

Norwalk Hospital Association

Consolidated Financial Statements

September 30, 2010 and 2009

Norwalk Hospital Association

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September 30, 2010 and 2009

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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 at September 30, 2010 and 2009, 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 Notes 1 and 7 to the consolidated financial statements, during 2009, the Hospital and its subsidiary changed the manner in which they account for investments and changed the measurement date for accounting for the pension plan.

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 20 through 25, 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 17, 2011

Norwalk Hospital Association

Consolidated Balance Sheets

Years Ended September 30, 2010 and 2009

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 26,795,300	\$ 16,610,569
Investments	8,655,334	8,601,698
Patient accounts receivable, less allowance for doubtful accounts of \$21,300,000 and \$17,603,000, respectively	40,941,651	42,345,864
Due from affiliates, net	446,142	-
Due from third party agencies	-	313,892
Other receivables	1,472,685	2,496,484
Inventories	2,361,637	2,323,933
Prepaid expenses	1,831,130	2,379,157
Assets whose use is limited - required for current liabilities	371,800	333,297
Total current assets	<u>82,875,679</u>	<u>75,404,894</u>
Assets whose use is limited		
Assets held by trustee under bond indenture agreements	1,075,930	2,063,900
Assets held in trust for self-insurance	5,954,228	5,983,665
Total assets whose use is limited	<u>7,030,158</u>	<u>8,047,565</u>
Long-term investments	21,535,624	20,099,143
Other assets	804,311	620,083
Due from third party agencies	4,244,774	3,541,718
Notes receivable	2,019,947	2,076,829
Goodwill	2,900,333	3,896,833
Investment in joint venture	2,729,803	2,728,803
Beneficial interest in Norwalk Hospital Foundation, Inc.	28,803,532	28,565,355
Property, plant and equipment		
Land and land improvements	2,677,639	2,615,825
Buildings	143,200,619	144,880,667
Equipment	221,634,356	213,336,421
Construction in progress	5,120,280	3,130,487
Accumulated depreciation	(261,142,100)	(247,990,711)
Total property, plant and equipment	<u>111,490,794</u>	<u>115,972,689</u>
Total assets	<u>\$ 264,434,955</u>	<u>\$ 260,953,912</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 19,791,066	\$ 17,906,168
Accrued compensation	18,652,987	15,348,449
Due to affiliates, net	-	39,553
Due to third party agencies	1,001,192	1,670,554
Accrued interest	141,774	153,594
Current portion of long-term debt	1,667,606	1,682,783
Current portion of capital lease	8,447	12,194
Total current liabilities	<u>41,263,072</u>	<u>36,813,295</u>
Accrued pension liability	37,851,799	31,230,209
Asset retirement obligation	10,212,507	8,240,150
Other liabilities	14,731,550	17,790,195
Due to third party agencies	9,650,070	7,738,424
Long-term debt, less current portion	15,742,952	17,528,237
Capital lease, less current portion	16,826	24,611
Total liabilities	<u>129,468,776</u>	<u>119,365,121</u>
Net assets		
Unrestricted	111,690,517	118,518,705
Temporarily restricted	13,846,953	13,726,443
Permanently restricted	9,428,709	9,343,643
Total net assets	<u>134,966,179</u>	<u>141,588,791</u>
Total liabilities and net assets	<u>\$ 264,434,955</u>	<u>\$ 260,953,912</u>

