

Norwalk Hospital Association and Subsidiary

**Consolidated Financial Statements
September 30, 2009 and 2008**

Norwalk Hospital Association and Subsidiary

Index

September 30, 2009 and 2008

	Page(s)
Report of Independent Auditors	1
Consolidated Financial Statements	
Consolidated Balance Sheet.....	2
Consolidated Statement of Operations	3
Consolidated Statement of Changes in Net Assets	4
Consolidated Statement of Cash Flows.....	5
Notes to Financial Statements	6-19
Supplementary Consolidating Information	
Supplemental Consolidating Balance Sheets - 2009.....	20-21
Supplemental Consolidating Statement of Operations - 2009.....	22
Supplemental Consolidating Balance Sheets - 2008.....	23-24
Supplemental Consolidating Statement of Operations - 2008.....	25

Report of Independent Auditors

To the Board of Trustees of
Norwalk Hospital Association

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in net assets, and of cash flows present fairly, in all material respects, the consolidated financial position of Norwalk Hospital Association (the "Hospital") and its subsidiary at September 30, 2009 and 2008, 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 Hospital'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 12, 2010

Norwalk Hospital Association and Subsidiary

Consolidated Balance Sheets

Year Ended September 30, 2009 and 2008

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 16,610,569	\$ 1,505,913
Investments	8,601,698	29,387
Patient accounts receivable, less allowance for doubtful accounts of \$17,603,000 and \$12,825,000, respectively	42,345,864	43,332,119
Due from affiliates, net	-	1,431,263
Due from third party agencies	313,892	1,034,979
Other receivables	2,496,484	7,008,833
Inventories	2,323,933	2,522,708
Prepaid expenses	2,379,157	3,688,828
Assets whose use is limited - required for current liabilities	333,297	388,756
Total current assets	<u>75,404,894</u>	<u>60,942,786</u>
Assets whose use is limited		
Assets held by trustee under bond indenture agreements	2,063,900	2,357,203
Assets held in trust for self-insurance	5,983,665	9,658,433
Total assets whose use is limited	<u>8,047,565</u>	<u>12,015,636</u>
Long-term investments	20,099,143	25,425,544
Other assets	620,083	650,030
Due from third party agencies	3,541,718	2,244,474
Notes receivable	2,076,829	1,983,114
Goodwill	3,896,833	3,138,333
Investment in joint ventures	2,728,803	3,535,786
Investment in joint venture held for sale	-	2,800,000
Beneficial interest in Norwalk Hospital Foundation, Inc.	28,565,355	29,843,056
Property, plant and equipment		
Land and land improvements	2,615,825	1,902,945
Buildings	144,880,667	140,396,928
Equipment	213,336,421	202,893,357
Construction in progress	3,130,487	4,736,890
Accumulated depreciation	(247,990,711)	(230,250,260)
Total property, plant and equipment	<u>115,972,689</u>	<u>119,679,860</u>
Total assets	<u>\$ 260,953,912</u>	<u>\$ 262,258,619</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 17,906,168	\$ 15,714,598
Accrued compensation	15,348,449	15,000,488
Due to affiliates, net	39,553	-
Due to third party agencies	1,670,554	4,290,663
Accrued interest	153,594	162,687
Current portion of long-term debt	1,682,783	1,632,786
Current portion of capital lease	12,194	-
Total current liabilities	<u>36,813,295</u>	<u>36,801,222</u>
Accrued pension liability	31,230,209	8,472,231
Asset retirement obligation	8,240,150	7,909,181
Other liabilities	17,790,195	22,712,146
Due to third party agencies	7,738,424	6,996,009
Long-term debt, less current portion	17,528,237	19,211,020
Long-term capital lease, less current portion	24,611	-
Total liabilities	<u>119,365,121</u>	<u>102,101,809</u>
Net assets		
Unrestricted	118,518,705	135,784,317
Temporarily restricted	13,726,443	15,034,020
Permanently restricted	9,343,643	9,338,473
Total net assets	<u>141,588,791</u>	<u>160,156,810</u>
Total liabilities and net assets	<u>\$ 260,953,912</u>	<u>\$ 262,258,619</u>

