Audited Financial Statements and Other Financial Information

The William W. Backus Hospital
Years Ended September 30, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

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Contents

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Report of Independent Auditors

The Board of Trustees
The William W. Backus Hospital

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

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

Ernst & Young LLP

January 27, 2012

The William W. Backus Hospital

Balance Sheets

	September 30 2011	September 30 2010
Assets		
Current assets:		
Cash and cash equivalents	**$ 93,136,217**	$ 72,131,779
Assets whose use is limited – required for current liabilities	**5,885,482**	7,931,590
Accounts receivable, less allowance for uncollectible accounts (2011 – $21,200,000; 2010 – $20,081,000)	**32,373,122**	30,758,941
Pledges receivable	**101,211**	185,866
Due from affiliates	**164,147**	661,088
Inventories of supplies	**3,704,067**	3,799,896
Prepaid expenses and other	**1,624,606**	1,277,144
Total current assets	**136,988,852**	116,746,304
Assets whose use is limited:		
Board-designated investments	**105,438,402**	96,626,409
Held by trustee	**28,078,427**	26,988,802
Total assets whose use is limited	**133,516,829**	123,615,211
Less assets whose use is limited – required for current liabilities	**5,885,482**	7,931,590
	127,631,347	115,683,621
Property, plant, and equipment, net	**89,983,664**	99,122,387
Deferred financing costs	**1,842,330**	1,933,364
Other assets	**1,542,292**	1,603,864
Total assets	**$ 357,988,485**	$ 335,089,540

	September 30	
	2011	**2010**
Liabilities and net assets		
Current liabilities:		
Accounts payable – trade	**$ 9,918,459**	$ 10,129,146
Salaries and wages, payroll taxes, and taxes withheld from payroll	**6,666,138**	6,206,054
Other accrued liabilities	**4,999,447**	8,213,638
Employee related obligations	**3,942,900**	3,589,500
Due to third-party reimbursement agencies	**4,683,178**	2,614,222
Interest payable	**734,838**	754,026
Current portion of long-term debt	**2,115,360**	2,032,691
Total current liabilities	**33,060,320**	33,539,277
Other liabilities:		
Long-term debt	**62,389,713**	64,591,831
Employee related obligations	**69,884,879**	54,383,703
Self-insured professional liability	**10,853,762**	10,514,332
Due to third-party reimbursement agencies	**19,162,526**	12,767,632
Other	**443,183**	349,678
	162,734,063	142,607,176
Net assets:		
Unrestricted	**153,345,431**	147,366,124
Temporarily restricted	**1,399,547**	4,101,543
Permanently restricted	**7,449,124**	7,475,420
Total net assets	**162,194,102**	158,943,087
Total liabilities and net assets	**$ 357,988,485**	$ 335,089,540

See accompanying notes.

The William W. Backus Hospital

Statements of Operations

	Year Ended September 30	
	2011	**2010**
Operating revenues:		
Net patient service revenue	**$ 271,933,218**	$ 270,048,715
Other operating revenues	**4,848,198**	4,673,356
Net assets released from restriction	**673,194**	91,211
	277,454,610	274,813,282
Operating expenses:		
Salaries, wages, and professional fees	**110,169,857**	109,179,026
Payroll taxes and other fringe benefits	**25,655,346**	27,181,443
Supplies, insurance, and other	**83,918,758**	91,056,415
Provision for uncollectible accounts	**12,522,978**	14,409,876
Depreciation and amortization	**16,971,187**	17,480,126
Interest	**3,247,715**	3,185,038
	252,485,841	262,491,924
Operating income	**24,968,769**	12,321,358
Nonoperating gains and (losses):		
Income from investments	**581,947**	6,218,347
Contributions	**158,300**	328,840
Other	**(565,873)**	(116,761)
Excess of revenues over expenses	**$ 25,143,143**	$ 18,751,784

See accompanying notes.

