

JOHNSON MEMORIAL MEDICAL CENTER

**CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION**

SEPTEMBER 30, 2012 AND 2011

JOHNSON MEMORIAL MEDICAL CENTER

CONTENTS

Independent Auditors' Report	1
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Consolidated Financial Statements

Consolidated Balance Sheets	2-3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows.....	6-7

Notes to Consolidated Financial Statements	8-44
---	-------------

Independent Auditors' Report on Other Financial Information	45
--	-----------

Other Financial Information

Consolidating Balance Sheets.....	46-51
Consolidating Statements of Operations.....	52-55



INDEPENDENT AUDITORS' REPORT

Board of Directors
Johnson Memorial Medical Center

We have audited the accompanying consolidated balance sheets of Johnson Memorial Medical Center (the Corporation) as of September 30, 2012 and 2011, 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 Corporation'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 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, 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 Medical Center as of September 30, 2012 and 2011, 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 that the Corporation will continue as a going concern. As described in Note 1, the Corporation has experienced recurring losses from operations, debt covenant violations and had current liabilities that exceeded current assets by \$537,613 as of September 30, 2012. These conditions raise substantial doubt about the Corporation'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 8, 2013



JOHNSON MEMORIAL MEDICAL CENTER

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2012 AND 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,191,351	\$ 1,242,367
Patient trust funds	54,780	59,178
Patients accounts receivable, net of allowances for uncollectible accounts of \$3,032,000 in 2012 and \$3,042,000 in 2011	11,049,711	10,229,184
Insurance and other receivables	708,207	1,630,535
Inventories	1,254,591	1,216,495
Prepaid expenses and other current assets	<u>1,142,229</u>	<u>1,443,399</u>
Total Current Assets	<u>15,400,869</u>	<u>15,821,158</u>
Assets Whose Use is Limited		
Beneficial interests in perpetual trusts	3,616,492	3,165,722
Restricted cash and board designated investments	363,097	517,407
Investments permanently restricted by donor	<u>1,032,318</u>	<u>1,011,327</u>
Total Assets Whose Use is Limited	<u>5,011,907</u>	<u>4,694,456</u>
Other Assets		
Property, plant and equipment, net	32,968,826	35,985,858
Investment in joint ventures and other assets	3,114,039	2,863,785
Investments, other	1,100	1,100
Deferred financing costs, net	487,644	675,502
Other noncurrent assets	<u>445,000</u>	<u>445,000</u>
Total Other Assets	<u>37,016,609</u>	<u>39,971,245</u>
	<u>\$ 57,429,385</u>	<u>\$ 60,486,859</u>

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

JOHNSON MEMORIAL MEDICAL CENTER
CONSOLIDATED BALANCE SHEETS (CONTINUED)
SEPTEMBER 30, 2012 AND 2011

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Trade accounts payable and accrued expenses	\$ 4,846,437	\$ 4,221,618
Accrued payroll and related costs	3,018,255	2,694,192
Current portion of payments due under plan of reorganization	1,050,000	1,351,416
Patient trust funds	54,780	59,178
Senior debt under revolving line of credit	3,504,213	4,651,186
Current portion of mortgage payable	933,311	933,311
Current portion of subordinated debt	100,583	94,035
Current portion of capital lease obligations	73,874	193,657
Estimated amounts due to third-party reimbursement agencies	1,494,268	1,560,762
Other current liabilities	862,761	602,012
Total Current Liabilities	15,938,482	16,361,367
Long-Term Liabilities		
Payments due under plan of reorganization - less current portion	5,675,945	6,358,322
Mortgage payable - less current portion	28,704,541	29,637,852
Subordinated debt - less current portion	231,464	333,115
Other long-term debt	1,300,000	--
Self-insurance liabilities	1,141,100	1,575,812
Other liabilities	787,697	772,743
Obligations under capital lease - less current portion	58,370	41,864
Total Long-Term Liabilities	37,899,117	38,719,708
Total Liabilities	53,837,599	55,081,075
Net Assets (Deficit)		
Unrestricted	(1,339,902)	873,482
Temporarily restricted	301,374	352,758
Permanently restricted	4,630,314	4,179,544
Total Net Assets	3,591,786	5,405,784
	\$ 57,429,385	\$ 60,486,859

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

JOHNSON MEMORIAL MEDICAL CENTER

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
Operating Revenue		
Net patient service revenue	\$ 92,870,450	\$ 88,701,620
Grant and other income	355,736	740,766
Other revenue	493,166	829,360
Net assets released from restriction	48,084	63,054
Total Operating Revenue	<u>93,767,436</u>	<u>90,334,800</u>
Expenses		
Salaries	45,315,556	45,145,266
Employee benefits	11,118,403	11,155,849
Provision for uncollectible accounts	3,903,848	2,626,661
Professional fees	4,025,820	4,273,455
Depreciation and amortization	4,373,638	4,493,989
Outsourced staffing and contracted services	4,259,515	4,369,761
Supplies, drugs and patient care	8,907,808	8,689,407
Leases and service contracts	1,877,794	1,777,721
Occupancy costs	3,114,759	2,947,817
Insurance	1,407,337	1,382,883
Provider tax	950,314	766,096
Other expenses	5,655,642	3,925,733
Interest	2,070,005	2,007,104
Total Expenses	<u>96,980,439</u>	<u>93,561,742</u>
Loss from Operations	<u>(3,213,003)</u>	<u>(3,226,942)</u>
Nonoperating Revenue (Loss)		
Investment income	194,132	131,697
Gain on sale of equipment	3,196	--
Equity earnings (loss) in joint ventures	250,254	(12,760)
	<u>447,582</u>	<u>118,937</u>
Changes in Net Unrealized Losses on Investments	<u>--</u>	<u>(7,640)</u>
Loss Before Reorganization Items	<u>(2,765,421)</u>	<u>(3,115,645)</u>
Reorganization Items		
Gain on discharge of debt	<u>--</u>	<u>1,094,678</u>
	<u>--</u>	<u>1,094,678</u>
Deficiency of Revenues over Expenses	<u>\$ (2,765,421)</u>	<u>\$ (2,020,967)</u>

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

JOHNSON MEMORIAL MEDICAL CENTER
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
Unrestricted Net Assets		
Deficiency of revenues over expenses	\$ (2,765,421)	\$ (2,020,967)
Net assets released from restriction for purchase of property and equipment	552,037	--
Change in Unrestricted Net Assets	(2,213,384)	(2,020,967)
Temporarily Restricted Net Assets		
Grants and other contributions	540,767	378,271
Changes in net unrealized gains (losses) on investments	--	(3,625)
Income and realized gains on investments	7,970	187
Net assets released from restrictions	(600,121)	(63,054)
Change in Temporarily Restricted Net Assets	(51,384)	311,779
Permanently Restricted Net Assets		
Increase (decrease) in fair value of beneficial interest in perpetual trusts	450,770	(117,521)
Change in Net Assets	(1,813,998)	(1,826,709)
Net Assets - Beginning	5,405,784	7,232,493
Net Assets - End	\$ 3,591,786	\$ 5,405,784

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

JOHNSON MEMORIAL MEDICAL CENTER

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities and Reorganization Items		
Change in net assets	\$ (1,813,998)	\$ (1,826,709)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain on discharge of debt	--	(1,094,678)
Depreciation and amortization	4,373,638	4,493,989
Accretion of asset retirement obligation	16,643	18,693
Provision for uncollectible accounts	3,903,848	2,626,661
(Gain) loss on disposal of assets	(3,196)	22,147
Equity (earnings) losses in joint ventures	(250,254)	12,760
Net realized losses (gains) on investments	(18,683)	(656)
Change in net unrealized gains on investments	(450,770)	128,786
Changes in assets and liabilities:		
Patient accounts receivable	(4,724,375)	(2,018,943)
Insurance and other receivables	922,328	(1,299,579)
Prepaid expenses and other current assets	301,170	363,591
Inventories	(38,096)	(61,912)
Restricted cash and board designated investments	154,310	445,263
Restricted grants and contributions	(540,767)	(378,271)
Other assets	--	(445,000)
Accounts payable and accrued expenses	(358,974)	(3,712,678)
Accrued payroll and related costs	324,063	(1,559,105)
Estimated amounts due to third-party reimbursement agencies	(66,494)	236,564
Self-insurance liabilities	(434,712)	42,296
Other current liabilities	260,749	345,739
Other liabilities	(1,689)	489,388
Net Cash Provided by (Used in) Operating Activities and Reorganization Items	1,554,741	(3,171,654)
Cash Flows From Investing Activities		
Capital expenditures	(1,165,552)	(823,347)
Purchases of investments	(188,049)	--
Proceeds from sales of investments	185,741	16,784
Net Cash Used in Investing Activities	(1,167,860)	(806,563)