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

Norwalk Hospital Association and Subsidiary
Consolidated Statements of Operations
Year Ended September 30, 2009 and 2008

	2009	2008
Operating revenues		
Net revenues from services to patients	\$ 322,749,162	\$ 299,355,744
Other operating revenues	22,183,733	22,117,888
Change in unrestricted interest in Norwalk Hospital Foundation, Inc.	<u>24,706</u>	<u>1,251,734</u>
Total operating revenues	344,957,601	322,725,366
Operating expenses		
Salaries and benefits	180,497,250	175,254,560
Supplies and other expenses	112,171,964	107,606,981
Depreciation	18,708,282	16,684,680
Provision for bad debts	21,000,769	17,298,312
Interest	651,938	554,956
Support for Norwalk Hospital Foundation, Inc.	<u>1,221,383</u>	<u>1,251,734</u>
Total operation expenses	<u>334,251,586</u>	<u>318,651,223</u>
Income from operations	10,706,015	4,074,143
Nonoperating income (expense)		
Investment income	879,780	3,163,877
Realized loss on investments deemed other than temporarily impaired	-	(181,130)
Net unrealized gain on investments	365,198	-
Writeoff of investment in joint ventures	(1,317,039)	(437,780)
Recovery of (provision for) affiliate receivable	<u>1,152,740</u>	<u>(1,152,740)</u>
Total nonoperating income	<u>1,080,679</u>	<u>1,392,227</u>
Excess of revenues over expenses	11,786,694	5,466,370
Other changes in net assets		
Net unrealized gain (loss) on investments	-	(8,610,813)
Transfers from Norwalk Hospital Foundation, Inc.	3,638,289	3,509,596
Transfers to Norwalk Health Care, Inc.	(7,323,000)	-
Funding of operations of Norwalk Hospital Foundation, Inc.	-	(809,946)
Pension related changes other than net periodic benefit cost	<u>(24,148,067)</u>	<u>(10,423,712)</u>
Decrease in unrestricted net assets	<u>\$ (16,046,084)</u>	<u>\$ (10,868,505)</u>

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

**Norwalk Hospital Association and Subsidiary
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2009 and 2008**

	2009	2008
Unrestricted net assets		
Excess of revenues over expenses	\$ 11,786,694	\$ 5,466,370
Net unrealized (losses) on investments	-	(8,610,813)
Pension related changes other than net periodic benefit cost	(24,148,067)	(10,423,712)
Spent for capital by the Foundation	3,638,289	3,509,596
Transfers to Norwalk Health Care, Inc.	(7,323,000)	-
Funding of operations of Norwalk Hospital Foundation, Inc.	-	(809,946)
Decrease in unrestricted net assets	<u>(16,046,084)</u>	<u>(10,868,505)</u>
Temporarily restricted net assets		
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	<u>(1,307,577)</u>	<u>(2,084,080)</u>
Decrease in temporarily restricted net assets	(1,307,577)	(2,084,080)
Permanently restricted net assets		
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	<u>5,170</u>	<u>37,245</u>
Increase in permanently restricted net assets	5,170	37,245
Decrease in net assets	<u>(17,348,491)</u>	<u>(12,915,340)</u>
Net assets		
Beginning of year, as previously reported	160,156,810	173,072,150
Adjustment to unrestricted net assets for change in accounting for pension benefits	<u>(1,219,528)</u>	<u>-</u>
As adjusted	<u>158,937,282</u>	<u>173,072,150</u>
Net assets, end of year	<u>\$ 141,588,791</u>	<u>\$ 160,156,810</u>

