

**Norwalk Health Services
Corporation and Subsidiaries**
Consolidated Financial Statements
September 30, 2012 and 2011

Norwalk Health Services Corporation and Subsidiaries

Index

September 30, 2012 and 2011

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Report of Independent Auditors

To the Board of Trustees of
Norwalk Health Services Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in net assets, and of cash flows present fairly, in all material respects, the consolidated financial position of Norwalk Health Services Corporation and its subsidiaries (the "System") at September 30, 2012 and 2011, and the results of their operations, their changes in net assets, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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 25 through 32, 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, results of operations, and changes in net assets of the individual companies. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

January 29, 2013

Norwalk Health Services Corporation and Subsidiaries
Consolidated Balance Sheets
September 30, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 85,492,679	\$ 77,594,791
Investments	45,487,085	38,584,167
Patient accounts receivable, less allowance for doubtful account of \$25,494,296 in 2012 and \$27,351,637 in 2011	32,330,519	38,601,542
Inventories	2,568,063	2,296,832
Due from third party agencies	2,368,715	-
Other current assets	6,882,248	5,232,800
Assets whose use is limited	278,083	686,510
Total current assets	<u>175,407,392</u>	<u>162,996,642</u>
Long-term investments	104,476,656	75,128,737
Assets whose use is limited		
Assets held by trustee under bond indenture agreements	2,366,125	16,662,446
Assets held by trustee for self-insurance	2,450,281	4,567,394
Total assets whose use is limited	<u>4,816,406</u>	<u>21,229,840</u>
Beneficial interest in trust	7,072,644	6,339,758
Other assets	32,449,001	15,749,194
Due from third party agencies	3,698,889	2,715,774
Goodwill	13,843,749	15,097,582
Investment in joint venture	2,267,986	2,729,803
Property, plant and equipment		
Land and land improvements	3,712,255	3,665,010
Buildings	175,961,660	147,571,073
Equipment	245,004,588	234,180,654
Construction in progress	8,602,012	22,713,647
Accumulated depreciation	<u>(293,885,243)</u>	<u>(278,652,974)</u>
Total property, plant and equipment	<u>139,395,272</u>	<u>129,477,410</u>
Total assets	<u>\$ 483,427,995</u>	<u>\$ 431,464,740</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 27,132,332	\$ 28,263,882
Accrued compensation	20,982,422	20,097,511
Due to third party agencies	5,022,080	4,640,299
Accrued interest	757,682	905,171
Current portion of long-term debt	5,674,419	12,692,563
Current portion of capital lease	7,180	9,649
Other current liabilities	291,774	973,017
Total current liabilities	<u>59,867,889</u>	<u>67,582,092</u>
Accrued pension liability	64,741,651	60,019,814
Asset retirement obligation	10,866,380	11,509,090
Other liabilities	58,778,063	45,982,679
Due to third party agencies	28,938,889	14,726,335
Long-term debt, less current portion	56,096,399	61,717,853
Capital lease, less current portion	-	7,180
Total liabilities	<u>279,289,271</u>	<u>261,545,043</u>
Net assets		
Unrestricted	146,635,196	126,269,775
Unrestricted attributable to noncontrolling interest	954,530	670,593
Temporarily restricted	47,103,146	33,540,087
Permanently restricted	9,445,852	9,439,242
Total net assets	<u>204,138,724</u>	<u>169,919,697</u>
Total liabilities and net assets	<u>\$ 483,427,995</u>	<u>\$ 431,464,740</u>

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

Norwalk Health Services Corporation and Subsidiaries
Consolidated Statements of Operations
Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues		
Net revenues from services to patients	\$ 388,662,545	\$ 374,990,147
Other operating revenues	18,207,098	20,756,420
Net assets released from restrictions used for operations	<u>5,341,417</u>	<u>2,634,499</u>
Total operating revenues	<u>412,211,060</u>	<u>398,381,066</u>
Operating expenses		
Salaries and benefits	210,210,293	203,869,995
Supplies and other expenses	136,090,165	136,539,847
Depreciation and amortization	20,774,884	19,697,330
Provision for bad debts	22,763,777	21,118,227
Interest	<u>2,273,303</u>	<u>1,949,843</u>
Total operating expenses	<u>392,112,422</u>	<u>383,175,242</u>
Income from operations	<u>20,098,638</u>	<u>15,205,824</u>
Nonoperating income (expense)		
Investment income	1,275,016	799,311
Net unrealized gains (loss) on investments	6,210,984	(2,552,586)
Loss on sale of Nursing Home	-	(1,743,383)
Loss on sale of equipment	(483,772)	-
Provision for joint venture investment	<u>(461,817)</u>	<u>-</u>
Total nonoperating income (loss)	<u>6,540,411</u>	<u>(3,496,658)</u>
Excess of revenues over expenses, before noncontrolling interest in joint venture	26,639,049	11,709,166
Change in value attributable to noncontrolling interest in joint venture	<u>(283,937)</u>	<u>418,448</u>
Excess of revenues over expenses	26,355,112	12,127,614
Other changes in net assets		
Net assets released from restrictions used for capital	737,532	323,017
Transfer from Norwalk Surgery Center, LLC	-	1,089,041
Pension related changes other than net periodic benefit cost	(6,727,223)	(25,149,518)
Non controlling interest in joint venture	<u>283,937</u>	<u>(418,448)</u>
Increase (decrease) in unrestricted net assets	<u>\$ 20,649,358</u>	<u>\$ (12,028,294)</u>

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

Norwalk Health Services Corporation and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2012 and 2011

	2012	2011
Unrestricted net assets		
Excess of revenues over expenses	\$ 26,355,112	\$ 12,127,614
Net assets released from restrictions used for capital	737,532	323,017
Transfer from Norwalk Surgery Center	-	1,089,041
Pension related changes other than net periodic benefit cost	(6,727,223)	(25,149,518)
Non controlling interest in joint venture	283,937	(418,448)
Increase (decrease) in unrestricted net assets	<u>20,649,358</u>	<u>(12,028,294)</u>
Temporarily restricted net assets		
Contributions	15,190,641	10,516,065
Increase (decrease) in assets held in trust by others	732,886	(357,922)
Net realized and unrealized gains on investments and investment income	3,718,481	41,700
Net assets released from restrictions	(6,078,949)	(2,957,516)
Increase in temporarily restricted net assets	<u>13,563,059</u>	<u>7,242,327</u>
Permanently restricted net assets		
Contributions	6,610	10,534
Increase in permanently restricted net assets	<u>6,610</u>	<u>10,534</u>
Increase (decrease) in net assets	34,219,027	(4,775,433)
Net assets		
Beginning of year	<u>169,919,697</u>	<u>174,695,130</u>
End of year	<u>\$ 204,138,724</u>	<u>\$ 169,919,697</u>