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

Norwalk Hospital Association
Consolidated Statements of Operations
Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues		
Net revenues from services to patients	\$ 326,580,262	\$ 322,749,162
Other operating revenues	24,258,085	22,183,733
Change in unrestricted interest in Norwalk Hospital Foundation, Inc.	<u>32,601</u>	<u>24,706</u>
Total operating revenues	350,870,948	344,957,601
Operating expenses		
Salaries and benefits	189,146,552	180,497,250
Supplies and other expenses	113,349,004	112,171,964
Depreciation	20,003,428	18,708,282
Provision for bad debts	23,255,695	21,000,769
Interest	646,398	651,938
Support for Norwalk Hospital Foundation, Inc.	<u>1,428,713</u>	<u>1,221,383</u>
Total operating expenses	<u>347,829,790</u>	<u>334,251,586</u>
Income from operations prior to restructuring expense	3,041,158	10,706,015
Restructuring expense	<u>(3,934,121)</u>	<u>-</u>
(Loss) income from operations	(892,963)	10,706,015
Nonoperating income (expense)		
Investment income	866,620	879,780
Net unrealized gain on investments	1,485,361	365,198
Writeoff of investment in joint ventures	-	(1,317,039)
Recovery of affiliate receivable	<u>-</u>	<u>1,152,740</u>
Total nonoperating income	<u>2,351,981</u>	<u>1,080,679</u>
Excess of revenues over expenses	1,459,018	11,786,694
Other changes in net assets		
Transfers from Norwalk Hospital Foundation, Inc.	1,549,506	3,638,289
Transfers to Norwalk Health Care, Inc.	-	(7,323,000)
Funding of operations of Norwalk Hospital Foundation, Inc.	(362,133)	-
Pension related changes other than net periodic benefit cost	<u>(9,474,579)</u>	<u>(24,148,067)</u>
Decrease in unrestricted net assets	<u>\$ (6,828,188)</u>	<u>\$ (16,046,084)</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, 2010 and 2009

	2010	2009
Unrestricted net assets		
Excess of revenues over expenses	\$ 1,459,018	\$ 11,786,694
Transfers from Norwalk Hospital Foundation, Inc.	1,549,506	3,638,289
Transfers to Norwalk Health Care, Inc.	-	(7,323,000)
Funding of operations of Norwalk Hospital Foundation, Inc.	(362,133)	-
Pension related changes other than net periodic benefit cost	<u>(9,474,579)</u>	<u>(24,148,067)</u>
Decrease in unrestricted net assets	(6,828,188)	(16,046,084)
Temporarily restricted net assets		
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	<u>120,510</u>	<u>(1,307,577)</u>
Increase (decrease) in temporarily restricted net assets	120,510	(1,307,577)
Permanently restricted net assets		
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	<u>85,066</u>	<u>5,170</u>
Increase in permanently restricted net assets	85,066	5,170
Decrease in net assets	<u>(6,622,612)</u>	<u>(17,348,491)</u>
Net assets		
Beginning of year, as previously reported	141,588,791	160,156,810
Adjustment to unrestricted net assets for change in accounting for pension benefits	<u>-</u>	<u>(1,219,528)</u>
As adjusted	<u>141,588,791</u>	<u>158,937,282</u>
Net assets, end of year	<u>\$ 134,966,179</u>	<u>\$ 141,588,791</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, 2010 and 2009

