



AUDITED CONSOLIDATED FINANCIAL  
STATEMENTS AND OTHER FINANCIAL  
INFORMATION

Backus Corporation and Subsidiaries  
Years Ended September 30, 2011 and 2010  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Backus Corporation and Subsidiaries  
Audited Consolidated Financial Statements  
and Other Financial Information  
Years Ended September 30, 2011 and 2010

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## Report of Independent Auditors

The Board of Trustees  
Backus Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Backus Corporation and Subsidiaries (the Corporation) as of September 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Backus Corporation and Subsidiaries as of September 30, 2011 and 2010, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

January 27, 2012

## Backus Corporation and Subsidiaries

### Consolidated Balance Sheets

	<b>September 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 95,434,551	\$ 74,929,624
Assets whose use is limited – required for current liabilities	5,885,482	7,931,590
Accounts receivable, less allowance for uncollectible accounts (2011 – \$21,442,000; 2010 – \$20,574,000)	34,428,013	32,546,895
Pledges receivable	101,211	185,866
Inventories of supplies	3,704,067	3,885,317
Prepaid expenses and other	1,634,141	1,303,628
Total current assets	141,187,465	120,782,920
Assets whose use is limited:		
Board-designated and donor restricted	105,438,402	96,626,409
Held by trustee	28,078,427	26,988,802
Total assets whose use is limited	133,516,829	123,615,211
Less assets whose use is limited – required for current liabilities	5,885,482	7,931,590
	127,631,347	115,683,621
Property, plant and equipment, net	90,635,773	99,769,244
Deferred financing costs	1,842,330	1,933,364
Other assets	2,137,224	2,413,877
Total assets	\$ 363,434,139	\$ 340,583,026

	<b>September 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable – trade	<b>\$ 10,347,081</b>	\$ 10,342,325
Salaries and wages, payroll taxes and taxes withheld from payroll	<b>7,383,760</b>	6,905,328
Other accrued liabilities	<b>5,957,134</b>	9,430,440
Employee related obligations	<b>3,942,900</b>	3,589,500
Due to third-party reimbursement agencies	<b>5,023,840</b>	2,963,415
Current portion of long-term debt	<b>2,115,360</b>	2,032,691
Total current liabilities	<b>34,770,075</b>	35,263,699
Other liabilities:		
Long-term debt, less current portion	<b>62,389,713</b>	64,591,831
Employee related obligations	<b>69,884,879</b>	54,383,703
Self-insured professional liability	<b>14,021,149</b>	12,395,770
Due to third-party reimbursement agencies	<b>19,162,526</b>	12,767,632
Other	<b>443,183</b>	349,678
	<b>165,901,450</b>	144,488,614
Net assets:		
Unrestricted	<b>153,913,943</b>	149,253,750
Temporarily restricted	<b>1,399,547</b>	4,101,543
Permanently restricted	<b>7,449,124</b>	7,475,420
Total net assets	<b>162,762,614</b>	160,830,713
Total liabilities and net assets	<b>\$ 363,434,139</b>	\$ 340,583,026

*See accompanying notes.*

Backus Corporation and Subsidiaries  
Consolidated Statements of Operations

	<b>Years Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Operating revenues:		
Net patient service revenue	\$ 285,207,565	\$ 282,901,504
Other operating revenue	4,307,817	4,357,277
Net assets released from restrictions	673,194	91,211
	<b>290,188,576</b>	287,349,992
Operating expenses:		
Salaries, wages and professional fees	119,644,775	117,710,320
Payroll taxes and other fringe benefits	27,854,316	29,622,058
Supplies, insurance and other	88,087,439	94,223,260
Provision for uncollectible accounts	12,767,930	14,462,163
Depreciation and amortization	17,045,582	17,534,609
Interest	3,247,715	3,185,038
	<b>268,647,757</b>	276,737,448
Operating income	<b>21,540,819</b>	10,612,544
Nonoperating gains (losses):		
Contributions and donations	158,300	328,840
Investment income	2,445,778	8,486,755
Other	(565,873)	77,066
	<b>2,038,205</b>	8,892,661
Excess of revenues over expenses	<b>\$ 23,579,024</b>	\$ 19,505,205

*See accompanying notes.*

## Backus Corporation and Subsidiaries

### Consolidated Statements of Changes in Net Assets

	<u>Total</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Permanently Restricted</u>
Net assets, September 30, 2009	\$ 115,085,725	\$ 104,776,463	\$ 3,447,432	\$ 6,861,830
Excess of revenues over expenses	19,505,205	19,505,205		
Contributions	484,695		126,631	358,064
Investment income	739,782		618,691	121,091
Curtailment gain	34,536,288	34,536,288		
Change in pension funding and postretirement obligation	(9,564,206)	(9,564,206)		
Change in net assets held in trust	134,435			134,435
Net assets released from restriction	(91,211)		(91,211)	
Increase in net assets	<u>45,744,988</u>	<u>44,477,287</u>	<u>654,111</u>	<u>613,590</u>
Net assets, September 30, 2010	160,830,713	149,253,750	4,101,543	7,475,420
Excess of revenues over expenses	<b>23,579,024</b>	<b>23,579,024</b>		
Contributions	<b>580,427</b>		<b>575,427</b>	<b>5,000</b>
Investment (loss) income	<b>(275,296)</b>		<b>(346,369)</b>	<b>71,073</b>
Change in pension funding and postretirement obligation	<b>(21,176,691)</b>	<b>(21,176,691)</b>		
Change in net assets held in trust	<b>(102,369)</b>			<b>(102,369)</b>
Net assets released from restriction used for purchase of equipment	<b>2,257,860</b>	<b>2,257,860</b>		
Net assets released from restriction	<b>(2,931,054)</b>		<b>(2,931,054)</b>	
Increase (decrease) in net assets	<u><b>1,931,901</b></u>	<u><b>4,660,193</b></u>	<u><b>(2,701,996)</b></u>	<u><b>(26,296)</b></u>
Net assets, September 30, 2011	<u><b>\$ 162,762,614</b></u>	<u><b>\$ 153,913,943</b></u>	<u><b>\$ 1,399,547</b></u>	<u><b>\$ 7,449,124</b></u>

*See accompanying notes.*

Backus Corporation and Subsidiaries  
Consolidated Statements of Cash Flows

	<b>Years Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating activities</b>		
Increase in net assets	\$ 1,931,901	\$ 45,744,988
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,045,582	17,534,609
Provision for uncollectible accounts	12,767,930	14,462,163
Curtailment gain		(34,536,288)
Change in pension funding and postretirement obligation	21,176,691	9,564,206
Purchase of investments-board designated, net	(8,811,993)	(15,613,572)
Permanently restricted contributions and income	26,296	(613,590)
Changes in operating assets and liabilities <i>(Note 15)</i>	(12,851,686)	(9,310,288)
Net cash provided by operating activities	31,284,721	27,232,228
<b>Investing activities</b>		
Purchase of investments-held in trust, net	(1,089,625)	(1,917,827)
Net additions to property, plant and equipment	(7,821,077)	(12,643,127)
Decrease in other assets	276,653	153,108
Net cash used in investing activities	(8,634,049)	(14,407,846)
<b>Financing activities</b>		
Proceeds from loan		1,250,000
Principal payments on long-term debt and capital lease obligations	(2,074,347)	(1,863,950)
Change in deferred financing costs and amortization of bond premium	(45,102)	(49,465)
Permanently restricted contributions and income	(26,296)	613,590
Net cash used in financing activities	(2,145,745)	(49,825)
Net increase in cash and cash equivalents	20,504,927	12,774,557
Cash and cash equivalents at beginning of year	74,929,624	62,155,067
Cash and cash equivalents at end of year	\$ 95,434,551	\$ 74,929,624

*See accompanying notes.*

# Backus Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2011

### **1. Significant Accounting Policies**

#### **Organization**

Backus Corporation (Corporation) is a not-for-profit organization under the Non-Stock Corporation Act of the State of Connecticut. The Corporation provides overall direction and control for The William W. Backus Hospital (the Hospital) and Backus Health Care, Inc. WWB Corporation conducts the related for-profit activities of the Corporation, its sole shareholder. Omni Home Health Services of Eastern Connecticut LLC dba Backus Home Health Services provides continual home care to patients. Backus Physician Services, LLC provides surgical services. The accompanying consolidated statements of operations include the excess (deficiency) of revenue over expenses as the performance indicator. For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses; peripheral or incidental transactions are reported as nonoperating items. All intercompany transactions have been eliminated in consolidation. Effective November 1, 2009, the Foundation and Properties were merged into the Hospital. The merger did not impact the consolidated financial statements of the Corporation.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Regulatory Matters**

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

# Backus Corporation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### **1. Significant Accounting Policies (continued)**

#### **Assets Whose Use Is Limited**

The Board of Trustees has designated certain unrestricted funds, including principal and income, for construction and other purposes. The President and Chief Executive Officer of the Hospital may, after consultation with the Chairman, Vice Chairman or the Board of Trustees, use board-designated funds, if required, to meet short-term operating cash requirements. Assets whose use is limited also include assets obtained through a financing arrangement with the State of Connecticut Health and Educational Facilities Authority (the Authority) as more fully explained in Note 8. The portion of those amounts required for funding current liabilities is included in current assets. The carrying amounts reported in the balance sheets are stated at fair value.