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

Norwalk Health Services Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Operating activities		
Change in net assets	\$ 34,219,027	\$ (4,775,433)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Noncash items		
Depreciation and amortization	20,774,884	19,689,489
Loss (gain) on sale of property, plant and equipment	475,292	(800)
Provision for bad debts	22,763,777	21,118,227
Provision for joint venture investment	461,817	-
Loss on sale of nursing home	-	1,743,383
Net realized and unrealized (gain) or loss on investments	(9,282,176)	1,663,055
Pension related changes other than periodic benefit cost	6,727,223	25,149,518
Net asset item		
Restricted contributions	(9,895,179)	(5,097,953)
Changes in assets and liabilities		
Accounts receivable	(16,492,754)	(17,152,472)
Inventories	(271,231)	625,242
Other current assets	(1,649,448)	(982,287)
Other assets	(17,898,205)	(4,698,394)
Accounts payable	3,701,611	2,122,184
Accrued compensation	884,911	564,353
Due to third-party agencies, net	11,242,505	10,129,264
Accrued interest	(147,489)	661,424
Other current liabilities	(681,243)	(6,032)
Accrued pension liability	(2,005,386)	(2,981,503)
Asset retirement obligation	(642,710)	1,296,583
Other liabilities	12,795,384	7,706,497
Net cash provided by operating activities	<u>55,080,610</u>	<u>56,774,345</u>
Investing activities		
Net additions to property, plant and equipment	(34,461,340)	(28,909,351)
Sales of investments	18,300,000	5,965,467
Purchases of investments	(45,268,661)	(8,719,334)
(Increase) decrease in beneficial interest in trust	(732,886)	357,922
Proceeds from sale of property, plant and equipment	508,480	4,000
Decrease (increase) in assets whose use is limited	16,821,861	(12,584,692)
Proceeds from sale of nursing home, net of expenses	-	4,433,534
Acquisition of radiology practice	-	(22,914,723)
Net cash used by investing activities	<u>(44,832,546)</u>	<u>(62,367,177)</u>
Financing activities		
Payments on notes receivable	403,892	691,355
Payments on capital lease	(9,649)	(8,444)
Proceeds from long term debt	-	50,840,000
Payments on long-term debt	(12,639,598)	(2,175,142)
Restricted contributions	9,895,179	5,097,953
Net cash (used by) provided by financing activities	<u>(2,350,176)</u>	<u>54,445,722</u>
Increase in cash and cash equivalents	7,897,888	48,852,890
Cash and cash equivalents		
Beginning of year	<u>77,594,791</u>	<u>28,741,901</u>
End of year	<u>\$ 85,492,679</u>	<u>\$ 77,594,791</u>
Supplemental disclosure of cash information		
Interest paid	\$ 2,637,137	\$ 2,114,214
Noncash transactions		
Fixed assets expenditures included in accounts payable	\$ 499,327	\$ 5,332,488
Capitalized interest	559,895	940,110

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

Norwalk Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

1. Organization and Significant Accounting Policies

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

The Corporation is the sole member of its subsidiaries which include The Norwalk Hospital Association and its majority interest in Norwalk surgery Center, LLC ("Hospital"); Norwalk Hospital Physicians & Surgeons, Inc. ("NHP&S"); Norwalk Health Care, Inc. ("NHC"); and Norwalk Hospital Foundation, Inc. ("Foundation"). The Corporation also owns 100% of the stock of S.W.C. Corporation ("S.W.C"), a Connecticut stock corporation, and Maple Street Indemnity company, Ltd. ("MSI"). MSI is a captive insurance company incorporated under the laws of the Bermuda Monetary Authority. NHP&S was previously known as Fairfield County Medical Services, Inc. and was a wholly owned subsidiary of the Hospital but as a result of a corporate reorganization, its name was changed and it became a wholly owned subsidiary of the Corporation

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Actual results could differ from those estimates. The Corporation and its subsidiaries' significant estimates reflected in the consolidated financial statements include contractual and bad debt allowances for patient service revenue and the related patient accounts receivable, valuation of the intangible asset from acquisition, estimated settlements due to or from third parties, reserves for malpractice, workers' compensation and other self-insured liabilities, and benefit plans assumptions.

Income Taxes

The Corporation and its subsidiaries, with the exception of SWC and MSI, are not-for-profit organizations as described in Section 501(c) (3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Tax provisions and related liabilities for SWC are not material to the consolidated financial statements. MSI is a foreign corporation exempt from United States taxation.

Regulatory Matters

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

Cash Equivalents

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

Concentration of Credit Risk

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

Norwalk Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Investments

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

Fair Value Measurements

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

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets and liabilities in active markets that the Corporation and its subsidiaries have the ability to access at the measurement date.
- Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets and liabilities in active markets;
 - Quoted prices for identical or similar assets and liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset and liability has a specified term, the Level 2 input must be observable for substantially the full term of the asset and liability.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

The fair value of the Corporation and its subsidiaries' investments are based on quoted market values.

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

Fair Value Option

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

Norwalk Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Assets Whose Use is Limited

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

Beneficial Interest in Trust

The Corporation and its subsidiaries have been named sole or participating beneficiary in one remainder trust. Under the terms of this trust, the Corporation and its subsidiaries have the irrevocable right to receive the remaining principal and income earned on the trust assets. The estimated present value of the future payments to the Corporation and its subsidiaries is recorded at the fair value of the Corporation and its subsidiaries' proportionate interest in the assets held in trust. In 2012 and 2011, no distributions were received from this trust.

Inventories

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

Investments in Joint Venture

The Hospital and its subsidiaries have invested in a joint venture which is accounted for under the equity method of accounting.

Property, Plant and Equipment

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

Temporarily and Permanently Restricted Net Assets

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

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation and its subsidiaries are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions are met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. Pledges receivable at September 30, 2012 were discounted using rates ranging from .13% to 4%. Pledges receivable at September 30, 2011 were discounted using rates ranging from .13% to 4%. Amortization of the discount is included in contribution revenue. At September 30, 2012 and 2011, pledges receivable, which are included in other current assets or other assets, were approximately \$7,925,000 and \$6,384,000, respectively.

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

Norwalk Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

Medical Malpractice Self-Insurance

As of October 1, 2005, the Corporation and its subsidiaries are insured for general liability and professional liability claims by MSI. The Corporation and its subsidiaries, excluding Norwalk Health Care, has obtained professional liability coverage through MSI of \$35,000,000 per claim and \$48,000,000 in the aggregate. Norwalk Health Care has obtained professional liability coverage through MSI of \$32,000,000 per claim and \$34,000,000 in the aggregate. MSI purchases \$30,000,000 of excess reinsurance coverage above a self-insured retention of \$5,000,000 per claim and \$18,000,000 in the aggregate.

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

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, short term investments, accounts receivable, other receivables, assets limited as to use, assets held in trust by others, investments, accounts payable and accrued liabilities at the balance sheet dates approximate their fair values. The fair value of debt, based on current market rates for similar debt, was approximately \$71,582,000 and \$83,042,000, in 2012 and 2011, respectively. The carrying value of debt is \$61,771,000 and \$74,410,000 in 2012 and 2011, respectively.

Statement of Operations

The consolidated statement of operations includes the excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, includes pension-related changes other than net periodic benefit cost, net assets released from restrictions used for capital, a transfer from Norwalk Surgery Center, LLC, and noncontrolling interest 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, unrealized and realized gains and losses on investments, loss on sale of equipment, loss on sale of Nursing home, and a provision for joint venture investment.

Asset Retirement Obligation

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

Norwalk Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2012 and 2011

Implementation of Accounting Standards

Effective October 1, 2011, the Corporation 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 Corporation’s adoption of ASU 2010–24, the Corporation recorded an increase in its assets and liabilities of approximately \$43,000,000 in the accompanying Consolidated Balance Sheet as of September 30, 2012.