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

Norwalk Hospital Association and Subsidiary
Consolidated Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	2009	2008
Operating activities		
Change in net assets	\$ (17,348,491)	\$ (12,915,340)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Noncash items		
Depreciation and amortization	18,708,281	16,684,679
Gain on sale of property, plant and equipment	(45,834)	(132,189)
Provision for bad debts	21,000,769	17,298,312
Writeoff of investment in joint ventures	1,317,039	437,780
Net realized and unrealized loss on investments	(95,249)	6,694,106
Realized loss on investments deemed other than temporarily impaired	-	181,130
Pension related changes other than net periodic benefit cost	24,148,067	10,423,712
Net asset items		
Transfers from Norwalk Hospital Foundation, Inc.	(3,638,289)	(2,699,650)
Transfer to Norwalk Health Care, Inc.	7,323,000	-
Change in beneficial interest in Norwalk Hospital Foundation, Inc.	1,277,701	795,101
Changes in operating assets and liabilities		
Accounts receivable	(20,014,514)	(24,041,845)
Due from affiliates	1,470,816	2,147,659
Other receivables	4,526,932	(2,083,257)
Inventories	198,775	(212,599)
Prepaid expenses	1,314,841	(965,741)
Other assets	29,947	2,258,138
Notes receivable	(115,915)	(1,983,114)
Accounts payable and accrued expenses	2,447,191	(1,400,361)
Accrued compensation	347,961	1,652,285
Due to third-party reimbursement agencies, net	(2,453,851)	(44,881)
Accrued interest	(9,093)	23,636
Accrued pension liability	(2,609,617)	(1,951,481)
Asset retirement obligation	330,969	433,585
Other liabilities	(4,921,951)	(641,131)
Net cash provided by operating activities	<u>33,189,485</u>	<u>9,958,534</u>
Investing activities		
Net decrease in assets whose use is limited	4,156,292	1,183,887
Sale of investments	6,000,000	13,000,000
Purchase of investments	(9,283,423)	(1,257,794)
Additions to property, plant and equipment	(14,357,714)	(25,987,248)
Proceeds from sale of property, plant and equipment	272,124	591,617
Acquisition of physician practice	(1,866,755)	(3,362,500)
Advances to joint ventures	(510,056)	(6,773,566)
Proceeds from sale of investment in joint venture available for sale	2,800,000	-
Net cash used by investing activities	<u>(12,789,532)</u>	<u>(22,605,604)</u>
Financing activities		
Transfers from Norwalk Hospital Foundation, Inc.	3,638,289	2,699,650
Transfers to Norwalk Health Care, Inc.	(7,323,000)	-
Payments from notes receivable	22,200	-
Proceeds from long-term debt	-	486,177
Payments on long-term debt	(1,632,786)	(1,473,701)
Net cash provided by financing activities	<u>(5,295,297)</u>	<u>1,712,126</u>
Increase (decrease) in cash and cash equivalents	15,104,656	(10,934,944)
Cash and cash equivalents		
Beginning of year	1,505,913	12,440,857
End of year	<u>\$ 16,610,569</u>	<u>\$ 1,505,913</u>
Noncash transactions		
Fixed assets expenditures included in accounts payable	\$ 787,001	\$ 1,042,622
Fixed asset acquired through capital lease	36,805	-

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

Norwalk Hospital Association and Subsidiary

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

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 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. The significant estimates include the contractual and bad debt allowances for patient service revenue and the related patient accounts receivable, valuation of investments, estimated settlements due to or from third parties, 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 considers 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. It is the Hospital's policy to monitor 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 and Subsidiary

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

Fair Value Measurements

During 2009, the Hospital and its subsidiary adopted a new accounting principle 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 and its subsidiary have 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 value of the Hospital and its subsidiary's investments is based on quoted market values.

Fair Value Option

During 2009, the Hospital and its subsidiary also adopted a new accounting principle 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 and its subsidiary elected the fair value option for accounting for investments. Accordingly, in 2009, 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 and Subsidiary

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

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 at \$5,000,000 per claim for its self-insurance exposure.

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 within unrestricted net assets of the balance sheet; 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 September 30, 2009 and 2008 approximate their fair values. The fair value of long-term debt at September 30, 2009 and 2008, based on current market rates for similar debt, was approximately \$20,055,000 and \$19,786,000, 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").

Norwalk Hospital Association and Subsidiary

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

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.

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 in 2009, and realized gains and losses on investments in 2008.