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

JOHNSON MEMORIAL MEDICAL CENTER
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
Cash Flows From Financing Activities		
Restricted grants and contributions	\$ 540,767	\$ 378,271
Principal payments on mortgage and subordinated debt	(1,028,414)	(1,387,942)
Proceeds from other long-term debt	1,300,000	651,186
Net (payments on) proceeds from revolving line of credit	(1,146,973)	--
Principal payments on capital lease obligations	<u>(103,277)</u>	<u>(280,168)</u>
Net Cash Used in Financing Activities	<u>(437,897)</u>	<u>(638,653)</u>
Net Change in Cash and Cash Equivalents	(51,016)	(4,616,870)
Cash and Cash Equivalents - Beginning	<u>1,242,367</u>	<u>5,859,237</u>
Cash and Cash Equivalents - Ending	<u>\$ 1,191,351</u>	<u>\$ 1,242,367</u>
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	<u>\$ 1,528,708</u>	<u>\$ 1,367,520</u>
Cash paid for professional fees in connection with reorganization	\$ --	\$ (1,389,384)
Cash provided by (used in) received from operating activities	<u>1,554,741</u>	<u>(1,782,270)</u>
	<u>\$ 1,554,741</u>	<u>\$ (3,171,654)</u>

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

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

ORGANIZATION

Johnson Memorial Medical Center (the Corporation or JMMC) is a not-for-profit, non-stock holding company located in Stafford Springs, Connecticut. The Corporation through its subsidiaries provides health care services to residents throughout the Hartford and Tolland Connecticut counties. The Corporation's non-profit subsidiaries include Johnson Memorial Hospital (the Hospital or JMH), The Johnson Evergreen Corporation (Evergreen or EHCC), Johnson Health Care, Inc. (Health Care or JHC), and Home & Community Health Services, Inc. (HCHS). Johnson Medical Specialists, P.C. (JMS) is a professional corporation that is controlled by the Corporation. The Hospital has controlling interests in Johnson Development Fund, Inc. (Development) and its for-profit subsidiary WellCare, Inc. and Johnson Professional Associates, P.C. (JPA). The above entities are collectively referred to as the Organization in this consolidated presentation.

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

EMERGENCE FROM BANKRUPTCY

As a result of the 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 Corporation, the Hospital and Evergreen developed a joint plan of reorganization that was satisfactory to their creditors, and allowed these entities to continue as going concerns.

On August 11, 2010, the Bankruptcy Court confirmed the plan of reorganization which was subject to the satisfaction of a number of conditions precedent. One of the conditions 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 was resolved. The Bankruptcy Court issued a final decree on December 29, 2010.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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

As of September 30, 2012 and 2011, 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%.

During the year ended September 30, 2011, management of the Organization 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 Debtors' confirmed plan provided for the following:

Secured Debt – The Hospital's 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.

Evergreen's secured debt with a bank (secured by a second 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 through September 1, 2047.

The Corporation's secured debt with a bank (secured by a lien on land and buildings located in Enfield, Connecticut and a blanket lien on all furniture, fixtures, and equipment) was reinstated as such maturity existed before any default, and is payable in monthly installments through September 30, 2014 at which time the outstanding principal balance plus accrued interest thereon shall be due and payable.

Other Secured Debt – The Hospital's loan to finance information technology equipment was restructured to be paid in 60 monthly installments of \$10,000, including interest. The carrying value of this compromised debt was \$332,047 and \$427,150 as of September 30, 2012 and 2011, respectively.

JOHNSON MEMORIAL MEDICAL CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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 \$815,982 on the effective date, \$283,525 on the first anniversary of the effective date, \$541,275 on the second anniversary of the effective date and \$1,056,775 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 \$210,000 of convenience claims are entitled to receive 50% of their allowed claim. Unexpired leases and contracts not rejected by the Debtors are paid according to their original or negotiated terms.

Pension Benefit Guaranty Corporation (PBGC) Claims - The PBGC was 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 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 Debtors receive litigation claim proceeds related to claims, rights or causes of action arising under Chapter 5 of the Bankruptcy Code.

AFFILIATION WITH SAINT FRANCIS CARE, INC.

On July 12, 2012, the Corporation, the Hospital, and Evergreen (collectively, the Johnson Entities) entered into an affiliation agreement with Saint Francis Care, Inc. (Saint Francis), a Hartford, Connecticut based health system, designed to establish a long-term stable relationship between the two systems, allowing them to work together to maintain and strengthen the Corporation's operating viability and the Hospital's presence in the community as a community hospital, expand the array of health care services available, support the Hospital's medical staff, and enhance the Corporation's efforts to fulfill its mission. Saint Francis made an initial payment to the Johnson Entities of \$1,300,000 on the date of the affiliation agreement and an additional payment of \$1,050,000 was made on October 1, 2012, both payments to be used by the Johnson Entities to satisfy outstanding claims owed under the reorganization plan (the Plan), confirmed by the United States Bankruptcy Court to the Pension Benefit Guaranty Corporation (PBGC) and the unsecured creditors in classes A6 and B6 of the Plan.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

In addition, Saint Francis will have the option, at its sole discretion, to make future annual payments of \$2,050,000 on the first day of October from 2013 through 2015, and a payment of \$500,000 on the first day of October 2016. The Johnson Entities will use these additional payments to satisfy the payment of claims due on these dates under the Plan. Saint Francis is required to notify the Corporation by June 1 of each year whether it will make the next succeeding additional payment. All payments made by Saint Francis under this agreement will constitute an unsecured loan. This loan will be payable in the event that the Corporation seeks the closing of an alternative transaction, but only if the proceeds of this alternative transaction exceed the amounts necessary to satisfy all other secured and unsecured debt owed by the Corporation, or breaches the exclusivity provisions granted to Saint Francis in the agreement.

In the event that the Johnson Entities breach the exclusivity provisions of the affiliation agreement, the Johnson Entities will be required to pay Saint Francis fees of \$250,000 for each payment made by Saint Francis to the Johnson Entities up to a maximum fee of \$1,000,000.

In connection with the \$1,300,000 initial payment, Saint Francis was provided with the right to appoint three members to the Boards of Directors of Johnson Memorial Medical Center, Johnson Memorial Hospital, and Johnson Evergreen Corporation. For each additional payment made by Saint Francis, it will be provided with the right to add one additional board member to the aforementioned boards of directors. Saint Francis will not have the right to appoint a majority of the members of any of the aforementioned boards until all of the payments have been made under the terms of the affiliation agreement. After Saint Francis has made all of these payments, it will have the right to appoint the majority of the members of the boards subject to any necessary governmental approvals.

The affiliation agreement provides Saint Francis with the right to cause the Johnson Entities to be merged with or into Saint Francis, to acquire all of the assets of the Johnson Entities, or to be the sole member of the Johnson Entities as long as Saint Francis assumes or satisfies all of the Johnson Entities' then-existing indebtedness.

The affiliation agreement requires the Johnson Entities to obtain the consent of Saint Francis prior to the occurrence of the following events: merger, dissolution, dilution of Saint Francis' board representation, incurrence of certain additional debt, prepayment of debt, creation of liens, entering into lease obligations in excess of \$1 million, the sale or disposition of properties in excess of defined thresholds, distributions of cash, or the addition or termination of any material clinical service.

JOHNSON MEMORIAL MEDICAL CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

Saint Francis will provide medical leadership in the Hospital's oncology program, infectious disease program, hospitalist program and management services in both case management and psychiatry which should help the Hospital to attract additional volume. It is anticipated that the Hospital will also utilize the informational technology systems of Saint Francis once they have been upgraded in 2014. This should allow the Hospital to recognize economic synergies and enhance its operational performance

In addition, debt agreements with People's United Bank (People's) and Healthcare Finance Group (HFG) have been modified on the date of the affiliation (see Note 11) to reflect changes in covenant calculations.

BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Reference is made to Note 3 regarding net patient service revenue recognition.

GOING CONCERN

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. For the year ended September 30, 2012, the Organization experienced a loss of \$2,765,421 and had current liabilities that exceeded current assets by \$537,613. JMMC, JMH, EHCC, HCHS, JHC, Development, WellCare, Inc., JPA and JMS entered into a credit agreement that requires certain financial and non financial covenants be maintained. These covenants, which require that the Debtors maintain a fixed charge leverage ratio that was not maintained during 2012 (see Note 11). These conditions raise substantial doubt about the Corporation'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 Corporation continues as a going concern. Management of the Corporation executed an affiliation agreement with Saint Francis to assist in addressing the continuing operational deficiencies.

The Corporation'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 Corporation's control. There can be no assurance that the Corporation's plans to ensure continuation as a going concern will be successful.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Johnson Memorial Medical Center, Johnson Memorial Hospital, The Johnson Evergreen Corporation, Home & Community Health Services, Johnson Health Care, Inc., Johnson Professional Associates, P.C., Johnson Medical Specialists, P.C., and Johnson Development Fund, Inc.

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.

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 Corporation, the accounts of the Organization are maintained in the following net asset categories:

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

Temporarily Restricted – The Organization 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 financial statements. At September 30, 2012 and 2011, the Organization had temporarily restricted net assets of \$301,374 and \$352,758, respectively.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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.

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 contractual allowances related to accounts receivable 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 Organization 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.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

BENEFICIAL INTERESTS 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 2012 unrealized gains from the trust funds were \$450,770 and the 2011 unrealized losses from the trust fund were \$117,521 and are included in changes in permanently restricted net assets.

INVESTMENTS PERMANENTLY RESTRICTED BY DONOR

Investments permanently restricted by donor (other than beneficial interests in perpetual trusts) represent the funds held to support the permanently restricted endowment funds and earnings thereon. Investments in securities with readily determinable fair values are measured at fair value in the balance sheets. Fair value is determined based upon quoted market prices. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the deficiency of revenue over expenses unless restricted by the donor or law. Unrealized gains and losses on investments are also included in the deficiency of revenue over expenses unless the gain or loss is restricted by donor or law.

Unrealized gains and losses on investments related to certain permanently restricted net assets (excluding beneficial interests in perpetual trusts) and certain temporarily restricted net assets are included in temporarily restricted net assets under State law which allows the Board of Directors to appropriate as much of the net appreciation of investments as is prudent considering the Organization's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Reference is made to Note 8.

ACCOUNTS RECEIVABLE

Patient accounts receivable result from the health care services provided by the Corporation's subsidiaries. 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 MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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 Organization's beneficial interests 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 change in the Hospital's share in the equity of these joint ventures is recorded as a component of nonoperating revenues in the consolidated statements of operations.

INVENTORIES

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. The Organization provides for depreciation of property, plant and equipment and amortization of assets recorded under capital leases using the straight-line method over the estimated useful lives of the assets as follows:

	<u>Useful Lives</u>
Buildings and improvements	5 – 40 years
Land improvements	5 – 20 years
Equipment	3 – 20 years

Expenditures for maintenance and repairs are charged to operations as incurred. Expenditures for renewals and betterments are capitalized.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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.

Conditional asset retirement obligations of \$324,553 and \$307,910 as of September 30, 2012 and 2011, 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, 2012 and 2011. There were no retirement obligations incurred or settled during 2012 or 2011. Reference is made to Note 16 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 recorded in 2012 or 2011. Management believes that the Hospital will generate undiscounted cash flows that will at least hold the value in its long lived assets at their current carrying values and the economic synergies and additional volume anticipated through the affiliation agreement with Saint Francis are expected to help the Hospital improve its cash flows.

RISKS AND UNCERTAINTIES

The Hospital and HCHS invest in a variety of investment securities which are exposed to various risks, such as interest rate risk, financial market risk and credit risk. Due to the level of risk associated with investment securities, coupled with the current economic events, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Organization's financial statements.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

NONOPERATING REVENUE (LOSSES)

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating revenue (loss) consists primarily of income on invested funds, gains on sales of equipment and the changes in the Organization's share of equity of the joint ventures accounted for under the equity method.

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).

INCOME TAXES

The Corporation, the Hospital, Evergreen, HCHS, Health Care, and Development are generally exempt from income taxes under Internal Revenue Code, Section 501(a), as organizations described in Section 501(c)(3). 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 Organization 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, 2012, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Corporation and its Subsidiaries 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 2009.

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.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

ADVERTISING

The Organization expenses advertising costs as incurred. Advertising expenses for the years ended September 30, 2012 and 2011 were \$207,107 and \$154,129, respectively.

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 Organization provides care to patients who meet certain criteria under its charity care policy without charge, or at amounts less than its established rates. They do not pursue collection of amounts determined to be charity care and these amounts are not reported as net patient service revenues.

NEW ACCOUNTING PRONOUNCEMENTS

PRESENTATION OF INSURANCE CLAIMS AND RELATED INSURANCE RECOVERIES

Effective October 1, 2011 and retrospectively for all periods presented, the Organization adopted the provisions of ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which further clarifies that health care entities should not net insurance recoveries against the related claim liabilities. In connection with the Organization's adoption of ASU 2010-24, the Organization recorded the changes below in the accompanying consolidated balance sheet as of September 30, 2011. The \$345,739 increase as of September 30, 2011 represents the Organization's workers' compensation claims covered by insurance for losses in excess of the maximum premium in the Organization's retrospectively rated insurance policy.

The \$445,000 increase as of September 30, 2011 represents the Hospital's estimate of recoveries for certain claims by a fully insured professional liability insurance policy. The adoption of ASU 2010-24 had no impact on the Organization's results of operations or cash flows.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

The following is a summary of the impact of the adoption of ASU 2010-24 on the Organization's accompanying September 30, 2011 consolidated balance sheet:

	As originally reported	Adjustments for the adoption of ASU 2010-24	As currently reported
Insurance and other receivables	\$ 1,284,796	\$ 345,739	\$ 1,630,535
Other noncurrent assets	--	445,000	445,000
Total assets	59,696,120	790,739	60,486,859
Other current liabilities	256,273	345,739	602,012
Other liabilities	327,743	445,000	772,743
Total liabilities	54,290,336	790,739	55,081,075

MEASURING CHARITY CARE FOR DISCLOSURE

Self-pay revenues are derived primarily from patients who do not have any form of health care coverage. The revenues associated with self-pay patients are generally reported at the Organization's gross charges. The Organization evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other governmental assistance programs, as well as the Organization's policy for charity care. The Organization provides care without charge to certain patients that qualify under its charity care policy. For the years ended September 30, 2012 and 2011, the Organization estimates that its costs of care provided under its charity care programs approximated \$104,000 and \$277,000, respectively.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

The Organization's management estimates its costs of care provided under its charity care programs utilizing a calculated ratio of costs to gross charges multiplied by the Organization's gross charity care charges provided. The Organization's gross charity care charges include only services provided to patients who are unable to pay and qualify under the Organization's local charity care policies. To the extent the Organization receives reimbursement through the various governmental assistance programs in which it participates to subsidize its care of indigent patients, the Organization does not include these patients charges in its cost of care provided under its charity care program. Additionally, the Organization does not report a charity care patient's charges in revenues or in the provision for doubtful accounts as it is the Organization's policy not to pursue collection of amounts related to these patients.

Previously, the Organization reported its estimates of services provided under its charity care program based on gross charges. In connection with the Organization's adoption of ASU 2010-23, *Measuring Charity Care for Disclosure*, amounts previously reported for care provided under its charity care programs have been restated to reflect the Organization's estimates of its direct and indirect costs of providing these services. This change had no impact on the Organization's results of operations.

BAD DEBTS

In July 2011, the FASB issued ASU 2011-07, *Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*, which requires 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 with enhanced footnote disclosures on the policies for recognizing revenue and assessing bad debts, in addition to qualitative and quantitative information about changes in the allowance for doubtful accounts.

The pronouncement will be adopted during the fiscal year ending September 30, 2013. The Organization is evaluating the effect of the pronouncement on its financial statements.