2. Revenues From Services to Patients

The following table summarizes revenues from services to patients:

	2012	2011
Gross revenues from services to patients	\$ 961,852,662	\$ 882,791,669
Deductions and exclusions		
Allowances	<u>573,190,117</u>	<u>507,801,522</u>
Net revenues from services to patients	<u>\$ 388,662,545</u>	<u>\$ 374,990,147</u>

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

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

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

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

Norwalk Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2012 and 2011

The Corporation and its subsidiaries grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net revenue from patients and third-party payors at September 30, 2012 and 2011 are as follows:

	2012	2011
Commercial/other	57 %	54 %
Medicare	25	27
Self pay	8	8
Medicaid	10	11
	<u>100 %</u>	<u>100 %</u>

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

	2012	2011
Commercial/other	63 %	71 %
Medicare	27	20
Self pay	2	5
Medicaid	8	4
	<u>100 %</u>	<u>100 %</u>

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. While management believes that the members of the System are in compliance with all such applicable laws and regulations, as referenced in Note 16 compliance with such laws and regulations is subject to government review and interpretation and can result in significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs. As a result, there is at least a reasonable possibility that recorded estimates can change by material amounts. In addition, changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the System.

The Hospital and NHC accept all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to established policies. These policies define charity services as those services for which no payment is anticipated. In assessing a patient's ability to pay, the Hospital and NHC utilize the generally recognized poverty income levels for the state published in the Federal Register, but also include certain cases where incurred charges are significant when compared to income. For the years ended September 30, 2012 and 2011, the Hospital provided charity care of approximately \$17,929,000 and \$17,327,000, respectively, in charges.

Norwalk Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2012 and 2011

3. Investments

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

	2012	2011
Investments		
Cash and cash equivalents	\$ 53,071,387	\$ 55,151,284
U.S. Treasury obligations	-	2,875,790
Mutual funds	96,892,354	55,685,830
	<u>\$ 149,963,741</u>	<u>\$ 113,712,904</u>
Assets whose use is limited		
Cash and cash equivalents	\$ 4,816,897	\$ 21,581,921
U.S. Treasury obligations	277,592	334,429
	<u>\$ 5,094,489</u>	<u>\$ 21,916,350</u>

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

	2012			
	Level 1	Level 2	Level 3	Total Fair Value
General investments				
Cash and cash equivalents	\$ 53,071,386	\$ -	\$ -	\$ 53,071,386
Mutual funds	96,892,354	-	-	96,892,354
	<u>149,963,740</u>	<u>-</u>	<u>-</u>	<u>149,963,740</u>
Assets whose use is limited				
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>
Beneficial interest in trust				
	-	-	7,072,644	7,072,644
	<u>\$ 155,058,229</u>	<u>\$ -</u>	<u>\$ 7,072,644</u>	<u>\$ 162,130,873</u>

Norwalk Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2012 and 2011

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

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

The table below presents the change in fair value measurements for the Corporation and its subsidiaries' Level 3 investments during the year ended September 30, 2012:

Beginning balance	\$ 6,339,758
Realized and unrealized gain	732,886
Ending balance	<u>\$ 7,072,644</u>

Investment income includes the following for the years ended September 30, 2012 and 2011:

	2012	2011
Interest and dividend income	\$ 3,035,916	\$ 2,326,066
Net realized gains on sales of securities	227,393	1,221,064
	<u>\$ 3,263,309</u>	<u>\$ 3,547,130</u>
Investment income included in other operating and nonoperating revenues	\$ 2,386,125	\$ 3,179,149
Investment income included in the change in temporarily restricted net assets	877,184	367,981
	<u>\$ 3,263,309</u>	<u>\$ 3,547,130</u>

Norwalk Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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4. Leases

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

Future minimum payments under noncancelable operating leases, and future receipts under noncancelable subleases where the Corporation and its subsidiaries are receiving rental receipts, with initial terms of one year or more consisted of the following at September 30, 2012:

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

Rental expense was approximately \$9,153,000 and \$8,348,000 for the years ended September 30, 2012 and 2011, respectively. Rent expense was offset by rental revenue of approximately \$2,909,000 and \$2,525,000, respectively.

5. Goodwill

In 2011, the Hospital recorded goodwill of \$13,843,749 related to the acquisition of Norwalk Radiology and Mamography Center ("NRMC"). There is no impairment as of September 30, 2012 and 2011.

In 2009, the Hospital purchased a physician practice. The Hospital paid consideration of \$1,866,755 of which \$1,620,000 was recorded as goodwill. In fiscal 2012, the hospital recorded impairment of goodwill associated with the purchase due to reduced practice volume. Accumulated impairment as of September 30, 2012 and 2011 amounted to \$1,620,000 and \$837,000, respectively.

In 2008, the Hospital purchased a diagnostic imaging service practice. The Hospital paid \$3,362,500 in consideration all of which was recorded as goodwill. In fiscal 2011 and 2012, the Hospital recorded impairment of goodwill associated with the purchase due to reduced radiology volume. Accumulated impairment as of September 30, 2012 and 2011 amounted to \$3,362,500 and \$2,891,667, respectively.

Norwalk Health Services Corporation and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2012 and 2011

6. Beneficial Interest in Trust

The Corporation is the beneficiary of assets held in trust by others. The total trust assets, as reported by the trustee, had an aggregate fair value, based on quoted market prices, at September 30, 2012 and 2011 of \$7,072,644 and \$6,339,758, respectively. The timing and amounts of the principal distributions are based upon various factors established in a will. During 2012 and 2011, the Corporation did not receive any distributions.

7. Long-Term Debt

The Hospital has outstanding State of Connecticut Health and Educational Facilities Authority (CHEFA) Revenue Bonds, Series E issued under a Master Trust Indenture with the Hospital, NHC, and the Foundation (the "Obligated Group"). The Series E bonds mature serially through 2022 with interest at a net average annual rate of 4.41%. Interest on the bonds is payable semi annually each January 1 and July 1. As of September 30, 2012, the Series E outstanding debt is \$8,560,000. The bonds are collateralized by the debt service reserve fund and other funds held by the Bond Trustees as well as the gross receipts of the Obligated Group

On November 15, 2011 NHC redeemed CHEFA Revenue Bonds, Series F issued under a Master Trust Indenture with the Obligated Group.

The Series E bonds maturing on July 1, 2019, are subject to mandatory sinking fund redemptions on each July 1, commencing July 1, 2015. The Series E bonds maturing on July 1, 2022, are subject to mandatory sinking fund redemption on each July 1, commencing July 1, 2020.

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

The Series G bonds totaling \$25,000,000 mature serially through 2025 with interest at an annual rate of 5.12%. Interest on the bonds is payable semi annually each June and December 1. As of September 30, 2012, the Series G outstanding debt is \$23,860,000.

The Series H bonds totaling \$10,040,000 mature serially through 2020 with interest at an annual rate of 3.49%. Interest on the bonds is payable semi annually each June and December 1. As of September 30, 2012, the Series H outstanding debt is \$9,185,000.

The Series I bonds totaling \$11,800,000 mature serially through 2020 with interest at an annual rate of 3.4%. Interest on the bonds is payable semi annually each June and December 1. As of September 30, 2012, the Series I outstanding debt is \$10,790,000.

In 2011, Norwalk Surgery Center, LLC obtained a \$4,000,000 seven year term loan from The Bank of Fairfield. The loan bears interest at a fixed rate of 4.875%. Monthly payments of interest only are required for the first eighteen months of the loan. Thereafter, monthly payments of principal and interest are required based upon a five and one-half year amortization schedule. The loan is secured by a first lien on all business assets of Norwalk Surgery Center, LLC. As of September 30, 2012, the term loan outstanding debt is \$3,351,443.

