corporation	(5,302,411)	(4,501,544)
Payments on notes receivable	71,002	403,892
Proceeds from long-term debt	82,000,000	-
Payments on capital lease	(7,180)	(9,649)
Change in value of interest rate swap	(4,554,026)	-
Payments on long-term debt	(13,549,986)	(4,834,598)
Net cash provided by (used by) financing activities	<u>68,128,994</u>	<u>(9,094,147)</u>
(Decrease)/Increase in cash and cash equivalents	(6,037,444)	13,605,872
<b>Cash and cash equivalents</b>		
Beginning of year	<u>80,412,466</u>	<u>66,806,594</u>
End of year	<u>\$ 74,375,022</u>	<u>\$ 80,412,466</u>
<b>Noncash transactions</b>		
Fixed assets expenditures included in accounts payable	\$ 4,552,535	\$ 499,327
Capitalized interest	1,818,937	559,895

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

# Norwalk Hospital Association

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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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 revenue 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 is a not-for-profit corporation 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, 2013 and 2012

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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, 2013 and 2012

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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.

#### **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 \$137,568,000 and \$70,561,000 in 2013 and 2012, respectively. The carrying value of debt is \$130,221,000 and \$61,771,000 in 2013 and 2012, 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, and Norwalk Hospital Foundation, Inc., funding of operations of Norwalk Hospital Foundation, Inc., transfer of interest of Fairfield Medical Services, Inc., noncontrolling interest in joint venture, interest rate swap, and net unrestricted other changes in joint venture.

#### **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, write off of financing fees and provision for joint venture.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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**Asset Retirement Obligation**

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

**Implementation of Accounting Standards**

Effective October 1, 2012, the Hospital adopted the provisions of ASU 2011-07, "Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for Certain Health Care Entities," which requires health care entities to change the presentation on their statement of operation by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances discounts). Additionally, the update requires enhanced disclosure about health care entities policies for recognizing revenue and assessing bad debts.

The amendment also requires disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. In connection with the Corporation's adoption of ASU 2011-07, the Corporation reclassified \$18,167,718 and \$23,689,476 of bad debts for 2013 and 2012 from an operating expense to a deduction from patient service revenue

Effective October 1, 2011, 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 \$45,900,000 in the accompanying Consolidated Balance Sheet as of September 30, 2013.

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

The following table summarizes revenues from services to patients:

	<b>2013</b>	<b>2012</b>
Gross revenues from services to patients	\$ 940,228,761	\$ 922,882,975
Deductions and exclusions		
Allowances	578,323,763	554,467,254
Provision for bad debts	<u>18,167,718</u>	<u>23,689,476</u>
Net revenues from services to patients	<u>\$ 343,737,280</u>	<u>\$ 344,726,245</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.

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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 2010.

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, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Commercial/other	59 %	60 %
Medicare	29	28
Self pay	1	1
Medicaid	11	11
	<u>100 %</u>	<u>100 %</u>

The mix of net receivables from patients and third-party payors at September 30, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Commercial/other	62 %	63 %
Medicare	28	28
Self pay	2	1
Medicaid	8	8
	<u>100 %</u>	<u>100 %</u>

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
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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, 2013 and 2012, the Hospital provided charity care of approximately \$18,272,000 and \$17,929,000, respectively, in charges.

**3. Investments**

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

	<b>2013</b>	<b>2012</b>
<b>General investments</b>		
Cash and cash equivalents	\$ 8,738,868	\$ 8,710,885
Mutual funds	<u>80,922,925</u>	<u>46,403,962</u>
	<u>89,661,793</u>	<u>55,114,847</u>
<b>Assets held in trust for self-insurance</b>		
Cash and cash equivalents	<u>327</u>	<u>2,450,281</u>
	<u>327</u>	<u>2,450,281</u>
<b>Assets held by trustee per bond indenture</b>		
Cash and cash equivalents	59,708,986	2,366,616
U.S. Treasury obligations	<u>-</u>	<u>277,592</u>
	<u>\$ 59,708,986</u>	<u>\$ 2,644,208</u>

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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

	<b>2013</b>			<b>Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>General investments</b>				
Cash and cash equivalents	\$ 8,738,868	\$ -	\$ -	\$ 8,738,868
Mutual funds	80,922,925	-	-	80,922,925
	<u>89,661,793</u>	<u>-</u>	<u>-</u>	<u>89,661,793</u>
<b>Assets whose use is limited</b>				
Cash and cash equivalents	59,709,313	-	-	59,709,313
U.S. Treasury obligations	-	-	-	-
	<u>59,709,313</u>	<u>-</u>	<u>-</u>	<u>59,709,313</u>
	<u>\$ 149,371,106</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 149,371,106</u>
<b>2012</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
<b>General investments</b>				
Cash and cash equivalents	\$ 8,710,885	\$ -	\$ -	\$ 8,710,885
Mutual funds	46,403,962	-	-	46,403,962
	<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	277,592	-	-	277,592
	<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>

There were no transfers of assets between levels for the year ended September 30, 2013.