RECLASSIFICATIONS

Certain amounts reported in the prior year's financial statements have been reclassified to conform to the current year's financial statements.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

SUBSEQUENT EVENTS

The Organization 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 Organization evaluated events occurring subsequent to September 30, 2012 through January 8, 2013, 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 consolidated financial statements.

NOTE 2 – CONSOLIDATED ENTITIES

Johnson Memorial 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 Hartford and Tolland Connecticut counties. Admitting physicians are primarily practitioners in the same geographic area. The Hospital has a controlling interest in JPA and Development.

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.

Johnson Evergreen Corporation is a subsidiary of the Corporation. Evergreen is currently licensed as a 180-bed not-for-profit, skilled nursing facility located in Stafford Springs, CT.

Home & Community Health Services, Inc. is a subsidiary of the Corporation. HCHS is a tax-exempt, non-stock corporation, which provides and administers a comprehensive, multi-disciplinary, home health care and hospice program primarily to residents in North Central Connecticut.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 2 – CONSOLIDATED ENTITIES (CONTINUED)

JMS is a medical practice that is controlled by the Corporation. Although the Corporation does not have direct ownership interests in JMS, the Corporation has a controlling voting interest in the Board of JMS, thus enabling the Corporation to control the economic activities of JMS. The Corporation is in the process of dissolving JMS as it no longer rendered medical services in 2011. During 2011, the medical services formerly provided by JMS were provided by the Hospital.

Johnson Health Care Inc. (dba Johnson Occupational Medicine Center) is an occupational medicine practice controlled by JMMC. The facility is located in Enfield, CT to treat patients injured on the job and performs other health care services related to the workplace including physical exams, drug screenings, rehabilitation, ergonomic evaluations, medical surveillance exams and travel immunizations. All services are designed to meet the needs of business and corporate clients.

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, 2012 and 2011:

	2012	2011
Gross patient service revenue	\$ 193,741,543	\$ 190,956,963
Contractual and other allowances	<u>(100,871,093)</u>	<u>(102,255,343)</u>
Net patient service revenue	<u>\$ 92,870,450</u>	<u>\$ 88,701,620</u>

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

JOHNSON MEMORIAL MEDICAL CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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, 2012 and 2011:

	2012	2011
Medicare	37%	39%
Medicaid	17%	16%
Third Parties	33%	32%
Other	13%	13%

Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Organization. The State of Connecticut has announced reductions in the State's Disproportionate Share Reimbursement Program for fiscal year 2013. Management estimates that these reductions will reduce net patient service revenue by approximately \$600,000 during the year ending September 30, 2013.

The significant concentrations of net accounts receivable for services to patients by payer at September 30, 2012 and 2011 follow:

	2012	2011
Medicare	31%	29%
Medicaid	13%	17%
Third Parties	34%	35%
Other	22%	19%

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 Organization 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 payers, have been settled by final settlement through 2009 for Medicare and 2007 for Medicaid. Other years remain open for settlement.

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

JOHNSON MEMORIAL MEDICAL CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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

The Organization 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 organization. Essentially, these policies define charity services as those services for which no payment is possible. In assessing a patient's inability to pay, the Organization 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 - REGULATORY ENVIRONMENT

The health care industry is subject to numerous laws and regulations of federal, state and local government. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

NOTE 5 - DEFERRED FINANCING COSTS

Deferred financing costs, which were incurred in connection with the debt, are being amortized over the term of the related debt. Amortization expense for deferred financing costs amounted to \$187,857 for the years ended September 30, 2012 and 2011.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 6 – 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, and permanently restricted investments by donors are set forth in the following table. Investments are stated at fair value.

September 30, 2012:	2012	
	Cost	Fair Value
Cash and cash equivalents	\$ 1,395,415	\$ 1,395,415
Money market funds	858,411	858,411
Mutual funds - equity	94,306	102,080
Mutual funds - fixed	106,078	108,381
Collective funds - equity	40,979	71,167
Collective funds - fixed	32,941	34,524
Investment grade taxable bonds	744,647	859,176
Global high yield bonds	109,113	104,948
Equities		
U.S. large cap	836,560	886,042
U.S. mid cap	192,297	241,423
U.S. small cap	65,729	62,424
International developed	84,912	86,026
Real estate	61,886	70,285
Tangible assets - commodities	147,088	131,605
	\$ 4,770,362	\$ 5,011,907

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 6 – ASSETS WHOSE USE IS LIMITED (CONTINUED)

September 30, 2011:	2011	
	Cost	Fair Value
Cash and cash equivalents	\$ 1,538,157	\$ 1,538,157
Money market funds	13,070	13,070
Mutual funds - equity	246,538	258,850
Mutual funds - fixed	151,020	149,728
Collective funds - equity	28,470	47,842
Collective funds - fixed	35,973	36,615
Investment grade taxable bonds	764,010	872,421
Global high yield bonds	109,654	97,005
Equities		
U.S. large cap	1,070,874	1,086,711
U.S. mid cap	384,883	369,163
U.S. small cap	62,686	50,196
International developed	197,341	169,415
Tangible assets - commodities	4,687	5,283
	\$ 4,607,363	\$ 4,694,456

Investment income and gains (losses) on investments recorded in the consolidated statements of operations for the years ended September 30 are below.

	2012	2011
Investment gains		
Dividends and interest	\$ 220,407	\$ 168,899
Realized gains on sales of securities	8,942	2,103
	229,349	171,002
Less investment management fees	(35,217)	(39,305)
Net investment gains	\$ 194,132	\$ 131,697

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 7 – 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 Organization 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 MEDICAL CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 7 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes fair value measurements, by level, at September 30, 2012 and 2011, 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, 2012				
Beneficial interests in perpetual trusts:				
Money market funds	\$ 858,411	\$ --	\$ --	\$ 858,411
Mutual funds - equity	102,080	--	--	102,080
Mutual funds - fixed	108,381	--	--	108,381
Collective funds - equity	--	--	71,167	71,167
Collective funds - fixed	--	--	34,524	34,524
Investment grade taxable bonds	859,176	--	--	859,176
Global high yield bonds	104,948	--	--	104,948
Equities				
U.S. large cap	886,042	--	--	886,042
U.S. mid cap	241,423	--	--	241,423
U.S. small cap	62,424	--	--	62,424
International developed	86,026	--	--	86,026
Real estate	70,285	--	--	70,285
Tangible assets - commodities	--	--	131,605	131,605
Total Beneficial interests in perpetual trusts	3,379,196	--	237,296	3,616,492
Restricted cash and board designated investments	363,097	--	--	363,097
Investments permanently restricted by donor	1,032,318	--	--	1,032,318
	<u>\$ 4,774,611</u>	<u>\$ --</u>	<u>\$ 237,296</u>	<u>\$ 5,011,907</u>

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 7 – FAIR VALUE MEASUREMENTS (CONTINUED)

	Level 1	Level 2	Level 3	Total
September 30, 2011				
Beneficial interests in perpetual trusts:				
Cash and cash equivalents	\$ 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	1,011,327	--	--	1,011,327
	<u>\$ 4,609,999</u>	<u>\$ --</u>	<u>\$ 84,457</u>	<u>\$ 4,694,456</u>

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 7 – FAIR VALUE MEASUREMENTS (CONTINUED)

The changes in fair value of assets measured using significant unobservable inputs (Level 3) were comprised of the following:

	<u>Beneficial interest in perpetual trusts</u>
Balance at September 30, 2010	\$ 90,279
Change in fair value	<u>(5,822)</u>
Balance at September 30, 2011	84,457
Purchases of investments	147,088
Change in fair value	<u>5,751</u>
Balance at September 30, 2012	<u>\$ 237,296</u>

NOTE 8 – RESTRICTED ENDOWMENTS

The Organization'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 Organization'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 Organization 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 Organization in a manner consistent with the standard for expenditures as proscribed by UPMIFA.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 8 – RESTRICTED ENDOWMENTS (CONTINUED)

In accordance with UPMIFA, the Organization 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 Organization 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 Organization
- (7) The investment policies of the Organization

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 Organization'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 Organization 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 Organization 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 Organization 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 Organization 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 Organization 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 Organization'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 MEDICAL CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 8 – RESTRICTED ENDOWMENTS (CONTINUED)