Asset Retirement Obligations

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.

Reclassifications

Certain amounts have been reclassified in the prior year to conform with current year presentation.

Subsequent Events

The Hospital and its subsidiary have performed an evaluation of subsequent events through January 12, 2010, which is the date the financial statements were available to be issued.

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

The following table summarizes revenues from services to patients:

	2009	2008
Gross revenues from services to patients	\$ 662,081,365	\$ 593,088,128
Deductions and exclusions		
Allowances	<u>339,332,203</u>	<u>293,732,384</u>
Net revenues from services to patients	<u>\$ 322,749,162</u>	<u>\$ 299,355,744</u>

Patient accounts receivable and revenues 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.

Norwalk Hospital Association and Subsidiary
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

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 2005.

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, 2009 and 2008 are as follows:

	2009	2008
Commercial/other	54 %	52 %
Medicare	30	31
Self pay	10	11
Medicaid	6	6
	<u>100 %</u>	<u>100 %</u>

The mix of net receivables from patients and third-party payors at September 30, 2009 and 2008 are as follows:

	2009	2008
Commercial/other	65 %	56 %
Medicare	32	35
Self pay	-	6
Medicaid	3	3
	<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.

Norwalk Hospital Association and Subsidiary
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

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, 2009 and 2008, the Hospital provided charity care of \$17,554,000 and \$16,366,000, respectively, in charges.

3. Investments

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

	2009	2008
General investments		
Cash and cash equivalents	\$ 8,601,698	\$ 29,387
Mutual funds	20,099,143	25,425,544
	<u>\$ 28,700,841</u>	<u>\$ 25,454,931</u>
Assets held in trust for self-insurance		
Cash and cash equivalents	\$ 18,040	\$ 19,496
Mutual funds	5,965,625	9,638,937
	<u>\$ 5,983,665</u>	<u>\$ 9,658,433</u>
Assets held by trustee per bond indenture		
Cash and cash equivalents	\$ 2,064,882	\$ 2,444,409
U.S. Treasury obligations	332,315	301,550
	<u>\$ 2,397,197</u>	<u>\$ 2,745,959</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:

	2009			2008	
	Level 1	Level 2	Level 3	Fair Value	Fair Value Total
General investments					
Cash and cash equivalents	\$ 8,601,698	\$ -	\$ -	\$ 8,601,698	\$ 29,387
Mutual funds	20,099,143	-	-	20,099,143	25,425,544
	<u>28,700,841</u>	<u>-</u>	<u>-</u>	<u>28,700,841</u>	<u>25,454,931</u>
Assets whose use is limited					
Cash and cash equivalents	2,082,922	-	-	2,082,922	2,463,905
U.S. Treasury obligations	332,315	-	-	332,315	301,550
Mutual funds	5,965,625	-	-	5,965,625	9,638,937
	<u>8,380,862</u>	<u>-</u>	<u>-</u>	<u>8,380,862</u>	<u>12,404,392</u>
	<u>\$ 37,081,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,081,703</u>	<u>\$ 37,859,323</u>

Norwalk Hospital Association and Subsidiary
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

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

	2009	2008
Investment return		
Interest income	\$ 1,283,557	\$ 1,956,194
Net realized (losses) gains on sales of securities	(269,950)	1,916,708
Other than temporary impairment losses	<u>-</u>	<u>(181,130)</u>
	<u>\$ 1,013,607</u>	<u>\$ 3,691,772</u>

The Hospital has recorded \$879,780 and \$2,982,747 of the investment return as nonoperating gains for the year ended September 30, 2009 and 2008, respectively. The remaining investment income in 2009 and 2008 has been recorded as other operating revenues as certain investments relate to operating activities of the Hospital.

The following table summarizes the unrealized gains and losses on unrestricted investments, including assets held in trust for self-insurance and assets held by trustee per bond indenture held at September 30, 2008.

