

AUDITED FINANCIAL STATEMENTS AND  
OTHER FINANCIAL INFORMATION

The William W. Backus Hospital  
Years Ended September 30, 2010 and 2009  
With Report of Independent Auditors

# The William W. Backus Hospital

## Audited Financial Statements and Other Financial Information

Years Ended September 30, 2010 and 2009

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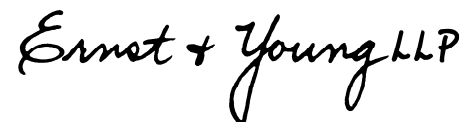
## Report of Independent Auditors

The Board of Trustees  
The William W. Backus Hospital

We have audited the accompanying balance sheets of The William W. Backus Hospital (the Hospital) as of September 30, 2010 and 2009, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The William W. Backus Hospital as of September 30, 2010 and 2009, and the results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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

December 2, 2010

# The William W. Backus Hospital

## Balance Sheets

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 72,131,779	\$ 57,570,735
Assets whose use is limited – required for current liabilities	7,931,590	7,240,812
Accounts receivable, less allowance for uncollectible accounts (2010 – \$20,081,000; 2009 – \$20,629,000)	30,758,941	36,111,295
Pledges receivable	185,866	
Due from affiliates	661,088	3,901,924
Inventories of supplies	3,799,896	3,252,641
Prepaid expenses and other	1,277,144	925,340
Total current assets	116,746,304	109,002,747
Assets whose use is limited:		
Board-designated investments	96,626,409	44,500,233
Held by trustee	26,988,802	22,743,662
Total assets whose use is limited	123,615,211	67,243,895
Less assets whose use is limited – required for current liabilities	7,931,590	7,240,812
	115,683,621	60,003,083
Interest in Foundation		41,147,474
Property, plant, and equipment, net	99,122,387	98,131,132
Deferred financing costs	1,933,364	2,025,397
Other assets	1,603,864	1,801,751
Total assets	\$ 335,089,540	\$ 312,111,584

	September 30	
	2010	2009
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable – trade	\$ 10,129,146	\$ 10,508,835
Salaries and wages, payroll taxes, and taxes withheld from payroll	6,206,054	8,205,022
Other accrued liabilities	8,213,638	6,325,794
Due to third-party reimbursement agencies	2,614,222	1,831,013
Interest payable	754,026	864,418
Current portion of long-term debt	2,032,691	1,825,000
Total current liabilities	<u>29,949,777</u>	<u>29,560,082</u>
Other liabilities:		
Long-term debt	64,591,831	63,931,536
Employee related obligations	57,973,203	84,442,697
Self-insured professional liability	10,514,332	10,580,762
Due to third-party reimbursement agencies	12,767,632	10,307,215
Other	349,678	667,654
	<u>146,196,676</u>	<u>169,929,864</u>
Net assets:		
Unrestricted	147,366,124	102,312,376
Temporarily restricted	4,101,543	3,447,432
Permanently restricted	7,475,420	6,861,830
Total net assets	<u>158,943,087</u>	<u>112,621,638</u>
Total liabilities and net assets	<u><u>\$ 335,089,540</u></u>	<u><u>\$ 312,111,584</u></u>

*See accompanying notes.*

# The William W. Backus Hospital

## Statements of Operations

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Operating revenues:		
Net patient service revenue	<b>\$ 270,048,715</b>	\$ 259,652,271
Other operating revenues	<b>4,673,356</b>	4,213,341
Net assets released from restriction	<b>91,211</b>	
	<b>274,813,282</b>	263,865,612
Operating expenses:		
Salaries, wages, and professional fees	<b>109,179,026</b>	112,184,033
Payroll taxes and other fringe benefits	<b>27,181,443</b>	27,425,902
Supplies, insurance, and other	<b>91,056,415</b>	74,547,698
Provision for uncollectible accounts	<b>14,409,876</b>	16,898,318
Depreciation and amortization	<b>17,480,126</b>	16,939,369
Interest	<b>3,185,038</b>	3,091,298
	<b>262,491,924</b>	251,086,618
Operating income	<b>12,321,358</b>	12,778,994
Nonoperating gains and (losses):		
Income from investments	<b>6,218,347</b>	2,799,208
Contributions	<b>328,840</b>	
Other	<b>(116,761)</b>	(366,280)
Change in equity interest in net assets of Foundation		(3,735,563)
Excess of revenues over expenses	<b>\$ 18,751,784</b>	\$ 11,476,359

