JOHNSON MEMORIAL MEDICAL CENTER

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2013 AND 2012

JOHNSON MEMORIAL MEDICAL CENTER

CONTENTS

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Johnson Memorial Medical Center

We have audited the accompanying consolidated financial statements of Johnson Memorial Medical Center (the Organization), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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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, 2013 and 2012, and the results of its operations, changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming that the Organization will continue as a going concern. As described in Note 1, the Organization experienced recurring losses from operations and had current liabilities that exceeded current assets by $31,896,747 as of September 30, 2013. The Organization has a credit agreement and mortgages that require certain financial and non-financial covenants be maintained. The Organization failed certain covenants during the year ended September 30, 2013 and defaulted on certain payments due on its mortgages. The mortgages and line of credit are callable on demand by the lenders. In addition, certain creditors filed a motion to convert the Bankruptcy Case to Chapter 7 of the Bankruptcy Code after the October 1, 2013 payments to the creditors were not made. These conditions raise substantial doubt about the Organization'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. Our opinion is not modified with respect to this matter.

Marcum LLP

Hartford, CT
January 17, 2014

JOHNSON MEMORIAL MEDICAL CENTER

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2013 AND 2012

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 805,902	$ 1,191,351
Patient trust funds	69,759	54,780
Patients accounts receivable, net of allowances for uncollectible accounts of $4,170,000 in 2013 and $3,032,000 in 2012	10,135,389	11,049,711
Insurance and other receivables	2,026,862	708,207
Inventories	1,317,470	1,254,591
Prepaid expenses and other current assets	1,110,135	1,142,229
Total Current Assets	15,465,517	15,400,869
Assets Whose Use is Limited		
Beneficial interests in perpetual trusts	3,729,727	3,616,492
Restricted cash and board designated investments	268,338	363,097
Cash and investments restricted by donor	1,030,601	1,032,318
Total Assets Whose Use is Limited	5,028,666	5,011,907
Other Assets		
Property, plant and equipment, net	27,034,256	32,968,826
Investment in joint ventures and other assets	3,173,049	3,114,039
Investments, other	1,100	1,100
Deferred financing costs, net	299,787	487,644
Other noncurrent assets	476,000	445,000
Total Other Assets	30,984,192	37,016,609
	$ 51,478,375	$ 57,429,385

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

JOHNSON MEMORIAL MEDICAL CENTER

CONSOLIDATED BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2013 AND 2012

	2013	2012
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Trade accounts payable and accrued expenses	$ 7,095,451	$ 4,846,437
Accrued payroll and related costs	2,807,220	3,018,255
Current portion of payments due under plan of reorganization	2,050,000	1,050,000
Patient trust funds	69,759	54,780
Senior debt under revolving line of credit	2,208,858	3,504,213
Current portion of mortgage payable	29,202,278	933,311
Current portion of subordinated and other debt	457,587	100,583
Current portion of capital lease obligations	14,365	73,874
Estimated amounts due to third-party reimbursement agencies	2,784,065	1,494,268
Other current liabilities	672,681	862,761
Total Current Liabilities	47,362,264	15,938,482
Long-Term Liabilities		
Payments due under plan of reorganization - less current portion	4,017,048	5,675,945
Mortgage payable - less current portion	--	28,704,541
Subordinated debt - less current portion	125,022	231,464
Other long-term debt	2,350,000	1,300,000
Self-insurance liabilities and reserves for incurred but not reported professional liability claims	641,424	1,141,100
Other liabilities	623,786	787,697
Obligations under capital lease - less current portion	45,579	58,370
Total Long-Term Liabilities	7,802,859	37,899,117
Total Liabilities	55,165,123	53,837,599
Net Assets (Deficit)		
Unrestricted	(8,766,006)	(1,339,902)
Temporarily restricted	335,709	301,374
Permanently restricted	4,743,549	4,630,314
Total Net Assets (Deficit)	(3,686,748)	3,591,786
	$ 51,478,375	$ 57,429,385

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, 2013 AND 2012

	2013	2012
Operating Revenue		
Net patient service revenue	$ 91,030,996	$ 92,870,450
Provision for bad debts	4,709,325	3,903,848
Net patient service revenue less provision for bad debts	86,321,671	88,966,602
Grant and other income	370,611	355,736
Other revenue	526,531	493,166
Net assets released from restriction	459,171	48,084
Total Operating Revenue	87,677,984	89,863,588
Expenses		
Salaries	43,355,432	45,315,556
Employee benefits	10,483,743	11,118,403
Professional fees	5,014,763	4,025,820
Depreciation and amortization	4,269,259	4,373,638
Outsourced staffing and contracted services	4,968,827	4,259,515
Supplies, drugs and patient care	10,543,386	8,907,808
Leases and service contracts	1,622,194	1,877,794
Occupancy costs	3,489,884	3,114,759
Insurance	1,292,568	1,407,337
Provider tax	899,469	950,314
Other expenses	5,232,898	5,655,642
Interest	1,899,374	2,070,005
Total Expenses	93,071,797	93,076,591
Loss from Operations Before Impairment Loss on Long-Lived Assets	(5,393,813)	(3,213,003)
Impairment Loss on Long-Lived Assets	(2,355,632)	--
Loss from Operations	(7,749,445)	(3,213,003)
Nonoperating Revenue		
Investment income	160,097	194,132
Gain on sale of equipment	1,200	3,196
Equity earnings in joint ventures	72,279	250,254
	233,576	447,582
Deficiency of Revenues over Expenses	$ (7,515,869)	$ (2,765,421)