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

	<b>2013</b>	<b>2012</b>
<b>Investment return</b>		
Interest income	\$ 2,317,367	\$ 1,291,916
Net realized (losses) gains on sales of securities	<u>(881)</u>	<u>(2,502)</u>
	<u>\$ 2,316,486</u>	<u>\$ 1,289,414</u>

The Hospital has recorded \$2,307,725 and \$1,275,016 of the investment return as nonoperating gains for the years ended September 30, 2013 and 2012, respectively. The remaining investment income in 2013 and 2012 has been recorded as other operating revenues as certain investments relate to operating activities of the Hospital.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
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**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.

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, 2013:

	<b>Operating Lease Payments</b>	<b>Sublease Rental Receipts</b>
2014	\$ 7,248,000	\$ 2,821,000
2015	7,258,000	2,888,000
2016	7,342,000	2,948,000
2017	7,148,000	3,022,000
2018	7,045,000	3,040,000
Thereafter	<u>55,404,000</u>	<u>5,692,000</u>
	<u>\$ 91,445,000</u>	<u>\$ 20,411,000</u>

Rental expense was approximately \$8,778,000 and \$9,153,000 for the years ended September 30, 2013 and 2012, respectively. Rental expense was offset by rental revenue of approximately \$2,918,000 and \$2,909,000, respectively.

**5. Goodwill and Intangibles**

In 2011, the Hospital recorded goodwill of \$13,843,749 related to the acquisition of Norwalk Radiology and Mammography Center ("NRMC"). The Hospital assesses the goodwill for impairment on an annual basis. There is no impairment as of September 30, 2013 and 2012.

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, 2013 amounted to \$1,986,266.

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**6. Long-Term Debt**

The following table summarizes the long-term debt outstanding as of September 30, 2013:

	<b>Norwalk Hospital</b>	<b>Norwalk Surgery Center, LLC</b>	<b>Total</b>
2014	\$ 4,508,589	\$ 681,945	\$ 5,190,534
2015	6,316,051	716,426	7,032,477
2016	6,769,094	752,421	7,521,515
2017	6,666,222	790,694	7,456,916
2018	6,180,000	409,390	6,589,390
Thereafter	<u>96,430,000</u>	<u>-</u>	<u>96,430,000</u>
	126,869,956	3,350,876	130,220,832
Less: Current portion of long-term debt	<u>4,508,589</u>	<u>681,945</u>	<u>5,190,534</u>
Long-term debt	<u>\$ 122,361,367</u>	<u>\$ 2,668,931</u>	<u>\$ 125,030,298</u>

During 2013 and 2012, the Hospital paid interest of \$4,287,869 and \$2,637,137, respectively, on its long-term debt obligations. Interest capitalized for the years ended September 30, 2013 and 2012 was approximately \$1,819,000 and \$560,000, respectively.

On December 7, 2012, the Hospital financed a portion of the construction of an outpatient pavilion and other equipment through the issuance of the State of Connecticut Health and Educational Facilities Authority (“CHEFA”) Revenue Bonds, Series J, in the original principal amount of \$82,000,000. Interest only payments are required for the first two years of the Series J Bonds. Thereafter, monthly payments of principal and interest are required in accordance with the repayment schedule. The Series J Bonds are subject to mandatory tender on December 1, 2024. The Series J Bonds bear interest at a rate per annum equal to 70% of the sum of the one-month LIBOR Rate plus 300 basis points. The interest rate on the Series J Bonds is reset monthly. The repayment of the Series J Bonds is secured by the Gross Receipts pledged by the Hospital and the Foundation (collectively, the “Obligated Group”) under the Amended and Restated Master Trust Indenture dated as of December 1, 2012 (the “Master Indenture”). Norwalk Health Care, Inc. withdrew as a member of the Obligated Group on December 7, 2012.