	2010	2009
Operating activities		
Change in net assets	\$ (6,622,612)	\$ (17,348,491)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Noncash items		
Depreciation and amortization	20,003,428	18,708,281
(Loss) gain on sale of property, plant and equipment	5,530	(45,834)
Provision for bad debts	23,255,695	21,000,769
Writeoff of investment in joint venture	-	1,317,039
Net realized and unrealized (gain) loss on investments	(1,620,261)	(95,249)
Pension related changes other than net periodic benefit cost	9,474,579	24,148,067
Net asset items		
Transfers from Norwalk Hospital Foundation, Inc.	(1,187,373)	(3,638,289)
Transfer to Norwalk Health Care, Inc.	-	7,323,000
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	(238,177)	1,277,701
Changes in operating assets and liabilities		
Accounts receivable	(21,851,482)	(20,014,514)
Due from affiliates	(485,695)	1,470,816
Other receivables	1,023,799	4,526,932
Inventories	(37,704)	198,775
Prepaid expenses	548,027	1,314,841
Other assets	(184,228)	29,947
Notes receivable	(105,960)	(115,915)
Accounts payable and accrued expenses	2,334,261	2,447,191
Accrued compensation	3,304,538	347,961
Due to third-party reimbursement agencies, net	853,120	(2,453,851)
Accrued interest	(11,820)	(9,093)
Accrued pension liability	(2,852,989)	(2,609,617)
Asset retirement obligation	1,972,357	330,969
Other liabilities	(3,058,645)	(4,921,951)
Net cash provided by operating activities	<u>24,518,388</u>	<u>33,189,485</u>
Investing activities		
Net decrease in assets whose use is limited	1,253,522	4,156,292
Sale of investments	612,308	6,000,000
Purchase of investments	(756,782)	(9,283,423)
Additions to property, plant and equipment	(15,003,326)	(14,357,714)
Proceeds from sale of property, plant and equipment	23,400	272,124
Acquisition of physician practice	-	(1,866,755)
Advances to joint venture	(1,000)	(510,056)
Proceeds from sale of investment in joint venture available for sale	-	2,800,000
Net cash used by investing activities	<u>(13,871,878)</u>	<u>(12,789,532)</u>
Financing activities		
Transfers from Norwalk Hospital Foundation, Inc.	1,187,373	3,638,289
Transfers to Norwalk Health Care, Inc.	-	(7,323,000)
Payments on notes receivable	162,842	22,200
Payments on capital lease	(11,532)	-
Payments on long-term debt	(1,800,462)	(1,632,786)
Net cash provided by financing activities	<u>(461,779)</u>	<u>(5,295,297)</u>
Increase (decrease) in cash and cash equivalents	10,184,731	15,104,656
Cash and cash equivalents		
Beginning of year	16,610,569	1,505,913
End of year	<u>\$ 26,795,300</u>	<u>\$ 16,610,569</u>
Noncash transactions		
Fixed assets expenditures included in accounts payable	\$ 337,638	\$ 787,001
Fixed asset acquired through capital lease	-	36,805

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

Norwalk Hospital Association

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

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 wholly-owned subsidiary, Fairfield County Medical Services, Inc. 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 related 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, estimated settlements due to or from third parties, the asset retirement obligation, reserves for malpractice, workers' compensation and other self-insured liabilities, and benefit plan assumptions.

Income Taxes

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

Regulatory Matters

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

Cash Equivalents

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

Concentration of Credit Risk

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

Investments

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

Norwalk Hospital Association

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

Fair Value Measurements

During 2009, the Hospital adopted new accounting guidance related to valuation and disclosures of its financial assets and liabilities. The new standard defines fair value and establishes a framework for measuring fair value. The framework provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). 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 or 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 or liabilities in active markets;
- quoted prices for identical or similar assets or 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 or liability has a specified term, the level 2 input must be observable for substantially the full term of the asset or 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

During 2009, the Hospital also adopted new accounting guidance related to the fair value option for certain of its financial assets and financial liabilities. The new standard gives entities the option at specific election dates, to measure certain financial assets and liabilities at fair value. The election may be applied to financial assets and liabilities on an instrument by instrument basis, is irrevocable, and may only be applied to the entire instrument. Unrealized gains and losses on instruments for which the fair value option has been elected are reported as part of the excess of revenues over expenses at each subsequent reporting date. The Hospital elected the fair value option for accounting for investments. 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.

Norwalk Hospital Association

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

Investments in Joint Ventures

The Hospital has invested in joint ventures and limited liability companies which are accounted under the equity method of accounting.

Property, Plant and Equipment

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

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. MSI provides insurance coverage on a claims-made basis. The Hospital has obtained coverage through MSI of \$35,000,000 per claim. MSI purchases \$30,000,000 of excess insurance coverage above a self-insured retention of \$5,000,000.

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 \$19,233,000 and \$20,055,000, 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 and transfers between affiliated entities.

Norwalk Hospital Association
Notes to Consolidated Financial Statements
September 30, 2010 and 2009

Nonoperating Income

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating income (expense) primarily consists of income earned on invested funds, realized and unrealized gains and losses on investments, write off of investment in joint venture, and a recovery of affiliate receivable.

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.