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, 2013 AND 2012

	2013	2012
Unrestricted Net Assets		
Deficiency of revenues over expenses	$ (7,515,869)	$ (2,765,421)
Net assets released from restriction for purchase of property and equipment	89,765	552,037
Change in Unrestricted Net Assets	(7,426,104)	(2,213,384)
Temporarily Restricted Net Assets		
Grants and other contributions	583,123	540,767
Income and realized gains on investments	148	7,970
Net assets released from restriction	(548,936)	(600,121)
Change in Temporarily Restricted Net Assets	34,335	(51,384)
Permanently Restricted Net Assets		
Increase in fair value of beneficial interest in perpetual trusts	113,235	450,770
Change in Net Assets	(7,278,534)	(1,813,998)
Net Assets - Beginning	3,591,786	5,405,784
Net Assets (Deficit) - End	$ (3,686,748)	$ 3,591,786

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, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities and Reorganization Items		
Change in net assets	$ (7,278,534)	$ (1,813,998)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:		
Impairment loss on long-lived assets	2,355,632	--
Depreciation and amortization	4,269,259	4,373,638
Accretion of asset retirement obligation	10,374	16,643
Provision for uncollectible accounts	4,709,325	3,903,848
Gain on disposal of assets	(1,200)	(3,196)
Equity earnings in joint ventures	(72,279)	(250,254)
Net realized gains on investments	--	(18,683)
Change in net realized and unrealized gains on investments	(113,235)	(450,770)
Changes in assets and liabilities:		
Patient accounts receivable	(3,795,003)	(4,724,375)
Insurance and other receivables	(1,349,655)	922,328
Prepaid expenses and other current assets	32,094	301,170
Inventories	(62,879)	(38,096)
Restricted cash and board designated investments	96,476	154,310
Restricted grants and contributions	(583,123)	(540,767)
Accounts payable and accrued expenses	1,590,117	(358,974)
Accrued payroll and related costs	(211,035)	324,063
Estimated amounts due to third-party reimbursement agencies	1,289,797	(66,494)
Self-insurance liabilities	(499,676)	(434,712)
Other current liabilities	(190,080)	260,749
Other liabilities	(159,817)	(1,689)
Net Cash Provided by Operating Activities and Reorganization Items	36,558	1,554,741
Cash Flows From Investing Activities		
Capital expenditures	(502,463)	(1,165,552)
Purchases of investments	--	(188,049)
Proceeds from sales of investments	--	185,741
Net Cash Used in Investing Activities	(502,463)	(1,167,860)

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

	2013	2012
Cash Flows From Financing Activities		
Restricted grants and contributions	$ 583,123	$ 540,767
Principal payments on mortgage and subordinated debt	(535,012)	(1,028,414)
Proceeds from other debt	1,400,000	1,300,000
Net (payments on) proceeds from revolving line of credit	(1,295,355)	(1,146,973)
Principal payments on capital lease obligations	(72,300)	(103,277)
Net Cash Used in Financing Activities	80,456	(437,897)
Net Change in Cash and Cash Equivalents	(385,449)	(51,016)
Cash and Cash Equivalents - Beginning	1,191,351	1,242,367
Cash and Cash Equivalents - Ending	$ 805,902	$ 1,191,351
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 1,285,897	$ 1,528,708

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

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.

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, 2013 and 2012, liabilities compromised by the confirmed plan have been recorded at the present values of amounts to be paid, determined at the interest rate of 6.75%.

The 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 $232,609 and $332,047 as of September 30, 2013 and 2012, respectively.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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. The Hospital has also recorded a liability of $438,767 and $411,023 as of September 30, 2013 and 2012, respectively for the pension termination premium that is owed to the PBGC prior to October 1, 2016. If the premium is not paid by this date, the pension termination premium will increase to $2 million.

The Hospital and Evergreen failed to pay the amounts owed to the unsecured creditors of $1,056,775 and the PBGC of $993,225 that were due on October 1, 2013 and certain creditors filed a motion to convert the Bankruptcy Case to Chapter 7 of the Bankruptcy Code.

In addition, delinquent mortgage payments totaling approximately $1,378,000 were past due under the secured mortgages as of September 30, 2013. People's Bank has the right to demand immediate payment of the $29,202,278 balance of the mortgages which has been classified as a current liability at September 30, 2013.

AFFILIATION WITH SAINT FRANCIS CARE, INC.

On July 12, 2012, the Corporation, along with 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 made an additional payment of $1,050,000 on October 1, 2012, both payments to be used by the Johnson Entities to satisfy outstanding claims owed under the reorganization plan (the Plan) to the Pension Benefit Guaranty Corporation and the unsecured creditors in classes A6 and B6 of the Plan.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

In addition, Saint Francis was provided with 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.

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.

Saint Francis did not exercise its option to make the payment of $2,050,000 on October 1, 2013 and Saint Francis indicated that it will enter into a transaction to acquire some or all of the Johnson Entities or it will terminate the affiliation agreement. Saint Francis' acquisition is contingent upon the forgiveness of certain liabilities of the Johnson Entities by a bank and the unsecured creditors. It is uncertain whether any of the Johnson Entities will be acquired by Saint Francis.