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In 2007, the Hospital financed certain equipment related to an energy project through CHEFA, which issued \$9,066,025 in debt under a Master Financing Agreement (the "Agreement") dated as of April 1, 2007 with the Bank of America Public Capital Corp. as the Lender (the "Lender"). The loan is payable in 120 equal installments of \$93,432 beginning June 3, 2007, with interest of 4.38%. The Hospital has granted a collateral interest to the lender in the equipment financed. As of September 30, 2012, the CHEFA outstanding debt is \$4,703,893.

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

In 2007, the Hospital entered into an agreement with the Connecticut Hospital Association Trust (the "Trust") to borrow up to \$2,000,000 from the energy conservation and load management loan fund. The loan, which is interest free, will enable the Hospital to convert electrical energy and to manage its electrical energy needs. As of September 30, 2010 and 2009, \$1,188,602 and \$1,480,637, respectively, was outstanding under the agreement. The loan is payable in 84 equal monthly installments of \$22,462 beginning April 1, 2008. As of September 30, 2012, the Trust outstanding debt is \$671,926.

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

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

During 2012 and 2011, the Corporation and its subsidiaries paid interest of \$2,637,137 and \$2,114,214, respectively, on its long-term obligations. Interest capitalized for the years ended September 30, 2012 and 2011 was approximately \$560,000 and \$940,000, respectively.

8. Benefit Plans

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

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

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

	2012	2011
Net actuarial loss	\$ 101,904,421	\$ 94,565,193
Prior service cost	518,832	1,130,837
	<u>\$ 102,423,253</u>	<u>\$ 95,696,030</u>

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

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

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

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

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

Norwalk Health Services Corporation and Subsidiaries
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September 30, 2012 and 2011

Assumptions

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

	2012	2011
Discount rate	3.90%	4.68%
Rate of compensation increase	3.50%	3.50%

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

	2012	2011
Discount rate	4.68%	5.17%
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 are as follows:

	Percentage of Plan Assets	
	2012	2011
Asset category		
Equity securities	60 %	56 %
Debt securities	40 %	44 %
	<u>100 %</u>	<u>100 %</u>

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

Norwalk Health Services Corporation and Subsidiaries
Notes to Consolidated Financial Statements
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The defined benefit plan assets categorization is based upon the lowest level of input that is significant to the fair value measurements within the valuation hierarchy. The following table summarizes the Hospital's fair values of investments by major type held by the defined benefit plan at September 30:

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

Contributions

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

Estimated Future Benefit Payments

The following future benefit payments are expected to be paid:

Fiscal Year	Benefit Payments
2013	\$ 7,124,000
2014	7,438,000
2015	7,748,000
2016	8,149,000
2017	8,611,000
2018 - 2022	<u>52,913,000</u>
	<u>\$ 91,983,000</u>

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

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

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

Expense related to the Hospital's defined contribution plan was approximately \$3,189,000 and \$2,841,000 for the years ended September 30, 2012 and 2011, respectively. Expense related to the Corporation's defined contribution plan was approximately \$92,000 and \$86,000 for the years ended September 30, 2012 and 2011, respectively.

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

9. Temporarily and Permanently Restricted Net Assets

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

	2012	2011
Healthcare services	\$ 47,103,146	\$ 33,540,087

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

	2012	2011
Healthcare services	\$ 9,445,852	\$ 9,439,242

10. Endowments

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

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

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

- (1) The duration and preservation of the fund
- (2) The purposes of the Corporation and the donor restricted endowment fund

Norwalk Health Services Corporation and Subsidiaries
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- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Corporation
- (7) The investment policies of Corporation.

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

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

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 2,391,116	\$ 9,445,852	\$ 11,836,968

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 2,457,426	\$ 9,439,242	\$ 11,896,668

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

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 2,457,426	\$ 9,439,242	\$ 11,896,668
Investment return				
Investment income		330,961		330,961
Net realized and unrealized loss		667,981		667,981
Total investment return	-	998,942	-	998,942
Contributions			6,610	6,610
Appropriation of investment return for expenditure		(1,065,252)		(1,065,252)
Endowment net assets, end of year	\$ -	\$ 2,391,116	\$ 9,445,852	\$ 11,836,968

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

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

11. Sale of Norwalk Health Care

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

12. Acquisition of Norwalk Radiology & Mamography Center

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

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

The value of the Covenant Not to Compete ("CNC") is based on the management's assessment of a 50% probability of radiologist competition and a maximum 60% reduction in volume over a three year period. The CNC was projected to have an impact in perpetuity. The Hospital is amortizing the noncompete intangible over the 10 year length of the noncompete agreement on a straight-line basis. Accumulated amortization as of September 30, 2012 amounted to \$1,191,760.

Norwalk Health Services Corporation and Subsidiaries
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13. Transfer of Assets to Norwalk Surgery Center, LLC

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

14. 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 adjustment of \$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.

15. Noncontrolling Interest

The Corporation and its subsidiaries prospectively adopted ASU 2010-7 *Not-for-Profit Entities Mergers and Acquisitions*. This guidance impacts the financial statement treatment of noncontrolling interests in consolidated entities. This guidance requires the Corporation 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 Corporation has consolidated certain 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 Corporation, but are required to be presented on the Corporation's balance sheet under generally accepted accounting principles. These interests were approximately \$955,000 as of September 30, 2012.

Changes in Consolidated Unrestricted Net Assets Attributable to the Corporation are as follows:

	Corporation	Noncontrolling Interest	Total
Balances at October 1, 2010	\$ 138,968,662	\$ -	\$ 138,968,662
Excess of revenues over expenses	12,127,614	(418,448)	11,709,166
Other changes	(24,826,501)	1,089,041	(23,737,460)
Changes in unrestricted net assets	(12,698,887)	670,593	(12,028,294)
Balances at September 30, 2011	126,269,775	670,593	126,940,368
Excess of revenues over expenses	26,355,112	283,937	26,639,049
Other changes	(5,989,691)	-	(5,989,691)
Changes in unrestricted net assets	20,365,421	283,937	20,649,358
Balances at September 30, 2012	\$ 146,635,196	\$ 954,530	\$ 147,589,726

Norwalk Health Services Corporation and Subsidiaries
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16. Contingencies

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

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

17. Functional Expenses

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

	2012	2011
Health care services	\$ 271,585,470	\$ 273,250,445
General and administrative	120,526,952	109,924,797
	<u>\$ 392,112,422</u>	<u>\$ 383,175,242</u>