Subsequent Events

The Hospital and its subsidiary have performed an evaluation of subsequent events through January 17, 2011, which is the date the financial statements were issued.

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

The following table summarizes revenues from services to patients:

	2010	2009
Gross revenues from services to patients	\$ 741,032,515	\$ 662,081,365
Deductions and exclusions		
Allowances	<u>414,452,253</u>	<u>339,332,203</u>
Net revenues from services to patients	<u>\$ 326,580,262</u>	<u>\$ 322,749,162</u>

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

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

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

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

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

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net revenue from patients and third-party payors at September 30, 2010 and 2009 are as follows:

	2010	2009
Commercial/other	52 %	54 %
Medicare	30	30
Self pay	10	10
Medicaid	<u>8</u>	<u>6</u>
	<u>100 %</u>	<u>100 %</u>

The mix of net receivables from patients and third-party payors at September 30, 2010 and 2009 are as follows:

	2010	2009
Commercial/other	70 %	65 %
Medicare	26	32
Self pay	1	-
Medicaid	<u>3</u>	<u>3</u>
	<u>100 %</u>	<u>100 %</u>

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that the Hospital is in compliance with all applicable laws and regulations and is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

The Hospital 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 Registrar. For the years ended September 30, 2010 and 2009, the Hospital provided charity care of approximately \$18,026,000 and \$17,554,000, respectively, in charges.

Norwalk Hospital Association
Notes to Consolidated Financial Statements
September 30, 2010 and 2009

3. Investments

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

	2010	2009
General investments		
Cash and cash equivalents	\$ 8,655,334	\$ 8,601,698
Mutual funds	<u>21,535,624</u>	<u>20,099,143</u>
	<u>\$ 30,190,958</u>	<u>\$ 28,700,841</u>
Assets held in trust for self-insurance		
Cash and cash equivalents	\$ 2,765,603	\$ 18,040
Mutual funds	<u>3,188,625</u>	<u>5,965,625</u>
	<u>\$ 5,954,228</u>	<u>\$ 5,983,665</u>
Assets held by trustee per bond indenture		
Cash and cash equivalents	\$ 1,076,626	\$ 2,064,882
U.S. Treasury obligations	<u>371,104</u>	<u>332,315</u>
	<u>\$ 1,447,730</u>	<u>\$ 2,397,197</u>

The Hospital's financial instrument categorization is based upon the lowest level of input that is significant to the fair value measurement within the valuation hierarchy. The following table presents the financial instruments carried at fair value:

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

Norwalk Hospital Association
Notes to Consolidated Financial Statements
September 30, 2010 and 2009

	2009			Fair Value
	Level 1	Level 2	Level 3	
General investments				
Cash and cash equivalents	\$ 8,601,698	\$ -	\$ -	\$ 8,601,698
Mutual funds	20,099,143	-	-	20,099,143
	<u>28,700,841</u>	<u>-</u>	<u>-</u>	<u>28,700,841</u>
Assets whose use is limited				
Cash and cash equivalents	2,082,922	-	-	2,082,922
U.S. Treasury obligations	332,315	-	-	332,315
Mutual funds	5,965,625	-	-	5,965,625
	<u>8,380,862</u>	<u>-</u>	<u>-</u>	<u>8,380,862</u>
	<u>\$ 37,081,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,081,703</u>

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

	2010	2009
Investment return		
Interest income	\$ 1,052,037	\$ 1,283,557
Net realized (losses) gains on sales of securities	134,900	(269,950)
	<u>\$ 1,186,937</u>	<u>\$ 1,013,607</u>

The Hospital has recorded \$866,620 and \$879,780 of the investment return as nonoperating gains for the years ended September 30, 2010 and 2009, respectively. The remaining investment income in 2010 and 2009 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.