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2012 AND 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
September 30, 2012				
Donor-restricted endowment funds	\$ (7,865)	\$ 26,361	\$ 1,013,822	\$ 1,032,318
Beneficial interests in perpetual trusts	--	--	3,616,492	3,616,492
	<u>\$ (7,865)</u>	<u>\$ 26,361</u>	<u>\$ 4,630,314</u>	<u>\$ 4,648,810</u>
September 30, 2011				
Donor-restricted endowment funds	\$ (20,886)	\$ 18,391	\$ 1,013,822	\$ 1,011,327
Beneficial interests in perpetual trusts	--	--	3,165,722	3,165,722
	<u>\$ (20,886)</u>	<u>\$ 18,391</u>	<u>\$ 4,179,544</u>	<u>\$ 4,177,049</u>

CHANGES IN ENDOWMENT NET ASSET FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
September 30, 2012				
Endowment net assets, beginning	\$ (20,886)	\$ 18,391	\$ 4,179,544	\$ 4,177,049
Investment return:				
Investment income	1,282	1,026	--	2,308
Net unrealized gains	<u>11,739</u>	<u>6,944</u>	<u>450,770</u>	<u>469,453</u>
Total investment return	<u>13,021</u>	<u>7,970</u>	<u>450,770</u>	<u>471,761</u>
Appropriation of endowment assets for expenditure	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Endowment net assets, ending	<u>\$ (7,865)</u>	<u>\$ 26,361</u>	<u>\$ 4,630,314</u>	<u>\$ 4,648,810</u>

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 8 – RESTRICTED ENDOWMENTS (CONTINUED)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
September 30, 2011				
Endowment net assets, beginning	\$ (13,715)	\$ 24,279	\$ 4,297,065	\$ 4,307,629
Investment return:				
Investment income	121,346	187	--	121,533
Net unrealized losses	<u>(7,640)</u>	<u>(3,625)</u>	<u>(117,521)</u>	<u>(128,786)</u>
Total investment return	<u>113,706</u>	<u>(3,438)</u>	<u>(117,521)</u>	<u>(7,253)</u>
Appropriation of endowment assets for expenditure	<u>(120,877)</u>	<u>(2,450)</u>	<u>--</u>	<u>(123,327)</u>
Endowment net assets, ending	<u>\$ (20,886)</u>	<u>\$ 18,391</u>	<u>\$ 4,179,544</u>	<u>\$ 4,177,049</u>

NOTE 9 – TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets as of September 30 are as follows:

	2012	2011
Grant proceeds subject to use restrictions	\$ 262,646	\$ 321,617
Other receivables subject to time restrictions	14,585	12,750
Indigent, elderly womens care	12,181	10,277
Scholarships	<u>11,962</u>	<u>8,114</u>
	<u>\$ 301,374</u>	<u>\$ 352,758</u>

Included in the 2012 temporarily restricted net assets of \$262,646 is \$31,803 remaining on 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, Connecticut, \$67,313 from the Hospital's 100th anniversary fundraising events, and \$163,530 to be utilized for the replacement of a generator. The Hospital has a 25% interest in NRRON (\$3,055,158 and \$2,819,068 as of September 30, 2012 and 2011, respectively) that is included in investments in joint ventures on the consolidated balance sheets. In addition, JMMC leases space to NRRON under the terms of an operating lease and recognized rental income of \$274,852 and \$248,886 for the years ended September 30, 2012 and 2011, respectively.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

**NOTE 9 – TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS
(CONTINUED)**

Permanently restricted net assets as of September 30 are restricted in perpetuity, the income from which is expendable to support the following:

	2012	2011
Health care services and operations	\$ 4,567,425	\$ 4,116,655
Elderly assistance	40,261	40,261
Scholarships	22,628	22,628
	\$ 4,630,314	\$ 4,179,544

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

The components of cost and the related accumulated depreciation comprising property, plant and equipment as of September 30, 2012 and 2011 are as follows:

	2012	2011
Land	\$ 406,997	\$ 406,997
Land improvements	4,074,402	3,753,110
Building and improvements	48,605,693	48,361,574
Fixed and movable equipment	36,119,413	36,509,698
	89,206,505	89,031,379
Less accumulated depreciation	(56,237,679)	(53,045,521)
	\$ 32,968,826	\$ 35,985,858

Depreciation expense for property, plant and equipment amounted to \$4,136,979 and \$4,209,846 for the years ended September 30, 2012 and 2011, respectively. Included within depreciation and amortization expense on the statements of operations is amortization for capital leased assets of \$48,802 and \$96,286 for the years ended September 30, 2012 and 2011, respectively (see Note 12).

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 11 – DEBT

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, 2012 were 6.63% and 1.71%, respectively.

As of September 30, 2012, there was a balance of \$12,158,750 due on the Hospital's mortgage.

The Hospital and JMMC are required to meet certain financial covenants under the mortgage on a combined basis. 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 and JMMC did not comply with this covenant for the quarter ended December 31, 2010 and on March 30, 2011, the bank waived this default.

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. The present value of the settlement value of this loan was \$332,047 and \$427,150 at September 30, 2012 and 2011, respectively.

On August 28, 2007, Evergreen entered into a \$15,200,000 Loan Agreement (the Agreement) with a bank which is evidenced by a promissory note in the amount of \$14,200,000 and a second note of \$1,000,000. The \$1,000,000 note is collateralized by a mortgage deed and security agreement from Evergreen. The \$14,200,000 note is collateralized by a mortgage deed and security agreement from Evergreen and was converted from a construction loan to term loan effective November 30, 2010.

Upon conversion to a term loan, fifty percent of the outstanding principal balance of the \$14,200,000 note began to accrue interest at the variable rate equal to three month LIBOR plus 1.20% (1.66% at September 30, 2012).

JOHNSON MEMORIAL MEDICAL CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 11 – DEBT (CONTINUED)

The remaining fifty percent of the principal will accrue interest at the fixed rate based on the bank's ten year cost of borrowing plus 1.20% (4.73%) through November 30, 2020 at which time the fixed rate will be adjusted for another ten year period based on the aforementioned methodology.

Principal is payable in quarterly payments in the amount of \$95,946 through September 1, 2047 at which time the outstanding principal balance plus accrued interest thereon shall be due and payable. Interest is payable on a quarterly basis.

The fixed rate portion of the loan may be prepaid, but is subject to a prepayment fee equal to 2% of the amount prepaid. No prepayment fees will be required for prepayments made after November 30, 2020.

The \$1,000,000 loan will accrue interest at the fixed rate based on the bank's ten year cost of borrowing plus 1.20% (4.73%) through November 30, 2020 at which time the fixed rate will be adjusted for another ten year period based on the aforementioned methodology. Principal is payable quarterly in the amount of \$6,757 through September 1, 2047 at which time the outstanding principal balance plus accrued interest thereon shall be due and payable. Interest is also payable on a quarterly basis. This loan may be prepaid, but is subject to a prepayment fee equal to 2% of the amount prepaid. No prepayment fees will be required for prepayments made after November 30, 2020.

As of September 30, 2012, there was a balance of \$14,419,102 due on Evergreen's loans.

Evergreen is required to meet certain financial covenants under the Agreement. Evergreen did not comply with the debt service coverage ratio requirement for the measurement period ended September 30, 2012. The bank waived this default and indicated that the bank will not bring any legal action against Evergreen through March 31, 2013. Management is working with the bank to modify the covenant for the period ending March 31, 2013 in order to include the Hospital and JMMC in the covenant calculation. In the event that Evergreen does not comply with this covenant for the period ending March 31, 2013, the bank will have the ability to demand repayment of the debt.

In August 2004, JMMC entered into a mortgage loan with a bank in the amount of \$4,500,000 for the purpose of refinancing certain mortgage loans. The loan bears interest at a variable rate based on LIBOR plus 1.50% (1.96% at September 30, 2012). Principal is payable in monthly installments of \$15,000 through September 20, 2014 at which time the outstanding principal balance plus accrued interest thereon shall be due and payable. The balance of the JMMC mortgage loan was \$3,060,000 at September 30, 2012.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 11 – DEBT (CONTINUED)

Future minimum payments by year and in the aggregate for the aforementioned loans were as follows at September 30, 2012:

2013		\$ 1,033,894
2014		1,040,898
2015		1,048,389
2016		943,256
2017		933,311
Thereafter		<u>24,970,151</u>
		<u>\$ 29,969,899</u>

In September 2010, the Corporation, the Hospital, Evergreen, HCHS, JHC, Development, WellCare, Inc., JPA and JMS (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). Under the original agreement, amounts outstanding bear interest at the greater of the 3 month LIBOR rate plus 4.25% or 5.75% payable monthly in arrears. The Organization has granted the lender a security interest in accounts receivable. On July 12, 2012, this agreement was amended as a result of the affiliation between the Organization and Saint Francis and extended the line of credit expiration date to September 27, 2014.