On December 7, 2012, the Obligated Group entered into an interest rate swap agreement and confirmation with respect to the Series J Bonds. The swap confirmation has a notional amount of \$82,000,000. Under the terms of the confirmation, the Hospital pays a fixed rate of 1.2343% to a counterparty and the counterparty pays a variable rate of 70% of one-month LIBOR to the Obligated Group. The payments under the swap confirmation are based on the outstanding notional amount; the notional amount will amortize at the same rate as the Series J Bonds. The payments under the swap confirmation effectively produce a synthetic fixed rate of 3.3343% on the Series J Bonds through December 1, 2024. The Obligated Group entered into the interest rate swap to reduce interest rate volatility on the Series J Bonds.

In December 2012, available Hospital and other funds were deposited in an escrow account established for the redemption of CHEFA Revenue Bonds, Series E, issued in April of 1999. The outstanding Series E Bonds, \$8,560,000 were then redeemed on January 7, 2013 (the “Redemption Date”) at a price of 100% of the principal amount plus accrued interest to the Redemption Date.

# Norwalk Hospital Association

## Notes to Consolidated Financial Statements

### September 30, 2013 and 2012

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In 2011, the Hospital financed the construction of the parking garage and other equipment through a private placement of CHEFA Revenue Bonds, Series G, H and I, in the aggregate principal amount of \$46,840,000. The repayment of the Series G, H and I Bonds is also secured by the Obligated Group's pledge of Gross Receipts under the Master 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, 2013, the Series G outstanding debt is \$22,650,000.

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, 2013, the Series H outstanding debt is \$8,300,000.

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, 2013, the Series I outstanding debt is \$9,750,000.

The outstanding principal amount of outstanding CHEFA bond debt at September 30, 2013 and 2012 is \$122,700,000 and \$52,395,000, respectively.

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 18 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, 2013, the term loan outstanding debt is \$3,350,876.

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 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, 2013, the CHEFA outstanding debt is \$3,767,601.

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 loan management loan fund. The loan, which is interest free, will enable the Hospital to convert electrical energy and to manage its electrical energy needs. The loan is payable in 84 equal monthly installments of \$22,462, beginning April 1, 2008. As of September 30, 2013 and 2012, the Trust outstanding debt was \$402,356 and \$671,926, respectively.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
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**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, at a minimum, for each plan year, an amount necessary to satisfy the Employee Retirement Income Security Act ("ERISA") minimum funding requirements.

Effective September 30, 2013, the Plan was frozen for all purposes (except as provided below) for those Participants who are not covered by the collective bargaining agreement between the Hospital and the Connecticut Health Care Associates, National Union of Hospital and Health Care Employees, AFSCME, AFL-CIO Nurses' Union ("Non-Union Participants"). This means that no Non-Union Participants shall accrue benefits under the plan after September 30, 2013 and no compensation or service after that date shall be taken into account in determining such participants' accrued benefits under the plan, provided, however, that interest credits shall continue to be credited as required by applicable law. Plan Participants who are members of the Connecticut Health Care Associates, National Union of Hospital and Health Care Employees, AFSCME, AFL-CIO Nurses' Union, and who were employed by the Hospital on or before December 31, 2006 (when the Plan was frozen for all new hires), shall continue to accrue benefits under the Plan.

Effective December 31, 2006, the plan was amended to provide that no employees hired on or after January 1, 2007, would be eligible to participate in the Plan. Employees hired before that date, who satisfied the Plan's eligibility requirements, participated and earned benefits under the plan until it was frozen as described above.

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>2013</b>	<b>2012</b>
Net actuarial loss	\$ 51,115,314	\$ 101,904,421
Prior service cost	-	518,832
	<u>\$ 51,115,314</u>	<u>\$ 102,423,253</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**  
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The following is a summary of the changes in the projected benefit obligation and plan assets:

	<b>2013</b>	<b>2012</b>
<b>Accumulated benefit obligation</b>	\$ 192,676,388	\$ 210,119,166
<b>Change in projected benefit obligation</b>		
Benefit obligation, beginning of year	\$ 229,432,752	\$ 199,263,628
Service cost	7,630,858	6,630,998
Interest cost	8,808,951	9,167,766
Actuarial (gain) loss	(28,825,271)	22,832,432
Curtailements	(10,401,838)	-
Benefits paid	<u>(8,569,105)</u>	<u>(8,462,072)</u>
Benefit obligation, end of year	<u>198,076,347</u>	<u>229,432,752</u>
<b>Change in plan assets</b>		
Fair value of plan assets, beginning of year	164,691,101	139,243,814
Actuarial return on plan assets	18,892,624	23,909,359
Contributions	9,999,997	10,000,000
Benefits paid	<u>(8,569,105)</u>	<u>(8,462,072)</u>
Fair value of plan assets, end of year	<u>185,014,617</u>	<u>164,691,101</u>
Funded status and accrued pension liability	<u>\$ (13,061,730)</u>	<u>\$ (64,741,651)</u>

