



AUDITED CONSOLIDATED FINANCIAL  
STATEMENTS AND SUPPLEMENTARY  
INFORMATION

Backus Corporation and Subsidiaries  
Years Ended September 30, 2012 and 2011  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

Backus Corporation and Subsidiaries  
Audited Consolidated Financial Statements  
and Supplementary Information  
Years Ended September 30, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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.

As discussed in Note 1 to the accompanying consolidated financial statements, in 2012 the Corporation changed its method of reporting estimated insurance claims receivable and estimated insurance claims liabilities with the adoption of the Accounting Standards Update No. 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*.

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

December 14, 2012

# Backus Corporation and Subsidiaries

## Consolidated Balance Sheets

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	<b>\$ 108,322,462</b>	\$ 95,434,551
Assets whose use is limited – required for current liabilities	<b>7,433,046</b>	5,885,482
Accounts receivable, less allowance for uncollectible accounts (2012 – \$18,426,000; 2011 – \$21,442,000)	<b>33,684,894</b>	34,428,013
Pledges receivable	<b>31,723</b>	101,211
Inventories of supplies	<b>3,548,865</b>	3,704,067
Prepaid expenses and other	<b>3,370,245</b>	1,634,141
Total current assets	<b>156,391,235</b>	141,187,465
Assets whose use is limited:		
Board-designated and donor restricted	<b>116,868,765</b>	105,438,402
Held by trustee	<b>30,175,064</b>	28,078,427
Total assets whose use is limited	<b>147,043,829</b>	133,516,829
Less assets whose use is limited – required for current liabilities	<b>7,433,046</b>	5,885,482
	<b>139,610,783</b>	127,631,347
Property, plant and equipment, net	<b>91,967,720</b>	90,635,773
Deferred financing costs	<b>1,754,758</b>	1,842,330
Other assets	<b>6,496,973</b>	2,137,224
Total assets	<b>\$ 396,221,469</b>	\$ 363,434,139

	<b>September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable – trade	<b>\$ 9,833,003</b>	\$ 10,347,081
Salaries and wages, payroll taxes and taxes withheld from payroll	<b>7,663,502</b>	7,383,760
Other accrued liabilities	<b>7,854,605</b>	5,957,134
Employee related obligations	<b>3,834,900</b>	3,942,900
Due to third-party reimbursement agencies	<b>1,481,120</b>	5,023,840
Current portion of long-term debt	<b>2,346,210</b>	2,115,360
Total current liabilities	<b>33,013,340</b>	34,770,075
Other liabilities:		
Long-term debt and capital lease obligations	<b>65,056,990</b>	62,389,713
Employee related obligations	<b>71,736,171</b>	69,884,879
Self-insured professional liability	<b>10,738,219</b>	14,021,149
Due to third-party reimbursement agencies	<b>17,000,185</b>	19,162,526
Other	<b>652,262</b>	443,183
	<b>165,183,827</b>	165,901,450
Net assets:		
Unrestricted	<b>187,377,643</b>	153,913,943
Temporarily restricted	<b>2,890,743</b>	1,399,547
Permanently restricted	<b>7,755,916</b>	7,449,124
Total net assets	<b>198,024,302</b>	162,762,614
Total liabilities and net assets	<b>\$ 396,221,469</b>	\$ 363,434,139

*See accompanying notes.*

Backus Corporation and Subsidiaries  
Consolidated Statements of Operations

	<b>Years Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
Operating revenues:		
Net patient service revenue	\$ 297,604,077	\$ 285,207,565
Provision for uncollectible accounts	<b>(8,743,002)</b>	(12,737,042)
Net patient service revenue less provision for uncollectible accounts	<b>288,861,075</b>	272,470,523
Other operating revenue	<b>7,282,268</b>	4,307,817
Net assets released from restrictions	<b>174,552</b>	673,194
	<b>296,317,895</b>	277,451,534
Operating expenses:		
Salaries, wages and professional fees	<b>125,274,255</b>	119,644,775
Payroll taxes and other fringe benefits	<b>35,029,296</b>	27,854,316
Supplies, insurance and other	<b>91,032,339</b>	88,118,327
Depreciation and amortization	<b>18,079,091</b>	17,045,582
Interest	<b>3,276,169</b>	3,247,715
	<b>272,691,150</b>	255,910,715
Operating income	<b>23,626,745</b>	21,540,819
Nonoperating gains (losses):		
Contributions and donations	<b>147,058</b>	158,300
Investment income	<b>13,965,509</b>	2,445,778
Other	<b>(9,929)</b>	(565,873)
	<b>14,102,638</b>	2,038,205
Excess of revenues over expenses	<b>\$ 37,729,383</b>	\$ 23,579,024