As of September 30, 2012, there were outstanding borrowings of \$3,504,213 under the Loan and Security Agreement and \$2,125,207 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 & Security Agreement. This resulted in the lender imposing an interest penalty of 4% beginning January 1, 2011 that remained in place until July 12, 2012. During the year ended September 30, 2012, the Borrowers failed to comply with the fixed charge coverage ratio covenant and management is working with the lender to modify this covenant requirement. In the event that the Borrowers don't comply with this or any other covenant, the loan will be payable on demand.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 11 – DEBT (CONTINUED)

The other long-term debt of \$1,300,000 as of September 30, 2012 represents the amount owed to Saint Francis under the terms of the affiliation agreement. Reference is made to Note 1.

NOTE 12 – LEASE OBLIGATIONS

CAPITAL LEASES

The Organization 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 Organization at the end of the lease term and is summarized as of September 30, 2012 and 2011 are as follows:

	2012	2011
Medical and other equipment	\$ 559,302	\$ 974,624
Less accumulated amortization	(146,462)	(270,377)
	\$ 412,840	\$ - 704,247

Future minimum lease payments under the capital leases, together with the present value of future minimum lease payments, as of September 30, 2012 are as follows:

	2013	\$ 79,815
	2014	19,681
	2015	18,108
	2016	18,108
	2017	16,599
Total future minimum lease payments		152,311
Less amounts representing interest		20,067
Present value of future minimum lease payments		132,244
Less current portion		73,874
		\$ 58,370

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 12 – LEASE OBLIGATIONS (CONTINUED)

OPERATING LEASES

HCHS leases office space from an unaffiliated party in Enfield, Connecticut under a lease agreement. The lease commenced on December 1, 2011 and expires on November 30, 2016. The monthly rent is \$8,301 per month under the agreement plus additional rent for HCHS's proportional share of building operating expenses. The rent expense under this lease was \$116,401 for the year ended September 30, 2012. Rent expense for fiscal 2011 was \$85,608.

The Organization leases various computer equipment, medical equipment and office space under operating leases, which expire at various dates through 2015. Rent expense under the operating leases was \$2,268,594 in 2012 and \$2,058,478 in 2011, respectively. These leases have various terms and conditions.

Minimum future rental commitments on these non-cancelable operating leases with initial or remaining terms of more than one year as of September 30, 2012 are as follows:

2013	\$ 788,066
2014	534,240
2015	296,203
2016	99,612
2017	16,602
	<u>\$ 1,734,723</u>

NOTE 13 – EMPLOYEE BENEFIT PLANS

The Hospital had a defined benefit pension plan that covered certain employees. Pursuant to the plan of reorganization, the Pension Benefit Guaranty Corporation assumed control of the defined benefit plan effective September 1, 2011.

The Hospital has a defined contribution plan (the Plan) whereby all employees who have attained the age of 21 and completed one year of employment (1,000 hours of service) are eligible to participate and become fully vested after 5 years. Annually, the Hospital may contribute a defined amount of employees' salaries to the Plan. Effective January 1, 2011, the Hospital suspended the matching of non-union employee contributions; it continued to pay the match on union employees up until June 2012, at which time only those union employees that had been grandfathered in to the pension plan were matched. The total expense incurred by the Hospital for contributions was \$249,482 in 2012. The total expense incurred by the Hospital for contributions made to the Plan was \$454,629 in 2011. Management indicated that this match will be reinstated.

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 13 – EMPLOYEE BENEFIT PLANS (CONTINUED)

Evergreen has a defined contribution plan whereby all employees who have attained the age of 21 and completed one year of employment (1,000 hours of service) are eligible to participate and become fully vested after 5 years. Annually, Evergreen may contribute a defined amount of employees' salaries to the Plan. Effective January 1, 2011, Evergreen suspended the matching of employee contributions. There were no expenses incurred by Evergreen for contributions in 2012. The total expenses incurred by Evergreen for contributions made to the Plan were \$21,684 in 2011. Management indicated that this match will be reinstated.

HCHS has a defined contribution pension plan covering substantially all employees how have satisfied certain eligibility requirements. As of January 1, 2011, management suspended the matching of employee contributions and no expense was recorded in the 2012 statement of operations. Prior to this date, pension expense, which was 2.5% of eligible salaries, and amounted to \$14,445 for the year ended September 30, 2011. It is uncertain when this match will be reinstated.

NOTE 14 – SELF-INSURANCE CLAIMS

There have been medical malpractice and workers' compensation claims that have been asserted against the Organization. In addition, there are known incidents that have occurred through September 30, 2012 that may result in the assertion of claims. Management of the Organization 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. Management of the Organization has provided reserves for these contingent liabilities.

NOTE 15 – PROFESSIONAL, GENERAL LIABILITY AND WORKERS' COMPENSATION INSURANCE

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

JOHNSON MEMORIAL MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

NOTE 15 – PROFESSIONAL, GENERAL LIABILITY AND WORKERS’ COMPENSATION INSURANCE (CONTINUED)

The Organization has accrued self-insurance liabilities of \$1,192,410 and \$1,332,322 for the estimated costs of settlements for its professional liability and general liability insurance risks as of September 30, 2012 and 2011, respectively. For claims incurred after August 31, 2009, the Organization 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 Organization was also self-insured for workers compensation claims through March 16, 2009 at which time it obtained commercial insurance. The Organization has accrued \$180,464 and \$485,855 of self-insured liabilities as of September 30, 2012 and 2011, respectively, for workers’ compensation cases. The Organization’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 16 – COMMITMENTS AND CONTINGENCIES

The Organization 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 Organization also has the following environmental exposures:

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 that the work has been completed. The Hospital completed the construction of the well system improvements at a cost of \$321,292 and DPH acknowledged the project completion in a letter to the Hospital dated June 26, 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

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

NOTE 16 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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. The Hospital has designed and engineered a solution that is expected to be acceptable to the DEP. This solution is expected to cost less than approximately \$855,000 and to be fully operational by December 31, 2014 in accordance with the DPH directive.

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. The Hospital and the Department have come to agreement as to a stipulation for judgment resolving the case in which the Hospital agrees to: (1) the payment of a civil penalty from the bankruptcy estate (thus having no effect on the Hospital); (2) submit a groundwater monitoring plan which is to determine the sufficiency of the remedial actions taken in 2007 with respect to the removal of the old x-ray developer tank; (3) undertake waste determinations as required by state and federal regulations for all waste generated at the Hospital; and (4) file all annual reports with respect to the general air permit on time in the future.

NOTE 17 – CONCENTRATIONS OF CREDIT RISK

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

The Organization 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 Organization 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 MEDICAL CENTER
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 18 – FUNCTIONAL EXPENSES

The Organization provides 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>2012</u>	<u>2011</u>
Patient care services	\$ 74,464,591	\$ 74,239,218
General and administrative (including bad debt expense, depreciation and amortization, interest and operations)	<u>22,515,848</u>	<u>19,322,524</u>
	<u>\$ 96,980,439</u>	<u>\$ 93,561,742</u>

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

Board of Directors
Johnson Memorial Medical Center

Our report on our audits of the basic consolidated financial statements of Johnson Memorial Medical Center as of and for the years ended September 30, 2012 and 2011 appears on page 1. Our audits were 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 8, 2013

JOHNSON MEMORIAL MEDICAL CENTER
CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2012