*See accompanying notes.*

The William W. Backus Hospital  
Statements of Changes in Net Assets

	Total	Unrestricted	Temporarily Restricted	Permanently Restricted
Net assets, September 30, 2008	\$ 140,806,155	\$ 132,409,920	\$ 2,475,427	\$ 5,920,808
Excess of revenues over expenses	11,476,359	11,476,359		
Investment income	1,350		1,350	
Effect of early measurement date elimination	(1,762,428)	(1,762,428)		
Change in pension funding and postretirement obligation	(43,749,898)	(43,749,898)		
Changes in equity interest in net unrealized gains of Foundation	3,938,423	3,938,423		
Change in equity interest in net assets of Foundation	1,911,677		970,655	941,022
(Decrease) increase in net assets	(28,184,517)	(30,097,544)	972,005	941,022
Net assets, September 30, 2009	112,621,638	102,312,376	3,447,432	6,861,830
Excess of revenues over expenses	<b>18,751,784</b>	<b>18,751,784</b>		
Investment income	<b>739,782</b>		<b>618,691</b>	<b>121,091</b>
Curtailment gain	<b>34,536,288</b>	<b>34,536,288</b>		
Change in pension funding and postretirement obligation	<b>(9,564,206)</b>	<b>(9,564,206)</b>		
Transfer to affiliates	<b>(73,056)</b>	<b>(73,056)</b>		
Merger of Properties	<b>1,402,938</b>	<b>1,402,938</b>		
Contributions	<b>484,695</b>		<b>126,631</b>	<b>358,064</b>
Change in net assets held in trust	<b>134,435</b>			<b>134,435</b>
Net assets released from restriction	<b>(91,211)</b>		<b>(91,211)</b>	
Increase in net assets	<b>46,321,449</b>	<b>45,053,748</b>	<b>654,111</b>	<b>613,590</b>
Net assets, September 30, 2010	<b>\$ 158,943,087</b>	<b>\$ 147,366,124</b>	<b>\$ 4,101,543</b>	<b>\$ 7,475,420</b>

*See accompanying notes.*

# The William W. Backus Hospital

## Statements of Cash Flows

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activities</b>		
Increase (decrease) in net assets	\$ 46,321,449	\$ (28,184,517)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,480,126	16,939,369
Provision for uncollectible accounts	14,409,876	16,898,318
Curtailment gain	(34,536,288)	
Effect of early measurement date elimination		1,762,428
Change in pension funding and postretirement obligation	9,564,206	43,749,898
Transfer to affiliates	73,056	
Merger of Properties	(1,402,938)	
Purchase of investments – board designated, net	(15,613,572)	(1,497,321)
Permanently restricted contributions and income	(613,590)	
Change in equity interest in net assets of Foundation		(2,114,537)
Changes in operating assets and liabilities <i>(Note 16)</i>	(9,177,820)	(12,446,239)
Net cash provided by operating activities	26,504,505	35,107,399
<b>Investing activities</b>		
Purchase of investments – held in trust, net	(1,917,827)	(4,587,206)
Net additions to property, plant, and equipment	(12,056,041)	(18,720,156)
(Increase) decrease in other assets	(72,956)	859,915
Cash transfer from merger	2,226,244	
Net cash used in investing activities	(11,820,580)	(22,447,447)
<b>Financing activities</b>		
Proceeds from loan	1,250,000	
Principal payments on long-term debt and capital lease obligations	(1,863,950)	(1,755,000)
Change in deferred financing costs and amortization of bond premium	(49,465)	(51,633)
Permanently restricted contributions and income	613,590	
Transfer to affiliates	(73,056)	
Net cash used in financing activities	(122,881)	(1,806,633)
Net increase in cash and cash equivalents	14,561,044	10,853,319
Cash and cash equivalents at beginning of year	57,570,735	46,717,416
Cash and cash equivalents at end of year	\$ 72,131,779	\$ 57,570,735

*See accompanying notes.*



# The William W. Backus Hospital

## Notes to Financial Statements

September 30, 2010

### 1. Significant Accounting Policies

#### Organization

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

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

#### Merger

Effective November 1, 2009, Backus Foundation, Inc. and Backus Properties Inc. were merged into the Hospital. The merger was accounted for as a “pooling of interests”. The accompanying financial statements reflect the consolidated assets, liabilities and net assets of the three entities at September 30, 2010 and the revenue, expenses and changes in net assets for the entire fiscal year. The merger of the Foundation had no impact on net assets because the Foundation was previously accounted for in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-20, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others* and as such, the 2009 presentation would not be materially different. The merger of Properties increased unrestricted net assets by approximately \$1,400,000 in 2010.