The William W. Backus Hospital

Statements of Changes in Net Assets

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Net assets, September 30, 2009	$ 112,621,638	$ 102,312,376	$ 3,447,432	$ 6,861,830
Excess of revenues over expenses	18,751,784	18,751,784		
Investment income	739,782		618,691	121,091
Curtailment gain	34,536,288	34,536,288		
Change in pension funding and postretirement obligation	(9,564,206)	(9,564,206)		
Transfer to affiliates	(73,056)	(73,056)		
Merger of Properties	1,402,938	1,402,938		
Contributions	484,695		126,631	358,064
Change in net assets held in trust	134,435			134,435
Net assets released from restriction	(91,211)		(91,211)	
Increase in net assets	46,321,449	45,053,748	654,111	613,590
Net assets, September 30, 2010	158,943,087	147,366,124	4,101,543	7,475,420
Excess of revenues over expenses	**25,143,143**	**25,143,143**		
Investment (loss) income	**(275,296)**		**(346,369)**	**71,073**
Change in pension funding and postretirement obligation	**(21,176,691)**	**(21,176,691)**		
Transfer to affiliates	**(245,005)**	**(245,005)**		
Contributions	**580,427**		**575,427**	**5,000**
Change in net assets held in trust	**(102,369)**			**(102,369)**
Net assets released from restriction used for purchase of equipment	**2,257,860**	**2,257,860**		
Net assets released from restriction	**(2,931,054)**		**(2,931,054)**	
Increase (decrease) in net assets	**3,251,015**	**5,979,307**	**(2,701,996)**	**(26,296)**
Net assets, September 30, 2011	**$ 162,194,102**	**$ 153,345,431**	**$ 1,399,547**	**$ 7,449,124**

See accompanying notes.

The William W. Backus Hospital

Statements of Cash Flows

	Year Ended September 30	
	2011	**2010**
Operating activities		
Increase in net assets	**$ 3,251,015**	$ 46,321,449
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	**16,971,187**	17,480,126
Provision for uncollectible accounts	**12,522,978**	14,409,876
Curtailment gain		(34,536,288)
Change in pension funding and postretirement obligation	**21,176,691**	9,564,206
Transfer to affiliates	**245,005**	73,056
Merger of Properties		(1,402,938)
Purchase of investments – board designated, net	**(8,811,993)**	(15,613,572)
Permanently restricted contributions and income	**26,296**	(613,590)
Changes in operating assets and liabilities *(Note 16)*	**(13,216,508)**	(9,177,820)
Net cash provided by operating activities	**32,164,671**	26,504,505
Investing activities		
Purchase of investments – held in trust, net	**(1,089,625)**	(1,917,827)
Net additions to property, plant, and equipment	**(7,741,430)**	(12,056,041)
Decrease (increase) in other assets	**61,572**	(72,956)
Cash transfer from merger		2,226,244
Net cash used in investing activities	**(8,769,483)**	(11,820,580)
Financing activities		
Proceeds from loan		1,250,000
Principal payments on long-term debt and capital lease obligations	**(2,074,347)**	(1,863,950)
Change in deferred financing costs and amortization of bond premium	**(45,102)**	(49,465)
Permanently restricted contributions and income	**(26,296)**	613,590
Transfer to affiliates	**(245,005)**	(73,056)
Net cash used in financing activities	**(2,390,750)**	(122,881)
Net increase in cash and cash equivalents	**21,004,438**	14,561,044
Cash and cash equivalents at beginning of year	**72,131,779**	57,570,735
Cash and cash equivalents at end of year	**$ 93,136,217**	$ 72,131,779

See accompanying notes.

1. Significant Accounting Policies

Organization

The William W. Backus Hospital (the Hospital), a voluntary association incorporated under the General Statutes of the State of Connecticut, is a wholly-owned subsidiary of Backus Corporation (the sole member). The Board of Directors of Backus Corporation elects a Board of Trustees that has control of the operations of the Hospital. Refer to Note 9 for further discussion of related party transactions.

The financial statements include the operations of Backus Medical Center Condominium Association, Inc. (the Association). All intercompany transactions have been eliminated in consolidation.

