

**JOHNSON MEMORIAL HOSPITAL**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND OTHER FINANCIAL INFORMATION**  
**SEPTEMBER 30, 2011 AND 2010**

# JOHNSON MEMORIAL HOSPITAL

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
**Johnson Memorial Hospital**

We have audited the accompanying consolidated balance sheets of Johnson Memorial Hospital (the Hospital) as of September 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. 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 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 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 Hospital'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, as well as 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 financial position of Johnson Memorial Hospital as of September 30, 2011 and 2010, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Hospital will continue as a going concern. As described in Note 1, the Hospital has experienced recurring losses from operations, debt covenant violations, and had current liabilities that exceeded current assets by \$566,320 as of September 30, 2011. In addition, the Hospital is negotiating the forbearance of payments not made to certain pre-petition creditors when they were due. These conditions raise substantial doubt about the Hospital's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*Marcum LLP*

Hartford, CT  
January 4, 2012



# JOHNSON MEMORIAL HOSPITAL

## CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2011 AND 2010

	2011	2010
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 913,716	\$ 4,402,038
Patients accounts receivable, net of allowances for uncollectible accounts, \$2,534,000 in 2011 and \$2,599,000 in 2010	7,544,439	8,527,327
Other receivables	1,226,587	307,732
Inventories	1,216,495	1,154,583
Prepaid expenses and other current assets	<u>977,701</u>	<u>1,328,530</u>
<b>Total Current Assets</b>	<u>11,878,938</u>	<u>15,720,210</u>
<b>Assets Whose Use is Limited</b>		
Beneficial interests in perpetual trusts	3,165,722	3,283,243
Restricted cash and board designated investments	517,407	962,670
Investments permanently restricted by donor	<u>843,587</u>	<u>843,587</u>
<b>Total Assets Whose Use is Limited</b>	<u>4,526,716</u>	<u>5,089,500</u>
<b>Other Assets</b>		
Property, plant and equipment, net	21,489,519	23,774,781
Investments in joint ventures	2,856,651	2,868,975
Deferred financing costs, net	<u>540,827</u>	<u>724,807</u>
<b>Total Other Assets</b>	<u>24,886,997</u>	<u>27,368,563</u>
	<u>\$ 41,292,651</u>	<u>\$ 48,178,273</u>

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

**JOHNSON MEMORIAL HOSPITAL**  
**CONSOLIDATED BALANCE SHEETS (CONTINUED)**

**SEPTEMBER 30, 2011 AND 2010**

	2011	2010
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Trade accounts payable	\$ 2,676,050	\$ 5,592,207
Accrued payroll and related costs	1,911,006	3,323,608
Current portion of payments due under plan of reorganization	1,323,916	2,278,917
Senior debt under revolving line of credit	4,651,186	4,000,000
Current portion of mortgage payable	342,500	342,500
Current portion of subordinated debt	94,035	495,286
Current portion of capital lease obligations	180,261	243,253
Estimated amounts due to third-party reimbursement agencies	<u>1,266,304</u>	<u>1,071,475</u>
<b>Total Current Liabilities</b>	<u>12,445,258</u>	<u>17,347,246</u>
<b>Long-Term Obligations</b>		
Due to affiliate corporations	2,065,421	377,191
Payments due under plan of reorganization - less current portion	6,132,010	6,836,222
Mortgage payable - less current portion	12,158,750	12,501,250
Subordinated debt - less current portion	333,115	427,229
Obligations under capital lease - less current portion	29,810	234,658
Self-insurance liabilities	1,575,812	1,533,516
Other liabilities	<u>307,910</u>	<u>289,217</u>
<b>Total Long-Term Obligations</b>	<u>22,602,828</u>	<u>22,199,283</u>
<b>Total Liabilities</b>	<u>35,048,086</u>	<u>39,546,529</u>
<b>Net Assets</b>		
Unrestricted	1,913,639	4,504,914
Temporarily restricted	321,617	--
Permanently restricted	<u>4,009,309</u>	<u>4,126,830</u>
<b>Total Net Assets</b>	<u>6,244,565</u>	<u>8,631,744</u>
	<u>\$ 41,292,651</u>	<u>\$ 48,178,273</u>

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

# JOHNSON MEMORIAL HOSPITAL

## CONSOLIDATED STATEMENTS OF OPERATIONS

**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	2011	2010
<b>Operating Revenue</b>		
Net patient service revenue	\$ 64,894,301	\$ 65,622,834
Grant income and other contributions	26,764	277,399
Net assets released from restriction used for operations	33,994	--
<b>Total Operating Revenue</b>	64,955,059	65,900,233
<b>Expenses</b>		
Salaries	31,673,801	31,607,192
Employee benefits	6,499,243	8,853,187
Provision for uncollectible accounts	2,740,344	3,080,348
Professional fees and outsourced staffing	3,452,240	4,808,014
Depreciation and amortization	3,253,980	3,180,665
Purchased services	4,267,888	4,010,121
Supplies, drugs and patient care	7,044,386	7,504,844
Leases and service contracts	2,541,102	2,311,247
Occupancy costs	2,784,065	2,687,710
Insurance	1,267,235	1,013,279
Other expenses	1,747,182	2,181,028
Interest	1,480,694	592,676
<b>Total Expenses</b>	68,752,160	71,830,311
<b>Loss from Operations</b>	(3,797,101)	(5,930,078)
<b>Nonoperating Revenue (Loss)</b>		
Investment income	123,908	134,413
Equity (loss) earnings in joint ventures	(12,760)	315,629
	111,148	450,042
<b>Loss Before Reorganization Items</b>	(3,685,953)	(5,480,036)
<b>Reorganization Items</b>		
Professional fees	--	(1,596,330)
Gain on discharge of debt	1,094,678	34,613,501
	1,094,678	33,017,171
<b>(Deficiency) Excess of Revenues over Expenses</b>	\$ (2,591,275)	\$ 27,537,135

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

# JOHNSON MEMORIAL HOSPITAL

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (DEFICIT)

**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	2011	2010
<b>Unrestricted Net Assets</b>		
(Deficiency) excess of revenue over expenses	\$ (2,591,275)	\$ 27,537,135
Changes in additional minimum pension liability	--	(2,045,592)
<b>Change in Unrestricted Net Assets</b>	<b>(2,591,275)</b>	<b>25,491,543</b>
<b>Temporarily Restricted Net Assets</b>		
Grants and contributions	355,611	--
Net assets released from restriction for use in operations	(33,994)	--
<b>Change in Temporarily Restricted Net Assets</b>	<b>321,617</b>	<b>--</b>
<b>Permanently Restricted Net Assets</b>		
(Decrease) increase in fair value of beneficial interests in perpetual trusts	(117,521)	118,696
<b>Change in Net Assets</b>	<b>(2,387,179)</b>	<b>25,610,239</b>
<b>Net Assets (Deficit) - Beginning</b>	<b>8,631,744</b>	<b>(16,978,495)</b>
<b>Net Assets - End</b>	<b>\$ 6,244,565</b>	<b>\$ 8,631,744</b>

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

# JOHNSON MEMORIAL HOSPITAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	2011	2010
<b>Cash Flows From Operating Activities and Reorganization Items</b>		
Change in net assets	\$ (2,387,179)	\$ 25,610,239
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Gain on discharge of debt	(1,094,678)	(34,613,501)
Depreciation and amortization	3,253,980	3,180,665
Accretion of asset retirement obligation	18,693	18,288
Provision for uncollectible accounts	2,740,344	3,080,348
Change in additional pension liability	--	2,045,592
Equity earnings in joint ventures	12,760	(315,629)
Change in net unrealized gains on investments	117,521	(118,696)
Changes in assets and liabilities:		
Patient accounts receivable	(1,757,456)	(2,824,168)
Other receivables	(918,855)	(355)
Prepaid expenses and other current assets	350,829	(65,548)
Inventories	(61,912)	8,657
Restricted cash and board designated investments	445,263	12,524
Accounts payable and accrued expenses	(2,916,157)	2,812,376
Accrued payroll and related costs	(1,412,602)	(281,812)
Estimated amounts due to third-party reimbursement agencies	194,829	16,163
Self-insurance liabilities	42,296	(503,445)
Payments due under plan of reorganization	(541,415)	1,573,084
<b>Net Cash Used in Operating Activities and Reorganization Items</b>	<b>(3,913,739)</b>	<b>(365,218)</b>
<b>Cash Flows From Investing Activities</b>		
Capital expenditures	(808,294)	(2,353,889)
Purchases of investments	--	(30,000)
<b>Net Cash Used in Investing Activities</b>	<b>(808,294)</b>	<b>(2,383,889)</b>