Future minimum payments under noncancelable operating leases, and future receipts under noncancellable subleases where the Hospital is receiving rental receipts, with initial terms of one year or more consisted of the following at September 30, 2010:

	Operating Lease Payments	Sublease Rental Receipts
2011	\$ 6,113,000	\$ 2,331,000
2012	5,565,000	2,361,000
2013	5,485,000	2,364,000
2014	5,385,000	2,391,000
2015	5,375,000	2,444,000
Thereafter	56,588,000	14,726,000
	<u>\$ 84,511,000</u>	<u>\$ 26,617,000</u>

Norwalk Hospital Association

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

Rental expense was approximately \$7,435,000 and \$6,186,000 for the years ended September 30, 2010 and 2009, respectively. Rental expense was offset by rental revenue of approximately \$2,208,000 and \$1,727,000, respectively, for net rental expense of approximately \$5,227,000 and \$4,459,000, respectively. An amount of \$801,000 and \$649,000, respectively, of the net rental expense is included in other operating revenues and \$4,426,000 and \$3,810,000, respectively, is included in supplies and other expenses on the consolidated statements of operations.

5. Goodwill

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. The Hospital is amortizing the goodwill over five years on a straight-line basis. Accumulated amortization as of September 30, 2010 and 2009 amounted to \$513,000 and \$189,000, 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. The Hospital is amortizing this goodwill over five years on a straight-line basis. Accumulated amortization as of September 30, 2010 and 2009 amounted to \$1,569,167 and \$896,667, 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.

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, 2010 and 2009 is \$18,180,000 and \$19,285,000, 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 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.

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.

Norwalk Hospital Association
Notes to Consolidated Financial Statements
September 30, 2010 and 2009

In 2007, the Hospital entered into an agreement with the Connecticut Hospital Association Trust (the "Trust") to borrow up to \$2,000,000 from the energy conservation and load management loan fund. The loan, which is interest free, will enable the Hospital to convert electrical energy and to manage its electrical energy needs. As of September 30, 2010 and 2009, \$1,188,602 and \$1,480,637, respectively, was outstanding under the agreement. The loan is payable in 84 equal monthly installments of \$22,462, beginning April 1, 2008.

The following table summarizes the long-term debt outstanding as of September 30, 2010:

	CHEFA Series E	CHEFA Agreement	CHA Trust	Total
2011	\$ 625,000	\$ 773,036	\$ 269,570	\$ 1,667,606
2012	660,000	900,027	269,570	1,829,597
2013	685,000	936,292	269,570	1,890,862
2014	715,000	974,019	269,570	1,958,589
2015	750,000	1,013,266	110,322	1,873,588
Thereafter	6,410,000	1,780,316	-	8,190,316
	<u>9,845,000</u>	<u>6,376,956</u>	<u>1,188,602</u>	<u>17,410,558</u>
Less current portion of long-term debt	625,000	773,036	269,570	1,667,606
Long-term debt	<u>\$ 9,220,000</u>	<u>\$ 5,603,920</u>	<u>\$ 919,032</u>	<u>\$ 15,742,952</u>

During 2010 and 2009, the Hospital paid interest of \$808,188 and \$873,821, respectively, on its long-term debt obligations. Interest capitalized for the years ended September 30, 2010 and 2009 was approximately \$150,000 and \$213,000, 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 in unrestricted net assets that are not yet recognized as a component of net periodic benefit cost are as follows:

	2010	2009
Net actuarial loss	\$ 68,803,670	\$ 58,717,086
Prior service cost	<u>1,742,842</u>	<u>2,354,847</u>
	<u>\$ 70,546,512</u>	<u>\$ 61,071,933</u>

The amount of prior service cost and actuarial loss expected to be recognized in net periodic benefit cost in 2011 is \$3,902,828.