18. Subsequent Events

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

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

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

Supplemental Consolidating Information

Norwalk Health Services Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2012

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	Norwalk Hospital Physicians & Surgeons	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
Assets										
Current assets										
Cash and cash equivalents	\$ 79,838,027	\$ 574,439	\$ 324,216	\$ 1,766,680	\$ 492,280	\$ 309,015	\$ 285,105	\$ 1,902,917	\$ -	\$ 85,492,679
Investments	8,710,885	-	-	-	-	-	-	36,776,200	-	45,487,085
Patient accounts receivable, net	30,103,755	1,039,460	-	-	-	999,660	187,644	-	-	32,330,519
Due from third party agencies	2,368,715	-	-	-	-	-	-	-	-	2,368,715
Due from affiliates	4,330,064	-	-	-	4,501,544	4,501,544	60,112	-	(13,393,264)	-
Inventories	1,860,656	363,579	-	-	-	-	343,828	-	-	2,568,063
Other current assets	2,762,968	61,519	-	3,768,592	-	245,379	21,501	22,289	-	6,882,248
Assets whose use is limited	278,083	-	-	-	-	-	-	-	-	278,083
Total current assets	130,253,153	2,038,997	324,216	5,535,272	4,993,824	6,055,598	898,190	38,701,406	(13,393,264)	175,407,392
Long-term investments										
Assets whose use is limited	46,403,962	-	-	36,469,312	21,603,382	-	-	-	-	104,476,656
Assets held by trustee per bond indenture										
Assets held by trustee per bond indenture	2,366,125	-	-	-	-	-	-	-	-	2,366,125
Assets held in trust for self-insurance	2,450,281	-	-	-	-	-	-	-	-	2,450,281
	4,816,406	-	-	-	-	-	-	-	-	4,816,406
Beneficial interest in trust										
Beneficial interest in trust	-	-	-	-	7,072,644	-	-	-	-	7,072,644
Other assets										
Due from third party agencies	51,878,179	12,617	700,000	7,925,050	324,249	-	-	15,050,000	(43,441,094)	32,449,001
Beneficial interest in Norwalk Hospital Foundation, Inc.	3,698,889	-	-	-	-	-	-	-	-	3,698,889
Goodwill	49,220,442	-	-	-	-	-	-	-	(49,220,442)	-
Investment in joint venture	13,843,749	4,142,240	-	-	-	-	-	-	(4,142,240)	13,843,749
Property, plant and equipment	2,267,986	-	-	-	-	-	-	-	-	2,267,986
Property, plant and equipment										
Land and land improvements	2,774,613	-	-	-	937,642	-	-	-	-	3,712,255
Buildings	174,778,639	589,714	-	-	362,326	-	405,517	-	(174,536)	175,961,660
Equipment	242,977,946	981,575	-	131,033	-	212,652	397,558	-	303,824	245,004,588
Construction in progress and deferred project costs	8,602,012	-	-	-	-	-	-	-	-	8,602,012
Accumulated depreciation	(292,559,901)	(288,857)	-	(131,033)	(283,222)	(55,025)	(679,202)	-	111,997	(293,885,243)
Total property, plant, and equipment	136,573,309	1,282,432	-	-	1,016,746	157,627	123,873	-	241,285	139,395,272
Total assets	\$ 438,956,075	\$ 7,476,286	\$ 1,024,216	\$ 49,929,634	\$ 35,010,845	\$ 6,213,225	\$ 1,022,063	\$ 53,751,406	\$ (109,955,755)	\$ 483,427,995

Norwalk Health Services Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2012

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	Norwalk Hospital Physicians & Surgeons	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
Liabilities and Net Assets										
Current liabilities										
Accounts payable	\$ 25,888,666	\$ 255,144	\$ 2,451	\$ 262,474	\$ 102,102	\$ 291,875	\$ 250,452	\$ 79,168	\$ -	\$ 27,132,332
Accrued compensation	17,881,149	39,377	-	-	-	2,614,534	447,362	-	-	20,982,422
Due to third party agencies	4,906,972	-	115,108	-	-	-	-	-	-	5,022,080
Due to affiliates	4,561,655	-	-	190,806	4,501,544	4,139,259	-	-	(13,393,264)	-
Accrued interest payable	757,682	-	-	-	-	-	-	-	-	757,682
Current portion of long-term debt	5,025,862	648,557	-	-	-	-	-	-	-	5,674,419
Current portion capital lease	7,180	-	-	-	-	-	-	-	-	7,180
Other current liabilities	-	-	291,774	-	-	-	-	-	-	291,774
Total current liabilities	59,029,166	943,078	409,333	453,280	4,603,646	7,045,668	697,814	79,168	(13,393,264)	59,867,889
Accrued pension liability	64,741,651	-	-	-	-	-	-	-	-	64,741,651
Asset retirement obligations	10,866,380	-	-	-	-	-	-	-	-	10,866,380
Other liabilities	55,942,041	-	429,374	-	-	-	-	45,523,493.00	(43,116,845.00)	58,778,063
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	272,263,083	4,294,521	838,707	453,280	4,603,646.00	7,045,668.00	697,814.00	45,602,661.00	(56,510,109.00)	279,289,271
Net assets										
Unrestricted	122,045,890	3,181,765	185,509	-	23,334,555	(832,443)	-	8,148,745	(9,428,825)	146,635,196
Unrestricted attributable to noncontrolling interest	954,530	-	-	-	-	-	-	-	-	954,530
Temporarily restricted	34,246,719	-	-	40,030,502	7,072,644	-	-	-	(34,246,719)	47,103,146
Permanently restricted	9,445,853	-	-	9,445,852	-	-	-	-	(9,445,853)	9,445,852
Shareholder's equity	-	-	-	-	-	-	324,249	-	(324,249)	-
Total net assets and shareholder's equity	166,692,992	3,181,765	185,509	49,476,354	30,407,199	(832,443)	324,249	8,148,745	(53,445,646)	204,138,724
Total liabilities, net assets and shareholders' equity	\$ 438,956,075	\$ 7,476,286	\$ 1,024,216	\$ 49,929,634	\$ 35,010,845	\$ 6,213,225	\$ 1,022,063	\$ 53,751,406	\$ (109,955,755)	\$ 483,427,995