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Assets								
Current Assets								
Cash and cash equivalents	\$ 169,491	\$ 819,327	\$ 300	\$ 400	\$ 2,173	\$ 199,660	\$ --	\$ 1,191,351
Patient trust funds	--	--	54,780	--	--	--	--	54,780
Patients accounts receivable, net of allowances for uncollectible accounts	--	8,403,783	1,772,253	805,683	--	67,992	--	11,049,711
Insurance and other receivables	1,039	222,529	472,272	12,367	--	--	--	708,207
Inventories	--	1,254,591	--	--	--	--	--	1,254,591
Prepaid expenses and other current assets	14,328	853,062	152,406	105,523	--	16,910	--	1,142,229
Total Current Assets	184,858	11,553,292	2,452,011	923,973	2,173	284,562	--	15,400,869
Assets Whose Use is Limited								
Beneficial interests in perpetual trusts	--	3,616,492	--	--	--	--	--	3,616,492
Restricted cash and board designated investments	--	363,097	--	--	--	--	--	363,097
Cash and investments permanently restricted by donor	--	843,587	--	188,731	--	--	--	1,032,318
Total Assets Whose Use is Limited	--	4,823,176	--	188,731	--	--	--	5,011,907
Other Assets								
Property, plant and equipment, net	4,188,007	19,606,953	9,140,217	33,649	--	--	--	32,968,826
Investment in joint ventures and other assets	--	3,106,905	--	7,134	--	--	--	3,114,039
Investment deficit in affiliated corporations	(3,119,194)	--	--	--	--	--	3,119,194	--
Investments, other	1,100	--	--	--	--	--	--	1,100
Due from affiliated corporations	1,417,132	--	--	217,177	--	--	(1,634,309)	--
Deferred financing costs, net	--	356,845	130,799	--	--	--	--	487,644
Other noncurrent assets	--	445,000	--	--	--	--	--	445,000
Total Other Assets	2,487,045	23,515,703	9,271,016	257,960	--	--	1,484,885	37,016,609
Total Assets	\$ 2,671,903	\$ 39,892,171	\$ 11,723,027	\$ 1,370,664	\$ 2,173	\$ 284,562	\$ 1,484,885	\$ 57,429,385

JOHNSON MEMORIAL MEDICAL CENTER
CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2012

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Liabilities and Net Assets (Deficit)								
Current Liabilities								
Trade accounts payable and accrued expenses	\$ 29,780	\$ 3,400,553	\$ 950,986	\$ 448,170	\$ --	\$ 16,948	\$ --	\$ 4,846,437
Accrued payroll and related costs	--	2,172,911	589,153	237,954	--	18,237	--	3,018,255
Current payments due under plan of reorganization	--	997,500	52,500	--	--	--	--	1,050,000
Patient trust funds	--	--	54,780	--	--	--	--	54,780
Senior debt under line of credit	--	3,504,213	--	--	--	--	--	3,504,213
Current portion of mortgage payable	180,000	342,500	410,811	--	--	--	--	933,311
Current portion of subordinated debt	--	100,583	--	--	--	--	--	100,583
Current portion of capital lease obligations	--	61,820	12,054	--	--	--	--	73,874
Estimated amounts due to third-party reimbursement agencies	--	1,272,580	148,365	73,323	--	--	--	1,494,268
Due to affiliated corporations	--	--	243,340	--	--	6,795	(250,135)	--
Other current liabilities	--	116,508	472,272	273,981	--	--	--	862,761
Total Current Liabilities	209,780	11,969,168	2,934,261	1,033,428	--	41,980	(250,135)	15,938,482
Long-Term Obligations								
Due to affiliate corporations	--	1,817,168	--	--	--	--	(1,817,168)	--
Payments due under plan of reorganization - less current portion	--	5,505,445	170,500	--	--	--	--	5,675,945
Mortgage payable - less current portion	2,880,000	11,816,250	14,008,291	--	--	--	--	28,704,541
Subordinated debt - less current portion	--	231,464	--	--	--	--	--	231,464
Other long-term debt	--	1,300,000	--	--	--	--	--	1,300,000
Self-insurance liabilities	--	1,141,100	--	--	--	--	--	1,141,100
Other liabilities	18,144	769,553	--	--	--	--	--	787,697
Obligations under capital lease - less current portion	--	58,370	--	--	--	--	--	58,370
Total Long-Term Obligations	2,898,144	22,639,350	14,178,791	--	--	--	(1,817,168)	37,899,117
Total Liabilities	3,107,924	34,608,518	17,113,052	1,033,428	--	41,980	(2,067,303)	53,837,599

JOHNSON MEMORIAL MEDICAL CENTER
CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2012

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Net Assets (Deficit)								
Unrestricted	\$ (436,021)	\$ 560,928	\$ (5,390,025)	\$ 128,273	\$ 2,173	242,582	\$ 3,552,188	\$ (1,339,902)
Temporarily restricted	--	262,646	--	38,728	--	--	--	301,374
Permanently restricted	--	4,460,079	--	170,235	--	--	--	4,630,314
Total Net Assets (Deficit)	<u>(436,021)</u>	<u>5,283,653</u>	<u>(5,390,025)</u>	<u>337,236</u>	<u>2,173</u>	<u>242,582</u>	<u>3,552,188</u>	<u>3,591,786</u>
	<u>\$ 2,671,903</u>	<u>\$ 39,892,171</u>	<u>\$ 11,723,027</u>	<u>\$ 1,370,664</u>	<u>\$ 2,173</u>	<u>\$ 284,562</u>	<u>\$ 1,484,885</u>	<u>\$ 57,429,385</u>

JOHNSON MEMORIAL MEDICAL CENTER
CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2011

Assets	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Current Assets								
Cash and cash equivalents	\$ 122,904	\$ 913,716	\$ 300	\$ 400	\$ 57,195	\$ 147,852	\$ --	\$ 1,242,367
Patient trust funds	--	--	59,178	--	--	--	--	59,178
Patients accounts receivable, net of allowances for uncollectible accounts	--	7,541,440	1,882,964	733,377	--	71,403	--	10,229,184
Insurance and other receivables	26,328	1,415,420	145,625	43,162	--	--	--	1,630,535
Inventories	--	1,216,495	--	--	--	--	--	1,216,495
Prepaid expenses and other current assets	45,498	977,701	195,147	212,108	--	12,945	--	1,443,399
Total Current Assets	194,730	12,064,772	2,283,214	989,047	57,195	232,200	--	15,821,158
Assets Whose Use is Limited								
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	--	167,740	--	--	--	1,011,327
Total Assets Whose Use is Limited	--	4,526,716	--	167,740	--	--	--	4,694,456
Other Assets								
Property, plant and equipment, net	4,516,379	21,489,519	9,939,551	40,409	--	--	--	35,985,858
Investment in joint ventures and other assets	--	2,856,651	--	7,134	--	--	--	2,863,785
Investment deficit in affiliated corporations	(3,119,194)	--	--	--	--	--	3,119,194	--
Investments, other	1,100	--	--	--	--	--	--	1,100
Due from affiliated corporations	1,077,223	--	404,445	217,336	--	30	(1,699,034)	--
Deferred financing costs, net	--	540,827	134,675	--	--	--	--	675,502
Other noncurrent assets	--	445,000	--	--	--	--	--	445,000
Total Other Assets	2,475,508	25,331,997	10,478,671	264,879	--	30	1,420,160	39,971,245
	\$ 2,670,238	\$ 41,923,485	\$ 12,761,885	\$ 1,421,666	\$ 57,195	\$ 232,230	\$ 1,420,160	\$ 60,486,859

JOHNSON MEMORIAL MEDICAL CENTER
CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2011

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Liabilities and Net Assets (Deficit)								
Liabilities Not Subject to Compromise								
Current Liabilities								
Trade accounts payable and accrued expenses	\$ 91,602	\$ 2,676,050	\$ 962,398	\$ 497,951	\$ (19,529)	\$ 13,146	\$ --	\$ 4,221,618
Accrued payroll and related costs	--	1,911,006	542,816	218,017	--	22,353	--	2,694,192
Current payments due under plan of reorganization	--	1,323,916	27,500	--	--	--	--	1,351,416
Patient trust funds	--	--	59,178	--	--	--	--	59,178
Senior debt under line of credit	--	4,651,186	--	--	--	--	--	4,651,186
Current portion of mortgage payable	180,000	342,500	410,811	--	--	--	--	933,311
Current portion of subordinated debt	--	94,035	--	--	--	--	--	94,035
Current portion of capital lease obligations	--	180,261	13,396	--	--	--	--	193,657
Estimated amounts due to third-party reimbursement agencies	--	1,266,304	199,502	94,956	--	--	--	1,560,762
Due to affiliated corporations	--	--	66,295	--	--	312	(66,607)	--
Other current liabilities	--	185,834	145,625	270,553	--	--	--	602,012
Total Current Liabilities	271,602	12,631,092	2,427,521	1,081,477	(19,529)	35,811	(66,607)	16,361,367
Long-Term Obligations								
Due to affiliate corporations	--	2,065,421	--	--	--	--	(2,065,421)	--
Payments due under plan of reorganization - less current portion	--	6,132,010	226,312	--	--	--	--	6,358,322
Mortgage payable - less current portion	3,060,000	12,158,750	14,419,102	--	--	--	--	29,637,852
Subordinated debt - less current portion	--	333,115	--	--	--	--	--	333,115