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

# JOHNSON MEMORIAL HOSPITAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

	2011	2010
<b>Cash Flows From Financing Activities</b>		
Principal payments on mortgage and subordinated debt	\$ (837,865)	\$ (342,500)
Proceeds from revolving line of credit	651,186	4,000,000
Financing fees paid	--	(530,200)
Principal payments on capital lease obligations	(267,840)	(142,062)
Change in due to/from affiliates	<u>1,688,230</u>	<u>1,003,185</u>
<b>Net Cash Provided by Financing Activities</b>	<u>1,233,711</u>	<u>3,988,423</u>
<b>Net Change in Cash and Cash Equivalents</b>	(3,488,322)	1,239,316
<b>Cash and Cash Equivalents - Beginning</b>	<u>4,402,038</u>	<u>3,162,722</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 913,716</u>	<u>\$ 4,402,038</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 1,025,272</u>	<u>\$ 745,470</u>
Cash paid for professional fees in connection with reorganization	\$ (1,346,184)	\$ (879,341)
Cash (used in) provided by operating activities	<u>(2,567,555)</u>	<u>514,123</u>
	<u>\$ (3,913,739)</u>	<u>\$ (365,218)</u>

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

**JOHNSON MEMORIAL HOSPITAL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION**

***ORGANIZATION***

Johnson Memorial Hospital (the Hospital) is an acute care hospital located in Stafford Springs, Connecticut. The Hospital is licensed for 92 beds and provides a broad range of inpatient and outpatient services primarily throughout the Hartford and Tolland Connecticut counties. Admitting physicians are primarily practitioners in this same geographic area. The Hospital has controlling interests in Johnson Professional Associates, P.C. (JPA) and Johnson Memorial Hospital Development Fund, Inc. (Development). The Hospital is a subsidiary of Johnson Memorial Medical Center (the Corporation), a not-for-profit, non-stock holding company. The other subsidiaries of the Corporation are Johnson Health Care, Inc. (Health Care), Home & Community Health Services, Inc. (Home and Community) and Johnson Evergreen Corporation (Evergreen), which are not-for-profit companies, and WellCare, Inc., a taxable entity.

The Hospital's major accounting policies are as summarized below and in Note 2.

**EMERGENCE FROM BANKRUPTCY**

As a result of the Hospital's severe financial operating deficits, management determined it would be unable to pay its obligations in the normal course of business during fiscal year 2009 or service its debt in a timely fashion. On November 4, 2008, the Hospital, the Corporation and Evergreen, filed voluntary petitions for relief under Chapter 11 (Chapter 11 Proceedings) of the U.S. Bankruptcy Code (Bankruptcy Code) in the U.S. Bankruptcy Court for District of Connecticut, Hartford Division (Bankruptcy Court). This generally delayed payments of liabilities incurred prior to filing those petitions while the Hospital developed a plan of reorganization that was satisfactory to its creditors, and allowed it to continue as a going concern.

On August 11, 2010, the Bankruptcy Court confirmed the Hospital's plan of reorganization which was subject to the Hospital's satisfaction of a number of conditions precedent. One of the conditions precedent was that the Hospital, the Corporation, and Evergreen (collectively the Debtors) were required to obtain a line of credit of at least \$6 million. On September 30, 2010, the plan of reorganization became effective when the Debtors received financing under an \$8 million line of credit and all other material conditions precedent to the plan becoming binding were resolved. The Bankruptcy Court issued a final decree on December 29, 2010.

**JOHNSON MEMORIAL HOSPITAL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

The Hospital prepared its financial statements in accordance with the guidance in FASB ASC Topic 852, *Reorganizations*, during the period from November 4, 2008 through September 30, 2010. Revenues, expenses, realized gains and losses, and provisions for losses directly related to the Chapter 11 Proceedings were recorded in Reorganization Items which do not constitute an element of operating loss due to their nature and due to the requirement of ASC 852 that they be reported separately.

There was no change in control as the Hospital's Board of Directors immediately prior to the confirmation of the plan retained control upon emergence from the Chapter 11 proceedings. Therefore, the Hospital did not adopt fresh-start reporting.

As of September 30, 2011 and 2010, liabilities compromised by the confirmed plan have been recorded at the present values of amounts to be paid, determined at the interest rate of 6.75%. The discharge of liabilities has been reported as a \$34,613,501 gain on the discharge of debt in the 2010 statement of operations.

During the year ended September 30, 2011, management determined that the Hospital would not be eligible to receive electronic medical record stimulus funding. As of September 30, 2010, the Hospital recorded a liability of \$1,094,678 related to an estimate of the stimulus funding that would be payable to its creditors under the plan of reorganization. During the year ended September 30, 2011, the Hospital recorded a change in estimate to eliminate this liability which is reflected as a gain on discharge of debt in the 2011 consolidated statement of operations.

The Hospital's confirmed plan provided for the following:

*Secured Debt* - The Hospital's \$12,843,750 of secured debt with a bank (secured by a first mortgage lien on land and buildings located in Stafford Springs, Connecticut and a blanket lien on all furniture, fixtures, and equipment) was reinstated as such maturity existed before any default, and is payable in quarterly installments of \$85,625 through January 1, 2048. The Hospital will also remain obligated as guarantor of the Corporation's and Evergreen's secured debt in the amounts of \$3,240,000 and \$14,829,913, respectively, as of September 30, 2011.

*Other Secured Debt* – The Hospital's \$2,870,658 loan to finance information technology equipment was restructured to be paid in 60 monthly installments of \$10,000, including interest, plus \$414,474 from a restricted investment account. The carrying value of this compromised debt was \$427,150 and \$922,515 as of September 30, 2011 and 2010, respectively.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

*Priority and Administrative Claims* – All priority and administrative claims will be paid as allowed by the Court.

*Trade and Other Miscellaneous Claims* - The holders of approximately \$11 million of trade and other miscellaneous claims are entitled to receive \$705,232 on the effective date, \$256,025 on the first anniversary of the effective date, \$488,775 on the second anniversary of the effective date and \$954,275 on the each of the third, fourth, and fifth anniversaries of the effective date. The distribution could increase if the Hospital receives electronic medical record stimulus funding or if there is a change in control.

The holders of approximately \$145,000 of convenience claims are entitled to receive 50% of their allowed claim. Unexpired leases and executory contracts not rejected by the Hospital are paid according to their original or negotiated terms.

*Pension Benefit Guaranty Corporation (PBGC) Claims* - The PBGC is entitled to receive \$730,402 on the effective date, \$266,475 on the first anniversary of the effective date, \$508,725 on the second anniversary of the effective date and \$993,225 on the each of the third, fourth, and fifth anniversaries of the effective date. The distribution could increase if the Hospital receives electronic medical record stimulus funding, if there is a change in control, or if the Hospital receives litigation claim proceeds related to claims, rights or causes of action arising under Chapter 5 of the Bankruptcy Code.

The effects of the plan of reorganization on the Hospital's balance sheet as of September 30, 2010 were as follows:

	Pre- Confirmation	Debt Discharge	Reorganized Balance Sheet
Assets	\$ 48,209,005	\$ (30,732)	\$ 48,178,273
Liabilities	74,190,762	(34,644,233)	39,546,529
Net Assets (Deficit)	(25,981,757)	34,613,501	8,631,744

The Hospital failed to make the initial payment of \$730,402 to the PBGC during the year ended September 30, 2011. In addition there was \$71,014 of unsecured claims that were not paid. The Hospital has not made these payments as of September 30, 2011 and is currently pursuing a forbearance of these payments with the creditors and also a forbearance of the payments totaling \$522,500 that were due on the first anniversary of the effective date of the plan of reorganization.

**JOHNSON MEMORIAL HOSPITAL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

***GOING CONCERN***

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. For the year ended September 30, 2011, the Hospital experienced a loss of \$3,685,953 before reorganization items and had current liabilities that exceeded current assets by \$566,320. In addition, the Hospital is negotiating the forbearance of payments not made to certain pre-petition creditors when they were due. As stated in Note 9, the Hospital entered into a credit agreement that requires certain financial and non financial covenants be maintained. These covenants, which require that the Hospital and its parent and affiliates achieve levels of EBITDA were violated in 2011. Those conditions raise substantial doubt about the Hospital's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

It is the plan of management to ensure that the Hospital continues as a going concern. Management of the Corporation has embarked on a search to identify an affiliation partner that will be able to provide resources and relationships to Johnson Memorial Medical Center and its subsidiaries to help ensure that the Hospital continues as a going concern.

The Hospital's continuation as a going concern is ultimately dependent upon its future financial performance, which will be affected by general economic, competitive and other factors, many of which are beyond the Hospital's control. There can be no assurance that the Hospital's plans to ensure continuation as a going concern will be successful.

***PRINCIPLES OF CONSOLIDATION AND PRESENTATION***

The accompanying consolidated financial statements include the accounts of Johnson Memorial Hospital, Johnson Professional Associates, P.C., and Johnson Memorial Hospital Development Fund, Inc. (Development). Johnson Professional Associates, P.C. and Development are entities in which the Hospital has a controlling financial interest. All inter-company accounts have been eliminated in consolidation.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

##### *CONSOLIDATION*

ASC 810-25, *Consolidations*, requires a not-for-profit entity, among other things, to consolidate into its financial statements the financial results of another not-for-profit in which it has a controlling financial interest and to make certain disclosures. Reference is made to Note 2.