In the event that an agreement cannot be reached between Saint Francis, the bank, the unsecured creditors, the Johnson Entities would be forced to identify another buyer while possibly declaring bankruptcy.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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.

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 in an effort to help the Hospital to attract additional volume.

On May 17, 2013, the Johnson Entities amended the affiliation agreement with Saint Francis to include additional advances of up to $1,000,000 to be used solely for general working capital purposes. Advances under this amendment are subject to interest effective October 1, 2013 at the prime rate plus 2%. As of September 30, 2013, $350,000 was advanced to the Hospital.

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, 2013, the Organization experienced a loss from operations of $5,393,813 before the impairment loss on long-lived assets and had current liabilities that exceeded current assets by $31,896,747. 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. The Hospital, EHCC and JMMC failed certain debt covenants during the year ended September 30, 2013 and defaulted on certain payments due on its mortgage. The mortgage and line of credit are callable on demand by the lenders. In addition, certain creditors filed a motion to convert the Bankruptcy Case to Chapter 7 of the Bankruptcy Code after the October 1, 2013 payments to the creditors were not made. 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.

Management executed an affiliation agreement with Saint Francis during the year ended September 30, 2012 and is pursuing an agreement for Saint Francis to acquire all or some of the Johnson Entities in order to enhance their ability to share in operational efficiencies and ensure that they continue as a going concern. During the year ending September 30, 2014, the Organization will be introducing cost reductions in the budget, implementing changes in its employee health insurance benefit plan, and the Hospital expects to receive reimbursement relief from the State of Connecticut and additional payments from the Federal government.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

The ability of the Johnson Entities to negotiate an agreement with Saint Francis that is acceptable to the bank and the unsecured creditors is uncertain and is contingent upon the forgiveness of certain debt. In the event that an agreement cannot be reached by these parties, the Organization will be forced to identify another buyer while possibly declaring bankruptcy. The Corporation's continuation as a going concern is also 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.

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.

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. JPA 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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, 2013 and 2012, the Organization had temporarily restricted net assets of $335,709 and $301,374, respectively.

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).

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

DONOR RESTRICTED GIFTS

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted 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.

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 increases in unrealized gains from the trust funds were $113,235 in 2013 and $450,770 in 2012 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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.

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. The Hospital has a 25% interest in Northeast Regional Radiation Oncology Network, Inc. (NRRON) ($3,108,378 and $3,055,158 as of September 30, 2013 and 2012, respectively). JMMC leases space to NRRON under the terms of an operating lease and recognized rental income of $225,240 and $274,852 for the years ended September 30, 2013 and 2012, respectively.

INVENTORIES

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

IMPAIRMENT OF LONG-LIVED ASSETS

The Organization 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. Evergreen recorded an impairment loss of $2,355,632 for the year ended September 30, 2013. There were no impairment losses recorded in 2012. Management believes that the other entities with long-lived assets included in the consolidated financial statements will generate undiscounted cash flows that will at least hold the value in their long-lived assets at their current carrying values. Management of the Hospital expects to improve its cash flows as a result of additional volume anticipated from new initiatives, projected additional relief from the State of Connecticut and 2014 budgeted cost reductions. Reference is made to Note 10.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. As of September 30, 2013, Evergreen reduced the carrying value of its buildings and improvements by $2,355,632 related to the aforementioned impairment loss. The adjusted carrying value is the new cost basis. 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:

	Useful Lives
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.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

Conditional asset retirement obligations of $334,927 and $324,553 as of September 30, 2013 and 2012, 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, 2013 and 2012. There were no retirement obligations incurred or settled during 2013 or 2012. Reference is made to Note 16 regarding other environmental exposures.

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.

NONOPERATING REVENUE

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating revenue 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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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, 2013, 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 2010.

ADVERTISING

The Organization expenses advertising costs as incurred. Advertising expenses for the years ended September 30, 2013 and 2012 were $40,673 and $207,107, 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 policies without charge, or at amounts less than its established rates. The Organization does not pursue collection of amounts determined to be charity care and these amounts are not reported as net patient service revenues.

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.

The Organization accounts for its insurance claims and related insurance recoveries in accordance with the provisions of ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which indicates that health care entities should not net insurance recoveries against the related claim liabilities.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

ADOPTION OF NEW ACCOUNTING STANDARD - 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 provision for bad debts 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 Organization adopted the provisions of ASU 2011-07 for the year ended September 30, 2013 and retrospectively applied the presentation to the year ended September 30, 2012. See Note 3 for additional disclosures required by ASU 2011-07. There was no material impact to the Organization's consolidated financial statements aside from the required changes in presentation.

RECLASSIFICATIONS

Certain 2012 reported amounts have been reclassified to conform to the 2013 financial statement presentation.

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 financial statements. The Organization evaluated events occurring subsequent to September 30, 2013 through January 17, 2014, 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, other than the Organization's failure to make certain payments to the unsecured creditors and the PBGC on October 1, 2013.

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.

NOTE 2 – CONSOLIDATED ENTITIES (CONTINUED)

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.

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 has not rendered medical services in several years. During 2011, the medical services formerly provided by JMS were provided by the Hospital.