Norwalk Hospital Association
Notes to Consolidated Financial Statements
September 30, 2010 and 2009

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

Funded status and accrued pension liability	<u>\$ (37,851,799)</u>	<u>\$ (31,230,209)</u>
	2010	2009
Accumulated benefit obligation	<u>\$ 166,752,098</u>	<u>\$ 145,131,338</u>
Change in projected benefit obligation		
Benefit obligation, beginning of period	\$ 154,845,948	\$ 136,227,180
Service cost	6,225,852	7,060,848
Interest cost	8,467,557	10,691,311
Actuarial loss	12,583,922	9,657,204
Benefits paid	<u>(7,021,554)</u>	<u>(8,790,595)</u>
Benefit obligation, end of period	<u>\$ 175,101,725</u>	<u>\$ 154,845,948</u>
Change in plan assets		
Fair value of plan assets, beginning of period	\$ 123,615,739	\$ 125,863,381
Actuarial return on plan assets	11,655,741	(2,836,336)
Contributions	9,000,000	9,379,289
Benefits paid	<u>(7,021,554)</u>	<u>(8,790,595)</u>
Fair value of plan assets, end of period	<u>\$ 137,249,926</u>	<u>\$ 123,615,739</u>
Funded status and accrued pension liability	<u>\$ (37,851,799)</u>	<u>\$ (31,230,209)</u>

Change in Measurement Date

For the year ended September 30, 2008, the plan's projected benefit obligation and asset activity was for the period July 1, 2007 to June 30, 2008, using a June 30, 2008 measurement date. For the year ended September 30, 2009, the plan's projected benefit obligation and asset activity was for the period July 1, 2008 through September 30, 2009 using a September 30, 2009 measurement date. The impact of the change in measurement date for the period July 1, 2008 through September 30, 2008 was to decrease unrestricted net assets as of October 1, 2008 by \$1,219,528 for periodic benefit cost.

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

	2010	2009
Service cost	\$ 6,225,852	\$ 5,648,678
Interest cost	8,467,557	8,553,049
Expected return on plan assets	(11,290,183)	(10,785,367)
Net amortization and deferral	<u>2,743,785</u>	<u>1,461,746</u>
Net periodic benefit cost	<u>\$ 6,147,011</u>	<u>\$ 4,878,106</u>

Norwalk Hospital Association
Notes to Consolidated Financial Statements
September 30, 2010 and 2009

Assumptions

The weighted-average assumptions used to determine the year-end benefit obligation at September 30, 2010 and 2009 are as follows:

	2010	2009
Discount rate	5.17%	5.60%
Rate of compensation increase	3.50%	4.00%

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

	2010	2009
Discount rate	5.60%	6.50%
Expected return on assets	8.00%	8.00%
Rate of compensation increase	4.00%	4.50%

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, 2010 and 2009 are as follows:

Asset Category	2010	2009
Equity securities	58 %	59 %
Debt securities	42	41
Total	100 %	100 %

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

Norwalk Hospital Association
Notes to Consolidated Financial Statements
September 30, 2010 and 2009

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:

	2010			Fair Value
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 2,320,467	\$ -	\$ -	\$ 2,320,467
Mutual funds	134,725,005	-	-	134,725,005
Unallocated immediate participation group annuity contract	-	204,454	-	204,454
	<u>\$ 137,045,472</u>	<u>\$ 204,454</u>	<u>\$ -</u>	<u>\$ 137,249,926</u>

Contributions

The Hospital expects to contribute \$10,000,000 to the plan in fiscal 2011.

Estimated Future Benefit Payments

The following future benefit payments are expected to be paid:

Fiscal Year	Benefit Payments
2011	\$ 6,850,000
2012	7,251,000
2013	7,344,000
2014	7,709,000
2015	7,711,000
2016 - 2020	<u>46,763,000</u>
	<u>\$ 83,628,000</u>

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

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

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

Expense related to the Hospital's defined contribution plan was approximately \$2,697,000 and \$2,405,000 for the years ended September 30, 2010 and 2009, respectively.

Norwalk Hospital Association
Notes to Consolidated Financial Statements
September 30, 2010 and 2009

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:

	2010	2009
Healthcare services	\$ 13,846,953	\$ 13,726,443

Permanently restricted net assets at September 30, 2010 and 2009 are restricted to:

	2010	2009
Healthcare services	\$ 9,428,709	\$ 9,343,643

9. Transactions with Affiliates

The Hospital records other operating revenues from an affiliated entity, Norwalk Health Care, Inc., a wholly owned subsidiary of Norwalk Health Services Corporation. Revenues for services provided to this entity, at cost, totaled approximately \$1,549,000 and \$1,525,000 in 2010 and 2009, respectively.