#### **Investments**

Marketable securities are classified as trading securities. Investments in debt and equity securities, with readily determinable fair values, are reported at fair value based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) and the change in the net unrealized gains and losses are included in the excess of revenue over expense unless the income or loss is restricted by the donor.

#### **Inventories**

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

#### **Property, Plant and Equipment**

Property, plant and equipment are stated on the basis of cost. The Corporation and its subsidiaries provide for depreciation using the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives.

#### **Temporarily and Permanently Restricted Net Assets**

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

#### **Nonoperating Gains and Losses**

Activities other than those in connection with providing health care services are considered to be nonoperating. Nonoperating gains and losses primarily consist of income on invested funds.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **1. Significant Accounting Policies (continued)**

##### **Donor-Restricted Gifts**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. 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. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions in the accompanying consolidated financial statements.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in nonoperating gains and losses. Conditional promises to give are not included as support until the conditions are substantially met.

##### **General and Professional Liability Self-Insurance**

The Hospital has adopted the policy of self-insuring the deductible portion of its general and professional liability insurance coverage. The deductible limits are \$1,000,000 per claim and \$5,000,000 annually for 2011 and \$4,000,000 for 2010. Management accrues its best estimate of ultimate losses for both reported claims and claims incurred but not reported.

##### **Excess of Revenues over Expenses**

The statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses (the performance indicator), consistent with industry practice, include changes in pension funding and postretirement obligation, pension curtailment gains, both temporarily and permanently restricted donations and investment income and changes in trust arrangements.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 1. Significant Accounting Policies (continued)

##### Cash Equivalents

The Corporation considers all highly liquid time deposits, commercial paper and money market mutual funds purchased with a maturity date at acquisition of three months or less to be cash equivalents.

##### Income Taxes

The Corporation, the Hospital, and Backus Health Care, Inc. are not-for-profit organizations exempt from federal income taxes on related income under Section 501(c)(3); WWB Corporation is a taxable stock corporation; CONNCare Inc., a subsidiary of Backus Health Care, is a taxable, nonstock corporation. Backus Home Health Services is a partnership taxable to its members and Backus Physician Services, LLC is a taxable, nonstock corporation.

CONNCare, Inc. has a net operating loss carry-forward of \$5,755,000. This net operating loss results in a potential deferred tax asset in the amount of approximately \$2,300,000. No asset has been recorded as these assets are offset by valuation allowances of the same amounts.

##### Adoption of New Authoritative Pronouncements

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements*, (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each “class” of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which will be effective for the Hospital’s fiscal 2012, the guidance in ASU 2010-06 became effective for the Hospital’s fiscal 2011. The adoption of the provisions of ASU 2010-06 did not impact the Corporation’s financial statements.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 1. Significant Accounting Policies (continued)

In January 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions*, (ASU 2010-07), which establishes accounting and disclosure requirements for how a not-for-profit entity determines whether a combination is a merger or an acquisition, how to account for each, and the required disclosures. In addition, ASU 2010-07 included amendments to FASB's Accounting Standards Codification (the Codification, or ASC) Topic 350, *Intangibles – Goodwill and Other*, (ASC Topic 350), and Topic 810, *Consolidation*, (ASC Topic 810) to make both applicable to not-for-profit entities. ASC Topic 350 clarifies the accounting for goodwill and indefinite-lived identifiable intangible assets recognized in a not-for-profit entity's acquisition of a business or nonprofit activity. Such assets are not amortized and are tested for impairment at least annually. The Corporation adopted the guidance relative to ASU 2010-07 as of October 1, 2010.

In August 2010, the FASB issued Accounting Standards Codification (“ASC”) 954-605, *Measuring Charity Care for Disclosure*. ASC 954-605 requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. ASC 954-605 also requires separate disclosure of the amount of any cash reimbursements received for providing charity care. ASC 954-605 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Corporation is evaluating the effect of ASC 954-605 on its consolidated financial statements.

In August 2010, the FASB also issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. Under ASU 2010-24, anticipated insurance recoveries and estimated liabilities for medical malpractice claims or similar contingent liabilities will be presented separately on the balance sheet. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Corporation is evaluating the effect of ASU 2010-24 on its consolidated financial statements.

In July 2011, FASB issued new guidance, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*. The guidance requires certain health care entities to present the bad debt expense associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than as an operating expense. The guidance is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The Corporation is evaluating the effect of the new guidance on its consolidated financial statements.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 1. Significant Accounting Policies (continued)

##### Reclassifications

Certain reclassifications were made to the 2010 financial statements in order that they may be consistent with the current year presentation.

#### 2. Revenues from Services to Patients and Charity Care

Patient accounts receivable and revenues are recorded when patient services are performed.

Hospital revenue accounted for 95% of net patient service revenue for the years ended September 30, 2011 and 2010. The following summarizes net patient service revenue:

	Year Ended September 30	
	2011	2010
Gross patient service revenue	\$ 624,460,853	\$ 604,461,491
Deductions:		
Allowances	(334,249,153)	(315,063,365)
Charity care (at charges)	(5,004,135)	(6,496,622)
	<u>(339,253,288)</u>	<u>(321,559,987)</u>
Net patient service revenue	<u>\$ 285,207,565</u>	<u>\$ 282,901,504</u>

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Changes in estimates increased net patient service revenue by approximately \$2,065,000 in 2011 and had no impact on net patient service revenue for 2010.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 2. Revenues from Services to Patients and Charity Care (continued)

Revenues from the Medicare and Medicaid programs accounted for approximately 27.5% and 9.5%, respectively, of the Corporation's net patient service revenue for the year ended September 30, 2011 and 28% and 8% for the year ended September 30, 2010. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Corporation believes that it is in compliance with all applicable laws and regulations, except as described in Note 10. While no regulatory inquiries are outstanding, 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. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Corporation.

#### 3. Charity Care

The Corporation provides services without charge or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. Because the Corporation does not pursue collection of amounts determined to be charity care, such services are not reported as net revenue. The Corporation's charity care policy utilizes the generally recognized poverty income levels for the state. For patients who do not apply or do not qualify, the uncollected amounts are recognized as bad debt expense.

Together, charity care and bad debt expense represent uncompensated care. The following summarizes uncompensated care:

	<b>At Charge</b>	<b>Estimated Cost</b>
Charity care	\$ 5,004,135	\$ 2,201,819
Bad debt	12,767,930	5,617,889
Total uncompensated care, September 30, 2011	\$ 17,772,065	\$ 7,819,708
Charity care	\$ 6,496,622	\$ 2,858,514
Bad debt	14,462,163	6,363,352
Total uncompensated care, September 30, 2010	\$ 20,958,785	\$ 9,221,866

Estimated cost is based on the ratio of cost to charges, as determined by Hospital-specific data.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 4. Promises to Give

Included in pledges receivable at September 30 are the following unconditional promises to give:

	<b>2011</b>	<b>2010</b>
BackusCare campaign	<b>\$ 45,546</b>	\$ 185,114
Other	<b>57,077</b>	7,077
Unconditional promises to give before unamortized discount	<b>102,623</b>	192,191
Less unamortized discount and allowance	<b>(1,412)</b>	(6,325)
	<b>\$ 101,211</b>	\$ 185,866
Amounts due in:		
Less than one year	<b>\$ 96,211</b>	\$ 133,366
One to five years	<b>5,000</b>	52,500
Total	<b>\$ 101,211</b>	\$ 185,866

#### 5. Investments

Investment income and gains (losses) are comprised of the following for the years ended September 30, 2011 and 2010:

	<b>Year Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Realized and unrealized (losses) gains on investments	<b>\$(1,163,661)</b>	\$ 4,574,175
Interest and dividend income	<b>1,962,447</b>	1,819,741
Investment in joint ventures	<b>1,860,953</b>	2,262,006
Other investment losses	<b>12,600</b>	11,600
Investment fees	<b>(226,561)</b>	(180,767)
	<b>\$ 2,445,778</b>	\$ 8,486,755

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 5. Investments (continued)

The market value of assets whose use is limited at September 30, is set forth in the following table:

	<b>2011</b>	<b>2010</b>
Board designated:		
Cash and cash equivalents	\$ 41,525,574	\$ 33,837,100
Mutual funds	37,251,516	38,540,722
Common stocks	12,925,056	13,327,371
Government bonds	12,811,596	8,462,882
Corporate bonds	924,660	2,458,334
	<b>\$105,438,402</b>	<b>\$ 96,626,409</b>
Held by trustee:		
Cash and cash equivalents	\$ 24,668,758	\$ 4,430,958
Mutual funds	2,327,261	22,211,515
Government bonds	731,506	
Common stock	292,470	287,581
Real estate	58,432	58,748
	<b>\$ 28,078,427</b>	<b>\$ 26,988,802</b>

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides guidance on investment decisions and endowment expenditures for nonprofit organizations. The Board of Trustees of the Hospital has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Hospital classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of the 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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **5. Investments (continued)**

The primary objective of the endowment fund is to provide long-term support for the Hospital's capital and operating programs. The Corporation's investment goals are to maximize total return (capital appreciation, dividends and interest) while also protecting the Corporation's inflation-adjusted value over time. The Corporation's assets are diversified across multiple asset classes (e.g., common stocks, bonds and cash) to achieve an optimal balance between risk and return and between current income and capital appreciation. The investment program is structured to offer reasonably high probability of generating a real return of 5% per year over a period of five to ten years to protect the real inflation-adjusted value of assets and to meet the spending requirements. The investment committee reviews investment policies annually to determine if changes need to be made due to changing market conditions or other factors.