Johnson Health Care Inc. (d/b/a 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, 2013 and 2012:

	2012	2011
Gross patient service revenue	$ 199,469,902	$ 193,741,543
Contractual and other allowances	108,438,906	100,871,093
Net patient service revenue	91,030,996	92,870,450
Provision for bad debts	4,709,325	3,903,848
Net patient service revenue less provision for bad debts	$ 86,321,671	$ 88,966,602

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.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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. For the years ended September 30, 2013 and 2012, the Organization recorded approximately ($469,000) and $220,000, respectively, as a (decrease) increase to net patient service revenue as changes in estimates related to third-party payer settlements and adjustments to accruals recorded in prior years.

The following table represents the percentages of net revenue received from payers during the years ended September 30, 2013 and 2012:

	2013	2012
Medicare	36%	37%
Medicaid	15%	17%
Third Parties	36%	33%
Other	13%	13%

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

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

The significant concentrations of net accounts receivable for services to patients by payer at September 30, 2013 and 2012 follow:

	2013	2012
Medicare	31%	31%
Medicaid	18%	13%
Third Parties	35%	34%
Other	16%	22%

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 2010 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.

CHARITY CARE

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 revenue for financial reporting purposes.

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

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

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, 2013 and 2012, the Organization estimates that its costs of care provided under its charity care programs approximated $152,000 and $104,000, respectively.

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 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 uncollectible accounts as it is the Organization's policy not to pursue collection of amounts related to these patients.

BAD DEBTS

The Organization's estimation of the allowance for uncollectible accounts is based primarily upon the type and age of the patient accounts receivable and the effectiveness of the Organization's collection efforts. The Organization's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. On a monthly basis, the Organization reviews its accounts receivable balances, the effectiveness of the Organization's reserve policies and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

- Revenue and volume trends by payer, particularly the self-pay components;
- Changes in the aging and payer mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients; and
- Various allowance coverage statistics.

The Organization regularly performs hindsight procedures to evaluate historical write-off and collection experience throughout the year to assist in determining the reasonableness of its process for estimating the allowance for uncollectible accounts.

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

A summary of the Organization's allowance for doubtful accounts activity for the years ended September 30, 2013 and 2012 is as follows:

	Balance at Beginning of Period	Additions Recorded in the Provision for Bad Debts	Accounts Written off, Net of Recoveries and Other	Balance at End of Period
Allowance for doubtful accounts:				
Year ended September 30, 2012	$ (3,042,000)	$ (3,903,848)	$ 3,913,848	$ (3,032,000)
Year ended September 30, 2013	$ (3,032,000)	$ (4,709,325)	$ 3,571,325	$ (4,170,000)

ICD-10 IMPLEMENTATION

The Organization is subject to the administrative simplification provisions of HIPAA which require the use of uniform electronic data transmission standards for health care claims and payment transactions submitted or received electronically.

In January 2009, the Centers for Medicare and Medicaid Services (CMS) published its tenth revision of International Statistical Classification of Diseases and Related Health Problems (ICD-10) and related changes to the formats used for certain electronic transactions. ICD-10 contains significantly more diagnostic and procedural codes than the existing ICD-9 coding system, and as a result, the coding for the services provided by the Organization will require much greater specificity when ICD-10 becomes effective on October 1, 2014.

Implementation of ICD-10 will require a significant investment in technology and training. The Hospital may experience delays in reimbursement while the Organization and the payers from which it seeks reimbursement make the transition to ICD-10. If the Organization fails to implement the new coding system by the deadline, the Organization will not be paid for services. Management is not able to reasonably estimate the overall financial impact of the Organization's transition to ICD-10.

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, 2013 and 2012.

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

	2013	
September 30, 2013:	Cost	Fair Value
Cash and cash equivalents	$ 1,323,359	$ 1,323,359
Money market funds	20,460	20,460
Mutual funds - equity	560,817	577,579
Mutual funds - fixed	110,126	104,946
Collective funds - equity	70,415	80,670
Collective funds - fixed	332,391	401,844
Investment grade taxable bonds	33,233	31,947
Global high yield bonds	99,698	105,211
Equities		
U.S. large cap	807,823	894,907
U.S. mid cap	216,666	258,354
U.S. small cap	201,958	225,209
International developed	329,802	352,583
Emerging markets	260,180	244,309
Real estate	199,572	188,086
Tangible assets - commodities	233,497	219,202
	$ 4,799,997	$ 5,028,666

NOTE 6 – ASSETS WHOSE USE IS LIMITED (CONTINUED)

	2012	
September 30, 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

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

	2013	2012
Investment gains		
Dividends and interest	$ 199,475	$ 220,407
Realized gains on sales of securities	--	8,942
	199,475	229,349
Less investment management fees	(39,378)	(35,217)
Net investment gains	$ 160,097	$ 194,132

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.