Following are the balances due from (to) affiliates:

	2010	2009
Norwalk Health Care, Inc.	\$ 138,018	\$ (1,728)
Norwalk Health Services Corporation	45,000	-
Norwalk Hospital Foundation, Inc.	250,927	59,140
SWC Corporation	12,197	(96,965)
	<u>\$ 446,142</u>	<u>\$ (39,553)</u>

10. Contingencies

Malpractice and other claims have been asserted against the Hospital and FCMS by various claimants. The claims are in various stages of activity and some may ultimately be brought to trial. There are also known incidents that have occurred through September 30, 2010 and 2009 that may result in the assertion of additional claims. Hospital management has accrued its best estimate of these contingent losses.

Norwalk Hospital Association
Notes to Consolidated Financial Statements
September 30, 2010 and 2009

11. 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:

	2010	2009
Health care services	\$ 243,699,012	\$ 235,288,959
General and administrative	104,130,778	98,962,627
Restructuring expense	3,934,121	-
	<u>\$ 351,763,911</u>	<u>\$ 334,251,586</u>

12. Subsequent Events

On December 9, 2010, the Hospital issued \$46,840,000 of additional bonds through a private placement as CHEFA Series G, H and I.

Supplemental Consolidating Information

Norwalk Hospital Association
Supplemental Consolidating Balance Sheet
September 30, 2010

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

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

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

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

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

Norwalk Hospital Association
Supplemental Consolidating Balance Sheet
September 30, 2009

	Norwalk Hospital Association	Fairfield County Medical Services, Inc.	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 15,790,395	\$ 820,174	\$ -	\$ 16,610,569
Investments	8,601,698	-	-	8,601,698
Patient accounts receivable, net	42,345,864	-	-	42,345,864
Other receivables	1,382,778	1,113,706	-	2,496,484
Due from third party agencies	313,892	-	-	313,892
Due from affiliates, net	7,647,590	-	(7,647,590)	-
Inventories	2,323,933	-	-	2,323,933
Prepaid expenses	2,379,157	-	-	2,379,157
Assets whose use is limited - required for current liabilities	333,297	-	-	333,297
Total current assets	<u>81,118,604</u>	<u>1,933,880</u>	<u>(7,647,590)</u>	<u>75,404,894</u>
Assets limited as to use				
Assets held by trustee per bond indenture	2,063,900	-	-	2,063,900
Assets held in trustee for self-insurance	5,983,665	-	-	5,983,665
Total assets whose use is limited	<u>8,047,565</u>	<u>-</u>	<u>-</u>	<u>8,047,565</u>
Long-term investments	20,099,143	-	-	20,099,143
Other assets	620,083	-	-	620,083
Due from third party agencies	3,541,718	-	-	3,541,718
Notes receivable	2,076,829	-	-	2,076,829
Goodwill	3,896,833	-	-	3,896,833
Investment in joint venture	2,728,803	-	-	2,728,803
Beneficial interest in Norwalk Hospital Foundation, Inc.	28,565,355	-	-	28,565,355
Property, plant and equipment				
Land and land improvements	2,615,825	-	-	2,615,825
Buildings	144,880,667	-	-	144,880,667
Equipment	213,336,421	-	-	213,336,421
Construction in progress	3,130,487	-	-	3,130,487
Accumulated depreciation	(247,990,711)	-	-	(247,990,711)
Total property, plant and equipment	<u>115,972,689</u>	<u>-</u>	<u>-</u>	<u>115,972,689</u>
Total assets	<u>\$ 266,667,622</u>	<u>\$ 1,933,880</u>	<u>\$ (7,647,590)</u>	<u>\$ 260,953,912</u>

Norwalk Hospital Association
Supplemental Consolidating Balance Sheet
September 30, 2009