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

	<b>2013</b>	<b>2012</b>
Service cost	\$ 7,630,858	\$ 6,630,998
Interest cost	8,808,954	9,167,766
Expected return on plan assets	(13,187,774)	(12,626,442)
Net amortization and deferral	<u>6,375,980</u>	<u>4,822,292</u>
Net periodic benefit cost	<u>\$ 9,628,018</u>	<u>\$ 7,994,614</u>

**Assumptions**

The weighted-average assumptions used to determine the year-end benefit obligation at September 30, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Discount rate	4.90 %	3.90 %
Rate of compensation increase	3.50 %	3.50 %

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

	2013	2012
Discount rate	3.90 %	4.68 %
Expected return on assets	8.00	8.00
Rate of compensation increase	3.50	3.50

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, 2013 and 2012 are as follows:

	2013	2012
<b>Asset category</b>		
Equity securities	64 %	60 %
Debt securities	36	40
	100 %	100 %

The Hospital maintains target allocation percentages among various asset classes based on an investment policy established for the pension plan which is designed to achieve; long-term objectives of return, while mitigating against downside risk and considering expected cash flows. The current weighted-average target asset allocation is 64% equity securities and 36% 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:

	2013			
	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	\$ 2,728,276	\$ -	\$ -	\$ 2,728,276
Mutual funds	182,045,103	-	-	182,045,103
Unallocated immediate participation group annuity contract	-	167,322	-	167,322
	\$ 184,773,379	\$ 167,322	\$ -	\$ 184,940,701

**Contributions**

The Hospital expects to contribute \$6,500,000 to the plan in fiscal 2014.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
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**Estimated Future Benefit Payments**

The following future benefit payments are expected to be paid:

Fiscal Years	Benefit Payments
2014	\$ 7,627,000
2015	7,917,000
2016	8,272,000
2017	8,685,000
2018	9,198,000
2019 - 2022	56,948,000
	<u>\$ 98,647,000</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 \$3,456,000 and \$3,189,000 for the years ended September 30, 2013 and 2012, 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:

	2013	2012
Healthcare services	\$ 30,180,235	\$ 34,246,719

Permanently restricted net assets at September 30, 2013 and 2012 are restricted to:

	2013	2012
Healthcare services	\$ 9,454,852	\$ 9,445,852

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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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 \$0 in 2013 and 2012, respectively.

Following are the balances due from (to) affiliates:

	<b>2013</b>	<b>2012</b>
Norwalk Health Care, Inc.	\$ 24,140	\$ -
Norwalk Hospital Physicians & Surgeons	(240,105)	4,139,259
Norwalk Health Services Corporation	(606,892)	(4,501,544)
Norwalk Hospital Foundation, Inc.	1,322,120	190,805
SWC Corporation	<u>(4,761)</u>	<u>(60,112)</u>
	<u>\$ 494,502</u>	<u>\$ (231,592)</u>

**10. 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 owned 64.11% and 70.00% of Norwalk Surgery Center, LLC at September 30, 2013 and 2012, respectively. 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.

**11. 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.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
**September 30, 2013 and 2012**

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**12. 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 \$1,388,000 as of September 30, 2013.

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 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>(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>	121,389,239	954,530	122,343,769
Excess of revenues over expenses (from continuing operations)	24,538,844	1,345,837	25,884,681
Other changes	<u>60,291,919</u>	<u>(912,087)</u>	<u>59,379,832</u>
Changes in unrestricted net assets	<u>84,830,763</u>	<u>433,750</u>	<u>85,264,513</u>
<b>Balances at September 30, 2013</b>	<u>\$ 206,220,002</u>	<u>\$ 1,388,280</u>	<u>\$ 207,608,282</u>

**13. Commitments and 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.

The Hospital has outstanding commitments on contracts to construct the outpatient pavilion in the amount of \$71 million at September 30, 2013. Funding for this project is expected to come from working capital, capital campaign proceeds and CHEFA Series J bond proceeds.