Norwalk Health Services Corporation and Subsidiaries

Consolidating Statement of Operations

Year Ended September 30, 2012

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	Norwalk Hospital Physicians & Surgeons	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
Operating revenues										
Net revenues from services to patients	\$ 363,267,877	\$ 5,147,844	\$ -	\$ -	\$ -	\$ 12,059,599	\$ 8,187,225	\$ -	\$ -	\$ 388,662,545
Other operating revenues	20,310,592	942	-	1,182,308	1,003,880	13,188,123	3,473,471	8,181,522	(29,133,740)	18,207,098
Equity in earnings of subsidiary	-	-	-	-	18,389	-	-	-	(18,389)	-
Change in unrestricted beneficial interest in Norwalk Hospital Foundation	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions used for operations	-	-	-	5,341,417	-	-	-	-	-	5,341,417
Total operating revenues	<u>383,578,469</u>	<u>5,148,786</u>	<u>-</u>	<u>6,523,725</u>	<u>1,022,269</u>	<u>25,247,722</u>	<u>11,660,696</u>	<u>8,181,522</u>	<u>(29,152,129)</u>	<u>412,211,060</u>
Operating expenses										
Salaries and benefits	181,353,127	1,500,118	-	1,589,161	-	21,091,558	4,676,329	-	-	210,210,293
Supplies and other expenses	133,479,325	2,080,806	-	5,824,344	75,000	8,603,485	6,842,000	7,136,637	(27,951,432)	136,090,165
Depreciation and amortization	20,380,372	263,785	-	-	7,469	54,223	74,853	-	(5,818)	20,774,884
Provision for bad debts	23,530,477	158,999	(974,824)	-	-	-	49,125	-	-	22,763,777
Funding operations of Norwalk Hospital Foundation Interest	1,182,308	-	-	-	-	-	-	-	(1,182,308)	-
	2,025,836	200,601	46,866	-	-	-	-	-	-	2,273,303
Total operating expenses	<u>361,951,445</u>	<u>4,204,309</u>	<u>(927,958)</u>	<u>7,413,505</u>	<u>82,469</u>	<u>29,749,266</u>	<u>11,642,307</u>	<u>7,136,637</u>	<u>(29,139,558)</u>	<u>392,112,422</u>
Income (loss) from operations	<u>21,627,024</u>	<u>944,477</u>	<u>927,958</u>	<u>(889,780)</u>	<u>939,800</u>	<u>(4,501,544)</u>	<u>18,389</u>	<u>1,044,885</u>	<u>(12,571)</u>	<u>20,098,638</u>
Nonoperating income (expense)										
Investment income	1,273,038	1,978	-	-	-	-	-	-	-	1,275,016
Net unrealized gains/(loss) on investments	3,763,749	-	-	-	2,458,594	-	-	(11,359)	-	6,210,984
Gain on sale of ambulatory surgery	3,838,416	-	-	-	-	-	-	-	(3,838,416)	-
Loss on Sale of equipment	(483,772)	-	-	-	-	-	-	-	-	(483,772)
Provision for joint venture investment	(461,817)	-	-	-	-	-	-	-	-	(461,817)
Total nonoperating income (expense)	<u>7,929,614</u>	<u>1,978</u>	<u>-</u>	<u>-</u>	<u>2,458,594</u>	<u>-</u>	<u>-</u>	<u>(11,359)</u>	<u>(3,838,416)</u>	<u>6,540,411</u>
Excess (deficiency) of revenues over expenses, before noncontrolling interest in joint venture	29,556,638	946,455	927,958	(889,780)	3,398,394	(4,501,544)	18,389	1,033,526	(3,850,987)	26,639,049
Change in value attributable to noncontrolling interest in joint venture	-	(283,937)	-	-	-	-	-	-	-	(283,937)
Excess (deficiency) of revenues over expenses	<u>29,556,638</u>	<u>662,518</u>	<u>927,958</u>	<u>(889,780)</u>	<u>3,398,394</u>	<u>(4,501,544)</u>	<u>18,389</u>	<u>1,033,526</u>	<u>(3,850,987)</u>	<u>26,355,112</u>
Other changes in net assets										
Net assets released from restrictions used for capital	-	-	-	737,532	-	-	-	-	-	737,532
Transfers (to) from Norwalk Health Services Corporation	(4,501,544)	-	1,130,943	-	(1,130,943)	4,501,544	-	-	-	-
Transfer of interest of Fairfield County Medical Services, Inc	832,443	-	-	-	-	(832,443)	-	-	-	-
Pension related changes other than net periodic benefit cost	(6,727,223)	-	-	-	-	-	-	-	-	(6,727,223)
Transfers from Norwalk Hospital Foundation, Inc.	737,532	-	-	(737,532)	-	-	-	-	-	-
Funding operations of Norwalk Hospital Foundation, Inc.	(889,780)	-	-	889,780	-	-	-	-	-	-
Non controlling interest in joint venture	-	283,937	-	-	-	-	-	-	-	283,937
Increase (decrease) in unrestricted net assets	<u>\$ 19,008,066</u>	<u>\$ 946,455</u>	<u>\$ 2,058,901</u>	<u>\$ -</u>	<u>\$ 2,267,451</u>	<u>\$ (832,443)</u>	<u>\$ 18,389</u>	<u>\$ 1,033,526</u>	<u>\$ (3,850,987)</u>	<u>\$ 20,649,358</u>

Norwalk Health Services Corporation and Subsidiaries
Consolidating Statement of Changes in Net Assets
Year Ended September 30, 2012

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	Norwalk Hospital Physicians & Surgeons	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
Unrestricted net assets										
Excess (deficiency) of revenues over expenses	\$ 29,556,638	\$ 662,518	\$ 927,958	\$ (889,780)	\$ 3,398,394	\$ (4,501,544)	\$ 18,389	\$ 1,033,526	\$ (3,850,987)	\$ 26,355,112
Net assets realized from restrictions used for capital	-	-	-	737,532	-	-	-	-	-	737,532
Transfers (to) from Norwalk Health Services Corporation	(4,501,544)	-	1,130,943	-	(1,130,943)	4,501,544	-	-	-	-
Transfer of interest of Fairfield County Medical Services, Inc.	832,443	-	-	-	-	(832,443)	-	-	-	-
Pension related changes other than net periodic benefit cost	(6,727,223)	-	-	-	-	-	-	-	-	(6,727,223)
Transfers from Norwalk Hospital Foundation, Inc.	737,532	-	-	(737,532)	-	-	-	-	-	-
Funding operations of Norwalk Hospital Foundation, Inc.	(889,780)	-	-	889,780	-	-	-	-	-	-
Non controlling interest in joint venture	-	283,937	-	-	-	-	-	-	-	283,937
Decrease (increase) in unrestricted net assets	<u>19,008,066</u>	<u>946,455</u>	<u>2,058,901</u>	<u>-</u>	<u>2,267,451</u>	<u>(832,443)</u>	<u>18,389</u>	<u>1,033,526</u>	<u>(3,850,987)</u>	<u>20,649,358</u>
Temporarily restricted net assets										
Contributions	-	-	-	15,190,641	-	-	-	-	-	15,190,641
Decrease in assets held in trust by others	-	-	-	-	732,886	-	-	-	-	732,886
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	12,813,958	-	-	-	-	-	-	-	(12,813,958)	-
Net realized and unrealized losses on investments	-	-	-	3,718,481	-	-	-	-	-	3,718,481
Net assets released from restrictions	-	-	-	(6,078,949)	-	-	-	-	-	(6,078,949)
Decrease (increase) in temporarily restricted net assets	<u>12,813,958</u>	<u>-</u>	<u>-</u>	<u>12,830,173</u>	<u>732,886</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,813,958)</u>	<u>13,563,059</u>
Permanently restricted net assets										
Contributions	-	-	-	6,610	-	-	-	-	-	6,610
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	6,610	-	-	-	-	-	-	-	(6,610)	-
Increase in permanently restricted net assets	<u>6,610</u>	<u>-</u>	<u>-</u>	<u>6,610</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,610)</u>	<u>6,610</u>
Increase (decrease) in net assets	<u>31,828,634</u>	<u>946,455</u>	<u>2,058,901</u>	<u>12,836,783</u>	<u>3,000,337</u>	<u>(832,443)</u>	<u>18,389</u>	<u>1,033,526</u>	<u>(16,671,555)</u>	<u>34,219,027</u>
Net assets (liabilities)										
Beginning of year	<u>134,864,358</u>	<u>2,235,310</u>	<u>(1,873,392)</u>	<u>36,639,571</u>	<u>27,406,862</u>	<u>-</u>	<u>305,860</u>	<u>7,115,219</u>	<u>(36,774,091)</u>	<u>169,919,697</u>
End of year	<u>\$ 166,692,992</u>	<u>\$ 3,181,765</u>	<u>\$ 185,509</u>	<u>\$ 49,476,354</u>	<u>\$ 30,407,199</u>	<u>\$ (832,443)</u>	<u>\$ 324,249</u>	<u>\$ 8,148,745</u>	<u>\$ (53,445,646)</u>	<u>\$ 204,138,724</u>