ASC 810-15 requires a for profit entity to be consolidated if an organization has the power through voting or similar rights to direct the economic activities of the entity.

##### *NET ASSET CATEGORIES*

To ensure observance of limitations and restrictions placed on the use of resources available to the Hospital, the accounts of the Hospital are maintained in the following net asset categories:

*Unrestricted* – Unrestricted net assets represent available resources which can be used for general operations of the Hospital. Included in unrestricted net assets are assets set aside by the Board of Directors.

*Temporarily Restricted* – The Hospital reports gifts of cash and other assets as 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 to unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in within the same year as received are reflected as unrestricted contributions in the accompanying statements of operations. At September 30, 2011 the Hospital had temporarily restricted net assets of \$321,617. The Hospital had no temporarily restricted net assets as of September 30, 2010.

*Permanently Restricted* – Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that income earned thereon is available for operations or a specific purpose.

**JOHNSON MEMORIAL HOSPITAL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

***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 reported amounts of assets, including estimated uncollectible accounts receivable for services to patients, and liabilities, including estimated net settlements with third-party reimbursement agencies and professional liabilities, and disclosure of contingent assets and contingent liabilities at the date of the financial statements. Estimates also affect the amounts of revenues and expenses reported during the period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

***REGULATORY MATTERS***

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

***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 net assets 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 to unrestricted net assets.

***CASH AND CASH EQUIVALENTS***

The Hospital considers all highly liquid investments with remaining maturities of three months or less at date of purchase to be cash equivalents. Cash and cash equivalents are held at a limited number of financial institutions and at times, the amounts on deposit exceed insured limits.

***ACCOUNTS RECEIVABLE***

Patient accounts receivable result from the health care services provided by the Hospital and JPA. The amount of the allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 3 for additional information relative to net patient service revenue recognition and third-party payer programs.

**JOHNSON MEMORIAL HOSPITAL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

***INVENTORIES***

Inventories of drugs and supplies are stated at the lower of cost or market, determined using the first in first out method.

***INVESTMENTS***

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) are included in the deficiency of revenues over expenses unless the income or loss is restricted by donor or law.

Unrealized gains and losses on investments on the Hospital's beneficial interest in perpetual trusts are recorded as changes in permanently restricted net assets.

***INVESTMENT IN JOINT VENTURES***

The Hospital has two joint ventures that it accounts for using the equity method. The changes in the Hospital's share in the equity of these joint ventures is recorded as a component of non-operating revenue (loss) in the consolidated statements of operations.

***PROPERTY, PLANT AND EQUIPMENT***

Property, plant and equipment are recorded at cost. The Hospital provides for depreciation of property, plant and equipment and amortization of assets recorded under capital leases using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

Financial Accounting Standards Board ASC 410-20, *Accounting for Asset Retirement Obligations*, provides guidance on accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Asset retirement obligations include, but are not limited to, certain types of environmental issues which are legally required to be remediated upon an asset's retirement as well as contractually required asset retirement obligations. ASC 410-20 provides clarifying guidance on conditional asset retirement obligations. Conditional asset retirement obligations are obligations whose settlement may be uncertain. ASC 410-20's guidance requires such conditional asset retirement obligations to be estimated and recognized. Application of these pronouncements affects the Hospital with respect to required future asbestos remediation.

**JOHNSON MEMORIAL HOSPITAL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

Conditional asset retirement obligations of \$307,910 and \$289,217 as of September 30, 2011 and 2010, respectively, were recorded in other liabilities on the balance sheets. These retirement obligations have been discounted at a rate of 6.75%. The undiscounted amounts of the obligations were \$346,000 at September 30, 2011 and 2010. There were no retirement obligations incurred or settled during 2011 or 2010. Reference is made to Note 14 regarding other environmental exposures.

***IMPAIRMENT OF LONG-LIVED ASSETS***

The Hospital records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There were no impairment losses in 2011 or 2010.

***NON-OPERATING REVENUE (LOSS)***

Activities, other than in connection with providing health care services, are considered to be non-operating. Non-operating revenue (loss) consist primarily of income on invested funds, gains and losses on sales of securities and the changes in the Hospital's share of equity of the joint ventures accounted for under the equity method.

***DEFERRED FINANCING FEES***

Deferred financing costs, which were incurred in connection with the debt, are being amortized over the term of the related debt.

***DEFICIENCY OF REVENUE OVER EXPENSES***

The statements of operations and changes in net assets include the deficiency of revenue over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the deficiency of revenue over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), permanent transfers of assets to and from affiliates for other than goods and services, and pension liability adjustments.

**JOHNSON MEMORIAL HOSPITAL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

***INCOME TAXES***

The Hospital and Development are not-for-profit corporations as defined in Section 501(c)(3) of the Internal Revenue Code, and therefore are exempt from federal and state income taxes, except on net income derived from unrelated business activities. JPA is a professional corporation that has experienced losses since inception and accordingly, no provisions for federal or state income taxes have been recorded.

The Hospital accounts for uncertainty in income tax positions in the consolidated financial statements by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Management has analyzed the tax positions taken and has concluded that as of September 30, 2011, there are no uncertain tax positions taken or expected to be taken in that would require recognition of a liability (or asset) or disclosure in the financial statements. The Hospital, Development, and JPA are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes that these organizations are no longer subject to income tax examinations prior to 2008.

***ESTIMATED MEDICAL MALPRACTICE AND WORKERS' COMPENSATION COSTS***

The provision for estimated medical malpractice and workers' compensation claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

***ADVERTISING***

The Hospital expenses advertising costs as incurred. Advertising expenses for the years ended September 30, 2011 and 2010 were \$154,129 and \$129,395, respectively.

***BENEFICIAL INTEREST IN PERPETUAL TRUSTS***

The Hospital is the beneficiary of several trust funds. Although the principal balances in the trust funds are permanently restricted, the income earned on the trust funds is unrestricted. The 2011 unrealized losses from the trust funds were \$117,521 and the 2010 unrealized gains from the trust fund were \$118,696 and are included in changes in permanently restricted net assets.

**JOHNSON MEMORIAL HOSPITAL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

***RECOGNITION OF GRANT REVENUE***

Grants are generally considered to be exchange transactions in which the grantor requires the performance of specified activities. Entitlement to cost reimbursement grants is conditioned on the expenditure of funds in accordance with grant restrictions and, therefore, revenue is recognized to the extent of grant expenditures. Entitlement to performance based grants is conditioned on the attainment of specific performance.

***CHARITY CARE***

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge, or at amounts less than its established rates. The Hospital does not pursue collection of amounts determined to be charity care and these amounts are not reported as net patient service revenues. During the fiscal years ended September 30, 2011 and 2010, the charges foregone related to charity care were \$465,815 and \$280,655, respectively.

***ADOPTION OF NEW ACCOUNTING STANDARDS***

In January 2010, the Financial Accounting Standards Board (FASB) issued ASU No. 2010-06, *Fair Value Measurements and Disclosures*, (ASU No. 2010-06) which amended ASC Topic 820, *Fair Value Measurements and Disclosures*, (ASC Topic 820) by requiring disclosure of significant transfers between Levels 1 and 2 and transfers into and out of Level 3 of the fair value hierarchy and the reasons for those transfers. In addition, ASU No. 2010-06 amends the reconciliation of the beginning and ending balances of Level 3 recurring fair value measurements to present information about purchases, sales, issuances and settlements on a gross basis rather than as a net number. Finally, ASU No. 2010-06 requires fair value disclosures for each class of assets and liabilities and changes the guidance for organizations disclosure about pension and postretirement plan assets to require that they be made for classes of assets instead of major categories.

ASU No 2010-06 was effective for periods beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances and settlements on a gross basis, which is effective for fiscal years beginning after December 15, 2010. The Hospital adopted the required provisions of ASU No. 2010-06 on October 1, 2010. The adoption of ASU No. 2010-06 did not have a material impact on the Hospital's financial statements.

**JOHNSON MEMORIAL HOSPITAL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

***SUBSEQUENT EVENTS***

The Hospital evaluates the impact of subsequent events, 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 or for disclosure in the notes to the consolidated financial statements. The Hospital evaluated events occurring subsequent to September 30, 2011 through January 4, 2012, the date on which the accompanying financial statements were available to be issued. During this period, there were no subsequent events that required disclosure or recognition in the financial statements.

**NOTE 2 – CONSOLIDATED ENTITIES**

JPA is a medical practice that is controlled by the Hospital. Although the Hospital does not have direct ownership interests in JPA, the Hospital has a controlling voting interest in the Board of JPA, thus enabling the Hospital to control the economic activities of JPA. Also, the Hospital provides funding to JPA to fund its operating losses.