Management evaluates endowment spending in light of capital replacement and expansion plans. The spending policy does not apply a prescribed rate of spending in a given year, but does consider the following factors in making determinations to appropriate or accumulate donor restricted endowment funds:

- (1) The duration and preservation of the fund.
- (2) The purposes of the donor-restricted endowment fund.
- (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 Hospital.
- (7) The investment policies of the Hospital.

Endowment assets are donor-restricted gifts which are meant to provide a permanent source of income to the Corporation and are included in permanently restricted net assets. Any deficits are funded with available temporarily restricted or unrestricted funds so as to maintain the corpus. Subsequent positive market returns replace the deficits.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 5. Investments (continued)

The activity for the year ended September 30, 2011 is as follows:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at beginning of year	\$ 513,486	\$ 5,320,786	\$ 5,834,272
Investment return:			
Investment income		151,536	151,536
Net depreciation (realized and unrealized)		(176,945)	(176,945)
Earnings reclassified	(96,482)	96,482	
Total investment (loss) return	(96,482)	71,073	(25,409)
Contributions		5,000	5,000
Endowment net assets at end of year	\$ 417,004	\$ 5,396,859	\$ 5,813,863

The activity for the year ended September 30, 2010 is as follows:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at beginning of year	\$ 135,215	\$ 4,841,631	\$ 4,976,846
Investment return:			
Investment income		179,170	179,170
Net appreciation (realized and unrealized)		320,192	320,192
Earnings reclassified	378,271	(378,271)	
Total investment return	378,271	121,091	499,362
Contributions		358,064	358,064
Endowment net assets at end of year	\$ 513,486	\$ 5,320,786	\$ 5,834,272

#### 6. Fair Value of Financial Instruments

For assets and liabilities required to be measured at fair value, the Corporation measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Corporation's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **6. Fair Value of Financial Instruments (continued)**

The Corporation follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad categories. Level one inputs are quoted market prices in active markets that are accessible at the measurement date. Level two inputs are observable, but not quoted in active markets. Level three inputs are unobservable and are used when little or no market data is available.

Fair value for Level 2 assets are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers. Level 3 assets consist of asset backed and mortgage backed obligations held by the defined benefit plan which are priced using model-based valuations using market information that best represents the value at which the security could be sold.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Corporation uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 6. Fair Value of Financial Instruments (continued)

Financial assets as of September 30, 2011 are classified in the table below:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 98,239,968	\$ 852,014		\$ 99,091,982
Certificates of deposit		24,901,139		24,901,139
Money market funds	37,571,306	64,456		37,635,762
US government obligations (a)	10,833,829	2,709,273		13,543,102
Corporate bonds (b)	249,858	674,802		924,660
Equity securities	13,217,526			13,217,526
Mutual funds-equities (c)	8,773,825	9,707,473		18,481,298
Mutual funds-international equities (d)	8,140,798	219,147		8,359,945
Mutual funds-fixed income (e)	12,062,082	675,452		12,737,534
Real estate (REIT)		58,432		58,432
<b>Total</b>	<b>\$ 189,089,192</b>	<b>\$ 39,862,188</b>	-	<b>\$ 228,951,380</b>

(a) Includes both Treasury bonds and Treasury stripped bonds.

(b) Includes both foreign and domestic corporate bonds.

(c) This category primarily represents investments in common stock or similar securities of high-quality, financially secure companies listed on principal exchanges.

(d) This category seeks long term growth of capital with at least 80% of its investments in international equity securities.

(e) This category seeks maximum current income primarily through investments in fixed income securities of varying maturities.

Financial assets as of September 30, 2010 are classified in the table below:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 77,955,100	\$ 2,738		\$ 77,957,838
Certificates of deposit		14,873,395		14,873,395
Money market funds	19,578,731	35,017		19,613,748
US government obligations	7,751,442			7,751,442
Corporate bonds	150,001	3,772,474		3,922,475
Equity securities	13,614,952			13,614,952
Mutual funds	44,289,715	16,462,519		60,752,234
Real estate (REIT)		58,751		58,751
<b>Total</b>	<b>\$ 163,339,941</b>	<b>\$ 35,204,894</b>	-	<b>\$ 198,544,835</b>

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 6. Fair Value of Financial Instruments (continued)

The following table presents the Corporation's fair value hierarchy for defined benefit plan assets as of September 30, 2011. At September 30, 2011, Level 3 assets comprise approximately 0.2% of the Corporation Plan's total investment portfolio fair value.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 10,173,248			\$ 10,173,248
Mutual funds-equity (a)	23,965,541	\$ 25,514,446		49,479,987
Mutual funds-international equity(b)	22,103,407			22,103,407
Mutual funds-fixed income (c)	9,739,453	38,850		9,778,303
US Government obligations(d)	6,277,919	319,903		6,597,822
Corporate bonds (e)		9,553,768		9,553,768
Mortgage backed obligations		7,777,727	\$180,660	7,958,387
<b>Total</b>	<u>\$ 72,259,568</u>	<u>\$ 43,204,694</u>	<u>\$ 180,660</u>	<u>\$ 115,644,922</u>

- (a) This category primarily represents investments in common stocks or similar securities of high-quality, financially secure companies listed on principal exchanges.
- (b) This category seeks long term growth of capital with at least 80% of its investments in international equity securities.
- (c) This category seeks maximum current income primarily through investment in fixed income securities of varying maturities.
- (d) Includes both Treasury bonds and Treasury stripped bonds.
- (e) Includes both foreign and domestic corporate bonds.

The following table presents reconciliation for all Level 3 assets measured at fair value for the period October 1, 2010 to September 30, 2011.

	<u>Asset Backed Obligations</u>	<u>Mortgage Backed Obligations</u>	<u>Total</u>
Beginning balance	\$ 250,065	\$ 88,920	\$ 338,985
Purchases		99,500	99,500
Unrealized gains (losses)	716	(7,760)	(7,044)
Sales	(250,781)		(250,781)
<b>Total</b>	<u>\$ -</u>	<u>\$ 180,660</u>	<u>\$ 180,660</u>

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 6. Fair Value of Financial Instruments (continued)

The following table presents the Corporation's fair value hierarchy for defined benefit plan assets as of September 30, 2010. At September 30, 2010, Level 3 assets comprise approximately 0.3% of the Corporation Plan's total investment portfolio fair value.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 6,692,388			\$ 6,692,388
Mutual funds-equity (a)		\$ 35,874,257		35,874,257
Mutual funds-international equity(b)	24,860,967			24,860,967
Mutual funds-fixed income (c)	24,136,988			24,136,988
US Government obligations(d)	18,403,319			18,403,319
Asset backed obligations		542,186	\$ 250,065	792,251
Corporate bonds (e)		1,738,845		1,738,845
Mortgage backed obligations		1,615,755	88,920	1,704,675
<b>Total</b>	<u>\$ 74,093,662</u>	<u>\$ 39,771,043</u>	<u>\$ 338,985</u>	<u>\$ 114,203,690</u>

- (a) This category primarily represents investments in common stocks or similar securities of high-quality, financially secure companies listed on principal exchanges.
- (b) This category seeks long term growth of capital with at least 80% of its investments in international equity securities.
- (c) This category seeks maximum current income primarily through investments in fixed income securities of varying maturities.
- (d) Includes both Treasury bonds and Treasury stripped bonds.
- (e) Includes both foreign and domestic corporate bonds.

The following table presents reconciliation for all Level 3 assets measured at fair value for the period October 1, 2009 to September 30, 2010.