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

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Fairfield County Medical Services, Inc.	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
Assets										
Current assets										
Cash and cash equivalents	\$ 61,458,676	\$ 5,078,647	\$ 269,271	\$ 6,408,446	\$ 3,004,244	\$ 96,219	\$ 543,954	\$ 735,334	\$ -	\$ 77,594,791
Investments	8,693,538	-	-	-	-	-	-	29,890,629	-	38,584,167
Patient accounts receivable, net	37,299,759	23,428	-	1,032,349	-	-	246,006	-	-	38,601,542
Due from third party agencies	-	-	-	-	-	-	-	-	-	-
Due from affiliates	2,640,682	-	-	45,315	-	-	520	-	(2,686,517)	-
Inventories	1,879,253	85,422	-	-	-	-	332,157	-	-	2,296,832
Other current assets	2,780,011	86,703	868,214	-	1,450,324	-	21,501	26,047	-	5,232,800
Assets whose use is limited	372,429	-	-	314,081	-	-	-	-	-	686,510
Total current assets	115,124,348	5,274,200	1,137,485	7,800,191	4,454,568	96,219	1,144,138	30,652,010	(2,686,517)	162,996,642
Long-term investments	21,526,072	-	-	-	27,748,248	20,269,811	-	5,584,606	-	75,128,737
Assets whose use is limited										
Assets held by trustee per bond indenture	15,111,873	-	-	1,550,573	-	-	-	-	-	16,662,446
Assets held in trust for self-insurance	4,567,394	-	-	-	-	-	-	-	-	4,567,394
	19,679,267	-	-	1,550,573	-	-	-	-	-	21,229,840
Beneficial interest in trust	-	-	-	-	-	6,339,758	-	-	-	6,339,758
Other assets	10,001,585	13,529	-	700,000	5,034,080	-	-	-	-	15,749,194
Due from third party agencies	2,715,774	-	-	-	-	305,860	-	-	(305,860)	2,715,774
Beneficial interest in Norwalk Hospital Foundation, Inc.	36,399,874	-	-	-	-	-	-	-	(36,399,874)	-
Goodwill	15,097,582	-	-	-	-	-	-	-	-	15,097,582
Investment in joint venture	2,729,803	-	-	-	-	-	-	-	-	2,729,803
Property, plant and equipment										
Land and land improvements	2,727,368	-	-	-	-	937,642	-	-	-	3,665,010
Buildings	146,418,075	559,691	-	-	-	362,326	405,517	-	(174,536)	147,571,073
Equipment	232,771,161	880,902	-	-	131,033	-	397,558	-	-	234,180,654
Construction in progress and deferred project costs	22,713,647	-	-	-	-	-	-	-	-	22,713,647
Accumulated depreciation	(277,722,033)	(25,985)	-	-	(131,033)	(275,753)	(604,349)	-	106,179	(278,652,974)
Total property, plant, and equipment	126,908,218	1,414,608	-	-	-	1,024,215	198,726	-	(68,357)	129,477,410
Total assets	\$ 350,182,523	\$ 6,702,337	\$ 1,137,485	\$ 10,050,764	\$ 37,236,896	\$ 28,035,863	\$ 1,342,864	\$ 36,236,616	\$ (39,460,608)	\$ 431,464,740

Norwalk Health Services Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2011

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Fairfield County Medical Services, Inc.	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
Liabilities and Net Assets										
Current liabilities										
Accounts payable	\$ 26,154,825	\$ 445,231	\$ 217,173	\$ 125,574	\$ 209,978	\$ 357,371	\$ 584,660	\$ 169,070	\$ -	\$ 28,263,882
Accrued compensation	17,600,200	21,796	1,752,755	306,724	-	-	416,036	-	-	20,097,511
Due to third party agencies	4,525,191	-	-	115,108	-	-	-	-	-	4,640,299
Due to affiliates	-	-	-	1,991,232	387,347	271,630	36,308	-	(2,686,517)	-
Accrued interest payable	809,088	-	-	96,083	-	-	-	-	-	905,171
Current portion of long-term debt	4,834,597	52,966	-	7,805,000	-	-	-	-	-	12,692,563
Current portion capital lease	9,649	-	-	-	-	-	-	-	-	9,649
Other current liabilities	-	-	-	973,017	-	-	-	-	-	973,017
Total current liabilities	53,933,550	519,993	1,969,928	11,412,738	597,325	629,001	1,037,004	169,070	(2,686,517)	67,582,092
Accrued pension liability	60,019,814	-	-	-	-	-	-	-	-	60,019,814
Asset retirement obligations	11,509,090	-	-	-	-	-	-	-	-	11,509,090
Other liabilities	16,518,934	-	-	511,418	-	-	-	28,952,327.00	-	45,982,679
Due to third party agencies	14,726,335	-	-	-	-	-	-	-	-	14,726,335
Long-term debt, less current portion	57,770,819	3,947,034	-	-	-	-	-	-	-	61,717,853
Long-term capital lease, less current portion	7,180	-	-	-	-	-	-	-	-	7,180
Total liabilities	214,485,722	4,467,027	1,969,928	11,924,156	597,325	629,001.00	1,037,004.00	29,121,397.00	(2,686,517.00)	261,545,043
Net assets										
Unrestricted	104,154,204	2,235,310	(832,443)	(1,873,392)	-	21,067,104	-	7,115,219	(5,596,227)	126,269,775
Unrestricted attributable to noncontrolling interest	670,593	-	-	-	-	-	-	-	-	670,593
Temporarily restricted	21,432,761	-	-	-	27,200,329	6,339,758	-	-	(21,432,761)	33,540,087
Permanently restricted	9,439,243	-	-	-	9,439,242	-	-	-	(9,439,243)	9,439,242
Shareholder's equity	-	-	-	-	-	-	305,860	-	(305,860)	-
Total net assets and shareholder's equity	135,696,801	2,235,310	(832,443)	(1,873,392)	36,639,571	27,406,862	305,860	7,115,219	(36,774,091)	169,919,697
Total liabilities, net assets and shareholders' equity	\$ 350,182,523	\$ 6,702,337	\$ 1,137,485	\$ 10,050,764	\$ 37,236,896	\$ 28,035,863	\$ 1,342,864	\$ 36,236,616	\$ (39,460,608)	\$ 431,464,740