*See accompanying notes.*

## Backus Corporation and Subsidiaries

### Consolidated Statements of Changes in Net Assets

	<b>Total</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
Net assets, September 30, 2010	\$ 160,830,713	\$ 149,253,750	\$ 4,101,543	\$ 7,475,420
Excess of revenues over expenses	23,579,024	23,579,024		
Contributions	580,427		575,427	5,000
Investment (loss) income	(275,296)		(346,369)	71,073
Change in pension funding and postretirement obligation	(21,176,691)	(21,176,691)		
Change in net assets held in trust	(102,369)			(102,369)
Net assets released from restriction used for purchase of equipment	2,257,860	2,257,860		
Net assets released from restriction	(2,931,054)		(2,931,054)	
Increase (decrease) in net assets	<u>1,931,901</u>	<u>4,660,193</u>	<u>(2,701,996)</u>	<u>(26,296)</u>
Net assets, September 30, 2011	162,762,614	153,913,943	1,399,547	7,449,124
Excess of revenues over expenses	<b>37,729,383</b>	<b>37,729,383</b>		
Contributions	<b>445,971</b>		<b>445,971</b>	
Investment income	<b>1,315,791</b>		<b>1,315,791</b>	
Change in pension funding and postretirement obligation	<b>(4,361,697)</b>	<b>(4,361,697)</b>		
Change in net assets held in trust	<b>306,792</b>			<b>306,792</b>
Net assets released from restriction used for purchase of equipment	<b>96,014</b>	<b>96,014</b>		
Net assets released from restriction	<b>(270,566)</b>		<b>(270,566)</b>	
Increase in net assets	<u><b>35,261,688</b></u>	<u><b>33,463,700</b></u>	<u><b>1,491,196</b></u>	<u><b>306,792</b></u>
Net assets, September 30, 2012	<u><b>\$ 198,024,302</b></u>	<u><b>\$ 187,377,643</b></u>	<u><b>\$ 2,890,743</b></u>	<u><b>\$ 7,755,916</b></u>

*See accompanying notes.*

Backus Corporation and Subsidiaries  
Consolidated Statements of Cash Flows

	<b>Years Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Operating activities</b>		
Increase in net assets	\$ 35,261,688	\$ 1,931,901
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	18,079,091	17,045,582
Provision for uncollectible accounts	8,743,002	12,737,042
Change in pension funding and postretirement obligation	4,361,697	21,176,691
Purchase of investments-board designated, net	(11,430,363)	(8,811,993)
Change in net assets held in trust	(306,792)	26,296
Changes in operating assets and liabilities <i>(Note 15)</i>	(24,550,373)	(12,820,798)
Net cash provided by operating activities	30,157,950	31,284,721
<b>Investing activities</b>		
Purchase of investments-held in trust, net	(2,096,637)	(1,089,625)
Net additions to property, plant and equipment	(13,173,423)	(7,821,077)
(Increase) decrease in other assets	(96,884)	276,653
Net cash used in investing activities	(15,366,944)	(8,634,049)
<b>Financing activities</b>		
Principal payments on long-term debt and capital lease obligations	(2,165,194)	(2,074,347)
Change in deferred financing costs and amortization of bond premium	(44,693)	(45,102)
Change in net assets held in trust	306,792	(26,296)
Net cash used in financing activities	(1,903,095)	(2,145,745)
Net increase in cash and cash equivalents	12,887,911	20,504,927
Cash and cash equivalents at beginning of year	95,434,551	74,929,624
Cash and cash equivalents at end of year	\$ 108,322,462	\$ 95,434,551

*See accompanying notes.*

# Backus Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2012

### **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.

#### **Affiliation**

Backus Corporation, the parent corporation and sole member of the Hospital, has entered into an affiliation agreement with Hartford HealthCare Corporation dated August 17, 2012. The completion of the affiliation shall be subject to certain conditions, including regulatory approvals. Upon completion, Hartford HealthCare Corporation will become the sole corporate member of Backus Corporation. Backus Corporation will continue as the parent of the Hospital which will remain a separate legal entity.

#### **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.

#### **Accounts Receivable and Net Patient Service Revenue**

Accounts receivable result from health care services provided by the Corporation. The amount of the allowance for uncollectible accounts is based on 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.

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.

#### **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 of Supplies**

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

# Backus Corporation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

#### **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.

#### **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.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **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 2012 and 2011. Management accrues its best estimate of ultimate losses for both reported claims and claims incurred but not reported. The Hospital maintains a revocable trust for purposes of funding malpractice or comprehensive general liability losses.

##### **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, both temporarily and permanently restricted donations and investment income and changes in trust arrangements.

##### **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 \$5,730,000. This net operating loss results in a potential deferred tax asset in the amount of approximately \$2,292,000. No asset has been recorded as these assets are offset by valuation allowances of the same amounts.

# Backus Corporation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

#### Adoption of New Authoritative Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued ASU 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amended Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, to clarify certain existing fair value disclosure requirements and require a number of additional disclosures, which were adopted in 2010, with the exception of the requirement to present changes in Level 3 measurements on a gross basis, which was delayed until 2012. In 2012, the Corporation adopted the remainder of ASU 2010-06. The adoption of this guidance did not have a significant impact on the Corporation's financial statements.

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 adoption of this guidance has no impact on the consolidated financial statements.

In August 2010, the FASB issued ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*. ASU 2010-24 addresses the diversity in the accounting for medical malpractice and similar liabilities and their related anticipated insurance recoveries by health care entities that mostly have netted insurance recoveries against the accrued liability, although some have presented the anticipated insurance recovery and the liability on a gross basis. The amendments to ASC 954 clarify that a health care entity should not net insurance recoveries against a related claim liability; the amount of the claim liability should be determined without consideration of insurance recoveries. The Corporation adopted the required components of this guidance in 2012. As a result of the adoption of this standard, the Corporation increased other non-current assets and employee related obligations and self-insured professional by approximately \$5,304,894.

# Backus Corporation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

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 elected to early adopt ASU 2011-07 and has applied its provisions to the consolidated financial statements. The adoption of this guidance has no impact on excess of revenue over expenses or net assets.

### Reclassifications

Certain reclassifications were made to the 2011 financial statements in order that they may be consistent with the current year presentation.