JOHNSON MEMORIAL MEDICAL CENTER
CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2011

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Long-Term Obligations (continued)								
Self-insurance liabilities	\$ --	\$ 1,575,812	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 1,575,812
Other liabilities	19,833	752,910	--	--	--	--	--	772,743
Obligations under capital lease - less current portion	--	29,810	12,054	--	--	--	--	41,864
Total Long-Term Obligations	3,079,833	23,047,828	14,657,468	--	--	--	(2,065,421)	38,719,708
Total Liabilities	3,351,435	35,678,920	17,084,989	1,081,477	(19,529)	35,811	(2,132,028)	55,081,075
Net Assets (Deficit)								
Unrestricted	(681,197)	1,913,639	(4,323,104)	138,813	76,724	196,419	3,552,188	873,482
Temporarily restricted	--	321,617	--	31,141	--	--	--	352,758
Permanently restricted	--	4,009,309	--	170,235	--	--	--	4,179,544
Total Net Assets (Deficit)	(681,197)	6,244,565	(4,323,104)	340,189	76,724	196,419	3,552,188	5,405,784
	\$ 2,670,238	\$ 41,923,485	\$ 12,761,885	\$ 1,421,666	\$ 57,195	\$ 232,230	\$ 1,420,160	\$ 60,486,859

JOHNSON MEMORIAL MEDICAL CENTER
CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Operating Revenue								
Net patient service revenue	\$ --	\$ 69,334,641	\$ 16,731,683	\$ 6,227,492	\$ --	\$ 576,634	\$ --	\$ 92,870,450
Grant and other income	740	308,671	--	30,868	--	15,457	--	355,736
Other revenue	1,191,436	--	119,842	74,864	--	--	(892,976)	493,166
Net assets released from restriction	--	25,552	--	22,532	--	--	--	48,084
Total Operating Revenue	<u>1,192,176</u>	<u>69,668,864</u>	<u>16,851,525</u>	<u>6,355,756</u>	<u>--</u>	<u>592,091</u>	<u>(892,976)</u>	<u>93,767,436</u>
Expenses								
Salaries	--	31,433,170	9,754,388	3,836,694	--	291,304	--	45,315,556
Employee benefits	--	7,370,190	2,678,806	1,019,594	(331)	50,144	--	11,118,403
Provision for uncollectible accounts	--	3,773,454	80,739	48,394	--	1,261	--	3,903,848
Professional fees	259,285	3,365,845	295,643	46,375	--	58,672	--	4,025,820
Depreciation and amortization	328,372	3,213,542	803,210	28,514	--	--	--	4,373,638
Outsourced staffing and contracted services	8,334	3,631,422	328,123	285,962	--	5,674	--	4,259,515
Supplies, drugs and patient care	--	7,130,721	1,065,939	663,138	--	48,010	--	8,907,808
Leases and service contracts	--	1,675,437	31,190	153,980	--	17,187	--	1,877,794
Occupancy costs	196,937	3,111,685	534,699	116,401	--	48,013	(892,976)	3,114,759
Insurance	7,334	1,178,515	140,278	70,188	--	11,022	--	1,407,337
Provider tax	--	--	950,314	--	--	--	--	950,314
Other expenses	90,420	4,699,010	737,145	114,182	244	14,641	--	5,655,642
Interest	56,318	1,495,715	517,972	--	--	--	--	2,070,005
Total Expenses	<u>947,000</u>	<u>72,078,706</u>	<u>17,918,446</u>	<u>6,383,422</u>	<u>(87)</u>	<u>545,928</u>	<u>(892,976)</u>	<u>96,980,439</u>
Income (Loss) from Operations	<u>245,176</u>	<u>(2,409,842)</u>	<u>(1,066,921)</u>	<u>(27,666)</u>	<u>87</u>	<u>46,163</u>	<u>--</u>	<u>(3,213,003)</u>

JOHNSON MEMORIAL MEDICAL CENTER
CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Nonoperating Revenue								
Investment income	\$ --	\$ 177,006	\$ --	\$ 17,126	\$ --	\$ --	\$ --	\$ 194,132
Gain on sale of equipment	--	3,196	--	--	--	--	--	3,196
Equity earnings in joint ventures	--	250,254	--	--	--	--	--	250,254
	--	430,456	--	17,126	--	--	--	447,582
Excess (Deficiency) of Revenues over Expenses	\$ 245,176	\$ (1,979,386)	\$ (1,066,921)	\$ (10,540)	\$ 87	\$ 46,163	\$ --	\$ (2,765,421)

JOHNSON MEMORIAL MEDICAL CENTER
CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Operating Revenue								
Net patient service revenue	\$ --	\$ 64,582,295	\$ 17,483,831	\$ 6,062,338	\$ 1,085	\$ 572,071	\$ --	\$ 88,701,620
Grant and other income	29,980	609,548	--	86,643	--	14,595	--	740,766
Other revenue	1,198,847	--	196,553	168,673	--	--	(734,713)	829,360
Net assets released from restriction	--	33,994	--	29,060	--	--	--	63,054
Total Operating Revenue	1,228,827	65,225,837	17,680,384	6,346,714	1,085	586,666	(734,713)	90,334,800
Expenses								
Salaries	--	30,947,816	10,228,083	3,685,052	--	284,315	--	45,145,266
Employee benefits	--	7,495,713	2,708,111	902,690	(1,040)	50,375	--	11,155,849
Provision for uncollectible accounts	574	2,530,453	26,785	70,387	(1,000)	(538)	--	2,626,661
Professional fees	286,400	3,557,873	313,408	50,600	--	65,174	--	4,273,455
Depreciation and amortization	344,931	3,277,534	837,535	33,989	--	--	--	4,493,989
Outsourced staffing and contracted services	7,291	4,042,617	82,470	247,360	2,366	(12,343)	--	4,369,761
Supplies, drugs and patient care	--	7,036,054	993,751	607,446	--	52,156	--	8,689,407
Leases and service contracts	--	1,555,727	34,045	170,511	--	17,438	--	1,777,721
Occupancy costs	197,823	2,812,952	534,583	85,608	--	51,564	(734,713)	2,947,817
Insurance	5,856	1,314,629	20,556	46,384	--	(4,542)	--	1,382,883
Provider tax	--	--	766,096	--	--	--	--	766,096
Other expenses	136,389	2,970,876	756,001	44,680	2,366	15,421	--	3,925,733
Interest	58,383	1,480,694	467,973	54	--	--	--	2,007,104
Total Expenses	1,037,647	69,022,938	17,769,397	5,944,761	2,692	519,020	(734,713)	93,561,742
Income (Loss) from Operations	191,180	(3,797,101)	(89,013)	401,953	(1,607)	67,646	--	(3,226,942)

JOHNSON MEMORIAL MEDICAL CENTER
CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Nonoperating Revenue (Loss)								
Investment income	\$ --	\$ 123,908	\$ --	\$ 7,789	\$ --	\$ --	\$ --	\$ 131,697
Equity loss in joint ventures	--	(12,760)	--	--	--	--	--	(12,760)
	--	111,148	--	7,789	--	--	--	118,937
Changes in Net Unrealized Losses on Investments	--	--	--	(7,640)	--	--	--	(7,640)
Income (Loss) Before Reorganization Items	191,180	(3,685,953)	(89,013)	402,102	(1,607)	67,646	--	(3,115,645)
Reorganization Items								
Gain on discharge of debt	--	1,094,678	--	--	--	--	--	1,094,678
	--	1,094,678	--	--	--	--	--	1,094,678
Excess (Deficiency) of Revenues over Expenses	\$ 191,180	\$ (2,591,275)	\$ (89,013)	\$ 402,102	\$ (1,607)	\$ 67,646	\$ --	\$ (2,020,967)