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

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Fairfield County Medical Services, Inc.	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
Operating revenues										
Net revenues from services to patients	\$ 350,594,448	\$ 24,217	\$ -	\$ 16,229,072	\$ -	\$ -	\$ 8,150,773	\$ -	\$ (8,363)	\$ 374,990,147
Other operating revenues	12,324,861	-	14,929,787	11,908	1,042,576	1,328,407	3,005,350	6,800,993	(18,687,462)	20,756,420
Equity in earnings of subsidiary	-	-	-	-	-	(329,199)	-	-	329,199	-
Change in unrestricted beneficial interest in Norwalk Hospital Foundation	-	-	-	-	-	-	-	-	-	-
Net assets released from restrictions used for operations	-	-	-	-	2,634,499	-	-	-	-	2,634,499
Total operating revenues	<u>362,919,309</u>	<u>24,217</u>	<u>14,929,787</u>	<u>16,240,980</u>	<u>3,677,075</u>	<u>999,208</u>	<u>11,156,123</u>	<u>6,800,993</u>	<u>(18,366,626)</u>	<u>398,381,066</u>
Operating expenses										
Salaries and benefits	174,865,641	452,174	14,085,442	8,506,309	1,378,054	-	4,582,375	-	-	203,869,995
Supplies and other expenses	121,421,335	828,905	5,992,705	6,577,358	3,064,310	355,000	6,778,226	9,175,257	(17,653,249)	136,539,847
Depreciation and amortization	19,041,348	26,137	115,889	436,742	-	7,469	75,563	-	(5,818)	19,697,330
Provision for bad debts	20,654,069	-	-	415,000	-	-	49,158	-	-	21,118,227
Funding operations of Norwalk Hospital Foundation	1,042,576	-	-	-	-	-	-	-	(1,042,576)	-
Interest	1,450,895	114,315	-	384,633	-	-	-	-	-	1,949,843
Total operating expenses	<u>338,475,864</u>	<u>1,421,531</u>	<u>20,194,036</u>	<u>16,320,042</u>	<u>4,442,364</u>	<u>362,469</u>	<u>11,485,322</u>	<u>9,175,257</u>	<u>(18,701,643)</u>	<u>383,175,242</u>
Income (loss) from operations	<u>24,443,445</u>	<u>(1,397,314)</u>	<u>(5,264,249)</u>	<u>(79,062)</u>	<u>(765,289)</u>	<u>636,739</u>	<u>(329,199)</u>	<u>(2,374,264)</u>	<u>335,017</u>	<u>15,205,824</u>
Nonoperating income (expense)										
Investment income	796,825	2,486	-	-	-	-	-	-	-	799,311
Net unrealized gains on investments	(1,455,301)	-	-	390	-	(1,013,940)	-	(83,735)	-	(2,552,586)
Loss on Sale of Nursing Home	-	-	-	(1,743,383)	-	-	-	-	-	(1,743,383)
Total nonoperating (loss) income	<u>(658,476)</u>	<u>2,486</u>	<u>-</u>	<u>(1,742,993)</u>	<u>-</u>	<u>(1,013,940)</u>	<u>-</u>	<u>(83,735)</u>	<u>-</u>	<u>(3,496,658)</u>
Excess (deficiency) of revenues over expenses, before noncontrolling interest in joint venture	23,784,969	(1,394,828)	(5,264,249)	(1,822,055)	(765,289)	(377,201)	(329,199)	(2,457,999)	335,017	11,709,166
Change in value attributable to noncontrolling interest in joint venture	-	418,448	-	-	-	-	-	-	-	418,448
Excess (deficiency) of revenues over expenses	<u>23,784,969</u>	<u>(976,380)</u>	<u>(5,264,249)</u>	<u>(1,822,055)</u>	<u>(765,289)</u>	<u>(377,201)</u>	<u>(329,199)</u>	<u>(2,457,999)</u>	<u>335,017</u>	<u>12,127,614</u>
Other changes in net assets										
Net assets realized from restrictions used for capital	-	-	-	-	323,017	-	-	-	-	323,017
Transfers from Norwalk Health Services Corporation	1,914,723	-	-	-	-	(1,914,723)	385,277	-	(385,277)	-
Transfer from Norwalk Surgery Center	(2,100,000)	3,189,041	-	-	-	-	-	-	-	1,089,041
Transfer to Fairfield County Medical Services, Inc	(4,642,266)	-	4,642,266	-	-	-	-	-	-	-
Pension related changes other than net periodic benefit cost	(25,149,518)	-	-	-	-	-	-	-	-	(25,149,518)
Non controlling interest in joint venture	-	(418,448)	-	-	-	-	-	-	-	(418,448)
Transfers from Norwalk Hospital Foundation, Inc.	322,298	-	-	719	(323,017)	-	-	-	-	-
Funding operations of Norwalk Hospital Foundation, Inc.	(765,289)	-	-	-	765,289	-	-	-	-	-
(Decrease) increase in unrestricted net assets	<u>\$ (6,635,083)</u>	<u>\$ 1,794,213</u>	<u>\$ (621,983)</u>	<u>\$ (1,821,336)</u>	<u>\$ -</u>	<u>\$ (2,291,924)</u>	<u>\$ 56,078</u>	<u>\$ (2,457,999)</u>	<u>\$ (50,260)</u>	<u>\$ (12,028,294)</u>

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

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Fairfield County Medical Services, Inc.	Norwalk Health Care, Inc.	Norwalk Hospital Foundation, Inc.	Norwalk Health Services Corporation	S.W.C. Corporation	Maple Street Indemnity Company Ltd.	Eliminations	Consolidated
Unrestricted net assets										
Excess (deficiency) of revenues over expenses	\$ 23,784,969	\$ (976,380)	\$ (5,264,249)	\$ (1,822,055)	\$ (765,289)	\$ (377,201)	\$ (329,199)	\$ (2,457,999)	\$ 335,017	\$ 12,127,614
Net assets released from restrictions used for capital	-	-	-	-	323,017	-	-	-	-	323,017
Transfers from Norwalk Health Services Corporation	1,914,723	-	-	-	-	(1,914,723)	385,277	-	(385,277)	-
Transfer from Norwalk Surgery Center	(2,100,000)	3,189,041	-	-	-	-	-	-	-	1,089,041
Transfer to Fairfield County Medical Services, Inc	(4,642,266)	-	4,642,266	-	-	-	-	-	-	-
Pension related charges other than net periodic benefit cost	(25,149,518)	-	-	-	-	-	-	-	-	(25,149,518)
Non controlling interest in joint venture	-	(418,448)	-	-	-	-	-	-	-	(418,448)
Spent for capital by the foundation	322,298	-	-	719	(323,017)	-	-	-	-	-
Transfers (to) from affiliates	(765,289)	-	-	-	765,289	-	-	-	-	-
Decrease (increase) in unrestricted net assets	(6,635,083)	1,794,213	(621,983)	(1,821,336)	-	(2,291,924)	56,078	(2,457,999)	(50,260)	(12,028,294)
Temporarily restricted net assets										
Contributions	-	-	-	-	10,516,065	-	-	-	-	10,516,065
Decrease in assets held in trust by others	-	-	-	-	-	(357,922)	-	-	-	(357,922)
Change in beneficial interest in										
Norwalk Hospital Foundation, Inc.	7,585,808	-	-	-	-	-	-	-	(7,585,808)	-
Net realized and unrealized losses on investments	-	-	-	-	41,700	-	-	-	-	41,700
Net assets released from restrictions	-	-	-	-	(2,957,516)	-	-	-	-	(2,957,516)
Decrease (increase) in temporarily restricted net assets	7,585,808	-	-	-	7,600,249	(357,922)	-	-	(7,585,808)	7,242,327
Permanently restricted net assets										
Contributions	-	-	-	-	10,534	-	-	-	-	10,534
Change in beneficial interest in										
Norwalk Hospital Foundation, Inc.	10,534	-	-	-	-	-	-	-	(10,534)	-
Increase in permanently restricted net assets	10,534	-	-	-	10,534	-	-	-	(10,534)	10,534
Increase (decrease) in net assets	961,259	1,794,213	(621,983)	(1,821,336)	7,610,783	(2,649,846)	56,078	(2,457,999)	(7,646,602)	(4,775,433)
Net assets (liabilities)										
Beginning of year	134,735,542	441,097	(210,460)	(52,056)	29,028,788	30,056,708	249,782	9,573,218	(29,127,489)	174,695,130
End of year	\$ 135,696,801	\$ 2,235,310	\$ (832,443)	\$ (1,873,392)	\$ 36,639,571	\$ 27,406,862	\$ 305,860	\$ 7,115,219	\$ (36,774,091)	\$ 169,919,697