Description of Securities	2008			
	Investments in a loss position		Investments in a gain position	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Gains
U.S. Treasury Obligations	\$ -	\$ -	\$ 301,550	\$ -
Mutual funds	-	-	<u>35,064,482</u>	<u>1,550,517</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,366,032</u>	<u>\$ 1,550,517</u>

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, 2009:

	Operating Lease Payments	Sublease Rental Receipts
2010	\$ 5,574,000	\$ 2,229,000
2011	5,619,000	2,331,000
2012	5,352,000	2,361,000
2013	5,432,000	2,364,000
2014	5,331,000	2,391,000
Thereafter	<u>61,631,000</u>	<u>17,171,000</u>
	<u>\$ 88,939,000</u>	<u>\$ 28,847,000</u>

Norwalk Hospital Association and Subsidiary

Notes to Consolidated Financial Statements

September 30, 2009 and 2008

Rental expense was approximately \$6,186,000 and \$4,159,000 for the years ended September 30, 2009 and 2008, respectively. Rental expense was offset by rental revenue of approximately \$1,727,000 and \$491,000, respectively, for net rental expense of approximately \$4,459,000 and \$3,668,000, respectively. An amount of \$649,000 and \$330,000, respectively, of the net rental expense is included in other operating revenues and \$3,810,000 and \$3,338,000, respectively, is included in supplies and other expenses on the consolidated statement of operations.

5. Goodwill

In 2009, the Hospital purchased a physician practice. The Hospital paid consideration of \$1,866,755 in exchange for fixed assets of \$277,002, prepaid expenses of \$5,170, and other assets of \$14,583, with the balance of \$1,620,000 recorded as goodwill. The Hospital is amortizing the goodwill over five years on a straight-line basis. Accumulated amortization as of September 30, 2009 amounted to \$189,000.

In 2008, the Hospital purchased a diagnostic imaging services 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, 2009 and 2008 amounted to \$896,667 and \$224,167, 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 (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, 2009 and 2008 is \$19,285,000 and \$20,355,000, 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.

Norwalk Hospital Association and Subsidiary
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

In 2007, the Hospital financed certain equipment related to an energy project through CHEFA, which issued \$9,066,025 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. The rate reduction subsidy will be remitted by the Connecticut Light and Power Company directly to the lender once the project is operational.

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, 2009 and 2008, \$1,480,637 and \$1,886,993, 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, 2009:

	CHEFA Series E	CHEFA Agreement	CHEFA Trust	Total
2010	\$ 595,000	\$ 818,213	\$ 269,570	\$ 1,682,783
2011	625,000	854,772	269,570	1,749,342
2012	660,000	892,966	269,570	1,822,536
2013	685,000	932,867	269,570	1,887,437
2014	715,000	974,550	269,570	1,959,120
Thereafter	<u>7,160,000</u>	<u>2,817,015</u>	<u>132,787</u>	<u>10,109,802</u>
	10,440,000	7,290,383	1,480,637	19,211,020
Less current portion of long-term debt	<u>595,000</u>	<u>818,213</u>	<u>269,570</u>	<u>1,682,783</u>
Long-term debt	<u>\$ 9,845,000</u>	<u>\$ 6,472,170</u>	<u>\$ 1,211,067</u>	<u>\$ 17,528,237</u>

During 2009 and 2008, the Hospital paid interest of \$873,821 and \$904,281, respectively, on its long-term debt obligations. Interest capitalized for the years ended September 30, 2009 and 2008 was \$212,790 and \$372,961, 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.

Norwalk Hospital Association and Subsidiary
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

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

	2009	2008
Net actuarial loss	\$ 58,717,086	\$ 33,804,013
Prior service cost	2,354,847	3,119,853
	<u>\$ 61,071,933</u>	<u>\$ 36,923,866</u>

The amount of prior service cost and actuarial loss expected to be recognized in net periodic benefit cost in 2010 is \$2,743,785.