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

Hospital revenue accounted for 95% of net patient service revenue for the years ended September 30, 2012 and 2011. The following summarizes net patient service revenue:

	Year Ended September 30	
	2012	2011
Gross patient service revenue	\$ 639,940,838	\$ 624,460,853
Deductions:		
Allowances	(336,783,841)	(334,249,153)
Provision for uncollectible accounts	(8,743,002)	(12,737,042)
Charity care (at charges)	(5,552,920)	(5,004,135)
	<u>(351,079,763)</u>	<u>(351,990,330)</u>
Net patient service revenue	<u>\$ 288,861,075</u>	<u>\$ 272,470,523</u>

Patient accounts receivable are recorded when patient services are performed. Differences between amounts received from most third-party payors and the established billing rates of the Corporation are accounted for as allowances.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the Corporation considers historical trends and any known future environmental factors to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about major payor sources of revenue in evaluating the sufficiency of the allowance. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and records an allowance if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to have financial difficulties that make collection of amounts due unlikely). For receivables associated with self pay patients (including both patients without insurance and patients with deductible and copayments due for which third-party coverage exists for part of the bill), the Corporation records a significant provision for uncollectible accounts in the period of service on the basis of its past experience which indicates a high level of non-payment. The difference between either standard rates or negotiated discount rates and the amounts actually collected after reasonable collection efforts have been exhausted, is charged off against the allowance for uncollectible accounts.

The Corporation's allowance for uncollectible accounts decreased by approximately \$3,016,000 for fiscal year 2012 primarily due to a new Hospital policy whereby uninsured patients receive a discount equal to the average of the three lowest negotiated rates. Under the new policy, the discounted amount would no longer be included in allowance for uncollectible accounts (since self-pay accounts are significantly reserved for) and instead is included in the contractual allowance

The Corporation recognizes net patient service revenue for patients with third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on a discounted basis as described on the Hospital's patient business services policy. Patient service revenue for the year ended September 30, 2012, net of contractual allowances and discounts, but before the provision for bad debts, recognized in the period is as follows:

	Third-Party Payors	Self-Pay	Total All Payors
Patient service revenue (net of contractual allowances and discounts)	\$ 286,526,333	\$ 11,077,744	\$ 297,604,077

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

During the years ended September 30, 2012 and 2011, the Hospital recorded approximately \$9,060,000 and \$2,065,000, respectively, of previously recorded estimated third-party payor settlements resulting in an increase in net patient service revenue.

Revenues from the Medicare and Medicaid programs accounted for approximately 32.1% and 9.4%, respectively, of the Corporation's net patient service revenue for the year ended September 30, 2012 and 29.5% and 9.9% for the year ended September 30, 2011. 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 noted in Note 13. 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 Hospital.

#### 3. Charity Care

It is the policy of the Corporation that medically necessary health care services should be available to all individuals regardless of their ability to pay. The Hospital provides free or discounted care based on the criteria of its charity care policy. The policy utilizes the generally recognized poverty income levels for the state to determine the level of financial assistance. For patients who do not apply or do not qualify, the uncollected amounts are recognized as bad debt expense. Because the Hospital does not pursue collection of amounts determined to be charity care, such services are not reported as net revenue.

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

	<u>At Charge</u>	<u>Estimated Cost</u>
Charity care	\$ 5,552,920	\$ 2,276,697
Bad debt	8,743,002	3,584,631
Total uncompensated care, September 30, 2012	<u>\$ 14,295,922</u>	<u>\$ 5,861,328</u>
Charity care	\$ 5,004,135	\$ 2,201,819
Bad debt	12,737,042	5,604,298
Total uncompensated care, September 30, 2011	<u>\$ 17,741,177</u>	<u>\$ 7,806,117</u>

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>2012</b>	<b>2011</b>
BackusCare campaign	<b>\$ 24,646</b>	\$ 45,546
Other	<b>7,077</b>	57,077
Unconditional promises to give before unamortized discount	<b>31,723</b>	102,623
Less unamortized discount and allowance		(1,412)
	<b>\$ 31,723</b>	\$ 101,211

#### 5. Investments

Investment income and gains (losses) are comprised of the following for the years ended September 30, 2012 and 2011:

	<b>Year Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
Unrealized gains (losses) on investments	<b>\$ 10,067,106</b>	\$ (5,813,831)
Realized gains on investments	<b>823,335</b>	4,650,170
Interest and dividend income	<b>2,166,072</b>	1,962,447
Investment in joint ventures	<b>1,262,317</b>	1,860,953
Other investment losses	<b>12,000</b>	12,600
Investment fees	<b>(365,321)</b>	(226,561)
	<b>\$ 13,965,509</b>	\$ 2,445,778

## 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>2012</b>	<b>2011</b>
Board designated:		
Cash and cash equivalents	<b>\$ 40,445,730</b>	\$ 41,525,574
Mutual funds	<b>45,050,366</b>	37,251,516
Common stocks	<b>17,114,732</b>	12,925,056
Government bonds	<b>10,801,121</b>	12,811,596
Corporate bonds	<b>3,456,816</b>	924,660
	<b>\$ 116,868,765</b>	\$ 105,438,402
Held by trustee:		
Cash and cash equivalents	<b>\$ 4,670,638</b>	\$ 24,668,758
Mutual funds	<b>12,669,133</b>	2,327,261
Common stock	<b>5,330,409</b>	292,470
Corporate bonds	<b>4,889,188</b>	
Government bonds	<b>2,345,973</b>	731,506
Hedge funds	<b>129,725</b>	
Real estate	<b>84,932</b>	58,432
Commodities	<b>55,066</b>	
	<b>\$ 30,175,064</b>	\$ 28,078,427

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, 2012 is as follows:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at beginning of year	\$ 417,004	\$ 5,396,859	\$ 5,813,863
Investment return:			
Investment income		99,346	99,346
Net depreciation (realized and unrealized)		600,643	600,643
Earnings reclassified	699,989	(699,989)	
Total investment return	699,989		699,989
Endowment net assets at end of year	<u>\$ 1,116,993</u>	<u>\$ 5,396,859</u>	<u>\$ 6,513,852</u>