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.

**Norwalk Hospital Association**  
**Notes to Consolidated Financial Statements**  
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**14. 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>2013</b>	<b>2012</b>
Health care services	\$ 220,982,128	\$ 256,975,077
General and administrative	<u>123,538,314</u>	<u>109,180,677</u>
	<u>\$ 344,520,442</u>	<u>\$ 366,155,754</u>

**15. Subsequent Events**

The Hospital and its subsidiary have performed an evaluation of subsequent events through January 27, 2014, the date the financial statements were issued, and noted the following subsequent event:

On January 1, 2014 (the Transaction Date), Western Connecticut Health Network (WCHN) became the sole corporate member of Norwalk Health Services Corporation and a corporate affiliation was completed. WCHN will account for this business combination by applying the acquisition method and, accordingly the inherent contribution received will be valued as the excess of assets acquired and liabilities assumed. All assets and liabilities will be revalued to fair value as of January 1, 2014. As of the date these consolidated financial statements were issued, management is preparing the initial accounting for the acquisition.

## **Supplementary Consolidating Information**

**Norwalk Hospital Association**  
**Supplementary Consolidating Balance Sheet**  
**Year Ended September 30, 2013**

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Eliminations	Consolidated
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 73,750,817	\$ 624,205	\$ -	\$ 74,375,022
Investments	8,738,868	-	-	8,738,868
Patient accounts receivable, net	26,795,462	941,898	-	27,737,360
Other receivables	3,410,889	-	-	3,410,889
Due from affiliates, net	1,346,260	-	-	1,346,260
Inventories	1,845,044	459,345	-	2,304,389
Prepaid expenses	1,589,839	109,532	-	1,699,371
Due from third party agencies	-	-	-	-
Assets whose use is limited - required for current liabilities	-	-	-	-
Total current assets	<u>117,477,179</u>	<u>2,134,980</u>	<u>-</u>	<u>119,612,159</u>
Assets limited as to use				
Assets held by trustee per bond indenture	59,708,986	-	-	59,708,986
Assets held in trustee for self-insurance	327	-	-	327
Total assets whose use is limited	<u>59,709,313</u>	<u>-</u>	<u>-</u>	<u>59,709,313</u>
Long-term investments	80,922,925	-	-	80,922,925
Other assets	47,152,691	11,705	-	47,164,396
Noncompete	5,958,797	-	-	5,958,797
Due from third party agencies	2,596,876	-	-	2,596,876
Notes receivable	912,778	-	-	912,778
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.	45,162,957	-	-	45,162,957
Interest rate swap	4,554,026	-	-	4,554,026
Property, plant and equipment				
Land and land improvements	7,369,891	-	-	7,369,891
Buildings	177,642,150	-	-	177,642,150
Equipment	251,254,314	2,015,261	303,824	253,573,399
Construction in progress	34,252,962	-	-	34,252,962
Accumulated depreciation	(310,387,551)	(622,248)	-	(311,009,799)
Total property, plant and equipment	<u>160,131,766</u>	<u>1,393,013</u>	<u>303,824</u>	<u>161,828,603</u>
Total assets	<u>\$ 540,691,043</u>	<u>\$ 7,681,938</u>	<u>\$ (3,838,416)</u>	<u>\$ 544,534,565</u>

**Norwalk Hospital Association**  
**Supplementary Consolidating Balance Sheet**  
**Year Ended September 30, 2013**

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	Norwalk Hospital Association	Norwalk Surgery Center LLC	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>				
Current liabilities				
Accounts payable and accrued expenses	\$ 29,302,635	\$ 342,459	\$ -	\$ 29,645,094
Salaries, wages, payroll taxes and amounts withheld from employees	22,048,375	119,934	-	22,168,309
Due to third party agencies	4,893,626	-	-	4,893,626
Due to affiliates, net	851,758	-	-	851,758
Accrued interest payable	818,694	-	-	818,694
Current portion of long-term debt	4,508,589	681,945	-	5,190,534
Total current liabilities	<u>62,423,677</u>	<u>1,144,338</u>	-	<u>63,568,015</u>
Accrued pension liability	13,061,730	-	-	13,061,730
Asset retirement obligation	10,653,327	-	-	10,653,327
Other liabilities	56,789,890	-	-	56,789,890
Due to third party agencies	28,187,936	-	-	28,187,936
Long-term debt, less current portion	122,361,367	2,668,931	-	125,030,298
Total liabilities	<u>293,477,927</u>	<u>3,813,269</u>	-	<u>297,291,196</u>
Net assets (deficit)				
Unrestricted	206,189,749	3,868,669	(3,838,416)	206,220,002
Unrestricted attributable to noncontrolling interest in joint venture	1,388,280	-	-	1,388,280
Temporarily restricted	30,180,235	-	-	30,180,235
Permanently restricted	9,454,852	-	-	9,454,852
Total net assets	<u>247,213,116</u>	<u>3,868,669</u>	<u>(3,838,416)</u>	<u>247,243,369</u>
Total liabilities and net assets	<u>\$ 540,691,043</u>	<u>\$ 7,681,938</u>	<u>\$ (3,838,416)</u>	<u>\$ 544,534,565</u>