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

	2009	2008
Accumulated benefit obligation	<u>\$ 145,131,338</u>	<u>\$ 124,193,839</u>
Change in projected benefit obligation		
Benefit obligation, beginning of period	\$ 136,227,180	\$ 133,305,799
Service cost	7,060,848	5,137,858
Interest cost	10,691,311	8,353,888
Actuarial loss (gain)	9,657,204	(3,751,627)
Benefits paid	<u>(8,790,595)</u>	<u>(6,818,738)</u>
Benefit obligation, end of period	<u>\$ 154,845,948</u>	<u>\$ 136,227,180</u>
Change in plan assets		
Fair value of plan assets, beginning of period	\$ 125,863,381	\$ 130,576,583
Actuarial return on plan assets	(2,836,336)	(6,515,175)
Contributions	9,379,289	8,620,711
Benefits paid	<u>(8,790,595)</u>	<u>(6,818,738)</u>
Fair value of plan assets, end of period	<u>\$ 123,615,739</u>	<u>\$ 125,863,381</u>
Funded status	\$ (31,230,209)	\$ (10,363,799)
Fourth quarter contribution	-	1,891,568
Accrued pension liability	<u>\$ (31,230,209)</u>	<u>\$ (8,472,231)</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 \$1,219,527 for periodic benefit cost.

Norwalk Hospital Association and Subsidiary
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

Components of net periodic benefit cost for the year ended:

	September 30, 2009	June 30, 2008
Service cost	\$ 5,648,678	\$ 5,137,858
Interest cost	8,553,049	8,353,888
Expected return on plan assets	(10,785,367)	(9,802,826)
Net amortization and deferral	<u>1,461,746</u>	<u>2,142,663</u>
Net periodic benefit cost	<u>\$ 4,878,106</u>	<u>\$ 5,831,583</u>

Assumptions

The weighted-average assumptions used to determine the benefit obligation at September 30, 2009 and 2008 are as follows:

	2009	2008
Discount rate	5.60%	6.50%
Rate of compensation increase	4.00%	4.50%

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

	2009	2008
Discount rate	6.50%	6.25%
Expected return on assets	8.00%	8.00%
Rate of compensation increase	4.50%	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.

Norwalk Hospital Association and Subsidiary
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

Plan Assets

The Hospital's pension plan asset allocations at September 30, 2009 and 2008 are as follows:

Asset Category	2009 Percentage of Plan Assets	2008 Percentage of Plan Assets
Equity securities	59 %	55 %
Debt securities	41	45
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 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 benefits as they become due.

Contributions

The Hospital expects to contribute \$9,000,000 to the plan in fiscal 2010.

Estimated Future Benefit Payments

The following benefit payments are expected to be paid:

Fiscal Year	Benefit Payments
2010	\$ 7,279,000
2011	6,492,000
2012	6,572,000
2013	7,482,000
2014	7,310,000
2015 - 2019	42,011,000
	\$ 77,146,000

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.

Expense related to the Hospital's defined contribution plan was approximately \$2,405,000 and \$1,963,000 for the years ended September 30, 2009 and 2008, respectively.

Norwalk Hospital Association and Subsidiary
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

8. Temporary 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:

	2009	2008
Healthcare services	\$ 13,726,443	\$ 15,034,020

Permanently restricted net assets at September 30, 2009 and 2008 are restricted to:

	2009	2008
Healthcare services	\$ 9,343,643	\$ 9,338,473

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 \$1,525,000 and \$1,549,000 in 2009 and 2008, respectively.

Following are the balances due from (to) affiliates:

	2009	2008
Norwalk Health Care, Inc.	\$ (1,728)	\$ 2,909,556
Norwalk Hospital Foundation, Inc.	59,140	(2,060,972)
SWC Corporation	(96,965)	582,679
	<u>\$ (39,553)</u>	<u>\$ 1,431,263</u>

10. Contingencies

Malpractice claims have been asserted against the Hospital 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, 2009 and 2008 that may result in the assertion of additional claims. Hospital management has accrued its best estimate of these contingent losses.