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	<u>\$ 417,004</u>	<u>\$ 5,396,859</u>	<u>\$ 5,813,863</u>

#### 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, 2012 are classified in the table below:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 111,288,764	\$ 413,222		\$ 111,701,986
Certificates of deposit		24,925,922		24,925,922
Money market funds	16,468,019	342,903		16,810,922
US government obligations (a)		13,147,094		13,147,094
Corporate bonds (b)		8,346,004		8,346,004
Equity securities	22,445,141			22,445,141
Mutual funds-equities (c)	11,626,733	9,391,931		21,018,664
Mutual funds-international equities (d)	7,896,018	267,348		8,163,366
Mutual funds-fixed income (e)		20,066,767		20,066,767
Mutual funds-alternatives (f)		8,470,702		8,470,702
Commodities		55,066		55,066
Hedge funds		129,725		129,725
Real estate (REIT)		84,932		84,932
<b>Total</b>	<b>\$ 169,724,675</b>	<b>\$ 85,641,616</b>	<b>–</b>	<b>\$ 255,366,291</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.

(f) This category targets total returns over the long-term as measured by the Consumer Price Index + 5%, investing in index funds, and various stock and bond index funds.

## 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)		13,543,102		13,543,102
Corporate bonds (b)		924,660		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)		12,737,534		12,737,534
Real estate (REIT)		58,432		58,432
<b>Total</b>	<b>\$ 165,943,423</b>	<b>\$ 63,007,957</b>	<b>–</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.

## 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, 2012. At September 30, 2012, Level 3 assets comprise approximately 0.1% of the Corporation Plan's total investment portfolio fair value.

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 9,832,723			\$ 9,832,723
Mutual funds-equity (a)	25,164,036	\$ 32,899,941		58,063,977
Mutual funds-international equity(b)	19,186,295			19,186,295
Mutual funds-fixed income (c)		10,942,532		10,942,532
Mutual funds-alternatives (d)		11,578,091		11,578,091
US Government obligations(e)		6,441,117		6,441,117
Corporate bonds (f)		16,196,047		16,196,047
Mortgage backed obligations		7,262,891	\$ 188,330	7,451,221
<b>Total</b>	<b>\$ 54,183,054</b>	<b>\$ 85,320,619</b>	<b>\$ 188,330</b>	<b>\$ 139,692,003</b>

- (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) This category targets total returns over the long-term as measured by the Consumer Price Index + 5%, investing in index funds, and various stock and bond index funds.
- (e) Includes both Treasury bonds and Treasury stripped bonds.
- (f) 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, 2011 to September 30, 2012.

	<b>Mortgage Backed Obligations</b>
Beginning balance	\$ 180,660
Unrealized gains	7,670
<b>Total</b>	<b>\$ 188,330</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.

	Level 1	Level 2	Level 3	Total
<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)		9,778,303		9,778,303
US Government obligations(d)		6,597,822		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>	<b>\$ 56,242,196</b>	<b>\$ 59,222,066</b>	<b>\$ 180,660</b>	<b>\$ 115,644,922</b>

- (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.

	Asset Backed Obligations	Mortgage Backed Obligations	Total
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>	<b>\$ -</b>	<b>\$ 180,660</b>	<b>\$ 180,660</b>

## 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 \$72,441,444 and \$70,878,867 at September 30, 2012 and 2011, respectively.

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

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

	2012	2011
General use	\$ 1,186,206	\$ 206,742
Health care services	1,055,363	789,466
Preventative care	227,207	193,861
Extraordinary nursing care	131,654	105,444
Nursing education	108,153	87,446
Free beds	103,979	8,066
Laboratory	78,181	8,522
	\$ 2,890,743	\$ 1,399,547

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

	2012	2011
Income to be used:		
For general purposes	\$ 6,912,331	\$ 6,605,539
To provide free beds	527,060	527,060
For laboratory	258,182	258,182
To provide extraordinary nursing care	48,203	48,203
For nursing education	10,140	10,140
	\$ 7,755,916	\$ 7,449,124

## 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>2012</b>	<b>2011</b>
Tax-exempt Hospital Revenue Bonds:		
Series E, term maturities (\$7,515,000) from 2017 to 2022 at an interest rate of 5.00%	<b>\$ 7,515,000</b>	\$ 8,080,000
Series F, serial maturities (\$5,125,000) from 2013 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>27,250,000</b>	28,000,000
Series G, serial maturities (\$17,080,000) from 2013 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>24,500,000</b>	25,150,000
Other long-term debt:		
Mortgage, maturing May 1, 2025 with a fixed rate of 6.125%	<b>1,126,557</b>	1,183,176
Obligation under capital leases	<b>6,344,367</b>	1,379,926
	<b>66,735,924</b>	63,793,102
Add net unamortized bond premium	<b>667,276</b>	711,971
Less current portion	<b>(2,346,210)</b>	(2,115,360)
Long-term debt	<b>\$ 65,056,990</b>	\$ 62,389,713

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.

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.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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>
2013	\$ 2,105,440	\$ 802,524
2014	2,184,302	802,524
2015	2,303,411	778,179
2016	2,387,624	705,224
2017	2,482,423	705,224
Aggregate thereafter	48,928,357	8,301,039
	60,391,557	12,094,714
Add net unamortized bond premium	667,276	
Less interest		(5,705,347)
	\$ 61,058,833	\$ 6,344,367

The Corporation paid interest of \$3,340,832 and \$3,312,005 in 2012 and 2011, respectively. Interest incurred in 2012 and 2011 was \$3,276,169 and \$3,247,715, respectively.