#### Use of Estimates

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

#### Regulatory Matters

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

The William W. Backus Hospital  
Notes to Financial Statements (continued)

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

**Cash Equivalents**

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

**Assets Whose Use Is Limited**

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

**Investments**

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

**Inventories**

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

**Property, Plant, and Equipment**

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

# The William W. Backus Hospital

## Notes to Financial Statements (continued)

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

#### **Temporarily and Permanently Restricted Net Assets**

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

#### **Nonoperating Gains and Losses**

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

#### **Donor-Restricted Gifts**

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

#### **General and Professional Liability Self-Insurance**

The Hospital has adopted the policy of self-insuring the deductible portion of its general and professional liability insurance coverage. The deductible limits are \$1,000,000 per claim and \$4,000,000 annually for both 2010 and for 2009. Management accrues its best estimate of ultimate losses for both reported claims and claims incurred but not reported.

#### **Excess of Revenues Over Expenses**

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

The William W. Backus Hospital  
Notes to Financial Statements (continued)

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

**Income Taxes**

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

ASC 740-10, *Uncertain Tax Positions*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure requirements for uncertain tax positions. Management has evaluated the implications of ASC 740-10 and determined that its impact on the financial statements is not significant.

**Adoption of New Authoritative Pronouncements**

Effective 2010, the Hospital adopted ASC 715-20, *Retirement Benefits*, which requires additional disclosures relating to defined benefit pension plans, including additional fair value disclosures for pension assets.

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-06, *Improving Disclosures about Fair Value Measurements*, (ASU 2010-06). ASU 2010-06 amended ASC 820 to clarify certain existing fair value disclosures and require a number of additional disclosures. The guidance in ASU 2010-06 clarified that disclosures should be presented separately for each “class” of assets and liabilities measured at fair value and provided guidance on how to determine the appropriate classes of assets and liabilities to be presented. ASU 2010-06 also clarified the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 introduced new requirements to disclose the amounts (on a gross basis) and reasons for any significant transfers between Levels 1, 2 and 3 of the fair value hierarchy and present information regarding the purchases, sales, issuances and settlements of Level 3 assets and liabilities on a gross basis. With the exception of the requirement to present changes in Level 3 measurements on a gross basis, which is delayed until 2011, the guidance in ASU 2010-06 becomes effective for reporting periods beginning after December 15, 2009. Management is currently evaluating the effect that the provisions of ASU 2010-06 will have on the consolidated financial statements.

The William W. Backus Hospital  
Notes to Financial Statements (continued)

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

**Reclassifications**

Certain reclassifications were made to the 2009 financial statements in order that they may be consistent with the current year presentation.

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

Net patient service revenue for the years ended September 30, 2010 and 2009 consists of the following:

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Gross patient service revenue	<b>\$ 585,390,725</b>	\$ 560,641,054
Deductions:		
Allowances	<b>(308,845,388)</b>	(294,073,379)
Charity care (at charges)	<b>(6,496,622)</b>	(6,915,404)
	<b>(315,342,010)</b>	(300,988,783)
	<b>\$ 270,048,715</b>	\$ 259,652,271

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

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Changes in estimates had no impact on net patient service revenue for 2010, and increased net patient service revenue by approximately \$671,000 in 2009.

# The William W. Backus Hospital

## Notes to Financial Statements (continued)

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

Revenues from the Medicare and Medicaid programs accounted for approximately 28% and 8%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2010 and 28% and 7% for the year ended September 30, 2009. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

### 3. Charity Care

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

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

	<u>At Charge</u>	<u>Estimated Cost</u>
Charity care	\$ 6,496,622	\$ 2,858,514
Bad debt	14,409,876	6,340,345
Total uncompensated care, September 30, 2010	<u>\$ 20,906,498</u>	<u>\$ 9,198,859</u>
Charity care	\$ 6,915,404	\$ 3,042,778
Bad debt	16,898,318	7,435,260
Total uncompensated care, September 30, 2009	<u>\$ 23,813,722</u>	<u>\$ 10,478,038</u>