**Norwalk Hospital Association**  
**Supplementary Consolidating Statement of Operations**  
**Year Ended September 30, 2013**

	<b>Norwalk Hospital Association</b>	<b>Norwalk Surgery Center LLC</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Operating revenues</b>				
Net revenues from services to patients	\$ 334,131,914	\$ 9,605,366	\$ -	\$ 343,737,280
Other operating revenues	16,843,048	3,261	-	16,846,309
Total operating revenues	<u>350,974,962</u>	<u>9,608,627</u>	<u>-</u>	<u>360,583,589</u>
<b>Operating expenses</b>				
Salaries and benefits	190,069,219	1,984,160	-	192,053,379
Supplies and other expenses	127,118,855	3,054,622	-	130,173,477
Depreciation and amortization	18,635,476	334,303	-	18,969,779
Interest	2,529,391	166,232	-	2,695,623
Support for Norwalk Hospital Foundation, Inc.	628,184	-	-	628,184
Total operating expenses	<u>338,981,125</u>	<u>5,539,317</u>	<u>-</u>	<u>344,520,442</u>
Income from operations	11,993,837	4,069,310	-	16,063,147
<b>Nonoperating income (expense)</b>				
Investment income	2,302,857	4,868	-	2,307,725
Net unrealized gain on investments	7,760,507	-	-	7,760,507
Write off financing fees	(246,698)	-	-	(246,698)
Total nonoperating income	<u>9,816,666</u>	<u>4,868</u>	<u>-</u>	<u>9,821,534</u>
Excess of revenues over expenses, before noncontrolling interest in joint venture	21,810,503	4,074,178	-	25,884,681
Change in value attributable to noncontrolling interest in joint venture	<u>-</u>	<u>(1,345,837)</u>	<u>-</u>	<u>(1,345,837)</u>
Excess of revenues over expenses	21,810,503	2,728,341	-	24,538,844
<b>Other changes in net assets</b>				
Transfers to Norwalk Health Services Corporation	(5,302,411)	-	-	(5,302,411)
Transfers from Norwalk Hospital Foundation, Inc.	10,627,037	-	-	10,627,037
Funding of operations of Norwalk Hospital Foundation, Inc.	(1,155,442)	-	-	(1,155,442)
Pension related changes other than net periodic benefit cost	51,307,939	-	-	51,307,939
Change in value of interest rate swap	4,554,026	-	-	4,554,026
Net unrestricted other changes in joint venture	2,735,957	(3,387,274)	-	(651,317)
Noncontrolling interests in joint venture	<u>-</u>	<u>1,345,837</u>	<u>-</u>	<u>1,345,837</u>
Increase in unrestricted net assets	<u>\$ 84,577,609</u>	<u>\$ 686,904</u>	<u>\$ -</u>	<u>\$ 85,264,513</u>

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

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Fairfield County Medical Services, Inc.	Eliminations	Consolidated
<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**

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Fairfield County Medical Services, Inc.	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>					
Current liabilities					
Accounts payable and accrued expenses	\$ 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**

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Fairfield County Medical Services, Inc.	Eliminations	Consolidated
<b>Operating revenues</b>					
Net revenues from services to patients	\$ 339,737,400	\$ 4,988,845	\$ -	\$ -	\$ 344,726,245
Other operating revenues	20,310,592	942	-	-	20,311,534
Total operating revenues	<u>360,047,992</u>	<u>4,989,787</u>	<u>-</u>	<u>-</u>	<u>365,037,779</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	-	-	-	-	-
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>338,420,968</u>	<u>4,045,310</u>	<u>-</u>	<u>-</u>	<u>342,466,278</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	29,556,638	662,518	-	(3,838,416)	26,380,740
<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>