	<u>Asset Backed Obligations</u>	<u>Mortgage Backed Obligations</u>	<u>Total</u>
Beginning balance	\$ —	\$ —	\$ —
Purchases	249,998	85,975	335,973
Unrealized gains	67	2,945	3,012
<b>Total</b>	<u>\$ 250,065</u>	<u>\$ 88,920</u>	<u>\$ 338,985</u>

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 6. Fair Value of Financial Instruments (continued)

The carrying amount of certain of the Corporation's financial instruments, including cash and cash equivalents, approximate fair value due to the relatively short maturities of such instruments. Fair values of investments are based on quoted market prices and are recorded on the balance sheets as such. Fair value of the long-term debt is estimated using discounted cash flow analysis which is based on the AAA insured bond rate at the Corporation's fiscal year end. The fair value of long-term debt is \$70,878,867 and \$69,437,056 at September 30, 2011 and 2010, respectively.

#### 7. Temporarily and Permanently Restricted Net Assets

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

	<b>2011</b>	<b>2010</b>
Health care services	<b>\$ 789,466</b>	\$ 499,200
Preventative care	<b>193,861</b>	792,377
Extraordinary nursing care	<b>105,444</b>	109,852
Nursing education	<b>87,446</b>	84,912
Laboratory	<b>8,522</b>	228,659
Free beds	<b>8,066</b>	25,821
Capital projects		1,733,950
Other	<b>206,742</b>	626,772
	<b>\$ 1,399,547</b>	<b>\$ 4,101,543</b>

Permanently restricted net assets at September 30 are restricted to the following:

	<b>2011</b>	<b>2010</b>
Income to be used:		
For general purposes	<b>\$ 6,605,539</b>	\$ 6,631,835
To provide free beds	<b>527,060</b>	527,060
For laboratory	<b>258,182</b>	258,182
To provide extraordinary nursing care	<b>48,203</b>	48,203
For nursing education	<b>10,140</b>	10,140
	<b>\$ 7,449,124</b>	<b>\$ 7,475,420</b>

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 8. Long-term Debt

A summary of long-term debt at September 30 is as follows:

	<b>2011</b>	<b>2010</b>
Tax-exempt Hospital Revenue Bonds:		
Series E, serial maturities (\$565,000) to 2012 with an interest rate of 4.80%, term maturities (\$7,515,000) from 2017 to 2022 at an interest rate of 5.00%	<b>\$ 8,080,000</b>	\$ 8,625,000
Series F, serial maturities (\$5,875,000) from 2012 to 2018, with interest rates of 4.00% to 4.25%, term maturities (\$22,125,000) from 2023 to 2035 with interest rates of 5.00% to 5.25%	<b>28,000,000</b>	28,725,000
Series G, serial maturities (\$17,730,000) from 2012 to 2026 with interest rates of 3.50% to 5.00%, term maturities (\$7,420,000) in 2035 at an interest rate of 5.00%	<b>25,150,000</b>	25,775,000
Other long-term debt:		
Mortgage, maturing May 1, 2025 with a fixed rate of 6.125%	<b>1,183,176</b>	1,236,586
Obligation under capital leases	<b>1,379,926</b>	1,505,864
	<b>63,793,102</b>	65,867,450
Add net unamortized bond premium	<b>711,971</b>	757,072
Less current portion	<b>(2,115,360)</b>	(2,032,691)
Long-term debt	<b>\$ 62,389,713</b>	\$ 64,591,831

The Master Indenture, as amended and supplemented by Supplemental Master Indenture No. 4, provides for, among other things, a pledge of the gross receipts, as defined, of the Hospital, restriction on the incurrence of certain indebtedness of the Hospital and covenants regarding the Hospital's debt service coverage ratios, sale and lease of assets and other covenants similar in financings of this type. The bonds are secured by the real property of the Hospital, including all buildings and equipment. The mortgages are secured by a warehouse and by certain leasehold improvements. Pursuant to the loan agreements, the Hospital is obligated to provide amounts which will be sufficient to enable the Authority to pay the principle and interest on the Series E, Series F, and Series G bonds.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 8. Long-term Debt (continued)

Series E bonds are subject to redemption prior to maturity. Series F bonds are subject to optional redemption prior to maturity. Series G bonds maturing after July 1, 2015, are subject to optional redemption prior to maturity.

Future minimum principal payments on long-term debt and future minimum principal payments and interest on capital leases during each of the next five fiscal years and in the aggregate are as follows:

	<b>Long-Term Debt</b>	<b>Capital Leases</b>
2012	\$ 2,021,619	\$ 361,204
2013	2,105,440	361,204
2014	2,184,302	361,204
2015	2,303,411	336,859
2016	2,387,624	263,904
Aggregate thereafter	51,410,780	2,111,232
	62,413,176	3,795,607
Add net unamortized bond premium	711,971	
Less interest		(2,415,681)
	\$ 63,125,147	\$ 1,379,926

The Corporation paid interest of \$3,312,005 and \$3,323,608 in 2011 and 2010, respectively. Interest incurred in 2011 and 2010 was \$3,247,715 and \$3,185,038, respectively.

In 2010 the Corporation entered into a fixed rate commercial mortgage of \$1,250,000 for a period of fifteen years at a rate of 6.125%. The note is secured by real property located at 11 Stott Avenue, Norwich, CT.

In 2010 the Corporation also entered into a five year capital lease of \$458,781 with an interest rate of 5.9% for a building located at 80 Route 32, Montville, CT, to be used for patient services. The outstanding balance on this capital lease at September 30, 2011 was \$326,520. Under the terms of the lease, the Hospital has the option to renew for five periods of five years each.

Deferred financing costs are amortized over the life of the bonds.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 9. Retirement Benefit Plans

Effective January 1, 2010, the Corporation amended its defined benefit pension plan to close the plan to new participants and to freeze accruals for the existing participants in favor of a defined contribution plan. The change in the defined benefit plan resulted in a curtailment gain and a reduction of long-term liabilities of \$34,536,288.

The defined contribution plan covers substantially all of the employees of the Hospital. Under the provisions of the plan, the Corporation will make non-elective contributions to the plan on behalf of each eligible employee in the amount of 3% of the employee's eligible earnings. The Corporation will also make a non-elective transition contribution equal to 3% for all employees who meet the transition participant criteria. The Corporation may also, at the discretion of the Board of Trustees, make an elective matching contribution at the end of the plan year based on the Hospital's financial performance. The cost recorded for the years ended September 30, 2011 and 2010 was \$5,206,397 and \$3,589,500, respectively.

The Corporation also provides noncontributory postretirement health care benefits to eligible retirees and to eligible spouses of retirees who retired prior to January 1, 1994. Subsequent to 1993, covered retirees contribute a percentage of the cost based on years of service. In addition, the Hospital sponsors a nonqualified pension benefit program. Included in other long-term liabilities at September 30, 2011 and 2010 is approximately \$2,600,000, related to the future obligation for the nonqualified benefits.

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic benefit cost:

	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>			
Unrecognized actuarial (loss) gain	<b>\$ (64,522)</b>	\$ (43,157)	<b>\$ 1,600</b>	\$ 1,734
Unrecognized transition obligation			<b>(565)</b>	(889)
	<b>\$ (64,522)</b>	\$ (43,157)	<b>\$ 1,035</b>	\$ 845

The actuarial loss and transition obligation included in unrestricted net assets and expected to be recognized in net periodic benefit cost during the year ending September 30, 2011 are \$4,557,386 and \$323,491, respectively.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 9. Retirement Benefit Plans (continued)

At September 30, 2010, the unfunded status of the pension plan is included in long-term liabilities in the amount of \$44,062,536. The unfunded status of the postretirement benefits is \$4,266,082, with \$452,466 included in short-term liabilities, and the remainder of \$3,813,616 included in long-term liabilities. At September 30, 2011, the unfunded status of the pension plan is included in long-term liabilities in the amount of \$60,301,776. The unfunded status of the postretirement benefits is \$4,083,669, with \$435,510 included in short-term liabilities, and the remainder of \$3,648,159 included in long-term liabilities

The following table sets forth the funded status of the plans as of the measurement date of September 30, 2011 and 2010.

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
	<i>(In Thousands)</i>			
<b>Change in benefit obligations</b>				
Benefit obligations at beginning of year	\$ (158,266)	\$ (171,831)	\$ (4,266)	\$ (4,969)
Service cost		(1,836)	(4)	(15)
Interest cost	(7,963)	(7,684)	(207)	(267)
Change in assumptions	(12,536)	(11,951)	(147)	387
Actuarial (loss) gain	(2,006)	(3,598)	113	154
Effect of curtailment		34,551		
Benefits paid	4,825	4,083	428	444
Benefit obligations at end of year	\$ (175,946)	\$ (158,266)	\$ (4,083)	\$ (4,266)
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 114,203	\$ 100,145		
Actual return on plan assets	(1,834)	10,017		
Contributions	8,100	8,124	\$ 428	\$ 444
Benefits paid	(4,825)	(4,083)	(428)	(444)
Fair value of plan assets at end of year	\$ 115,644	\$ 114,203	\$	\$
<b>Underfunded status</b>				
Accrued benefit liability recognized in the balance sheets	\$ (60,302)	\$ (44,063)	\$ (4,083)	\$ (4,266)
<b>Components of net periodic benefit cost</b>				
Service cost		\$ 1,836	\$ 4	\$ 15
Interest cost	\$ 7,963	7,684	207	267
Expected return on plan assets	(7,832)	(6,901)		
Net amortization and deferral	2,843	1,964	224	269
Net periodic benefit cost	\$ 2,974	\$ 4,583	\$ 435	\$ 551

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 9. Retirement Benefit Plans (continued)

	Pension Benefits		Postretirement Benefits	
	2011	2010	2011	2010
	<i>(In Thousands)</i>			
Assumptions:				
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	4.60%	5.10%	4.60%	5.10%
Rate of compensation increase				
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate	5.10	5.60	5.10	5.60
Expected long-term rate of return on plan assets	6.75	6.75		

The accumulated benefit obligation at September 30, 2011 and 2010 was \$175,946,699 and \$158,266,226, respectively.