NOTE 7 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes fair value measurements, by level, at September 30, 2013 and 2012, 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, 2013				
Beneficial interests in perpetual trusts:				
Cash and cash equivalents	$ 24,420	$ --	$ --	$ 24,420
Money market funds	20,460	--	--	20,460
Mutual funds - equity	577,579	--	--	577,579
Mutual funds - fixed	104,946	--	--	104,946
Collective funds - equity	--	--	80,670	80,670
Collective funds - fixed	--	--	401,844	401,844
Investment grade taxable bonds	31,947	--	--	31,947
Global high yield bonds	105,211	--	--	105,211
Equities				
U.S. large cap	894,907	--	--	894,907
U.S. mid cap	258,354	--	--	258,354
U.S.small cap	225,209	--	--	225,209
International developed	352,583	--	--	352,583
Real estate	188,086	--	--	188,086
Emerging markets	244,309	--	--	244,309
Tangible assets - commodities	--	--	219,202	219,202
Total Beneficial interests in perpetual trusts	3,028,011	--	701,716	3,729,727
Restricted cash and board designated investments	268,338	--	--	268,338
Cash and investments permanently restricted by donor	1,030,601	--	--	1,030,601
	$ 4,326,950	$ --	$ 701,716	$ 5,028,666

NOTE 7 – FAIR VALUE MEASUREMENTS (CONTINUED)

	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
Cash and investments permanently restricted by donor	1,032,318	--	--	1,032,318
	$ 4,774,611	$ --	$ 237,296	$ 5,011,907

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:

	Beneficial interest in perpetual trusts
Balance at September 30, 2011	$ 84,457
Purchases of investments	147,088
Changes in fair value	5,751
Balance at September 30, 2012	$ 237,296
Purchases of investments	233,497
Changes in fair value	230,923
Balance at September 30, 2013	$ 701,716

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.

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.

NOTE 8 – RESTRICTED ENDOWMENTS (CONTINUED)

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2013 AND 2012:

September 30, 2013	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (7,680)	$ 24,459	$ 1,013,822	$ 1,030,601
Beneficial interests in perpetual trusts	--	--	3,729,727	3,729,727
	$ (7,680)	$ 24,459	$ 4,743,549	$ 4,760,328

September 30, 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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
	$ (7,865)	$ 26,361	$ 4,630,314	$ 4,648,810

CHANGES IN ENDOWMENT NET ASSET FOR THE YEARS ENDED SEPTEMBER 30, 2013 AND 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
September 30, 2013				
Endowment net assets, beginning	$ (7,865)	$ 26,361	$ 4,630,314	$ 4,648,810
Investment return:				
Investment income	158,185	148	--	158,333
Net unrealized gains	--	--	113,235	113,235
Total investment return	158,185	148	113,235	271,568
Appropriation of endowment assets for expenditure	(158,000)	(2,050)	--	(160,050)
Endowment net assets, ending	$ (7,680)	$ 24,459	$ 4,743,549	$ 4,760,328

NOTE 8 – RESTRICTED ENDOWMENTS (CONTINUED)

	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	178,288	1,026	--	179,314
Net unrealized losses	11,739	6,944	450,770	469,453
Total investment return	190,027	7,970	450,770	648,767
Appropriation of endowment assets for expenditure	(177,006)	--	--	(177,006)
Endowment net assets, ending	$ (7,865)	$ 26,361	$ 4,630,314	$ 4,648,810

NOTE 9 – TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

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

	2013	2012
Grant proceeds subject to use restrictions	$ 268,927	$ 262,646
Other receivables subject to time restrictions	31,703	14,585
Indigent, elderly womens care	12,187	12,181
Scholarships	9,997	11,962
Other	12,895	--
	$ 335,709	$ 301,374

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

	2013	2012
Health care services and operations	$ 4,680,660	$ 4,567,425
Elderly assistance	40,261	40,261
Scholarships	22,628	22,628
	$ 4,743,549	$ 4,630,314

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

The components of cost and the related accumulated depreciation comprising property, plant and equipment as of September 30, 2013 and 2012 are as follows:

	2013	2012
Land	$ 406,997	$ 406,997
Land improvements	4,074,402	4,074,402
Building and improvements	46,451,537	48,605,693
Fixed and movable equipment	36,335,266	36,060,169
	87,268,202	89,147,261
Less accumulated depreciation	(60,233,946)	(56,178,435)
	$ 27,034,256	$ 32,968,826

Depreciation expense for property, plant and equipment amounted to $4,081,402 and $4,185,781 for the years ended September 30, 2013 and 2012, respectively. Included within depreciation and amortization expense on the statements of operations is amortization for capital leased assets of $19,084 and $48,802 for the years ended September 30, 2013 and 2012, respectively (see Note 12).

IMPAIRMENT OF LONG-LIVED ASSETS

During the year ended September 30, 2013, Evergreen continued to experience a reduction in the number of patients as the average occupancy declined to 79% compared to an average occupancy rate of 86% for the year ended September 30, 2011. In addition, Evergreen's federal and state reimbursement rates were reduced during 2013. Evergreen's annual loss from operations was approximately $1 million for the years ended September 30, 2013 and 2012 compared to an $89,000 loss from operations for the year ended September 30, 2011. Due to this decline in performance, Evergreen was unable to make certain mortgage payments during the year ended September 30, 2013.

As a result of these factors, management performed testing during the year ended September 30, 2013 to compare the carrying value of the assets to the undiscounted cash flows expected to result from the continued operations of Evergreen and concluded that the recorded carrying value of the assets was not recoverable.

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Fair value was then estimated by management based on a discounted cash flow analysis which indicated that the fair value of the property, plant and equipment was approximately $6 million which was less than the recorded carrying value. As a result, Evergreen recorded an impairment loss on long-lived assets of $2,355,632 during the year ended September 30, 2013 which is recorded in the Organization’s 2013 consolidated statement of operations.