Johnson Memorial Hospital Development Fund, Inc. is a not-for-profit organization that raises funds for the Hospital and other affiliates in which the Hospital has a controlling financial interest by virtue of control of its board of directors and the fact that substantially all of Development's assets are for the use of the Hospital.

**NOTE 3 – NET REVENUE FROM SERVICES TO PATIENTS AND CHARITY CARE**

The following table summarizes net revenue from services to patients during the years ended September 30, 2011 and 2010:

	2011	2010
Gross patient service revenue	\$ 159,536,718	\$ 161,154,502
Contractual and other allowances	(94,176,602)	(95,251,013)
Charity care provided free of charge	(465,815)	(280,655)
Net patient service revenue	\$ 64,894,301	\$ 65,622,834

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from most payers are different from the established billing rates of the Hospital, and these differences are accounted for as allowances.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 3 – NET REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE (CONTINUED)

The following table represents the percentages of net revenue received from payers during the years ended September 30, 2011 and 2010:

	2011	2010
Medicare	39%	35%
Medicaid	7%	5%
Third parties	41%	47%
Other	13%	13%

Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

The significant concentrations of net accounts receivable for services to patients by payer at September 30, 2011 and 2010 follow:

	2011	2010
Medicare	27%	24%
Medicaid	11%	9%
Third parties	38%	47%
Other	24%	20%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Hospital believes that it is in compliance with all applicable laws and regulations. Cost reports for the Hospital, which serve as a basis for final settlement with government payors, have been settled by final settlement through 2006 for Medicare and 1993 for Medicaid. Other years remain open for settlement.

The Hospital has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

#### NOTE 3 – NET REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE (CONTINUED)

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. Essentially, these policies define charity services as those services for which no payment is possible. In assessing a patient's inability 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 incomes. These charges are not included in net patient service revenues for financial reporting purposes.

#### NOTE 4 – ASSETS WHOSE USE IS LIMITED

The composition of assets whose use is limited, which include beneficial interests in perpetual trusts, cash restricted for payment of workers compensation claims, cash collateral related to the financing of the Hospital's information systems project to be repaid under the plan of reorganization (as of September 30, 2010) and permanently restricted investments by donors are set forth in the following table. Investments are stated at fair value.

	2011		2010	
	Cost	Fair Value	Cost	Fair Value
Cash	\$ 1,538,157	\$ 1,538,157	\$ 1,985,755	\$ 1,985,755
Money market funds	10,419	10,419	8,926	8,926
Mutual funds - equity	143,353	147,632	149,529	167,201
Mutual funds - fixed	99,162	95,857	87,408	91,142
Collective funds - equity	28,470	47,842	29,826	55,088
Collective funds - fixed	35,973	36,615	35,090	35,191
Investment grade taxable bonds	764,010	872,421	676,732	788,495
Global high yield bonds	109,654	97,005	109,872	101,686
Equities				
U.S. large cap	1,070,874	1,086,711	935,262	1,060,411
U.S. mid cap	384,883	369,163	476,865	546,602
U.S. small cap	62,686	50,196	56,511	50,812
International developed	197,341	169,415	192,434	187,842
Emerging markets	--	--	3,035	5,037
Real estate	4,687	5,283	4,687	5,312
	<u>\$ 4,449,669</u>	<u>\$ 4,526,716</u>	<u>\$ 4,751,932</u>	<u>\$ 5,089,500</u>

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 4 – ASSETS WHOSE USE IS LIMITED (CONTINUED)

Investment income and gains on investments for the years ended September 30 are below.

	2011	2010
Income		
Interest and dividend income	\$ 162,970	\$ 142,846
Realized gains on sales of securities	<u>243</u>	<u>--</u>
	163,213	142,846
Less - investment management fees	<u>(39,305)</u>	<u>(8,433)</u>
Net investment gains	<u>\$ 123,908</u>	<u>\$ 134,413</u>

#### NOTE 5 – FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the financial statements are categorized, for disclosure purposes, based upon whether the inputs used to determine their fair values are observable or unobservable utilizing a three-level fair value hierarchy that prioritizes the inputs used to measure assets and liabilities at fair value. Level inputs are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Hospital has the ability to access on the reporting date.

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specific (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs that are unobservable for the asset or liability.

The fair values of Level 1 securities were determined through quoted market prices, while fair values of Level 2 securities were determined primarily through prices obtained from third party pricing sources, where quoted market prices for such securities were not available. The fair values of Level 3 securities were determined primarily through information obtained from the relevant counterparties for such investments, as information on which these securities' fair values are based is generally not readily available in the market.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

#### NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes fair value measurements, by level, at September 30, 2011 and 2010, for all assets and liabilities which are measured at fair value on a recurring basis in the financial statements:

	Level 1	Level 2	Level 3	Total
September 30, 2011				
Beneficial interests in perpetual trusts				
Cash	\$ 177,163	\$ --	\$ --	\$ 177,163
Money market funds	10,419	--	--	10,419
Mutual funds - equity	147,632	--	--	147,632
Mutual funds - fixed	95,857	--	--	95,857
Collective funds - equity	--	--	47,842	47,842
Collective funds - fixed	--	--	36,615	36,615
Investment grade taxable bonds	872,421	--	--	872,421
Global high yield bonds	97,005	--	--	97,005
Equities				
U.S. large cap	1,086,711	--	--	1,086,711
U.S. mid cap	369,163	--	--	369,163
U.S. small cap	50,196	--	--	50,196
International developed	169,415	--	--	169,415
Real estate	5,283	--	--	5,283
Total beneficial interests in perpetual trusts	3,081,265	--	84,457	3,165,722
Restricted cash and board designated investments	517,407	--	--	517,407
Investments permanently restricted by donor	843,587	--	--	843,587
	<u>\$ 4,442,259</u>	<u>\$ --</u>	<u>\$ 84,457</u>	<u>\$ 4,526,716</u>

**JOHNSON MEMORIAL HOSPITAL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)**

	Level 1	Level 2	Level 3	Total
September 30, 2010				
Beneficial interests in perpetual trusts				
Cash	\$ 179,498	\$ --	\$ --	\$ 179,498
Money market funds	8,926	--	--	8,926
Mutual funds - equity	167,201	--	--	167,201
Mutual funds - fixed	91,142	--	--	91,142
Collective funds - equity	--	--	55,088	55,088
Collective funds - fixed	--	--	35,191	35,191
Investment grade				
taxable bonds	788,495	--	--	788,495
Global high yield bonds	101,686	--	--	101,686
Equities				
U.S. large cap	1,060,411	--	--	1,060,411
U.S. mid cap	546,602	--	--	546,602
U.S. small cap	50,812	--	--	50,812
International developed	187,842	--	--	187,842
Emerging markets	5,037	--	--	5,037
Real estate	5,312	--	--	5,312
Total beneficial interests in perpetual trusts				
	3,192,964	--	90,279	3,283,243
Restricted cash and board designated investments				
	962,670	--	--	962,670
Investments permanently restricted by donor				
	843,587	--	--	843,587
	<u>\$ 4,999,221</u>	<u>\$ --</u>	<u>\$ 90,279</u>	<u>\$ 5,089,500</u>

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

	<u>Beneficial Interests in Perpetual Trusts</u>
Balance at October 1, 2009	\$ 185,511
Change in fair value	<u>(95,232)</u>
Balance at September 30, 2010	\$ 90,279
Change in fair value	<u>(5,822)</u>
Balance at September 30, 2011	<u>\$ 84,457</u>

#### NOTE 6 – RESTRICTED ENDOWMENTS

The Hospital's endowments consist of donor-restricted endowment funds and beneficial interests in perpetual trusts. Net assets associated with endowment funds are classified and reported based on donor-imposed restrictions.

The Hospital's Board of Directors has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulations to the contrary. This does not apply to beneficial interests in perpetual trusts where the fair value of the investments is the basis for the amount recorded as permanently restricted net assets.

As a result of the interpretation of UPMIFA, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and, if applicable, (c) accumulations to the permanent endowment made in accordance with the related gift's donor instructions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets based on the donors' stipulations and those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard for expenditures as proscribed by UPMIFA.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 6 – RESTRICTED ENDOWMENTS (CONTINUED)

In accordance with UPMIFA, the Hospital considers 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 Hospital and 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

#### *RETURN OBJECTIVES AND RISK PARAMETERS*

For the permanently restricted endowment funds, the bank, acting in its capacity as trustee, determines and directs the investment policy and asset allocation. For the unrestricted endowment funds, the Hospital's Board of Directors has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Hospital expects these endowment funds, over time, to provide an average rate of return that exceeds the rate of inflation annually. Actual returns in any given year may vary from this amount.