In 2012 the Corporation entered into a twenty-year capital lease of \$5,108,015 with an interest rate of 6.06% for a building located at 582 Norwich Road, Plainfield, CT to be used for emergency, radiology and lab services. Under the terms of the lease, the Hospital has the option for two additional five year terms as well as an option to purchase the property. The outstanding balance on this capital lease at September 30, 2012 was \$5,058,182.

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, 2012 was \$246,383. Under the terms of the lease, the Hospital has the option to renew for five periods of five years each.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

In 2004, the Hospital entered into a twenty-year capital lease of \$1,094,640 with an interest rate of 4.875% for a building located at 151-163 Broadway, Colchester, CT to be used for patient services. The outstanding balance on this capital lease at September 30, 2012 is \$1,039,802.

Deferred financing costs are amortized over the life of the bonds which is substantially the same as using the effective interest method.

#### **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 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, 2012 and 2011 was \$4,675,303 and \$5,206,397, 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, 2012 and 2011 are approximately \$1,455,000 and \$2,600,000, respectively, related to the future obligation for the nonqualified benefits.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<i>(In Thousands)</i>			
Unrecognized actuarial (loss) gain	<b>\$ (69,083)</b>	\$ (64,522)	<b>\$ 1,476</b>	\$ 1,600
Unrecognized transition obligation			<b>(242)</b>	(565)
	<b>\$ (69,083)</b>	\$ (64,522)	<b>\$ 1,234</b>	\$ 1,035

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, 2012 are \$4,919,884 and \$241,957, respectively.

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. At September 30, 2012, the unfunded status of the pension plan is included in long-term liabilities in the amount of \$61,486,044. The unfunded status of the postretirement benefits is \$3,882,076, with \$412,955 included in short-term liabilities, and the remainder of \$3,469,121 included in long-term liabilities.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

The following table sets forth the funded status of the plans as of the measurement date of September 30, 2012 and 2011.

	Pension Benefits		Postretirement Benefits	
	2012	2011	2012	2011
	<i>(In Thousands)</i>			
<b>Change in benefit obligations</b>				
Benefit obligations at beginning of year	\$ (175,946)	\$ (158,266)	\$ (4,083)	\$ (4,266)
Service cost			(1)	(4)
Interest cost	(7,981)	(7,963)	(178)	(207)
Change in assumptions	(22,583)	(12,536)	(216)	(147)
Actuarial (loss) gain	118	(2,006)	184	113
Benefits paid	5,214	4,825	412	428
Benefit obligations at end of year	<u>\$ (201,178)</u>	<u>\$ (175,946)</u>	<u>\$ (3,882)</u>	<u>\$ (4,083)</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 115,644	\$ 114,203		
Actual return on plan assets	21,162	(1,834)		
Contributions	8,100	8,100	\$ 412	\$ 428
Benefits paid	(5,214)	(4,825)	(412)	(428)
Fair value of plan assets at end of year	<u>\$ 139,692</u>	<u>\$ 115,644</u>	<u>\$</u>	<u>\$</u>
<b>Underfunded status</b>				
Accrued benefit liability recognized in the balance sheets	<u>\$ (61,486)</u>	<u>\$ (60,302)</u>	<u>\$</u>	<u>\$ (4,083)</u>
<b>Components of net periodic benefit cost</b>				
Service cost			\$ 1	\$ 4
Interest cost	\$ 7,981	\$ 7,963	178	207
Expected return on plan assets	(7,908)	(7,832)		
Net amortization and deferral	4,651	2,843	230	224
Net periodic benefit cost	<u>\$ 4,724</u>	<u>\$ 2,974</u>	<u>\$ 409</u>	<u>\$ 435</u>
Assumptions:				
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	3.80%	4.60%	3.80%	4.60%
Rate of compensation increase				
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate	4.60	5.10	4.60	5.10
Expected long-term rate of return on plan assets	6.75	6.75		

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

The accumulated benefit obligation at September 30, 2012 and 2011 was \$201,178,047 and \$175,946,699, respectively.

The asset allocation for the retirement plan at the end of 2012 and 2011 and the target allocation by asset category are as follows:

Asset Category	Target Allocation		Percentage of Plan Assets	
	Minimum	Maximum	2012	2011
US Equity Large Cap	20%	50%	37%	34%
US Equity Small Cap		15	5	5
International Equity	10	30	14	15
Core Fixed Income	20	60	44	46
Total			<b>100%</b>	<b>100%</b>

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.

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

	Pension Benefits	Postretirement Benefits
Expected employer contributions for 2012	\$ 8,100,000	\$ 412,955
Estimated future benefit payments:		
2013	6,182,497	412,955
2014	6,785,494	401,888
2015	7,330,485	380,032
2016	7,771,301	358,037
2017	8,269,818	336,252
2018-2022	49,972,063	1,372,745

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Assumed healthcare cost trend rates for 2012 are as follows:

Health care trend rate assumed for next year	7.00%
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</b>	
	<b>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	\$ 2	\$ (2)

#### 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, 2012, 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.

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.

At September 30, 2012, approximately 20% of the Corporation's employees were covered by collective bargaining agreements.

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 11. Property, Plant and Equipment

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

	2012	2011
Land and land improvements	\$ 4,862,121	\$ 4,862,121
Buildings and leasehold improvements	129,990,277	126,459,709
Equipment	104,690,712	99,035,255
Construction in process (2012 estimated cost to complete \$1,389,000)	1,747,654	1,365,773
Less accumulated depreciation	(149,323,044)	(141,087,085)
	\$ 91,967,720	\$ 90,635,773

The net unamortized value of internally developed software was \$388,314 at September 30, 2011. Amortization expense for the years ended September 30, 2012 and 2011 was \$388,314 and \$596,429, respectively.