The asset allocation for the retirement plan at the end of 2011 and 2010 and the target allocation by asset category are as follows:

Asset Category	Target Allocation		Percentage of Plan Assets	
	Minimum	Maximum	2011	2010
US Equity Large Cap	20%	50%	34%	31%
US Equity Small Cap		15	5	5
International Equity	10	30	15	17
Core Fixed Income	20	60	46	47
Total			100%	100%

The Corporation Plan's investment policy includes target asset allocations percentages as shown above. The investment objective for the Corporation Plan is to produce a total rate of return (net of fees) that meets or exceeds the actuarial return assumption used for funding purposes, while generally striving to minimize significant variations in annual contribution levels through investment diversification. Investment return assumptions are developed through a multi-step process using external economic research including industry surveys and published economic research combined with internal economic scenario analysis, historical market returns and correlation trends.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 9. Retirement Benefit Plans (continued)

Information about the expected cash flows for both plans is as follows:

	<b>Pension Benefits</b>	<b>Postretirement Benefits</b>
Expected employer contributions for 2012	\$ 8,100,000	\$ 435,510
Estimated future benefit payments:		
2012	5,621,240	435,510
2013	6,120,026	423,489
2014	6,721,770	414,800
2015	7,280,102	392,976
2016	7,768,999	370,874
2017-2021	47,330,022	1,533,884

Assumed healthcare cost trend rates for 2011 are as follows:

Health care trend rate assumed for next year	7.50%
Rate to which the cost rate trend rate is assumed to decline (the ultimate trend rate)	5.00%
Year that the rate reaches the ultimate trend rate	2015

A one-percentage-point change in assumed health care cost trend rates would have the following effects on the postretirement benefit plan:

	<b>One-Percentage-Point Increase</b>	<b>Decrease</b>
	<i>(In thousands)</i>	
Effect on total of service and interest cost components	\$ 1	\$ (1)
Effect on postretirement benefit obligation	\$ 6	\$ (5)

#### 10. Contingencies

There have been malpractice claims that fall within the Corporation's partially self-insured program (see Note 1, Organization and Accounting Policies) which have been asserted against the Corporation. In addition, there are known incidents that have occurred through September 30, 2011, that may result in the assertion of claims. Corporation management, in conjunction with its consulting actuaries, has accrued its best estimate of these contingent losses.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 10. Contingencies (continued)

The Corporation's management believes that it may not have conformed to all applicable laws and regulations regarding certain arrangements with outside parties. An internal investigation is underway and management has estimated and accrued a liability related to this matter. Except for this matter, the Corporation's management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of any potential wrongdoing.

The Corporation is a party to various lawsuits incidental to its business. Management believes that the lawsuits will not have a material adverse effect on the Corporation's financial position.

#### 11. Property, Plant and Equipment

Property, plant and equipment at September 30 consist of the following:

	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 4,862,121	\$ 4,889,512
Buildings and leasehold improvements	126,459,709	125,739,952
Equipment	99,035,255	101,463,454
Construction in process (2012 estimated cost to complete \$5,995,000)	1,365,773	630,806
Less accumulated depreciation	<u>(141,087,085)</u>	<u>(132,954,480)</u>
	<u>\$ 90,635,773</u>	<u>\$ 99,769,244</u>

The net unamortized value of internally developed software was \$388,314 and \$968,970 at September 30, 2011 and 2010, respectively. Amortization expense for the years ended September 30, 2011 and 2010 was \$596,429 and \$591,171, respectively.

The Corporation wrote off approximately \$7,299,000 of fully depreciated assets in 2011.

The Corporation leases space to be used for patient services. Two years remain on the initial term, with two five-year renewal options available at the discretion of the Hospital. Rent expense for the years ended September 30, 2011 and 2010 was \$655,574 and \$640,018, respectively.

The Corporation leases various types of equipment with annual payments ranging from \$103 to \$39,000. Expenses as a result of these leases were approximately \$362,000 and \$375,000 for the years ended September 30, 2011 and 2010, respectively.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 11. Property, Plant and Equipment (continued)

Future minimum lease payments under the above leases during each of the next five years were as follows:

2012		\$ 907,327
2013		831,624
2014		173,838
2015		118,349
2016		11,378
		\$ 2,042,516

#### 12. Other Operating Revenues

Other operating revenues consist of the following:

	<b>Year Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Cafeteria sales	<b>\$ 1,102,713</b>	\$ 1,063,020
Rental income	<b>698,837</b>	812,182
Miscellaneous	<b>687,972</b>	455,498
Grants	<b>578,977</b>	733,844
Condominium income	<b>412,106</b>	389,640
Child care	<b>391,976</b>	355,497
Purchase discounts	<b>269,594</b>	351,343
Interest	<b>165,642</b>	196,253
	<b>\$ 4,307,817</b>	<b>\$ 4,357,277</b>

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 13. Functional Expenses

The Hospital provides inpatient medical and surgical, outpatient, psychiatric and emergency care services to residents of eastern Connecticut. Expenses related to providing these services are as follows:

	<b>Year Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
Health care services	<b>\$ 212,969,557</b>	\$ 224,821,690
General and administrative	<b>55,484,277</b>	51,724,893
Fundraising	<b>193,923</b>	190,865
	<b><u>\$ 268,647,757</u></b>	<b><u>\$ 276,737,448</u></b>

#### 14. Concentrations of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. For 2011 and 2010, Hospital receivables accounted for 95% and 96%, respectively. The mix of gross accounts receivables from patients and third-party payors at September 30 is as follows:

	<b><u>2011</u></b>	<b><u>2010</u></b>
Medicare	<b>26%</b>	27%
Self pay	<b>23</b>	24
Health Maintenance Organizations	<b>16</b>	15
Anthem Blue Cross/Blue Shield	<b>14</b>	13
Medicaid	<b>11</b>	11
Commercial	<b>5</b>	5
Other state agencies	<b>5</b>	5
	<b><u>100%</u></b>	<b><u>100%</u></b>

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 15. Cash Flows

Changes in operating assets and liabilities at September 30 include the following:

	<b>2011</b>	<b>2010</b>
(Increase) decrease in assets:		
Accounts receivable	\$ (14,649,048)	\$ (8,976,789)
Pledge receivable	84,655	348,127
Inventories of supplies, prepaid expenses, and other	(149,263)	(798,102)
Increase (decrease) in liabilities:		
Due to third-party reimbursement agencies	8,455,319	3,113,028
Accounts payable	4,756	(201,185)
Employee related obligations	(5,322,115)	(1,497,412)
Interest payable and other accrued liabilities	(3,473,306)	1,143,850
Salaries and wages, payroll taxes, and taxes withheld from payroll	478,432	(2,049,900)
Self-insured professional liability	1,625,379	(66,430)
Other liabilities	93,505	(325,475)
Changes in operating assets and liabilities	<b>\$ (12,851,686)</b>	<b>\$ (9,310,288)</b>

#### 16. Subsequent Events

The Hospital evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date for the year ended September 30, 2011. The Hospital evaluated subsequent events through January 27, 2012, which is the date the financial statements were issued. No events occurred that require disclosure or adjustment to the combined financial statements.

## Other Financial Information

## Report of Independent Auditors on Other Financial Information

Board of Directors  
Backus Corporation and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits 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.