#### *STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES*

To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

#### *SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO THE SPENDING POLICY*

The Hospital has a policy of evaluating the spending decisions for each endowment fund based upon the intentions of the donors and specific contractual agreements. In determining the annual amount to be spent, the Hospital considers the long-term expected return on its endowment. The spending policy is designed to limit spending to the expected long-term real rate of return. The annual distribution from the endowment funds is expected to be contained within a range of the trusts' market value that is consistent with the Hospital's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

#### NOTE 6 – RESTRICTED ENDOWMENTS (CONTINUED)

*ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2011 AND 2010:*

	Unrestricted	Permanently Restricted	Total
September 30, 2011			
Donor-restricted endowment funds	\$ --	\$ 843,587	\$ 843,587
Beneficial interests in perpetual trusts	--	3,165,722	3,165,722
	<u>\$ --</u>	<u>\$ 4,009,309</u>	<u>\$ 4,009,309</u>
September 30, 2010			
Donor-restricted endowment funds	\$ --	\$ 843,587	\$ 843,587
Beneficial interests in perpetual trusts	--	3,283,243	3,283,243
	<u>\$ --</u>	<u>\$ 4,126,830</u>	<u>\$ 4,126,830</u>

*CHANGES IN ENDOWMENT NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010*

	Unrestricted	Permanently Restricted	Total
September 30, 2011			
Endowment net assets, beginning	<u>\$ --</u>	<u>\$ 4,126,830</u>	<u>\$ 4,126,830</u>
Investment return:			
Investment income	120,877	--	120,877
Net unrealized losses	--	(117,521)	(117,521)
Total investment return	<u>120,877</u>	<u>(117,521)</u>	<u>3,356</u>
Appropriation of endowment assets for expenditure	<u>(120,877)</u>	<u>--</u>	<u>(120,877)</u>
Endowment net assets, ending	<u>\$ --</u>	<u>\$ 4,009,309</u>	<u>\$ 4,009,309</u>

**JOHNSON MEMORIAL HOSPITAL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**NOTE 6 – RESTRICTED ENDOWMENTS (CONTINUED)**

	Unrestricted	Permanently Restricted	Total
September 30, 2010			
Endowment net assets, beginning	\$           --	\$  4,008,134	\$  4,008,134
Investment return:			
Investment income	138,160	--	138,160
Net unrealized gains	<u>          --</u>	<u>      118,696</u>	<u>      118,696</u>
Total investment return	<u>      138,160</u>	<u>      118,696</u>	<u>      256,856</u>
Appropriation of endowment assets for expenditure	<u>      (138,160)</u>	<u>                  --</u>	<u>      (138,160)</u>
Endowment net assets, ending	<u>                  --</u>	<u>  4,126,830</u>	<u>  4,126,830</u>

**NOTE 7 – TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets of \$321,617 as of September 30, 2011 represent the unexpended proceeds of a \$350,000 grant received from Northeast Regional Radiation Oncology Network, Inc. (NRRON) to be used for the construction of a new infusion center in Enfield, CT. The Hospital has a 25% ownership interest in NRRON (\$2,819,068 and \$2,825,242 at September 30, 2011 and 2010, respectively) that is included in investments in joint ventures on the consolidated balance sheets.

Permanently restricted net assets of \$4,009,309 and \$4,126,830 at September 30, 2011 and 2010, respectively, represent assets to be held in perpetuity, the income from which is expendable to support health care services and the general operations of the Hospital.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

The components of cost and the related accumulated depreciation comprising property, plant and equipment as of September 30, 2011 and 2010 are as follows:

	2010	2009
Land	\$ 406,997	\$ 406,997
Land improvements	1,237,587	1,237,587
Building and improvements	24,020,629	23,914,944
Fixed and movable equipment	<u>33,246,309</u>	<u>32,724,494</u>
	58,911,522	58,284,022
Less accumulated depreciation	<u>(37,422,003)</u>	<u>(34,509,241)</u>
	<u>\$ 21,489,519</u>	<u>\$ 23,774,781</u>

Depreciation expense for property, plant and equipment amounted to \$3,033,472 and \$3,131,910 for the years ended September 30, 2011 and 2010, respectively. Included within depreciation and amortization on the statements of operations is amortization for capital leased assets of \$91,372 and \$126,475 for the years ended September 30, 2011 and 2010, respectively (see Note 10).

#### NOTE 9 – DEBT

##### *MORTGAGE NOTE PAYABLE*

On August 1, 2006, the Hospital entered into a \$13,700,000 commercial construction mortgage loan with a bank. The loan was used to finance the expansion and renovation of the emergency department, three nursing units, the psychiatric unit, and two medical and surgical units, and to refinance the Hospital's existing loans (collectively, the Project). In December 2007, the loan was converted to a term loan, which is guaranteed by the United States Department of Agriculture (USDA) through the USDA Rural Development Community Facilities Program. The term loan calls for equal quarterly principal payments of \$85,625 over 40 years and will mature on January 1, 2048. Fifty percent of the loan bears interest at the bank's five year cost of borrowing plus 1.50% and fifty percent of the loan bears interest at the three month LIBOR plus 1.25%. The interest rates in effect at September 30, 2011 were 6.63% and 1.50%, respectively.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 9 – DEBT (CONTINUED)

As of September 30, 2011, there was a balance of \$12,501,250 due on the mortgage.

The Hospital is required to meet certain financial covenants under the mortgage. On September 27, 2010, the mortgage was modified and the bank waived all defaults that occurred prior to that date. The quarterly debt service coverage ratio requirement was also modified. The Hospital did not comply with this covenant for the quarter ended December 31, 2010. On March 30, 2011, the bank waived this default and also waived the measurement of this covenant for the quarter ending March 31, 2011.

In 2006, the Hospital entered into a loan to finance certain information systems equipment at an interest rate of 5.5%. The Hospital failed to make payments in accordance with the loan terms. The Hospital's loan to refinance information equipment was restructured to be paid in 60 monthly installments of \$10,000, including interest, plus \$414,474 from a restricted investment account. The present value of the settlement value of this loan was \$427,150 and \$922,515 at September 30, 2011 and 2010, respectively.

Future minimum payments by year and in the aggregate for the mortgage loan and subordinated debt were as follows at September 30, 2011:

2011	\$ 436,536
2012	443,083
2013	450,087
2014	457,578
2015	352,445
Thereafter	<u>10,788,671</u>
	<u>\$ 12,928,400</u>

#### ***REVOLVING LOAN***

In September 2010, the Hospital, along with several affiliates (the Borrowers), entered into a Revolving Loan and Security Agreement (senior debt under revolving line of credit) with a lender for an amount not to exceed the lesser of \$8 million or the maximum borrowing base (85% of the book value of all eligible receivables). All amounts outstanding bear interest at the greater of the 3 month LIBOR rate plus 4.25% or 5.75% payable monthly in arrears and the line of credit expires on September 27, 2013. The Hospital has granted the lender a security interest in accounts receivable.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 9 – DEBT (CONTINUED)

The Hospital is jointly and severally liable for the full payment of the debt under this agreement, including any debt incurred by Evergreen and Home & Community Health Services, Inc.

As of September 30, 2011, there were outstanding borrowings of \$4,651,186 under the Loan and Security Agreement and \$894,838 was available for future borrowings.

The Borrowers are subject to a number of covenants and restrictions under the Revolving Loan and Security Agreement. These include the following affirmative and negative covenants: provision of monthly, quarterly and annual financial information, adequate insurance coverage, notice of certain events and changes, change in ownership or management, restrictions on indebtedness and lease agreements, sale of assets, protection of collateral and financial covenants prepared on a consolidated basis for the Borrowers including cash flow and debt service coverage ratio requirements.

During 2011, the Borrowers failed to comply with various covenants under the Revolving Loan and Security Agreement. This resulted in the lender imposing an interest penalty of 4% beginning January 2011. This penalty will stay in place until which time the Hospital is in compliance with all the financial covenants. As a result of these covenant violations, the lender has the ability to demand repayment from the Borrowers.

#### NOTE 10 – LEASE OBLIGATIONS

##### *CAPITAL LEASES*

The Hospital has entered into non-cancelable capital lease obligations for certain equipment. The cost of the assets is being amortized over the useful lives of the assets or the shorter of the respective lease term or useful life if the asset does not transfer to the Hospital at the end of the lease term and is summarized as of September 30, 2011 and 2010 are as follows:

	2011	2010
Medical and other equipment	\$ 913,226	\$ 913,266
Less, accumulated amortization	<u>(258,127)</u>	<u>(166,755)</u>
	<u>\$ 655,099</u>	<u>\$ 746,511</u>

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 10 – LEASE OBLIGATIONS (CONTINUED)

Future minimum lease payments under the capital leases, together with the present value of future minimum lease payments, as of September 30, 2011 are as follows:

2012	\$ 215,733
2013	<u>30,313</u>
Total future minimum lease payments	246,046
Less, amounts representing interest	<u>35,975</u>
Present value of future minimum lease payments	210,071
Less, current portion	<u>180,261</u>
	<u>\$ 29,810</u>

#### *OPERATING LEASES*

The Hospital leases various computer equipment, medical equipment and office space under operating leases, which expire at various dates through 2016. Rent expense under the operating leases was \$2,060,932 and \$1,828,299 in 2011 and 2010, respectively. These leases have various terms and conditions. The Hospital subleases land to an affiliated corporation under a month-to-month lease arrangement. Sublease income was \$180,000 for each of the fiscal years ended September 30, 2011 and 2010.