The Corporation wrote off approximately \$6,941,684 of fully depreciated assets in 2012.

The Corporation leases space to be used for patient services. One year remains 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, 2012 and 2011 was \$755,190 and \$655,574, respectively.

The Corporation leases various types of equipment with annual payments ranging from \$91 to \$49,000. Expenses as a result of these leases were approximately \$270,000 and \$362,000 for the years ended September 30, 2012 and 2011, respectively.

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

2013	\$ 785,063
2014	209,216
2015	147,346
2016	36,950
2017	23,565
Thereafter	1,920
	\$ 1,204,060

## Backus Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 12. Other Operating Revenues

##### Electronic Health Record (EHR) Program

Certain health care providers can earn incentive payments between 2011 and 2016 from Medicare and Medicaid for establishing an EHR system and maintaining its meaningful use. The Corporation recognizes income when it is reasonably assured that it is in compliance with the program criteria. The Corporation has included \$2,777,416 in other operating revenue related to the program for fiscal year 2012, including \$737,160 received from Medicaid. The estimate for the Medicare program is based on cost report data which is subject to audit and the amounts recognized are subject to change. The Corporations attestation of compliance with the meaningful use criteria is subject to audit by the Federal or State government or its designee.

Other operating revenues consist of the following:

	<b>Year Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
EHR income	<b>\$ 2,777,416</b>	
Cafeteria sales	<b>1,166,526</b>	\$ 1,102,713
Grants	<b>614,920</b>	578,977
Rental income	<b>614,164</b>	698,837
Condominium income	<b>492,179</b>	412,106
Child care	<b>398,545</b>	391,976
Purchase discounts	<b>370,943</b>	269,594
Fee income	<b>365,781</b>	398,731
Interest	<b>249,145</b>	165,642
Miscellaneous	<b>232,649</b>	289,241
	<b><u>\$ 7,282,268</u></b>	<b><u>\$ 4,307,817</u></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>2012</b>	<b>2011</b>
Health care services	<b>\$ 211,729,881</b>	\$ 200,232,515
General and administrative	<b>60,760,329</b>	55,484,277
Fundraising	<b>200,940</b>	193,923
	<b>\$ 272,691,150</b>	\$ 255,910,715

#### 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 2012 and 2011, Hospital receivables accounted for 94% and 95%, respectively. The mix of gross accounts receivables from patients and third-party payors at September 30 is as follows:

	<b>2012</b>	<b>2011</b>
Medicare	<b>32%</b>	26%
Self pay	<b>20</b>	23
Anthem Blue Cross/Blue Shield	<b>15</b>	14
Health Maintenance Organizations	<b>14</b>	16
Medicaid	<b>9</b>	11
Commercial	<b>6</b>	5
Other state agencies	<b>4</b>	5
	<b>100%</b>	100%

## 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:

	2012	2011
(Increase) decrease in assets:		
Accounts receivable	\$ (7,999,883)	\$ (14,618,160)
Pledge receivable	69,488	84,655
Inventories of supplies, prepaid expenses, and other	(1,580,902)	(149,263)
(Decrease) increase in liabilities:		
Due to third-party reimbursement agencies	(5,705,061)	8,455,319
Accounts payable	(514,078)	4,756
Employee related obligations	(4,552,508)	(5,322,115)
Interest payable and other accrued liabilities	1,897,471	(3,473,306)
Salaries and wages, payroll taxes, and taxes withheld from payroll	279,742	478,432
Self-insured professional liability	(6,653,721)	1,625,379
Other liabilities	209,079	93,505
Changes in operating assets and liabilities	\$ (24,550,373)	\$ (12,820,798)

#### 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, 2012. The Hospital evaluated subsequent events through December 14, 2012, which is the date the financial statements were issued. No events occurred that require disclosure or adjustment to the combined financial statements.

## Supplementary Information

## Report of Independent Auditors on Supplementary Information

Board of Directors  
Backus Corporation and Subsidiaries

We have audited the financial statements of Backus Corporation for the year ended September 30, 2012, and have issued our report thereon dated December 14, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The consolidating balance sheet and statement of operations are presented for the purposes of additional analysis and is not a required part of the 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

December 14, 2012

## Backus Corporation and Subsidiaries

### Consolidating Balance Sheet

September 30, 2012

	<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	\$ 98,701	\$ 107,428,365	\$ 195,458	\$ 599,938		\$ 108,322,462
Assets whose use is limited – required for current liabilities		7,433,046				7,433,046
Accounts receivable, less allowance for uncollectible accounts		32,015,340	579,347	1,090,207		33,684,894
Pledges receivable		31,723				31,723
Inventories of supplies		3,548,865				3,548,865
Prepaid expenses and other		3,330,298	30,143	9,804		3,370,245
Due from affiliates	4,660	562,041			\$ (566,701)	
Total current assets	103,361	154,349,678	804,948	1,699,949	(566,701)	156,391,235
Assets whose use is limited:						
Board-designated and donor restricted		116,868,765				116,868,765
Held by trustee		30,175,064				30,175,064
Total assets whose use is limited		147,043,829				147,043,829
Less assets whose use is limited – required for current liabilities						
		7,433,046				7,433,046
		139,610,783				139,610,783
Property, plant, and equipment, net		91,354,486	152,928	460,306		91,967,720
Deferred financing costs		1,754,758				1,754,758
Other assets	1,000	5,881,388	576,379	55,051	(16,845)	6,496,973
	\$ 104,361	\$ 392,951,093	\$ 1,534,255	\$ 2,215,306	\$ (583,546)	\$ 396,221,469