*Ernst & Young LLP*

January 27, 2012

## Backus Corporation and Subsidiaries

### Consolidating Balance Sheet

September 30, 2011

	<b>Backus Corp.</b>	<b>William W. Backus Hospital *(consolidated)</b>	<b>Backus Health Care, Inc.</b>	<b>WWB Corp.</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 83,986	\$ 93,136,217	\$ 1,681,599	\$ 532,749		\$ 95,434,551
Assets whose use is limited – required for current liabilities		5,885,482				5,885,482
Accounts receivable, less allowance for uncollectible accounts		32,373,122	1,040,962	1,013,929		34,428,013
Pledges receivable		101,211				101,211
Inventories of supplies		3,704,067				3,704,067
Prepaid expenses and other		1,624,606		9,535		1,634,141
Due from affiliates	98,496	164,147			\$ (262,643)	
Total current assets	182,482	136,988,852	2,722,561	1,556,213	(262,643)	141,187,465
Assets whose use is limited:						
Board-designated and donor restricted		105,438,402				105,438,402
Held by trustee		28,078,427				28,078,427
Total assets whose use is limited		133,516,829				133,516,829
Less assets whose use is limited – required for current liabilities						
		5,885,482				5,885,482
		127,631,347				127,631,347
Property, plant, and equipment, net		89,983,664	162,224	489,885		90,635,773
Deferred financing costs		1,842,330				1,842,330
Other assets	1,000	1,542,292	512,931	97,846	(16,845)	2,137,224
	\$ 183,482	\$ 357,988,485	\$ 3,397,716	\$ 2,143,944	\$ (279,488)	\$ 363,434,139

\* Includes Backus Condominium Association

Backus Corporation and Subsidiaries  
Consolidating Balance Sheet (continued)

September 30, 2011

	Backus Corp.	William W. Backus Hospital *(consolidated)	Backus Health Care, Inc.	WWB Corp.	Eliminations	Consolidated
<b>Liabilities and net assets</b>						
Current liabilities:						
Accounts payable-trade		\$ 9,918,459	\$ 26,928	\$ 401,694		\$ 10,347,081
Salaries and wages, payroll taxes and taxes withheld from payroll		6,666,138	394,468	323,154		7,383,760
Due to affiliates			226,021	36,622	\$ (262,643)	
Other accrued liabilities		5,734,285	777	222,072		5,957,134
Employee related obligations		3,942,900				3,942,900
Due to third-party reimbursement agencies		4,683,178		340,662		5,023,840
Current portion of long-term debt		2,115,360				2,115,360
Total current liabilities		33,060,320	648,194	1,324,204	(262,643)	34,770,075
Other liabilities:						
Long-term debt, less current portion		62,389,713				62,389,713
Employee related obligations		69,884,879				69,884,879
Self-insured professional liability		10,853,762	3,167,387			14,021,149
Due to third-party reimbursement agencies		19,162,526				19,162,526
Other		443,183				443,183
		162,734,063	3,167,387			165,901,450
Net assets:						
Common stock				1,000	(1,000)	
Unrestricted	183,482	153,345,431	(417,865)	818,740	(15,845)	153,913,943
Temporarily restricted		1,399,547				1,399,547
Permanently restricted		7,449,124				7,449,124
Total net assets	183,482	162,194,102	(417,865)	819,740	(16,845)	162,762,614
Total liabilities and net assets	\$ 183,482	\$ 357,988,485	\$ 3,397,716	\$ 2,143,944	\$ (279,488)	\$ 363,434,139

\* Includes Backus Condominium Association

## Backus Corporation and Subsidiaries

### Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2011

	<b>Backus Corp.</b>	<b>William W. Backus Hospital *(consolidated)</b>	<b>Backus Health Care, Inc.</b>	<b>WWB Corp.</b>	<b>Eliminations</b>	<b>Consolidated</b>
Operating revenues:						
Net patient service revenue		\$ 271,933,218	\$ 5,513,552	\$ 7,769,219	\$ (8,424)	\$ 285,207,565
Other operating revenue	\$ 55,920	4,848,198	95,365	1,815	(693,481)	4,307,817
Net assets released from restrictions		673,194				673,194
	55,920	277,454,610	5,608,917	7,771,034	(701,905)	290,188,576
Operating expenses:						
Salaries, wages and professional fees	186,263	110,169,857	4,542,201	4,746,454		119,644,775
Payroll taxes and other fringe benefits	58,738	25,655,346	890,706	1,249,526		27,854,316
Supplies, insurance and other	3	83,918,758	3,326,153	1,544,430	(701,905)	88,087,439
Provision for uncollectible accounts		12,522,978	102,603	142,349		12,767,930
Depreciation and amortization		16,971,187	34,004	40,391		17,045,582
Interest		3,247,715				3,247,715
	245,004	252,485,841	8,895,667	7,723,150	(701,905)	268,647,757
Operating (loss) income	(189,084)	24,968,769	(3,286,750)	47,884		21,540,819
Nonoperating gains and (losses):						
Contributions and donations		158,300				158,300
Investment income	95	581,947	1,803,031	60,705		2,445,778
Other		(565,873)				(565,873)
	95	174,374	1,803,031	60,705		2,038,205
Excess (deficiency) of revenues over expenses	\$ (188,989)	\$ 25,143,143	\$ (1,483,719)	\$ 108,589		\$ 23,579,024

\* Includes Backus Condominium Association

Backus Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2011

	<b>Backus Corp.</b>	<b>William W. Backus Hospital *(consolidated)</b>	<b>Backus Health Care, Inc.</b>	<b>WWB Corp.</b>	<b>Eliminations</b>	<b>Consolidated</b>
Unrestricted net assets:						
Excess (deficiency) of revenues over expenses (continued)	\$ (188,989)	\$ 25,143,143	\$ (1,483,719)	\$ 108,589		\$ 23,579,024
Change in pension funding obligation		(21,176,691)				(21,176,691)
Intercompany transfer	245,005	(245,005)				
Assets released from restriction used for purchase of equipment		2,257,860				2,257,860
Increase (decrease) in unrestricted net assets	56,016	5,979,307	(1,483,719)	108,589		4,660,193
Temporarily restricted net assets:						
Contributions		575,427				575,427
Income from investments		(346,369)				(346,369)
Net assets released from restrictions		(2,931,054)				(2,931,054)
Decrease in temporarily restricted net assets		(2,701,996)				(2,701,996)
Permanently restricted net assets						
Contributions		5,000				5,000
Income from investments		71,073				71,073
Change in net assets held in trust		(102,369)				(102,369)
Decrease in permanently restricted net assets		(26,296)				(26,296)
Increase (decrease) in net assets	56,016	3,251,015	(1,483,719)	108,589		1,931,901
Net assets at beginning of year	127,466	158,943,087	1,065,854	711,151	\$ (16,845)	160,830,713
Net assets (deficit) at end of year	\$ 183,482	\$ 162,194,102	\$ (417,865)	\$ 819,740	\$ (16,845)	\$ 162,762,614

\* Includes Backus Condominium Association

Backus Health Care, Inc., and Subsidiaries

Consolidating Balance Sheet

September 30, 2011

	<b>Backus Health Care, Inc. (Parent)</b>	<b>CONNCare</b>	<b>BPS, LLC</b>	<b>Eliminations</b>	<b>Backus Health Care, Inc., and Subsidiaries</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 11,469	\$ 1,654,736	\$ 15,394		\$ 1,681,599
Accounts receivable, less allowance for uncollectible accounts		424,360	616,602		1,040,962
Due from affiliates	98,496	3,091,170		\$ (3,189,666)	
Total current assets	109,965	5,170,266	631,996	(3,189,666)	2,722,561
Property, plant and equipment:					
Buildings and leasehold improvements		19,619			19,619
Equipment		295,006	61,648		356,654
Accumulated depreciation		(176,106)	(37,943)		(214,049)
		138,519	23,705		162,224
Other assets		512,931			512,931
	\$ 109,965	\$ 5,821,716	\$ 655,701	\$ (3,189,666)	\$ 3,397,716
<b>Liabilities and net assets</b>					
Current liabilities:					
Accounts payable – trade		\$ 22,003	\$ 4,925		\$ 26,928
Salaries and wages, payroll taxes and taxes withheld from payroll		228,385	166,083		394,468
Other accrued liabilities			777		777
Self-insured professional liability		1,161,387	2,006,000		3,167,387
Due to affiliates	\$ 108,925	215,592	3,091,170	(3,189,666)	226,021
Total current liabilities	108,925	1,627,367	5,268,955	(3,189,666)	3,815,581
Net assets (deficit)	1,040	4,194,349	(4,613,254)		(417,865)
Total liabilities and net assets	\$ 109,965	\$ 5,821,716	\$ 655,701	\$ (3,189,666)	\$ 3,397,716

Backus Health Care, Inc., and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