Minimum future rental commitments on these non-cancelable operating leases with initial or remaining terms of more than one year as of September 30, 2011 are as follows:

2012	\$ 647,555
2013	308,962
2014	<u>104,003</u>
	<u>\$ 1,060,520</u>

#### NOTE 11 – EMPLOYEE BENEFIT PLANS

The Hospital had a defined benefit pension plan that covered certain employees. The benefits are based on years of service and the employees' compensation during the last five years of employment.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 11 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Effective December 31, 2005 (December 31, 2006 for bargaining unit employees), the defined benefit pension plan was frozen, limiting participants to employees that had obtained the age of 54 and 15 years of service as of that date. The remaining employees were eligible to participate in the Hospital's defined contribution plan, which was established in 2006, whereby the Hospital matched up to 4% of employee contributions subject to IRS limitations. Effective August 1, 2008, the Hospital ceased benefit accruals for all participants who had not previously ceased to accrue benefits. The Hospital made no contributions to the defined benefit plan in 2010 or 2011.

Pursuant to the plan of reorganization, the Pension Benefit Guaranty Corporation has assumed control of the defined benefit plan effective September 1, 2011.

As of September 30, 2010, the Hospital recorded a liability to the PBGC of \$4,636,427 representing the present value of the settlement of the PBGC's bankruptcy claim. This liability, along with accrued plan termination premium of \$360,687, was included in payment due under plan of reorganization in the 2010 balance sheet. Reference is made to Note 1.

Following is a summary of the benefit plan's funded status at September 30, 2010:

#### **Change in benefit obligation**

Benefit obligation - October 1, 2009	\$ 44,643,811
Service cost	99,380
Interest cost	2,523,954
Actuarial loss	2,672,665
Benefits paid	<u>(1,381,420)</u>
Benefit obligation - September 30, 2010	<u>\$ 48,558,390</u>

#### **Change in plan assets**

Fair value of plan assets - October 1, 2009	\$ 21,654,387
Actual return on plan assets	1,955,370
Benefits paid	(1,381,420)
Administrative expenses	<u>(278,047)</u>
Fair value of plan assets - September 30, 2010	<u>\$ 21,950,290</u>
Funded status (deficit)	<u>\$ (26,608,100)</u>
Accrued pension liability	<u>\$ --</u>

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 11 – EMPLOYEE BENEFIT PLANS (CONTINUED)

##### Components of 2010 net periodic pension cost

Service cost	\$ 416,630
Interest cost	2,523,954
Expected return on plan assets	(2,478,948)
Prior service cost	1,964
Amortization of net loss	1,106,282
Recognition due to settlement or curtailment	<u>3,202</u>

##### Net periodic benefit cost for the year

ended September 30, 2010 \$ 1,573,084

Changes in benefit obligations recognized in unrestricted net assets during 2010 included:

Current year actuarial losses	\$ (3,157,040)
Amortization of prior service cost	5,166
Amortization of net loss	<u>1,106,282</u>
	<u>\$ (2,045,592)</u>

#### *ASSUMPTIONS*

The weighted-average assumptions used to determine benefit obligations at September 30, 2010 was as follows:

Discount rate	5.25%
Rate of compensation increase	N/A

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 11 – EMPLOYEE BENEFIT PLANS (CONTINUED)

The weighted-average assumptions used to determine net periodic benefit cost for the year ended September 30, 2010 was as follows:

Discount rate	5.75%
Expected return on assets	8.75%
Rate of compensation increase	3.50%

#### *EXPECTED RETURN ON PLAN ASSETS*

To develop the expected rate of return on assets assumptions, the Hospital considered the historical returns and the future expectations of returns for each asset class, as well as target asset allocations of the pension portfolio. This resulted in the selection of the 8.75% rate of return.

#### *INVESTMENT POLICY*

The Plan's weighted-average asset allocation at September 30, 2010 by asset category were as follows:

<u>Asset Category</u>	<u>Actual Plan Assets</u>
Equities	60%
Debt securities - fixed income	9%
Insurance contracts (cash management)	8%
Real estate	23%

The Investment Committee of the Board of Directors (the Committee) was responsible for employee benefit program policies with respect to plan assets and the retention of qualified managers, consultants and trustee/custodians. The investment objective of the Committee was to maximize total return after inflation within the limits of prudent risk taking by diversifying across asset classes and multiple managers. The Committee established an asset allocation policy that sets a target and range for each asset class as shown in the table above.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 12 – SELF-INSURANCE CLAIMS

There have been medical malpractice and workers' compensation claims that have been asserted against the Hospital. In addition, there are known incidents that have occurred through September 30, 2011 that may result in the assertion of claims. Hospital management has accrued its best estimate of these contingent losses. Other claims may be asserted arising from services provided to patients or workers' compensation incidents in the past. Hospital management has provided reserves for these contingent liabilities.

#### NOTE 13 – PROFESSIONAL, GENERAL LIABILITY AND WORKERS' COMPENSATION INSURANCE

For claims incurred through August 31, 2009, the Hospital was self-insured for professional liability and general liability claims, under a claims made plan, which covered the Corporation's entire health system. The Corporation has an excess umbrella claims made policy for claims in excess of the Corporation's self-insured limits. The Corporation's independent actuary estimated the expected costs to settle such claims. Accrued losses have been discounted at 3%.

The Hospital has accrued self-insurance liabilities of \$1,269,265 for the estimated costs of settlements for its professional liability and general liability insurance risks as of September 30, 2011 and 2010. For claims incurred after August 31, 2009, the Hospital was covered under commercial claims made policies with no deductible and coverage of \$1,000,000 per claim and an annual aggregate of \$3,000,000 for all of the entities covered under the policy.

The Hospital was also self-insured for workers compensation claims through March 16, 2009 at which time it obtained commercial insurance. The Hospital has accrued \$306,547 and \$264,251 of self-insured liabilities as of September 30, 2011 and 2010, respectively, for workers' compensation cases. The Hospital's workers' compensation policy has no deductible and policy limits of \$1,000,000 per case with no aggregate limit for claims incurred after March 16, 2009.

#### NOTE 14 – COMMITMENTS AND CONTINGENCIES

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

The Hospital also has the following environmental exposures:

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 14 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Connecticut Department of Public Health (DPH) issued an order that requires the Hospital to monitor drinking water that comes from its well field, report the results and submit plans for review and approval by DPH to upgrade the drinking water supply system to reduce the level of uranium found in the well water. The Hospital and DPH have agreed on plans and specifications for the Hospital to construct improvements to the well system and report to DPH on or before July 1, 2012 that the work has been completed. Management estimates that the costs to enhance the well system will be approximately \$350,000. Construction on a building to house the filtering systems and piping has begun and management expects to complete the project by February 2012.

The Connecticut Department of Environmental Protection (DEP) issued a consent order (Sewer Order) which requires the Hospital to perform repairs or replacements to the aging wastewater treatment system at the Hospital. The Sewer Order requires a short-term and a long-term solution. The short-term work has been completed in accordance with the Sewer Order and the Hospital has been reporting to the DEP on the status of the short-term solution. Under the long-term solution, the Hospital had until March 30, 2011 to submit to the DEP for review and approval a schedule for: (i) the investigation of and remedial action alternatives to abate any pollution at the site arising from the operation of the on-site sewage treatment system or (ii) the construction of sanitary sewers to connect the Hospital to the Stafford Water Pollution Control Facility. The schedule shall provide for completion of the actions not later than December 31, 2014. Negotiations are currently underway with the Town of Stafford for a sewer and use agreement. Once completed, the Town may assist the Hospital on the installation of the sewer line by obtaining grants and bonding the project. Construction is expected to begin in the Spring of 2012.

The DEP filed a civil suit in 2007 in which the DEP sought civil penalties and temporary and permanent injunctions prohibiting the Hospital from violating the hazardous waste management regulations, preventing the Hospital from maintaining a discharge to the waters of the state and violating its air permit. Five of the six counts arose from allegations relating to the use of an underground storage tank for the storage of x-ray developer fixer and the release of the developer fixer from the tank. Use of that tank ended in April 2004 and the tank was removed. Part of the injunctive relief sought is an order requiring the investigation and remediation of the release of x-ray development fixer. The sixth count alleged that the Hospital violated its general air permit by submitting its annual compliance certification for 2005 ten months late. The Hospital has recorded a conditional retirement obligation related to the costs of an environmental investigation, but has not recorded a liability for any potential costs to remediate the site due to the fact that such costs, if any, cannot be reasonably estimated until the investigation is performed. The Hospital previously remediated the site when the tank was originally removed.