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

The William W. Backus Hospital  
Notes to Financial Statements (continued)

**4. Promises to Give**

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

	<b>2010</b>
BackusCare campaign	\$ 185,114
Other	7,077
Unconditional promises to give before unamortized discount	192,191
Less unamortized discount and allowance	(6,325)
	\$ 185,866
Amounts due in:	
Less than one year	\$ 133,366
One to five years	52,500
Total	\$ 185,866

**5. Investments**

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

	<b>2010</b>	<b>2009</b>
Realized and unrealized gains on investments	\$ 4,574,175	\$ 1,621,546
Interest and dividend income	1,813,339	1,331,067
Other investment income	11,600	14,767
Investment fees	(180,767)	(168,172)
	\$ 6,218,347	\$ 2,799,208

## The William W. Backus Hospital

### Notes to Financial Statements (continued)

#### 5. Investments (continued)

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

	2010	2009
Board designated:		
Mutual funds	\$ 38,540,722	\$ -
Cash and cash equivalents	33,837,100	16,508,452
Common stocks	13,327,371	13,153,726
Government bonds	8,462,882	9,679,063
Corporate bonds	2,458,334	5,158,992
	\$ 96,626,409	\$ 44,500,233
 Held by trustee:		
Mutual funds	\$ 22,211,515	\$ 17,496,461
Cash and cash equivalents	4,430,958	4,804,214
Common stock	287,581	
Real estate	58,748	
Government bonds		442,987
	\$ 26,988,802	\$ 22,743,662

In 2009, the Hospital adopted ASC 958-205, *Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for All Endowment Funds*, which, among other things, provides guidance on the net asset classification of donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as well as requiring additional disclosures about endowment funds.

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



# The William W. Backus Hospital

## Notes to Financial Statements (continued)

### 5. Investments (continued)

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

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

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

Endowment assets are donor-restricted gifts which are meant to provide a permanent source of income to the Hospital and are included in permanently restricted net assets.

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

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

The William W. Backus Hospital  
Notes to Financial Statements (continued)

**5. Investments (continued)**

The activity for the year ended September 30, 2009 is as follows:

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at beginning of year		\$ 3,871,631	\$ 3,871,631
Investment return:			
Investment income		85,680	85,680
Net appreciation (realized and unrealized)		49,535	49,535
Earnings reclassified	\$ 135,215	(135,215)	
Total investment return	135,215	3,871,631	4,006,846
Contributions		970,000	970,000
Endowment net assets at end of year	\$ 135,215	\$ 4,841,631	\$ 4,976,846

**6. Fair Value of Financial Instruments**

On October 1, 2008, the Hospital adopted ASC 820-10, *Fair Value*, which defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosure about fair value measurements.

Fair value, as defined in ASC 820-10, is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase consistency and comparability, ASC 820-10 established a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. Level one inputs are quoted market prices in active markets that are accessible at the measurement date. Level two inputs are observable, but not quoted in active markets. Level three inputs are unobservable and are used when little or no market data is available.

The William W. Backus Hospital  
Notes to Financial Statements (continued)

**6. Fair Value of Financial Instruments (continued)**

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

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 75,157,255	\$ 2,738		\$ 75,159,993
Certificates of deposit		14,873,395		14,873,395
Money market funds	19,578,731	35,017		19,613,748
US government obligations	7,751,442			7,751,442
Corporate bonds	150,001	3,772,474		3,922,475
Equity securities	13,614,952			13,614,952
Mutual funds	44,289,715	16,462,519		60,752,234
Real estate (REIT)			\$ 58,751	58,751
<b>Total</b>	<b>\$ 160,542,096</b>	<b>\$ 35,146,143</b>	<b>\$ 58,751</b>	<b>\$ 195,746,990</b>

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

	<b>Real Estate (REIT)</b>
Beginning balance	-
Purchases	\$ 54,286
Unrealized gains	4,465
<b>Total</b>	<b>\$ 58,751</b>

Financial assets as of September 30, 2009 are classified in the table below:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 57,578,855			\$ 57,578,855
Certificates of deposit		\$ 4,815,074		4,815,074
Money market funds	14,207,293			14,207,293
US government obligations	9,075,929			9,075,929
Corporate bonds		8,487,292		8,487,292
Equity securities	13,153,726			13,153,726
Mutual funds	17,496,461			17,496,461
<b>Total</b>	<b>\$ 111,512,264</b>	<b>\$ 13,302,366</b>		<b>\$ 124,814,630</b>