Merger

Effective November 1, 2009, Backus Foundation, Inc. and Backus Properties Inc. were merged into the Hospital. The merger was accounted for as a "pooling of interests". The merger of the Foundation had no impact on net assets because the Foundation was previously accounted for in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-20, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises of Holds Contributions for Others* . The merger of Properties increased unrestricted net assets by approximately $1,400,000 in 2010.

Use of Estimates

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

Regulatory Matters

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

1. Significant Accounting Policies (continued)

Cash Equivalents

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

Assets Whose Use Is Limited

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

Investments

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

Inventories

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

Property, Plant, and Equipment

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

1. Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

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

Nonoperating Gains and Losses

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

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions, which is included in other operating revenue. Donor-restricted contributions whose restrictions are met within the same year as received are classified as unrestricted contributions in the accompanying financial statements.

General and Professional Liability Self-Insurance

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

Excess of Revenues Over Expenses

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

1. Significant Accounting Policies (continued)

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code), and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Association is a taxable entity; however, any taxes are immaterial to the financial statements of the Hospital taken as a whole.

Adoption of New Authoritative Pronouncements

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

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

1. Significant Accounting Policies (continued)

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

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

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

Reclassifications

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

2. Revenues from Services to Patients and Charity Care

Net patient service revenue for the years ended September 30, 2011 and 2010 consists of the following:

	Year Ended September 30	
	2011	**2010**
Gross patient service revenue	**$ 604,060,585**	$ 585,390,725
Deductions:		
Allowances	**(327,123,232)**	(308,845,388)
Charity care (at charges)	**(5,004,135)**	(6,496,622)
	(332,127,367)	(315,342,010)
	$ 271,933,218	$ 270,048,715

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

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

Revenues from the Medicare and Medicaid programs accounted for approximately 27.5% and 9.5%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2011 and 28% and 8% for the year ended September 30, 2010. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations, except as noted in Note 13. While no regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

3. Charity Care

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

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

	At Charge	**Estimated Cost**
Charity care	**$ 5,004,135**	**$ 2,201,819**
Bad debt	**12,522,978**	**5,510,110**
Total uncompensated care, September 30, 2011	**$ 17,527,113**	**$ 7,711,929**
Charity care	$ 6,496,622	$ 2,858,514
Bad debt	14,409,876	6,340,345
Total uncompensated care, September 30, 2010	$ 20,906,498	$ 9,198,859

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

4. Promises to Give

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

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

5. Investments

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

	2011	2010
Realized and unrealized (losses) gains on investments	**$ (1,163,661)**	$ 4,574,175
Interest and dividend income	**1,959,569**	1,813,339
Other investment income	**12,600**	11,600
Investment fees	**(226,561)**	(180,767)
	$ 581,947	$ 6,218,347

5. Investments (continued)

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

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

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) provides guidance on investment decisions and endowment expenditures for nonprofit organizations. The Board of Trustees of the Hospital has interpreted UPMIFA as requiring the preservation of the fair value of the original gift at the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Hospital classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of the subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

5. Investments (continued)

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

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

(1) The duration and preservation of the fund.
(2) The purposes of the donor-restricted endowment fund.
(3) General economic conditions.
(4) The possible effect of inflation and deflation.
(5) The expected total return from income and the appreciation of investments.
(6) Other resources of the Hospital.
(7) The investment policies of the Hospital.

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

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

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

5. Investments (continued)

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

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

6. Fair Value of Financial Instruments

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

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

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

6. Fair Value of Financial Instruments (continued)

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

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

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 95,941,634	$ 852,014		$ 96,793,648
Certificates of deposit		24,901,139		24,901,139
Money market funds	37,571,306	64,456		37,635,762
US government obligations (a)	10,833,829	2,709,273		13,543,102
Corporate bonds (b)	249,858	674,802		924,660
Equity securities	13,217,526			13,217,526
Mutual funds-equities (c)	8,773,825	9,707,473		18,481,298
Mutual funds-international equities (d)	8,140,798	219,147		8,359,945
Mutual funds-fixed income (e)	12,062,082	675,452		12,737,534
Real estate (REIT)		58,432		58,432
Total	$ 186,790,858	$ 39,862,188	–	$ 226,653,046