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, 2013 were 6.63% and 1.52%, respectively.

As of September 30, 2013, there was a principal balance of $11,987,500 due on the Hospital’s mortgage.

The Hospital is required to meet certain financial covenants under the mortgage. During the year ended September 30, 2013, the Hospital failed certain covenants and failed to make certain mortgage payments resulting in a delinquent balance of approximately $645,000 at September 30, 2013. The bank has the right to demand immediate payment of the $11,987,500 balance of the mortgage which has been classified as a current liability as of September 30, 2013. The net book value of the collateral for this mortgage was approximately $16,800,000 as of September 30, 2013.

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 $232,609 and $332,047 at September 30, 2013 and 2012, respectively.

NOTE 11 – DEBT (CONTINUED)

On August 28, 2007, Evergreen entered into a $15,200,000 Loan 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% (1.4731% at September 30, 2013).

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, 2013, there was a balance of $14,213,697 due on Evergreen's loans.

Evergreen is required to meet certain financial covenants. During the year ended September 30, 2013, Evergreen failed certain covenants and failed to make certain loan payments resulting in a delinquent balance of $672,919 at September 30, 2013. The bank has the right to demand immediate payment of the $14,213,697 balance of the loan which has been classified as a current liability as of September 30, 2013. The net book value of the collateral for this mortgage was approximately $6,000,000 as of September 30, 2013.

NOTE 11 – DEBT (CONTINUED)

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% (1.7731% at September 30, 2013). Principal is payable in monthly installments of $15,000. The balance of the JMMC mortgage loan was $3,001,081 at September 30, 2013. JMMC failed to make certain mortgage payments resulting in a delinquent balance of $60,000 at September 30, 2013. The bank has the right to demand immediate payment of the $3,001,081 balance of the loan which has been classified as a current liability as of September 30, 2013. The net book value of the collateral for this mortgage was approximately $3,950,000 as of September 30, 2013.

Future minimum payments by year and in the aggregate for the aforementioned loans were as follows at September 30, 2013:

2014	$ 29,309,865
2015	125,022
	$ 29,434,887

The other long-term debt of $2,350,000 and $1,300,000 as of September 30, 2013 and 2012, respectively, and $350,000 of other current debt as of September 30, 2013 represents the amount owed to Saint Francis under the terms of the affiliation agreement. Reference is made to Note 1. Effective October 1, 2013, $350,000 of the debt becomes subject to interest at the prime rate plus 2%. The remaining balance of this debt is not subject to interest.

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 rate of the 3 month LIBOR rate plus 4.25% payable monthly in arrears. In the event of a default, the agreement provides for an increase in the interest rate by 4%. 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, however, as a result of the covenant defaults in 2013, the lender can call the debt on demand after September 30, 2013.

As of September 30, 2013, there were outstanding borrowings of $2,208,858 under the Loan and Security Agreement. As a result of the default, the lender has no obligation to provide additional loans to the Hospital.

NOTE 11 – DEBT (CONTINUED)

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 2013, the Borrowers failed to comply with various covenants under the Revolving Loan and Security Agreement which resulted in the lender imposing an interest penalty. The Borrowers received forbearance by the lender from imposing certain rights as a result of these defaults until September 30, 2013. Subsequent to September 30, 2013, the lender has the ability to demand repayment of the loan.

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, 2013 and 2012 are as follows:

	2013	2012
Medical and other equipment	$ 132,248	$ 559,302
Less accumulated amortization	(37,431)	(146,462)
	$ 94,817	$ 412,840

On June 27, 2013, the Hospital entered into a five year capital lease agreement to lease generators with a cost of $688,000. The monthly lease payments will total $10,500 for the first year and $15,400 for the remainder of the lease term with total payments of $865,296. The generators were not received as of September 30, 2013, therefore, the lease is not recorded in the Organization's balance sheet.

NOTE 12 – LEASE OBLIGATIONS (CONTINUED)

Future minimum lease payments under the capital leases (excluding the aforementioned generator lease), together with the present value of future minimum lease payments, as of September 30, 2013 are as follows:

2014	$	19,681
2015		18,108
2016		18,108
2017		16,599
Total future minimum lease payments		72,496
Less amounts representing interest		12,552
Present value of future minimum lease payments		59,944
Less current portion		14,365
	$	45,579

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 $149,233 and $116,401 for the years ended September 30, 2013 and 2012, respectively.

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 $2,223,374 in 2013 and $2,268,594 in 2012. 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, 2013 are as follows:

2014	$	534,240
2015		296,203
2016		99,612
2017		16,602
	$	946,657

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 $147,244 in 2013. The total expense incurred by the Hospital for contributions made to the Plan was $249,482 in 2012. It is uncertain whether this match will be reinstituted.

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 2013 or 2012. It is uncertain whether this match will be reinstituted.

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 2013 or 2012 statement of operations. It is uncertain whether this match will be reinstituted.

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, 2013 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 policy, 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.

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's independent actuary estimated the expected costs to settle claims incurred during the self-insured period and claims that were incurred but not reported (IBNR) under its claims made insurance policy. Accrued losses have been discounted at 3%.

The Organization has accrued liabilities of $729,965 and $1,192,410 for the estimated claims that have been incurred but not reported and cases incurred during the self-insured period for its professional liability and general liability insurance risks as of September 30, 2013 and 2012, respectively.