\* Includes Backus Condominium Association

Backus Corporation and Subsidiaries  
Consolidating Balance Sheet (continued)

September 30, 2012

	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		\$ 9,176,344	\$ 42,158	\$ 614,501		\$ 9,833,003
Salaries and wages, payroll taxes and taxes withheld from payroll		6,802,151	446,204	415,147		7,663,502
Due to affiliates			18,708	547,993	\$ (566,701)	
Other accrued liabilities		7,605,175	9,943	239,487		7,854,605
Employee related obligations		3,834,900				3,834,900
Due to third-party reimbursement agencies		1,193,235		287,885		1,481,120
Current portion of long-term debt		2,346,210				2,346,210
Total current liabilities		30,958,015	517,013	2,105,013	(566,701)	33,013,340
Other liabilities:						
Long-term debt, less current portion		65,056,990				65,056,990
Employee related obligations		71,736,171				71,736,171
Self-insured professional liability		9,685,357	1,052,862			10,738,219
Due to third-party reimbursement agencies		17,000,185				17,000,185
Other		652,262				652,262
		164,130,965	1,052,862			165,183,827
Net assets:						
Common stock				1,000	(1,000)	
Unrestricted	\$ 104,361	187,215,454	(35,620)	109,293	(15,845)	187,377,643
Temporarily restricted		2,890,743				2,890,743
Permanently restricted		7,755,916				7,755,916
Total net assets	104,361	197,862,113	(35,620)	110,293	(16,845)	198,024,302
Total liabilities and net assets	\$ 104,361	\$ 392,951,093	\$ 1,534,255	\$ 2,215,306	\$ (583,546)	\$ 396,221,469

\* Includes Backus Condominium Association

## Backus Corporation and Subsidiaries

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

Year Ended September 30, 2012

	<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		\$ 283,219,755	\$ 6,123,078	\$ 8,261,244	\$	\$ 297,604,077
Provision for uncollectible accounts		(7,949,694)	(618,516)	(174,792)		(8,743,002)
Net patient service revenue less provision for uncollectible accounts		275,270,061	5,504,562	8,086,452		288,861,075
Other operating revenue	\$ 55,920	7,774,319	132,657	8,394	(689,022)	7,282,268
Net assets released from restrictions		174,552				174,552
	55,920	283,218,932	5,637,219	8,094,846	(689,022)	296,317,895
Operating expenses:						
Salaries, wages and professional fees	142,289	114,140,337	5,593,193	5,398,436		125,274,255
Payroll taxes and other fringe benefits	32,636	32,008,290	1,196,116	1,792,254		35,029,296
Supplies, insurance and other	3,090	89,223,225	851,966	1,643,080	(689,022)	91,032,339
Depreciation and amortization		18,006,195	36,736	36,160		18,079,091
Interest		3,276,169				3,276,169
	178,015	256,654,216	7,678,011	8,869,930	(689,022)	272,691,150
Operating (loss) income	(122,095)	26,564,716	(2,040,792)	(775,084)		23,626,745
Nonoperating gains and (losses):						
Contributions and donations		147,058				147,058
Investment income	127	12,701,591	1,217,761	46,030		13,965,509
Other		(29,536)		19,607		(9,929)
	127	12,819,113	1,217,761	65,637		14,102,638
(Deficiency) excess of revenues over expenses	\$ (121,968)	\$ 39,383,829	\$ (823,031)	\$ (709,447)		\$ 37,729,383

\* Includes Backus Condominium Association

Backus Corporation and Subsidiaries

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

Year Ended September 30, 2012

	<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)	\$ (121,968)	\$ 39,383,829	\$ (823,031)	\$ (709,447)		\$ 37,729,383
Change in pension funding obligation		(4,361,697)				(4,361,697)
Intercompany transfer	42,847	(1,248,123)	1,205,276			
Assets released from restriction used for purchase of equipment		96,014				96,014
(Decrease) increase in unrestricted net assets	(79,121)	33,870,023	382,245	(709,447)		33,463,700
Temporarily restricted net assets:						
Contributions		445,971				445,971
Income from investments		1,315,791				1,315,791
Net assets released from restrictions		(270,566)				(270,566)
Increase in temporarily restricted net assets		1,491,196				1,491,196
Permanently restricted net assets						
Change in net assets held in trust		306,792				306,792
Increase in permanently restricted net assets		306,792				306,792
(Decrease) increase in net assets	(79,121)	35,668,011	382,245	(709,447)		35,261,688
Net assets (deficit) at beginning of year	183,482	162,194,102	(417,865)	819,740	\$ (16,845)	162,762,614
Net assets (deficit) at end of year	\$ 104,361	\$ 197,862,113	\$ (35,620)	\$ 110,293	\$ (16,845)	\$ 198,024,302