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

6. Fair Value of Financial Instruments (continued)

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

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 75,157,255	$ 2,738		$ 75,159,993
Certificates of deposit		14,873,395		14,873,395
Money market funds	19,578,731	35,017		19,613,748
US government obligations	7,751,442			7,751,442
Corporate bonds	150,001	3,772,474		3,922,475
Equity securities	13,614,952			13,614,952
Mutual funds	44,289,715	16,462,519		60,752,234
Real estate (REIT)		58,751		58,751
Total	$ 160,542,096	$ 35,204,894	–	$ 195,746,990

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

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

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

6. Fair Value of Financial Instruments (continued)

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

	Asset Backed Obligations	Mortgage Backed Obligations	Total
Beginning balance	$ 250,065	$ 88,920	$ 338,985
Purchases		99,500	99,500
Unrealized gains (losses)	716	(7,760)	(7,044)
Sales	(250,781)		(250,781)
Total	$ –	$180,660	$ 180,660

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

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

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

6. Fair Value of Financial Instruments (continued)

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

	Asset Backed Obligations	Mortgage Backed Obligations	Total
Beginning balance	$ –	$ –	$ –
Purchases	249,998	85,975	335,973
Unrealized gains	67	2,945	3,012
Total	$ 250,065	$ 88,920	$ 338,985

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

7. Temporarily and Permanently Restricted Net Assets

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

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

7. Temporarily and Permanently Restricted Net Assets (continued)

Income generated by permanently restricted net assets at September 30 is restricted to the following purposes:

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

8. Long-term Debt

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

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

8. Long-term Debt (continued)

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

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

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

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

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

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

8. Long-term Debt (continued)

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

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

9. Related Party Transactions

The Hospital processes payroll and disbursements for several of its affiliated entities for which it is reimbursed. Reimbursements due to the Hospital at September 30, 2011 and 2010 were approximately $165,000 and $647,000, respectively.

10. Retirement Benefit Plans

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

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

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

10. Retirement Benefit Plans (continued)

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

	Pension Benefits		Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
	(In thousands)			
Unrecognized actuarial (loss) gain	**$ (64,522)**	$ (43,157)	**$ 1,600**	$ 1,734
Unrecognized transition obligation			**(565)**	(889)
	$ (64,522)	$ (43,157)	**$ 1,035**	$ 845

The actuarial loss and transition obligation included in unrestricted net assets and expected to be recognized in net periodic benefit cost during the year ending September 30, 2012 are $4,557,386 and $323,491, respectively.

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

10. Retirement Benefit Plans (continued)

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

	Pension Benefits		Postretirement Benefits	
	2011	**2010**	**2011**	**2010**
	(In thousands)			
Change in projected benefit obligation				
Benefit obligation at beginning of year	**$ (158,266)**	$ (171,831)	**$ (4,266)**	$ (4,969)
Service cost		(1,836)	**(4)**	(15)
Interest cost	**(7,963)**	(7,684)	**(207)**	(267)
Change in assumptions	**(12,536)**	(11,951)	**(147)**	387
Actuarial (loss) gain	**(2,006)**	(3,598)	**113**	154
Effect of curtailment		34,551		
Benefits paid	**4,825**	4,083	**428**	444
Benefit obligation at end of year	**$ (175,946)**	$ (158,266)	**$ (4,083)**	$ (4,266)
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 114,203**	$ 100,145		
Actual return on plan assets	**(1,834)**	10,017		
Contributions	**8,100**	8,124	**$ 428**	$ 444
Benefits paid	**(4,825)**	(4,083)	**(428)**	(444)
Fair value of plan assets at end of year	**$ 115,644**	$ 114,203	**$**	$
Underfunded status				
Accrued benefit liability recognized in the balance sheets	**$ (60,302)**	$ (44,063)	**$ (4,083)**	$ (4,266)
Components of net periodic benefit cost				
Service cost		$ 1,836	**$ 4**	$ 15
Interest cost	**$ 7,963**	7,684	**207**	267
Expected return on plan assets	**(7,832)**	(6,901)		
Net amortization and deferral	**2,843**	1,964	**224**	269
Net periodic benefit cost	**$ 2,974**	$ 4,583	**$ 435**	$ 551
Assumptions**:**				
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	**4.60%**	5.10%	**4.60%**	5.10%
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate	**5.10**	5.60	**5.10**	5.60
Expected long-term rate of return on plan assets	**6.75**	6.75		