The Organization was also self-insured for workers compensation claims through March 16, 2009 at which time it obtained commercial insurance. 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.

In accordance with the provisions of ASU 2010-24, the Organization recorded recoverables from insurance companies for the estimated costs to settle fully insured malpractice and workers' compensation claims in the amounts of $740,156 and $1,033,680 as of September 30, 2013 and 2012, respectively. The Organization has recorded liabilities equal to these amounts as of September 30, 2013 and 2012.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

The Organization is a party to various lawsuits incidental to its business. 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

NOTE 16 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 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 approximately $855,000. As of September 30, 2013, funds to finance this project had not been secured.

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 DEP 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);

NOTE 16 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

(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.

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:

	2013	2012
Patient care services	$ 76,620,100	$ 74,464,591
General and adminitrative (including depreciation and amortization, interest and operations)	16,451,697	18,612,000
	$ 93,071,797	$ 93,076,591

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT
ON SUPPLMENTARY INFORMATION

Board of Directors
Johnson Memorial Medical Center

We have audited the consolidated financial statements of Johnson Memorial Medical Center as of and for the years ended September 30, 2013 and 2012, and our report thereon dated January 17, 2014, which contained a going concern opinion on those consolidated financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for the purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements taken as a whole.

Marcum LLP

Hartford, CT
January 17, 2014

JOHNSON MEMORIAL MEDICAL CENTER

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2013

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Assets								
Current Assets								
Cash and cash equivalents	$ 347,057	$ 210,152	$ 300	$ 400	$ 1,924	$ 246,069	$ --	$ 805,902
Patient trust funds	--	--	69,759	--	--	--	--	69,759
Patients accounts receivable, net of allowances for uncollectible accounts	--	7,632,109	1,560,623	874,130	--	68,527	--	10,135,389
Insurance and other receivables	15,996	1,691,228	296,162	23,476	--	--	--	2,026,862
Inventories	--	1,317,470	--	--	--	--	--	1,317,470
Prepaid expenses and other current assets	14,934	899,407	118,914	74,997	--	1,883	--	1,110,135
Total Current Assets	377,987	11,750,366	2,045,758	973,003	1,924	316,479	--	15,465,517
Assets Whose Use is Limited								
Beneficial interests in perpetual trusts	--	3,729,727	--	--	--	--	--	3,729,727
Restricted cash and board designated investments	--	268,338	--	--	--	--	--	268,338
Cash and investments restricted by donor	--	843,587	--	187,014	--	--	--	1,030,601
Total Assets Whose Use is Limited	--	4,841,652	--	187,014	--	--	--	5,028,666
Other Assets								
Property, plant and equipment, net	3,954,536	17,066,172	6,000,000	13,548	--	--	--	27,034,256
Investment in joint ventures and other assets	--	3,165,915	--	7,134	--	--	--	3,173,049
Investment deficit in affiliated corporations	(3,119,194)	--	--	--	--	--	3,119,194	--
Investments, other	1,100	--	--	--	--	--	--	1,100
Due from affiliated corporations	1,905,133	--	--	70,249	--	--	(1,975,382)	--
Deferred financing costs, net	--	172,864	126,923	--	--	--	--	299,787
Other noncurrent assets	--	476,000	--	--	--	--	--	476,000
Total Other Assets	2,741,575	20,880,951	6,126,923	90,931	--	--	1,143,812	30,984,192
	$ 3,119,562	$ 37,472,969	$ 8,172,681	$ 1,250,948	$ 1,924	$ 316,479	$ 1,143,812	$ 51,478,375

JOHNSON MEMORIAL MEDICAL CENTER

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2013

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Liabilities and Net Assets (Deficit)								
Current Liabilities								
Trade accounts payable and accrued expenses	$ 58,838	$ 5,189,596	$ 1,333,896	$ 494,844	$ --	$ 21,855	$ (3,578)	$ 7,095,451
Accrued payroll and related costs	--	2,048,896	522,912	215,219	--	20,193	--	2,807,220
Current payments due under plan of reorganization	--	1,947,500	102,500	--	--	--	--	2,050,000
Patient trust funds	--	--	69,759	--	--	--	--	69,759
Senior debt under line of credit	--	2,208,858	--	--	--	--	--	2,208,858
Current portion of mortgage payable	3,001,081	11,987,500	14,213,697	--	--	--	--	29,202,278
Current portion of subordinated debt	--	457,587	--	--	--	--	--	457,587
Current portion of capital lease obligations	--	14,365	--	--	--	--	--	14,365
Estimated amounts due to third-party reimbursement agencies	--	2,564,571	176,598	42,896	--	--	--	2,784,065
Due to affiliated corporations	--	--	79,991	--	--	7,465	(87,456)	--
Other current liabilities	--	168,332	296,162	208,187	--	--	--	672,681
Total Current Liabilities	3,059,919	26,587,205	16,795,515	961,146	--	49,513	(91,034)	47,362,264
Long-Term Obligations								
Due to affiliate corporations	--	2,317,342	--	--	--	--	(2,317,342)	--
Payments due under plan of reorganization - less current portion	--	3,930,808	86,240	--	--	--	--	4,017,048
Mortgage payable - less current portion	--	--	--	--	--	--	--	--
Subordinated debt - less current portion	--	125,022	--	--	--	--	--	125,022
Other long-term debt	--	2,350,000	--	--	--	--	--	2,350,000
Self-insurance liabilities and IBNR	--	641,424	--	--	--	--	--	641,424
Other liabilities	18,859	604,927	--	--	--	--	--	623,786
Obligations under capital lease - less current portion	--	45,579	--	--	--	--	--	45,579
Total Long-Term Obligations	18,859	10,015,102	86,240	--	--	--	(2,317,342)	7,802,859
Total Liabilities	3,078,778	36,602,307	16,881,755	961,146	--	49,513	(2,408,376)	55,165,123