# JOHNSON MEMORIAL HOSPITAL

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

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#### NOTE 15 – TRANSACTIONS WITH AFFILIATES

During 2011 and 2010, the Hospital billed affiliated organizations \$1,131,168 and \$1,526,988, respectively, for certain expenses and rental of space.

The amounts due from (to) affiliates represent receivables from and (payables) to affiliates that do not eliminate in consolidation. These balances are comprised of the following at September 30:

	2011	2010
Due to Johnson Memorial Corporation	\$ (1,439,472)	\$ (1,154,514)
Due from Johnson Medical Specialists, P.C.	-	167,664
Due (to) from Home and Community Health Services, Inc.	(217,336)	297,097
Due (to) from Johnson Evergreen Corporation	(338,150)	381,807
Due to Johnson Health Care, Inc.	<u>(70,463)</u>	<u>(69,245)</u>
	<u>\$ (2,065,421)</u>	<u>\$ (377,191)</u>

The Hospital has provided guarantees of the debt of the Corporation and Evergreen which had balances of \$3,240,000 and \$14,829,913, respectively, as of September 30, 2011.

#### NOTE 16 – CONCENTRATIONS OF CREDIT RISK

The Hospital's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, investments and accounts receivable.

The Hospital places its cash deposits with high credit-quality institutions, which, at times, may exceed the Federal Deposit Insurance Corporation limits of \$250,000 per bank. The Hospital has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**JOHNSON MEMORIAL HOSPITAL**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

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**NOTE 17 – FUNCTIONAL EXPENSES**

The Hospital provides general patient care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended September 30:

	<u>2011</u>	<u>2010</u>
Patient care services	\$ 58,245,410	\$ 57,563,663
General and administrative (including bad debt expense, depreciation and amortization, interest and operations)	10,506,750	14,266,648
Reorganization items	<u>--</u>	<u>1,596,330</u>
	<u>\$ 68,752,160</u>	<u>\$ 73,426,641</u>

**INDEPENDENT AUDITORS' REPORT  
ON OTHER FINANCIAL INFORMATION**

Board of Directors  
**Johnson Memorial Hospital**

Our report on our audits of the basic consolidated financial statements of Johnson Memorial Hospital as of and for the years ended September 30, 2011 and 2010 appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The following consolidating information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*Marcum LLP*

Hartford, CT  
January 4, 2012

**JOHNSON MEMORIAL HOSPITAL**  
**CONSOLIDATING BALANCE SHEET**

**SEPTEMBER 30, 2011**

Assets	Hospital	JPA	Development	Elimination	Total
<b>Current Assets</b>					
Cash and cash equivalents	\$ 884,888	\$ 1,251	\$ 27,577	\$ --	\$ 913,716
Patients accounts receivable, net of allowances for uncollectible accounts	7,216,452	327,987	--	--	7,544,439
Other receivables	1,226,587	--	--	--	1,226,587
Inventories	1,216,495	--	--	--	1,216,495
Prepaid expenses and other current assets	901,401	76,300	--	--	977,701
<b>Total Current Assets</b>	<u>11,445,823</u>	<u>405,538</u>	<u>27,577</u>	<u>--</u>	<u>11,878,938</u>
<b>Assets Whose Use is Limited</b>					
Beneficial interests in perpetual trusts	3,165,722	--	--	--	3,165,722
Restricted cash and board designated investments	517,407	--	--	--	517,407
Investments permanently restricted by donor	843,587	--	--	--	843,587
<b>Total Assets Whose Use is Limited</b>	<u>4,526,716</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>4,526,716</u>
<b>Other Assets</b>					
Property, plant and equipment, net	21,293,270	196,249	--	--	21,489,519
Investment in joint ventures	2,856,651	--	--	--	2,856,651
Due from affiliated corporations	626,727	--	--	(626,727)	--
Deferred financing costs, net	540,827	--	--	--	540,827
<b>Total Other Assets</b>	<u>25,317,475</u>	<u>196,249</u>	<u>--</u>	<u>(626,727)</u>	<u>24,886,997</u>
	<u>\$ 41,290,014</u>	<u>\$ 601,787</u>	<u>\$ 27,577</u>	<u>\$ (626,727)</u>	<u>\$ 41,292,651</u>

**JOHNSON MEMORIAL HOSPITAL**  
**CONSOLIDATING BALANCE SHEET (CONTINUED)**

SEPTEMBER 30, 2011

	Hospital	JPA	Development	Elimination	Total
<b>Liabilities and Net Assets (Deficit)</b>					
<b>Current Liabilities</b>					
Trade accounts payable	\$ 2,434,285	\$ 241,765	\$ --	\$ --	\$ 2,676,050
Accrued payroll and related costs	1,770,107	140,899	--	--	1,911,006
Current portion of payments due under plan of reorganization	1,323,916	--	--	--	1,323,916
Revolving line of credit	4,651,186	--	--	--	4,651,186
Current portion of mortgage payable	342,500	--	--	--	342,500
Current portion of subordinated debt	94,035	--	--	--	94,035
Current portion of capital lease obligations	180,261	--	--	--	180,261
Estimated amounts due to third-party agencies	1,266,304	--	--	--	1,266,304
<b>Total Current Liabilities</b>	<u>12,062,594</u>	<u>382,664</u>	<u>--</u>	<u>--</u>	<u>12,445,258</u>
<b>Long-Term Obligations</b>					
Due to affiliate corporations	--	10,661,133	--	(8,595,712)	2,065,421
Payments due under plan of reorganization	6,132,010	--	--	--	6,132,010
Mortgage payable - less current portion	12,158,750	--	--	--	12,158,750
Subordinated debt - less current portion	333,115	--	--	--	333,115
Obligations under capital lease - less current portion	29,810	--	--	--	29,810
Self-insurance liabilities	1,575,812	--	--	--	1,575,812
Other liabilities	307,910	--	--	--	307,910
<b>Total Long-Term Obligations</b>	<u>20,537,407</u>	<u>10,661,133</u>	<u>--</u>	<u>(8,595,712)</u>	<u>22,602,828</u>
<b>Total Liabilities</b>	<u>32,600,001</u>	<u>11,043,797</u>	<u>--</u>	<u>(8,595,712)</u>	<u>35,048,086</u>
<b>Net Assets (Deficit)</b>					
Unrestricted	4,359,087	(10,442,010)	27,577	7,968,985	1,913,639
Temporarily restricted	321,617	--	--	--	321,617
Permanently restricted	4,009,309	--	--	--	4,009,309
<b>Total Net Assets (Deficit)</b>	<u>8,690,013</u>	<u>(10,442,010)</u>	<u>27,577</u>	<u>7,968,985</u>	<u>6,244,565</u>
	<u>\$ 41,290,014</u>	<u>\$ 601,787</u>	<u>\$ 27,577</u>	<u>\$ (626,727)</u>	<u>\$ 41,292,651</u>

**JOHNSON MEMORIAL HOSPITAL**  
**CONSOLIDATING BALANCE SHEET**

SEPTEMBER 30, 2010

Assets	Hospital	JPA	Development	Elimination	Total
<b>Current Assets</b>					
Cash and cash equivalents	\$ 4,142,244	\$ 232,217	\$ 27,577	\$ --	\$ 4,402,038
Patients accounts receivable, net of allowances for uncollectible accounts	7,869,668	657,659	--	--	8,527,327
Other receivables	307,732	--	--	--	307,732
Inventories	1,154,583	--	--	--	1,154,583
Prepaid expenses and other current assets	1,147,109	181,421	--	--	1,328,530
<b>Total Current Assets</b>	<u>14,621,336</u>	<u>1,071,297</u>	<u>27,577</u>	<u>--</u>	<u>15,720,210</u>
<b>Assets Whose Use is Limited</b>					
Beneficial interests in perpetual trusts	3,283,243	--	--	--	3,283,243
Restricted cash and board designated investments	962,670	--	--	--	962,670
Investments permanently restricted by donor	843,587	--	--	--	843,587
<b>Total Assets Whose Use is Limited</b>	<u>5,089,500</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>5,089,500</u>
<b>Other Assets</b>					
Property, plant and equipment, net	23,598,478	176,303	--	--	23,774,781
Investment in joint ventures	2,868,975	--	--	--	2,868,975
Due from affiliated corporations	--	--	--	--	--
Deferred financing costs, net	724,807	--	--	--	724,807
<b>Total Other Assets</b>	<u>27,192,260</u>	<u>176,303</u>	<u>--</u>	<u>--</u>	<u>27,368,563</u>
	<u>\$ 46,903,096</u>	<u>\$ 1,247,600</u>	<u>\$ 27,577</u>	<u>\$ --</u>	<u>\$ 48,178,273</u>