\* Includes Backus Condominium Association

Backus Health Care, Inc., and Subsidiaries

Consolidating Balance Sheet

September 30, 2012

	<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	\$ 11,474	\$ 110,281	\$ 73,703		\$ 195,458
Accounts receivable, less allowance for uncollectible accounts		300,012	279,335		579,347
Prepaid expenses		10,143	20,000		30,143
Due from affiliates	3,078			\$ (3,078)	
Total current assets	14,552	420,436	373,038	(3,078)	804,948
Property, plant and equipment:					
Buildings and leasehold improvements		19,619			19,619
Equipment		310,277	65,119		375,396
Accumulated depreciation		(197,125)	(44,962)		(242,087)
		132,771	20,157		152,928
Other assets		576,379			576,379
	\$ 14,552	\$ 1,129,586	\$ 393,195	\$ (3,078)	\$ 1,534,255
<b>Liabilities and net assets</b>					
Current liabilities:					
Accounts payable – trade		\$ 22,426	\$ 19,732		\$ 42,158
Salaries and wages, payroll taxes and taxes withheld from payroll		283,527	162,677		446,204
Other accrued liabilities		8,002	1,941		9,943
Self-insured professional liability		304,146	748,716		1,052,862
Due to affiliates	\$ 18,708	3,078		\$ (3,078)	18,708
Total current liabilities	18,708	621,179	933,066	(3,078)	1,569,875
Net assets (deficit)	(4,156)	508,407	(539,871)		(35,620)
Total liabilities and net assets	\$ 14,552	\$ 1,129,586	\$ 393,195	\$ (3,078)	\$ 1,534,255

Backus Health Care, Inc., and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

September 30, 2012

	<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		\$ 3,352,896	\$ 2,770,182		\$ 6,123,078
Provision for uncollectible accounts		(267,867)	(350,649)		(618,516)
Net patient service revenue less provision for uncollectible accounts		3,085,029	2,419,533		5,504,562
Other operating revenue	\$ 36,936	111,913	20,744	\$ (36,936)	132,657
Total revenues	36,936	3,196,942	2,440,277	(36,936)	5,637,219
Expenses:					
Salaries and wages		2,842,040	2,751,153		5,593,193
Payroll taxes and fringe benefits		701,075	495,041		1,196,116
Supplies and other	42,138	1,254,760	(407,996)	(36,936)	851,966
Depreciation and amortization		29,717	7,019		36,736
Total expenses	42,138	4,827,592	2,845,217	(36,936)	7,678,011
Operating loss	(5,202)	(1,630,650)	(404,940)		(2,040,792)
Nonoperating gains:					
Investment income	6	1,217,644	111		1,217,761
Deficiency of revenue over expenses	(5,196)	(413,006)	(404,829)		(823,031)
Net assets (deficit) at beginning of year	1,040	4,194,349	(4,613,254)		(417,865)
Intercompany transfer		(3,272,936)	4,478,212		1,205,276
Net assets (deficit) at end of year	\$ (4,156)	\$ 508,407	\$ (539,871)	\$	\$ (35,620)

WWB, Inc., and Subsidiary

Consolidating Balance Sheet

September 30, 2012

	<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	\$ 436,010	\$ 163,928		\$ 599,938
Accounts receivable, less allowance for uncollectible accounts		1,090,207		1,090,207
Prepaid expenses and other		9,804		9,804
Due from affiliates	1,264,699		\$ (1,264,699)	
Total current assets	1,700,709	1,263,939	(1,264,699)	1,699,949
Property, plant and equipment:				
Buildings and leasehold improvements		455,405		455,405
Equipment		127,894		127,894
Accumulated depreciation		(122,993)		(122,993)
		460,306		460,306
Other assets	55,051			55,051
	<u>\$ 1,755,760</u>	<u>\$ 1,724,245</u>	<u>\$ (1,264,699)</u>	<u>\$ 2,215,306</u>
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable		\$ 614,501		\$ 614,501
Salaries and wages, payroll taxes and taxes withheld from payroll		415,147		415,147
Other accrued liabilities		239,487		239,487
Due to third party reimbursement agencies		287,885		287,885
Due to affiliates	\$ 547,993	1,264,699	\$ (1,264,699)	547,993
Total current liabilities	547,993	2,821,719	(1,264,699)	2,105,013
Common stock	1,000			1,000
Retained earnings (deficit)	1,206,767	(1,097,474)		109,293
Total liabilities and net assets	<u>\$ 1,755,760</u>	<u>\$ 1,724,245</u>	<u>\$ (1,264,699)</u>	<u>\$ 2,215,306</u>

WWB, Inc., and Subsidiary

Consolidating Statement of Operations and Changes in Net Assets

September 30, 2012

	<b>WWB</b>	<b>Backus Home Health Care</b>	<b>Eliminations</b>	<b>WWB, Inc., and Subsidiary</b>
Operating revenues:				
Net patient service revenue		\$ 8,261,244		\$ 8,261,244
Provision for uncollectible accounts		<u>(174,792)</u>		<u>(174,792)</u>
Net patient service revenue less provision for uncollectible accounts		8,086,452		8,086,452
Other operating revenue		8,394		8,394
Total revenues		<u>8,094,846</u>		<u>8,094,846</u>
Expenses:				
Salaries and wages		5,398,436		5,398,436
Payroll taxes and fringe benefits		1,792,254		1,792,254
Supplies and other	\$ 53,538	1,589,542		1,643,080
Depreciation and amortization		<u>36,160</u>		<u>36,160</u>
Total expenses	53,538	<u>8,816,392</u>		<u>8,869,930</u>
Operating loss	(53,538)	(721,546)		(775,084)
Nonoperating gains:				
Investment income	45,977	53		46,030
Other	<u>19,607</u>			<u>19,607</u>
Excess (deficiency) of revenue over expenses	12,046	(721,493)		(709,447)
Net assets (deficit) at beginning of year	1,194,721	(375,981)		818,740
Net assets (deficit) at end of year	<u>\$ 1,206,767</u>	<u>\$ (1,097,474)</u>	\$	<u>\$ 109,293</u>

## 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	<u>\$ 183,482</u>	<u>\$ 162,194,102</u>	<u>\$ (417,865)</u>	<u>\$ 819,740</u>	<u>\$ (16,845)</u>	<u>\$ 162,762,614</u>

\* 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>

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