	Norwalk Hospital Association	Fairfield County Medical Services, Inc.	Eliminations	Consolidated
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	\$ 17,732,018	\$ 174,150	\$ -	\$ 17,906,168
Salaries, wages, payroll taxes and amounts withheld from employees	13,905,178	1,443,271	-	15,348,449
Due to third party agencies	1,670,554	-	-	1,670,554
Due to affiliates, net	39,553	7,647,590	(7,647,590)	39,553
Accrued interest payable	153,594	-	-	153,594
Current portion of long-term debt	1,682,783	-	-	1,682,783
Current portion of capital lease	12,194	-	-	12,194
Total current liabilities	35,195,874	9,265,011	(7,647,590)	36,813,295
Accrued pension liability	31,230,209	-	-	31,230,209
Asset retirement obligation	8,240,150	-	-	8,240,150
Other liabilities	17,790,195	-	-	17,790,195
Due to third party agencies	7,738,424	-	-	7,738,424
Long-term debt, less current portion	17,528,237	-	-	17,528,237
Long-term capital lease, less current portion	24,611	-	-	24,611
Total liabilities	117,747,700	9,265,011	(7,647,590)	119,365,121
Net assets (deficit)				
Unrestricted	125,849,836	(7,331,131)	-	118,518,705
Temporarily restricted	13,726,443	-	-	13,726,443
Permanently restricted	9,343,643	-	-	9,343,643
Total net assets	148,919,922	(7,331,131)	-	141,588,791
Total liabilities and net assets	\$ 266,667,622	\$ 1,933,880	\$ (7,647,590)	\$ 260,953,912

Norwalk Hospital Association
Supplemental Consolidating Statement of Operations
September 30, 2009

	Norwalk Hospital Association	Fairfield County Medical Services, Inc.	Eliminations	Consolidated
Operating revenues				
Net revenues from services to patients	\$ 322,749,162	\$ -	\$ -	\$ 322,749,162
Other operating revenues	12,226,829	13,237,881	(3,280,977)	22,183,733
Change in unrestricted interest in Norwalk Hospital Foundation, Inc.	24,706	-	-	24,706
Total operating revenues	<u>335,000,697</u>	<u>13,237,881</u>	<u>(3,280,977)</u>	<u>344,957,601</u>
Operating expenses				
Salaries and benefits	169,265,145	11,232,105	-	180,497,250
Supplies and other expenses	110,342,710	5,110,231	(3,280,977)	112,171,964
Depreciation and amortization	18,595,949	112,333	-	18,708,282
Provision for bad debts	21,000,769	-	-	21,000,769
Interest	651,938	-	-	651,938
Support for Norwalk Hospital Foundation, Inc.	1,221,383	-	-	1,221,383
Total operating expenses	<u>321,077,894</u>	<u>16,454,669</u>	<u>(3,280,977)</u>	<u>334,251,586</u>
Income from operations	13,922,803	(3,216,788)	-	10,706,015
Nonoperating gains (losses)				
Investment income	879,780	-	-	879,780
Net unrealized gains on investments	365,198	-	-	365,198
Writeoff of investment in joint ventures	(1,317,039)	-	-	(1,317,039)
Recovery of affiliate receivable	1,152,740	-	-	1,152,740
Total nonoperating income (expense)	<u>1,080,679</u>	<u>-</u>	<u>-</u>	<u>1,080,679</u>
Excess (deficiency) of revenues over expenses	15,003,482	(3,216,788)	-	11,786,694
Other changes in net assets				
Transfers from Norwalk Hospital Foundation, Inc.	3,638,289	-	-	3,638,289
Transfers to Norwalk Health Care, Inc.	(7,323,000)	-	-	(7,323,000)
Pension related changes other than net periodic benefit cost	(24,148,067)	-	-	(24,148,067)
Decrease in unrestricted net assets	<u>\$ (12,829,296)</u>	<u>\$ (3,216,788)</u>	<u>\$ -</u>	<u>\$ (16,046,084)</u>