10. Retirement Benefit Plans (continued)

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

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

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

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

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

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

10. Retirement Benefit Plans (continued)

Assumed healthcare cost trend rates for 2011 are as follows:	
Health care trend rate assumed for next year	7.50%
Rate to which the cost rate trend rate is assumed to decline (the ultimate trend rate)	5.00%
Year that the rate reaches the ultimate trend rate	2015

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

	One-Percentage-Point Increase	**One-Percentage-Point Decrease**
	(In thousands)	
Effect on total of service and interest cost components	$ 1	$ (1)
Effect on postretirement benefit obligation	$ 6	$ (5)

11. Property, Plant, and Equipment

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

	2011	**2010**
Land and land improvements	**$ 4,862,121**	$ 4,889,512
Buildings and leasehold improvements	**125,984,685**	125,274,358
Equipment	**98,557,288**	101,055,036
Construction in process (2012 estimated cost to complete $5,995,000)	**1,365,773**	630,806
Less accumulated depreciation	**(140,786,203)**	(132,727,325)
	$ 89,983,664	$ 99,122,387

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

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

11. Property, Plant, and Equipment (continued)

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

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

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

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

12. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross accounts receivable from patients and third-party payors at September 30 is as follows:

	2011	**2010**
Medicare	**26%**	27%
Self pay	**23**	24
Health Maintenance Organizations	**17**	15
Anthem Blue Cross/Blue Shield	**15**	14
Medicaid	**10**	10
Commercial	**5**	5
Other state agencies	**4**	5
	100%	100%

13. Contingencies

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

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

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

14. Other Operating Revenues

Other operating revenues consist of the following:

	Year Ended September 30	
	2011	**2010**
Rental income	**$ 1,336,398**	$ 1,222,133
Cafeteria sales	**1,102,713**	1,063,020
Miscellaneous	**590,792**	361,626
Grants	**578,977**	733,844
Condominium income	**412,106**	389,640
Child care	**391,976**	355,497
Purchase discounts	**269,594**	351,343
Interest	**165,642**	196,253
	$ 4,848,198	$ 4,673,356

15. Functional Expenses

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

	Year Ended September 30	
	2011	**2010**
Health care services	**$ 200,530,936**	$ 213,627,999
General and administrative	**51,760,982**	48,673,060
Fundraising	**193,923**	190,865
	$ 252,485,841	$ 262,491,924

Costs for interest and insurance are included in general and administrative expenses. Malpractice insurance is included in health care services.

16. Cash Flows

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

	2011	**2010**
(Increase) decrease in assets:		
Accounts receivable	**$ (14,137,159)**	$ (9,057,522)
Pledges receivable	**84,655**	348,127
Due from affiliates	**496,941**	(141,929)
Inventories of supplies, prepaid expenses, and other	**(251,633)**	(783,378)
Increase (decrease) in liabilities:		
Due to third-party reimbursement agencies	**8,463,850**	3,243,626
Accounts payable	**(210,687)**	(421,931)
Employee related obligations	**(5,322,115)**	(1,497,412)
Interest payable and other accrued liabilities	**(3,233,379)**	1,523,472
Salaries and wages, payroll taxes, and taxes withheld from payroll	**460,084**	(1,998,968)
Self-insured professional liability	**339,430**	(66,430)
Other liabilities	**93,505**	(325,475)
Changes in operating assets and liabilities	**$ (13,216,508)**	$ (9,177,820)

17. Subsequent Events

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

Other Financial Information

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Report of Independent Auditors on Other Financial Information