**JOHNSON MEMORIAL HOSPITAL**  
**CONSOLIDATING BALANCE SHEET (CONTINUED)**

SEPTEMBER 30, 2010

	Hospital	JPA	Development	Elimination	Total
<b>Liabilities and Net Assets (Deficit)</b>					
<b>Current Liabilities</b>					
Trade accounts payable	\$ 5,340,005	\$ 252,202	\$ --	\$ --	\$ 5,592,207
Accrued payroll and related costs	2,629,814	693,794	--	--	3,323,608
Current portion of payments due under plan of reorganization	2,278,917	--	--	--	2,278,917
Revolving line of credit	4,000,000	--	--	--	4,000,000
Current portion of mortgage payable	342,500	--	--	--	342,500
Current portion of subordinated debt	495,286	--	--	--	495,286
Current portion of capital lease obligations	243,253	--	--	--	243,253
Estimated amounts due to third-party agencies	1,071,475	--	--	--	1,071,475
<b>Total Current Liabilities</b>	<u>16,401,250</u>	<u>945,996</u>	<u>--</u>	<u>--</u>	<u>17,347,246</u>
<b>Long-Term Obligations</b>					
Due to affiliate corporations	(54,211)	8,400,387	--	(7,968,985)	377,191
Payments due under plan of reorganization	6,836,222	--	--	--	6,836,222
Mortgage payable - less current portion	12,501,250	--	--	--	12,501,250
Subordinated debt - less current portion	427,229	--	--	--	427,229
Obligations under capital lease - less current portion	234,658	--	--	--	234,658
Self-insurance liabilities	1,533,516	--	--	--	1,533,516
Other liabilities	289,217	--	--	--	289,217
<b>Total Long-Term Obligations</b>	<u>21,767,881</u>	<u>8,400,387</u>	<u>--</u>	<u>(7,968,985)</u>	<u>22,199,283</u>
<b>Total Liabilities</b>	<u>38,169,131</u>	<u>9,346,383</u>	<u>--</u>	<u>(7,968,985)</u>	<u>39,546,529</u>
<b>Net Assets (Deficit)</b>					
Unrestricted	4,607,135	(8,098,783)	27,577	7,968,985	4,504,914
Temporarily restricted	--	--	--	--	--
Permanently restricted	4,126,830	--	--	--	4,126,830
<b>Total Net Assets (Deficit)</b>	<u>8,733,965</u>	<u>(8,098,783)</u>	<u>27,577</u>	<u>7,968,985</u>	<u>8,631,744</u>
	<u>\$ 46,903,096</u>	<u>\$ 1,247,600</u>	<u>\$ 27,577</u>	<u>\$ --</u>	<u>\$ 48,178,273</u>

**JOHNSON MEMORIAL HOSPITAL**  
**CONSOLIDATING STATEMENT OF OPERATIONS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	Hospital	JPA	Development	Elimination	Total
<b>Operating Revenue</b>					
Net patient service revenues	\$ 59,791,753	\$ 5,995,629	\$ --	\$ (893,081)	\$ 64,894,301
Grant income and other contributions	26,764	--	--	--	26,764
Net assets released from restriction	33,994	--	--	--	33,994
<b>Total Operating Revenues</b>	<u>59,852,511</u>	<u>5,995,629</u>	<u>--</u>	<u>(893,081)</u>	<u>64,955,059</u>
<b>Expenses</b>					
Salaries	26,679,424	4,994,377	--	--	31,673,801
Employee benefits	6,372,994	126,249	--	--	6,499,243
Provision for uncollectible accounts	2,138,027	602,317	--	--	2,740,344
Professional fees and outsourced staffing	2,835,344	668,640	--	(51,744)	3,452,240
Depreciation and amortization	3,243,264	10,716	--	--	3,253,980
Purchased services	4,426,223	683,002	--	(841,337)	4,267,888
Supplies, drugs and patient care	6,945,859	98,527	--	--	7,044,386
Leases and service contracts	2,493,156	47,946	--	--	2,541,102
Occupancy costs	2,505,707	278,358	--	--	2,784,065
Insurance	627,965	639,270	--	--	1,267,235
Other expenses	1,557,728	189,454	--	--	1,747,182
Interest	1,480,694	--	--	--	1,480,694
<b>Total Expenses</b>	<u>61,306,385</u>	<u>8,338,856</u>	<u>--</u>	<u>(893,081)</u>	<u>68,752,160</u>
<b>Loss from Operations</b>	<u>(1,453,874)</u>	<u>(2,343,227)</u>	<u>--</u>	<u>--</u>	<u>(3,797,101)</u>

**JOHNSON MEMORIAL HOSPITAL**

**CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)**

**FOR THE YEAR ENDED SEPTEMBER 30, 2011**

	<b>Hospital</b>	<b>JPA</b>	<b>Development</b>	<b>Elimination</b>	<b>Total</b>
<b>Nonoperating Revenue (Loss)</b>					
Investment income	\$ 123,908	--	\$ --	\$ --	\$ 123,908
Equity loss in joint ventures	<u>(12,760)</u>	--	--	--	<u>(12,760)</u>
	111,148	--	--	--	111,148
<b>Loss Before Reorganization Items</b>	<u>(1,342,726)</u>	<u>(2,343,227)</u>	--	--	<u>(3,685,953)</u>
<b>Reorganization Items</b>					
Gain on discharge of debt	<u>1,094,678</u>	--	--	--	<u>1,094,678</u>
	1,094,678	--	--	--	1,094,678
<b>Deficiency of Revenues over Expenses</b>	<u>\$ (248,048)</u>	<u>\$ (2,343,227)</u>	\$ --	\$ --	<u>\$ (2,591,275)</u>

# JOHNSON MEMORIAL HOSPITAL

## CONSOLIDATING STATEMENT OF OPERATIONS

**FOR THE YEAR ENDED SEPTEMBER 30, 2010**

	Hospital	JPA	Development	Elimination	Total
<b>Operating Revenue</b>					
Net patient service revenues	\$ 61,336,304	\$ 5,154,336	\$ --	\$ (867,806)	\$ 65,622,834
Grant income and other contributions	<u>252,845</u>	<u>--</u>	<u>24,554</u>	<u>--</u>	<u>277,399</u>
<b>Total Operating Revenues</b>	<u>61,589,149</u>	<u>5,154,336</u>	<u>24,554</u>	<u>(867,806)</u>	<u>65,900,233</u>
<b>Expenses</b>					
Salaries	26,664,936	4,942,256	--	--	31,607,192
Employee benefits	8,387,477	465,710	--	--	8,853,187
Provision for uncollectible accounts	2,544,297	536,051	--	--	3,080,348
Professional fees and outsourced staffing	4,484,445	384,541	--	(60,972)	4,808,014
Depreciation and amortization	3,172,136	8,529	--	--	3,180,665
Purchased services	4,766,803	50,152	--	(806,834)	4,010,121
Supplies, drugs and patient care	9,882,840	150,592	--	(2,528,588)	7,504,844
Leases and service contracts	2,259,622	51,625	--	--	2,311,247
Occupancy costs	2,474,068	213,642	--	--	2,687,710
Insurance	471,201	542,078	--	--	1,013,279
Other expenses	1,984,234	173,962	22,832	--	2,181,028
Interest	<u>592,676</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>592,676</u>
<b>Total Expenses</b>	<u>67,684,735</u>	<u>7,519,138</u>	<u>22,832</u>	<u>(3,396,394)</u>	<u>71,830,311</u>
<b>Loss from Operations</b>	<u>(6,095,586)</u>	<u>(2,364,802)</u>	<u>1,722</u>	<u>2,528,588</u>	<u>(5,930,078)</u>

# JOHNSON MEMORIAL HOSPITAL

## CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Hospital	JPA	Development	Elimination	Total
<b>Nonoperating Revenue</b>					
Investment income	\$ 134,413	\$ --	\$ --		\$ 134,413
Equity earnings in joint ventures	<u>315,629</u>	<u>--</u>	<u>--</u>		<u>315,629</u>
	<u>450,042</u>	<u>--</u>	<u>--</u>		<u>450,042</u>
<b>Loss Before Reorganization Items</b>	<u>(5,645,544)</u>	<u>(2,364,802)</u>	<u>1,722</u>	<u>2,528,588</u>	<u>(5,480,036)</u>
<b>Reorganization Items</b>					
Professional fees	(1,596,330)	--	--		(1,596,330)
Gain on discharge of debt	<u>34,613,501</u>	<u>--</u>	<u>--</u>		<u>34,613,501</u>
	<u>33,017,171</u>	<u>--</u>	<u>--</u>		<u>33,017,171</u>
<b>Excess (Deficiency) of Revenues over Expenses</b>	<u>\$ 27,371,627</u>	<u>\$ (2,364,802)</u>	<u>\$ 1,722</u>	<u>\$ 2,528,588</u>	<u>\$ 27,537,135</u>