September 30, 2011

	<b>Backus Health Care, Inc. (Parent)</b>	<b>CONNCare</b>	<b>BPS, LLC</b>	<b>Eliminations</b>	<b>Backus Health Care, Inc., and Subsidiaries</b>
Operating revenues:					
Net patient service revenue		\$ 3,077,468	\$ 2,436,084		\$ 5,513,552
Other operating revenue	\$ 36,936	90,102	5,263	\$ (36,936)	95,365
Total revenues	36,936	3,167,570	2,441,347	(36,936)	5,608,917
Expenses:					
Salaries and wages		2,168,572	2,373,629		4,542,201
Payroll taxes and fringe benefits		560,111	330,595		890,706
Supplies and other	41,405	1,158,068	2,163,616	(36,936)	3,326,153
Provision for uncollectible accounts		56,527	46,076		102,603
Depreciation and amortization		23,879	10,125		34,004
Total expenses	41,405	3,967,157	4,924,041	(36,936)	8,895,667
Operating loss	(4,469)	(799,587)	(2,482,694)		(3,286,750)
Nonoperating gains:					
Investment income	6	1,803,017	8		1,803,031
(Deficiency) excess of revenue over expenses	(4,463)	1,003,430	(2,482,686)		(1,483,719)
Net assets (deficit) at beginning of year	5,503	3,190,919	(2,130,568)		1,065,854
Net assets (deficit) at end of year	\$ 1,040	\$ 4,194,349	\$ (4,613,254)	\$	\$ (417,865)

WWB, Inc., and Subsidiary

Consolidating Balance Sheet

September 30, 2011

	<b>WWB (Parent)</b>	<b>Backus Home Health Care</b>	<b>Eliminations</b>	<b>WWB, Inc., and Subsidiary</b>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 345,033	\$ 187,716		\$ 532,749
Accounts receivable, less allowance for uncollectible accounts		1,013,929		1,013,929
Prepaid expenses and other		9,535		9,535
Due from affiliates	789,464		\$ (789,464)	
Total current assets	1,134,497	1,211,180	(789,464)	1,556,213
Property, plant and equipment:				
Buildings and leasehold improvements		455,405		455,405
Equipment		121,313		121,313
Accumulated depreciation		(86,833)		(86,833)
		489,885		489,885
Other assets	97,846			97,846
	<u>\$ 1,232,343</u>	<u>\$ 1,701,065</u>	<u>\$ (789,464)</u>	<u>\$ 2,143,944</u>
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable		\$ 401,694		\$ 401,694
Salaries and wages, payroll taxes and taxes withheld from payroll		323,154		323,154
Other accrued liabilities		222,072		222,072
Due to third party reimbursement agencies		340,662		340,662
Due to affiliates	\$ 36,622	789,464	\$ (789,464)	36,622
Total current liabilities	36,622	2,077,046	(789,464)	1,324,204
Common stock	1,000			1,000
Retained earnings (deficit)	1,194,721	(375,981)		818,740
Total liabilities and net assets	<u>\$ 1,232,343</u>	<u>\$ 1,701,065</u>	<u>\$ (789,464)</u>	<u>\$ 2,143,944</u>

WWB, Inc., and Subsidiary

Consolidating Statement of Operations and Changes in Net Assets

September 30, 2011

	<b>WWB</b>	<b>Backus Home Health Care</b>	<b>Eliminations</b>	<b>WWB, Inc., and Subsidiary</b>
Operating revenues:				
Net patient service revenue		\$ 7,769,219		\$ 7,769,219
Other operating revenue		1,815		1,815
Total revenues		7,771,034		7,771,034
Expenses:				
Salaries and wages		4,746,454		4,746,454
Payroll taxes and fringe benefits		1,249,526		1,249,526
Supplies and other	\$ 33,989	1,510,441		1,544,430
Provision for uncollectible accounts		142,349		142,349
Depreciation and amortization		40,391		40,391
Total expenses	33,989	7,689,161		7,723,150
Operating (loss) income	(33,989)	81,873		47,884
Nonoperating gains:				
Investment income	60,686	19		60,705
Excess of revenue over expenses	26,697	81,892		108,589
Net assets (deficit) at beginning of year	1,168,024	(457,873)		710,151
Net assets (deficit) at end of year	<u>\$ 1,194,721</u>	<u>\$ (375,981)</u>	<u>\$</u>	<u>\$ 818,740</u>

## Backus Corporation and Subsidiaries

### Consolidating Balance Sheet

September 30, 2010

	<b>Backus Corp.</b>	<b>William W. Backus Hospital *(consolidated)</b>	<b>Backus Health Care, Inc.</b>	<b>WWB Corp.</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 63,324	\$ 72,131,779	\$ 1,612,700	\$ 1,121,821		\$ 74,929,624
Assets whose use is limited – required for current liabilities		7,931,590				7,931,590
Accounts receivable, less allowance for uncollectible accounts		30,758,941	838,941	949,013		32,546,895
Pledges receivable		185,866				185,866
Inventories of supplies		3,799,896	85,421			3,885,317
Prepaid expenses and other		1,277,144	20,282	6,202		1,303,628
Due from affiliates	63,142	661,088			\$ (724,230)	
Total current assets	126,466	116,746,304	2,557,344	2,077,036	(724,230)	120,782,920
Assets whose use is limited:						
Board-designated and donor restricted		96,626,409				96,626,409
Held by trustee		26,988,802				26,988,802
Total assets whose use is limited		123,615,211				123,615,211
Less assets whose use is limited – required for current liabilities						
		7,931,590				7,931,590
		115,683,621				115,683,621
Property, plant, and equipment, net		99,122,387	145,235	501,622		99,769,244
Deferred financing costs		1,933,364				1,933,364
Other assets	1,000	1,603,864	782,197	43,661	(16,845)	2,413,877
	<u>\$ 127,466</u>	<u>\$ 335,089,540</u>	<u>\$ 3,484,776</u>	<u>\$ 2,622,319</u>	<u>\$ (741,075)</u>	<u>\$ 340,583,026</u>

\* Includes Backus Condominium Association

Backus Corporation and Subsidiaries  
Consolidating Balance Sheet (continued)

September 30, 2010

	Backus Corp.	William W. Backus Hospital *(consolidated)	Backus Health Care, Inc.	WWB Corp.	Eliminations	Consolidated
<b>Liabilities and net assets</b>						
Current liabilities:						
Accounts payable-trade		\$ 10,129,146	\$ 25,228	\$ 187,951		\$ 10,342,325
Salaries and wages, payroll taxes and taxes withheld from payroll		6,206,054	309,223	390,051		6,905,328
Due to affiliates			203,033	521,197	\$ (724,230)	
Other accrued liabilities		8,967,664		462,776		9,430,440
Employee related obligations		3,589,500				3,589,500
Due to third-party reimbursement agencies		2,614,222		349,193		2,963,415
Current portion of long-term debt		2,032,691				2,032,691
Total current liabilities		33,539,277	537,484	1,911,168	(724,230)	35,263,699
Other liabilities:						
Long-term debt, less current portion		64,591,831				64,591,831
Employee related obligations		54,383,703				54,383,703
Self-insured professional liability		10,514,332	1,881,438			12,395,770
Due to third-party reimbursement agencies		12,767,632				12,767,632
Other		349,678				349,678
		142,607,176	1,881,438			144,488,614
Net assets:						
Common stock				1,000	(1,000)	
Unrestricted	\$ 127,466	147,366,124	1,065,854	710,151	(15,845)	149,253,750
Temporarily restricted		4,101,543				4,101,543
Permanently restricted		7,475,420				7,475,420
Total net assets	127,466	158,943,087	1,065,854	711,151	(16,845)	160,830,713
Total liabilities and net assets	\$ 127,466	\$ 335,089,540	\$ 3,484,776	\$ 2,622,319	\$ (741,075)	\$ 340,583,026

\* Includes Backus Condominium Association

Backus Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2010

	<b>Backus Corp.</b>	<b>William W. Backus Hospital *(consolidated)</b>	<b>Backus Foundation</b>	<b>Backus Health Care, Inc.</b>	<b>Backus Properties Inc.</b>	<b>WWB Corp.</b>	<b>Eliminations</b>	<b>Consolidated</b>
Operating revenues:								
Net patient service revenue		\$ 270,048,715		\$ 5,497,679		\$ 7,378,559	\$ (23,449)	\$ 282,901,504
Other operating revenue	\$ 593,530	4,673,356		87,120		6,752	(1,003,481)	4,357,277
Net assets released from restrictions		91,211						91,211
	593,530	274,813,282		5,584,799		7,385,311	(1,026,930)	287,349,992
Operating expenses:								
Salaries, wages and professional fees	174,812	109,179,026		4,740,065		4,148,270	(531,853)	117,710,320
Payroll taxes and other fringe benefits	55,510	27,181,443		978,613		1,406,492		29,622,058
Supplies, insurance and other	25,447	91,056,415		1,716,164		1,920,311	(495,077)	94,223,260
Provision for uncollectible accounts		14,409,876		(11,974)		64,261		14,462,163
Depreciation and amortization		17,480,126		27,483		27,000		17,534,609
Interest		3,185,038						3,185,038
	255,769	262,491,924		7,450,351		7,566,334	(1,026,930)	276,737,448
Operating income (loss)	337,761	12,321,358		(1,865,552)		(181,023)		10,612,544
Nonoperating gains and (losses):								
Contributions and donations		328,840						328,840
Investment income	77	6,218,347		2,213,811		54,520		8,486,755
Other		(116,761)		197,389		(3,562)		77,066
	77	6,430,426		2,411,200		50,958		8,892,661
Excess (deficiency) of revenues over expenses	\$ 337,838	\$ 18,751,784		\$ 545,648		\$ (130,065)		\$ 19,505,205