Board of Trustees
The William W. Backus Hospital

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

Ernst & Young LLP

January 27, 2012

The William W. Backus Hospital

Consolidating Balance Sheet

September 30, 2011

	The William W. Backus Hospital	Backus Medical Center Condominium Association, Inc.	Eliminations	Consolidated
Assets				
Current assets:				
Cash and cash equivalents	$ 93,136,217			$ 93,136,217
Assets whose use is limited – required for current liabilities	5,885,482			5,885,482
Accounts receivable, less allowance for uncollectible accounts	32,373,122			32,373,122
Pledges receivable	101,211			101,211
Due from affiliates	161,210	$ 2,937		164,147
Inventories of supplies	3,704,067			3,704,067
Prepaid expenses and other	1,608,996	15,610		1,624,606
Total current assets	136,970,305	18,547		136,988,852
Assets whose use is limited:				
Board-designated investments	105,438,402			105,438,402
Held by trustee	28,078,427			28,078,427
Total assets whose use is limited	133,516,829			133,516,829
Less assets whose use is limited – required for current liabilities	5,885,482			5,885,482
	127,631,347			127,631,347
Property, plant, and equipment, net	89,983,664			89,983,664
Deferred financing costs	1,842,330			1,842,330
Other assets	1,542,292			1,542,292
Total assets	$ 357,969,938	$ 18,547		$ 357,988,485

The William W. Backus Hospital

Consolidating Balance Sheet (continued)

September 30, 2011

	The William W. Backus Hospital	Backus Medical Center Condominium Association, Inc.	Eliminations	Consolidated
Liabilities and net assets				
Current liabilities:				
Accounts payable – trade	$ 9,918,459			$ 9,918,459
Salaries and wages, payroll taxes, and taxes withheld from payroll	6,666,138			6,666,138
Other accrued liabilities	4,998,969	$ 478		4,999,447
Employee related obligations	3,942,900			3,942,900
Due to third-party reimbursement agencies	4,683,178			4,683,178
Interest payable	734,838			734,838
Current portion of long-term debt	2,115,360			2,115,360
Total current liabilities	33,059,842	478		33,060,320
Other liabilities:				
Long-term debt, less current portion	62,389,713			62,389,713
Employee related obligations	69,884,879			69,884,879
Self-insured professional liability	10,853,762			10,853,762
Due to third-party reimbursement agencies	19,162,526			19,162,526
Other	443,183			443,183
	162,734,063			162,734,063
Net assets:				
Unrestricted	153,327,362	18,069		153,345,431
Temporarily restricted	1,399,547			1,399,547
Permanently restricted	7,449,124			7,449,124
Total net assets	162,176,033	18,069		162,194,102
Total liabilities and net assets	$ 357,969,938	$ 18,547		$ 357,988,485

The William W. Backus Hospital

Consolidating Statement of Operations

Year Ended September 30, 2011

	The William W. Backus Hospital	Backus Medical Center Condominium Association, Inc.	Eliminations	Consolidated
Operating revenues:				
Net patient service revenue	$ 271,933,218			$ 271,933,218
Other operating revenues	4,436,092	$ 440,909	$ (28,803)	4,848,198
Net assets released from restriction	673,194			673,194
	277,042,504	440,909	(28,803)	277,454,610
Operating expenses:				
Salaries, wages, and professional fees	110,169,857			110,169,857
Payroll taxes and other fringe benefits	25,655,346			25,655,346
Supplies, insurance, and other	83,506,652	440,909	(28,803)	83,918,758
Provision for uncollectible accounts	12,522,978			12,522,978
Depreciation and amortization	16,971,187			16,971,187
Interest	3,247,715			3,247,715
	252,073,735	440,909	(28,803)	252,485,841
Operating income	24,968,769			24,968,769
Nonoperating gains and (losses):				
Income from investments	581,947			581,947
Contributions	158,300			158,300
Other	(565,873)			(565,873)
Excess of revenues over expenses	$ 25,143,143			$ 25,143,143

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