Norwalk Hospital Association and Subsidiary
Notes to Consolidated Financial Statements
September 30, 2009 and 2008

11. Functional Expenses

The Hospital and its subsidiary provide general health care services to residents within its geographic location including pediatric care, cardiac catheterization, and outpatient surgery. Expenses related to providing these services are as follows:

	2009	2008
Health care services	\$ 235,288,959	\$ 230,474,959
General and administrative	<u>98,962,627</u>	<u>88,176,264</u>
	<u>\$ 334,251,586</u>	<u>\$ 318,651,223</u>

Supplemental Consolidating Information

Norwalk Hospital Association and Subsidiary
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	81,118,604	1,933,880	(7,647,590)	75,404,894
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	8,047,565	-	-	8,047,565
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	115,972,689	-	-	115,972,689
Total assets	\$ 266,667,622	\$ 1,933,880	\$ (7,647,590)	\$ 260,953,912

Norwalk Hospital Association and Subsidiary
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	<u>35,195,874</u>	<u>9,265,011</u>	<u>(7,647,590)</u>	<u>36,813,295</u>
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	<u>117,747,700</u>	<u>9,265,011</u>	<u>(7,647,590)</u>	<u>119,365,121</u>
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	<u>148,919,922</u>	<u>(7,331,131)</u>	<u>-</u>	<u>141,588,791</u>
Total liabilities and net assets	<u>\$ 266,667,622</u>	<u>\$ 1,933,880</u>	<u>\$ (7,647,590)</u>	<u>\$ 260,953,912</u>

**Norwalk Hospital Association and Subsidiary
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 Foundtion, 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
Writeof 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)
Funding of operations of Norwalk Hospital Foundation, Inc.	-	-	-	-
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>

Norwalk Hospital Association and Subsidiary
Supplemental Consolidating Balance Sheet
September 30, 2008

	Norwalk Hospital Association	Fairfield County Medical Services, Inc.	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 788,428	\$ 717,485	\$ -	\$ 1,505,913
Investments	29,387	-	-	29,387
Patient accounts receivable, net	43,332,119	-	-	43,332,119
Other receivables	6,164,849	843,984	-	7,008,833
Due from affiliates, net	6,502,853	-	(5,071,590)	1,431,263
Due from third party agencies	1,034,979	-	-	1,034,979
Inventories	2,522,708	-	-	2,522,708
Prepaid expenses	3,688,828	-	-	3,688,828
Assets whose use is limited - required for current liabilities	388,756	-	-	388,756
Total current assets	<u>64,452,907</u>	<u>1,561,469</u>	<u>(5,071,590)</u>	<u>60,942,786</u>
Assets limited as to use				
Assets held by trustee per bond indenture	2,357,203	-	-	2,357,203
Assets held in trustee for self-insurance	9,658,433	-	-	9,658,433
Total assets whose use is limited	<u>12,015,636</u>	<u>-</u>	<u>-</u>	<u>12,015,636</u>
Long-term investments	25,425,544	-	-	25,425,544
Other assets	650,030	-	-	650,030
Due from third party agencies	2,244,474	-	-	2,244,474
Notes receivable	1,983,114	-	-	1,983,114
Goodwill	3,138,333	-	-	3,138,333
Investment in joint venture	3,535,786	-	-	3,535,786
Investment in joint venture held for sale	2,800,000	-	-	2,800,000
Beneficial interest in Norwalk Hospital Foundation, Inc.	29,843,056	-	-	29,843,056
Property, plant and equipment				
Land and land improvements	1,902,945	-	-	1,902,945
Buildings	140,396,928	-	-	140,396,928
Equipment	202,893,357	-	-	202,893,357
Construction in progress	4,736,890	-	-	4,736,890
Accumulated depreciation	(230,250,260)	-	-	(230,250,260)
Total property, plant and equipment	<u>119,679,860</u>	<u>-</u>	<u>-</u>	<u>119,679,860</u>
Total assets	<u>\$ 265,768,740</u>	<u>\$ 1,561,469</u>	<u>\$ (5,071,590)</u>	<u>\$ 262,258,619</u>

Norwalk Hospital Association and Subsidiary
Supplemental Consolidating Balance Sheet
September 30, 2008