\* Includes Backus Condominium Association

Backus Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2010

	<b>Backus Corp.</b>	<b>William W. Backus Hospital *(consolidated)</b>	<b>Backus Foundation</b>	<b>Backus Health Care, Inc.</b>	<b>Backus Properties Inc.</b>	<b>WWB Corp.</b>	<b>Eliminations</b>	<b>Consolidated</b>
Unrestricted net assets:								
Excess (deficiency) of revenues over expenses (continued)	\$ 337,838	\$ 18,751,784		\$ 545,648		\$ (130,065)		\$ 19,505,205
Merger of Properties		1,402,938			\$ (1,402,938)			
Intercompany transfer		(73,056)		73,056				
Pension curtailment		34,536,288						34,536,288
Change in pension funding obligation		(9,564,206)						(9,564,206)
Increase (decrease) in unrestricted net assets	337,838	45,053,748		618,704	(1,402,938)	(130,065)		44,477,287
Temporarily restricted net assets:								
Contributions		126,631						126,631
Income from investments		618,691						618,691
Merger of Foundation			\$ (34,308,847)				34,308,847	
Net assets released from restrictions		(91,211)						(91,211)
Increase (decrease) in temporarily restricted net assets		654,111	(34,308,847)				34,308,847	654,111
Permanently restricted net assets:								
Contributions		358,064						358,064
Income from investments		121,091						121,091
Merger of Foundation			(6,838,627)				6,838,627	
Change in net assets held in trust		134,435						134,435
Increase (decrease) in permanently restricted net assets		613,590	(6,838,627)				6,838,627	613,590
Increase (decrease) in net assets	337,838	46,321,449	(41,147,474)	618,704	(1,402,938)	(130,065)	41,147,474	45,744,988
Net assets (deficit) at beginning of year	(210,372)	112,621,638	41,147,474	447,150	1,402,938	841,216	(41,164,319)	115,085,725
Net assets at end of year	\$ 127,466	\$ 158,943,087	\$	\$ 1,065,854	\$	\$ 711,151	\$ (16,845)	\$ 160,830,713

\* Includes Backus Condominium Association

Backus Health Care, Inc., and Subsidiaries

Consolidating Balance Sheet

September 30, 2010

	<b>Backus Health Care, Inc. (Parent)</b>	<b>CONNCare</b>	<b>BPS, LLC</b>	<b>Eliminations</b>	<b>Backus Health Care, Inc., and Subsidiaries</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 11,463	\$ 1,228,148	\$ 373,089		\$ 1,612,700
Accounts receivable, less allowance for uncollectible accounts		369,242	469,699		838,941
Inventories of supplies		85,421			85,421
Prepaid expenses		9,376	10,906		20,282
Due from affiliates	61,560	2,340,589		\$ (2,402,149)	
Total current assets	<u>73,023</u>	<u>4,032,776</u>	<u>853,694</u>	<u>(2,402,149)</u>	<u>2,557,344</u>
Property, plant and equipment:					
Buildings and leasehold improvements		19,619			19,619
Equipment		244,681	61,648		306,329
Accumulated depreciation		<u>(152,895)</u>	<u>(27,818)</u>		<u>(180,713)</u>
		111,405	33,830		145,235
Other assets		782,197			782,197
	<u>\$ 73,023</u>	<u>\$ 4,926,378</u>	<u>\$ 887,524</u>	<u>\$ (2,402,149)</u>	<u>\$ 3,484,776</u>
<b>Liabilities and net assets</b>					
Current liabilities:					
Accounts payable – trade		\$ 10,233	\$ 14,995		\$ 25,228
Salaries and wages, payroll taxes and taxes withheld from payroll		246,716	62,507		309,223
Self-insured professional liability		1,281,437	600,001		1,881,438
Due to affiliates	\$ 67,520	197,073	2,340,589	\$ (2,402,149)	203,033
Total current liabilities	<u>67,520</u>	<u>1,735,459</u>	<u>3,018,092</u>	<u>(2,402,149)</u>	<u>2,418,922</u>
Net assets (deficit)	5,503	3,190,919	(2,130,568)		1,065,854
Total liabilities and net assets	<u>\$ 73,023</u>	<u>\$ 4,926,378</u>	<u>\$ 887,524</u>	<u>\$ (2,402,149)</u>	<u>\$ 3,484,776</u>

Backus Health Care, Inc., and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

September 30, 2010

	<b>Backus Health Care, Inc. (Parent)</b>	<b>CONNCare</b>	<b>BPS, LLC</b>	<b>Eliminations</b>	<b>Backus Health Care, Inc., and Subsidiaries</b>
Operating revenues:					
Net patient service revenue		\$ 3,608,723	\$ 1,888,956		\$ 5,497,679
Other operating revenue	\$ 36,936	68,042	19,078	\$ (36,936)	87,120
Total revenues	36,936	3,676,765	1,908,034	(36,936)	5,584,799
Expenses:					
Salaries and wages		2,634,018	2,106,047		4,740,065
Payroll taxes and fringe benefits		719,574	259,039		978,613
Supplies and other	39,186	714,272	999,642	(36,936)	1,716,164
Provision for uncollectible accounts		(69,754)	57,780		(11,974)
Depreciation and amortization		14,905	12,578		27,483
Total expenses	39,186	4,013,015	3,435,086	(36,936)	7,450,351
Operating loss	(2,250)	(336,250)	(1,527,052)		(1,865,552)
Nonoperating gains:					
Investment income	6	2,213,805			2,213,811
Other		197,389			197,389
(Deficiency) excess of revenue over expenses	(2,244)	2,074,944	(1,527,052)		545,648
Net assets (deficit) at beginning of year	7,747	1,044,627	(605,224)		447,150
Intercompany transfer		71,348	1,708		73,056
Net assets (deficit) at end of year	\$ 5,503	\$ 3,190,919	\$ (2,130,568)	\$	\$ 1,065,854

WWB, Inc., and Subsidiary

Consolidating Balance Sheet

September 30, 2010

	<b>WWB (Parent)</b>	<b>Backus Home Health Care</b>	<b>Eliminations</b>	<b>WWB, Inc., and Subsidiary</b>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 1,087,166	\$ 34,655		\$ 1,121,821
Accounts receivable, less allowance for uncollectible accounts		949,013		949,013
Prepaid expenses and other		6,202		6,202
Due from affiliates	563,194		\$ (563,194)	
Total current assets	1,650,360	989,870	(563,194)	2,077,036
Property, plant and equipment:				
Buildings and leasehold improvements		445,975		445,975
Equipment		102,089		102,089
Accumulated depreciation		(46,442)		(46,442)
		501,622		501,622
Other assets	39,861	3,800		43,661
	<u>\$ 1,690,221</u>	<u>\$ 1,495,292</u>	<u>\$ (563,194)</u>	<u>\$ 2,622,319</u>
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable		\$ 187,951		\$ 187,951
Salaries and wages, payroll taxes and taxes withheld from payroll		390,051		390,051
Other accrued liabilities		462,776		462,776
Due to third party reimbursement agencies		349,193		349,193
Due to affiliates	\$ 521,197	563,194	\$ (563,194)	521,197
Total current liabilities	521,197	1,953,165	(563,194)	1,911,168
Common stock	1,000			1,000
Retained earnings (deficit)	1,168,024	(457,873)		710,151
Total liabilities and net assets	<u>\$ 1,690,221</u>	<u>\$ 1,495,292</u>	<u>\$ (563,194)</u>	<u>\$ 2,622,319</u>

WWB, Inc., and Subsidiary

Consolidating Statement of Operations and Changes in Net Assets

September 30, 2010

	<b>WWB</b>	<b>Backus Home Health Care</b>	<b>Eliminations</b>	<b>WWB, Inc., and Subsidiary</b>
Operating revenues:				
Net patient service revenue		\$ 7,378,559		\$ 7,378,559
Other operating revenue		6,752		6,752
Total revenues		7,385,311		7,385,311
Expenses:				
Salaries and wages		4,148,270		4,148,270
Payroll taxes and fringe benefits		1,406,492		1,406,492
Supplies and other	\$ 67,510	1,852,801		1,920,311
Provision for uncollectible accounts		64,261		64,261
Depreciation and amortization		27,000		27,000
Total expenses	67,510	7,498,824		7,566,334
Operating (loss) income	(67,510)	(113,513)		(181,023)
Nonoperating gains:				
Investment income	53,219	1,301		54,520
Other		(3,562)		(3,562)
Excess of revenue over expenses	(14,291)	(115,774)		(130,065)
Net assets (deficit) at beginning of year	1,182,315	(342,099)		840,216
Net assets (deficit) at end of year	\$ 1,168,024	\$ (457,873)	\$	\$ 710,151

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