JOHNSON MEMORIAL MEDICAL CENTER

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2013

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Net Assets (Deficit)								
Unrestricted	$ 27,889	$ (3,971,579)	$ (8,709,074)	$ 65,680	$ 1,924	266,966	$ 3,552,188	$ (8,766,006)
Temporarily restricted	12,895	268,927	--	53,887	--	--	--	335,709
Permanently restricted	--	4,573,314	--	170,235	--	--	--	4,743,549
Total Net Assets (Deficit)	40,784	870,662	(8,709,074)	289,802	1,924	266,966	3,552,188	(3,686,748)
	$ 3,119,562	$ 37,472,969	$ 8,172,681	$ 1,250,948	$ 1,924	$ 316,479	$ 1,143,812	$ 51,478,375

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 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
	$ 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 and IBNR	--	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)	(436,021)	5,283,653	(5,390,025)	337,236	2,173	242,582	3,552,188	3,591,786
	$ 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 STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Operating Revenue								
Net patient service revenue	$ --	$ 68,075,182	$ 16,055,367	$ 6,354,913	$ --	$ 545,534	$ --	$ 91,030,996
Provision for bad debts	--	4,584,989	50,053	73,882	--	401	--	4,709,325
Net patient service revenue less provision for bad debts	--	63,490,193	16,005,314	6,281,031	--	545,133	--	86,321,671
Grant and other income	420	324,460	--	30,096	--	15,635	--	370,611
Other revenue	1,209,979	--	98,000	64,277	--	--	(845,725)	526,531
Net assets released from restriction	--	443,523	--	15,648	--	--	--	459,171
Total Operating Revenue	1,210,399	64,258,176	16,103,314	6,391,052	--	560,768	(845,725)	87,677,984
Expenses								
Salaries	--	30,381,654	8,962,330	3,724,353	--	287,095	--	43,355,432
Employee benefits	--	6,806,518	2,629,996	994,891	--	52,338	--	10,483,743
Professional fees	25,000	4,548,191	334,460	45,420	--	61,692	--	5,014,763
Depreciation and amortization	332,413	3,115,981	800,764	20,101	--	--	--	4,269,259
Outsourced staffing and contracted services	58,539	3,902,675	570,293	430,169	--	7,151	--	4,968,827
Supplies, drugs and patient care	--	8,704,335	995,359	800,777	--	42,915	--	10,543,386
Leases and service contracts	--	1,563,348	28,079	13,877	--	16,890	--	1,622,194
Occupancy costs	196,490	3,419,322	527,464	149,233	--	43,100	(845,725)	3,489,884
Insurance	7,541	1,092,058	120,347	61,169	--	11,453	--	1,292,568
Provider tax	--	--	899,469	--	--	--	--	899,469
Other expenses	75,213	4,210,400	718,333	214,952	250	13,750	--	5,232,898
Interest	51,292	1,368,245	479,837	--	--	--	--	1,899,374
Total Expenses	746,488	69,112,727	17,066,731	6,454,942	250	536,384	(845,725)	93,071,797
Loss from Operations Before Impairment Loss on Long-Lived Assets	463,911	(4,854,551)	(963,417)	(63,890)	(250)	24,384	--	(5,393,813)
Impairment Loss on Long-Lived Assets	--	--	(2,355,632)	--	--	--	--	(2,355,632)
Income (Loss) from Operations	463,911	(4,854,551)	(3,319,049)	(63,890)	(250)	24,384	--	(7,749,445)

JOHNSON MEMORIAL MEDICAL CENTER

CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
Nonoperating Revenue								
Investment income	$ --	$ 158,800	$ --	$ 1,297	$ --	$ --	$ --	$ 160,097
Gain on sale of equipment	--	1,200	--	--	--	--	--	1,200
Equity earnings in joint ventures	--	72,279	--	--	--	--	--	72,279
	--	232,279	--	1,297	--	--	--	233,576
Excess (Deficiency) of Revenues over Expenses	$ 463,911	$ (4,622,272)	$ (3,319,049)	$ (62,593)	$ (250)	$ 24,384	$ -	$ (7,515,869)

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
Provision for bad debts	--	3,773,454	80,739	48,394	--	1,261	--	3,903,848
Net patient service revenue less provision for bad debts	--	65,561,187	16,650,944	6,179,098	--	575,373	--	88,966,602
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	1,192,176	65,895,410	16,770,786	6,307,362	--	590,830	(892,976)	89,863,588
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
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
Outsorced 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	947,000	68,305,252	17,837,707	6,335,028	(87)	544,667	(892,976)	93,076,591
Income (Loss) from Operations	245,176	(2,409,842)	(1,066,921)	(27,666)	87	46,163	--	(3,213,003)

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 (Loss)								
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)