	Norwalk Hospital Association	Fairfield County Medical Services, Inc.	Eliminations	Consolidated
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	\$ 15,624,781	\$ 89,817	\$ -	\$ 15,714,598
Salaries, wages, payroll taxes and amounts withheld from employees	14,486,083	514,405	-	15,000,488
Due to third party agencies	4,290,663	-	-	4,290,663
Due to affiliates	-	5,071,590	(5,071,590)	-
Accrued interest payable	162,687	-	-	162,687
Current portion of long-term debt	1,632,786	-	-	1,632,786
Total current liabilities	<u>36,197,000</u>	<u>5,675,812</u>	<u>(5,071,590)</u>	<u>36,801,222</u>
Accrued pension liability	8,472,231	-	-	8,472,231
Asset retirement obligation	7,909,181	-	-	7,909,181
Due to third party agencies	6,996,009	-	-	6,996,009
Other liabilities	22,712,146	-	-	22,712,146
Long-term debt, less current portion	19,211,020	-	-	19,211,020
Total liabilities	<u>101,497,587</u>	<u>5,675,812</u>	<u>(5,071,590)</u>	<u>102,101,809</u>
Net assets (deficit)				
Unrestricted	139,898,660	(4,114,343)	-	135,784,317
Temporarily restricted	15,034,020	-	-	15,034,020
Permanently restricted	9,338,473	-	-	9,338,473
Total net assets	<u>164,271,153</u>	<u>(4,114,343)</u>	<u>-</u>	<u>160,156,810</u>
Total liabilities and net assets	<u>\$ 265,768,740</u>	<u>\$ 1,561,469</u>	<u>\$ (5,071,590)</u>	<u>\$ 262,258,619</u>

**Norwalk Hospital Association and Subsidiary
Supplemental Consolidating Statement of Operations
September 30, 2008**

	Norwalk Hospital Association	Fairfield County Medical Services, Inc.	Eliminations	Consolidated
Operating revenues				
Net revenues from services to patients	\$ 299,355,744	\$ -	\$ -	\$ 299,355,744
Other operating revenues	13,274,376	11,769,396	(2,925,884)	22,117,888
Change in unrestricted interest in Norwalk Hospital Foundation, Inc.	1,251,734	-	-	1,251,734
Total operating revenues	<u>313,881,854</u>	<u>11,769,396</u>	<u>(2,925,884)</u>	<u>322,725,366</u>
Operating expenses				
Salaries and benefits	166,263,855	8,990,705	-	175,254,560
Supplies and other expenses	105,039,561	5,493,304	(2,925,884)	107,606,981
Depreciation	16,600,541	84,139	-	16,684,680
Provision for bad debts	17,298,312	-	-	17,298,312
Interest	554,956	-	-	554,956
Support for Norwalk Hospital Foundation, Inc.	1,251,734	-	-	1,251,734
Total operating expenses	<u>307,008,959</u>	<u>14,568,148</u>	<u>(2,925,884)</u>	<u>318,651,223</u>
Income (loss) from operations	6,872,895	(2,798,752)	-	4,074,143
Nonoperating income (expense)				
Investment income	3,163,022	855	-	3,163,877
Realized loss on investments deemed other than temporarily impaired	(181,130)	-	-	(181,130)
Provision for joint venture investment	(437,780)	-	-	(437,780)
Provision of affiliate receivable	(1,152,740)	-	-	(1,152,740)
Total nonoperating income (expense)	<u>1,391,372</u>	<u>855</u>	<u>-</u>	<u>1,392,227</u>
Excess (deficiency) of revenues over expenses	8,264,267	(2,797,897)	-	5,466,370
Other changes in net assets				
Net unrealized loss on investments	(8,610,813)	-	-	(8,610,813)
Transfers from Norwalk Hospital Foundation, Inc.	3,509,596	-	-	3,509,596
Funding of operations of Norwalk Hospital Foundation, Inc.	(809,946)	-	-	(809,946)
Pension related changes other than net periodic benefit cost	(10,423,712)	-	-	(10,423,712)
Decrease in unrestricted net assets	<u>\$ (8,070,608)</u>	<u>\$ (2,797,897)</u>	<u>\$ -</u>	<u>\$ (10,868,505)</u>