The William W. Backus Hospital  
Notes to Financial Statements (continued)

**6. Fair Value of Financial Instruments (continued)**

The carrying amount of certain of the Hospital's financial instruments, including cash and cash equivalents and pledge receivables approximate fair value due to the relatively short maturities of such instruments. Fair values of investments are based on quoted market prices and are recorded on the balance sheets as such. Fair value of the long-term debt is estimated using discounted cash flow analysis which is based on the AAA insured bond rate at the Hospital's fiscal year end. The fair value of long-term debt is \$69,437,056 and \$68,087,973 at September 30, 2010 and 2009, respectively.

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

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

	<u>2010</u>	<u>2009</u>
Capital projects	\$ 1,733,950	\$ 1,548,434
Preventive care	792,377	763,501
Other	626,772	358,416
Health care services	499,200	414,281
Laboratory	228,659	184,552
Extraordinary nursing care	109,852	97,635
Nursing education	84,912	70,948
Free beds	25,821	9,665
	<u>\$ 4,101,543</u>	<u>\$ 3,447,432</u>

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

	<u>2010</u>	<u>2009</u>
Income to be used:		
For general uses and purposes	\$ 6,631,835	\$ 6,018,245
To provide free beds	527,060	527,060
For laboratory	258,182	258,182
To provide extraordinary nursing care	48,203	48,203
For nursing education	10,140	10,140
	<u>\$ 7,475,420</u>	<u>\$ 6,861,830</u>

The William W. Backus Hospital  
Notes to Financial Statements (continued)

**8. Long-term Debt**

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

	<b>2010</b>	<b>2009</b>
Tax-exempt Hospital Revenue Bonds:		
Series E, serial maturities (\$1,110,000) from 2011 to 2012, with interest rates ranging from 4.75% to 4.80%, term maturities (\$7,515,000) from 2017 to 2022 at an interest rate of 5.00%	<b>\$ 8,625,000</b>	\$ 9,145,000
Series F, serial maturities (\$6,600,000) from 2011 to 2018, with interest rates of 4.00% to 4.25%, term maturities (\$22,125,000) from 2023 to 2035 with interest rates of 5.00% to 5.25%	<b>28,725,000</b>	29,425,000
Series G, serial maturities (\$18,355,000) from 2011 to 2026, with interest rates of 3.50% to 5.00%, term maturities (\$7,420,000) in 2035 at an interest rate of 5%	<b>25,775,000</b>	26,380,000
Other long-term debt:		
Mortgage, maturing May 1, 2025 with a fixed interest rate of 6.125%	<b>1,236,586</b>	
Obligations under capital leases	<b>1,505,864</b>	
	<b>65,867,450</b>	64,950,000
Add net unamortized bond premium	<b>757,072</b>	806,536
Less current portion	<b>(2,032,691)</b>	(1,825,000)
Long-term debt	<b>\$ 64,591,831</b>	\$ 63,931,536

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

The William W. Backus Hospital  
Notes to Financial Statements (continued)

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

Series E bonds maturing on or after July 1, 2008 are subject to redemption prior to maturity. Series F bonds maturing after July 1, 2018 are subject to optional redemption prior to maturity. Series G bonds maturing on or before July 1, 2015 are not subject to optional redemption prior to maturity; however, those maturing after July 1, 2015 are subject to optional redemption prior to maturity.

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

	<b>Long-Term Debt</b>	<b>Capital Leases</b>
2011	\$ 1,948,410	\$ 386,104
2012	2,021,619	386,104
2013	2,105,440	386,104
2014	2,184,302	386,104
2015	2,303,411	355,554
Aggregate thereafter	53,798,404	2,375,136
	64,361,586	4,275,106
Add net unamortized bond premium	757,072	
Less interest		(2,769,242)
	\$ 65,118,658	\$ 1,505,864

The Hospital paid interest of \$3,323,608 and \$3,158,024 in 2010 and 2009, respectively. Interest incurred in 2010 and 2009 was \$3,185,038 and \$3,091,298, respectively.

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

In 2010 the Hospital also entered into a five year capital lease of \$458,781 with an interest rate of 5.9% for a building located at 80 Route 32, Montville, CT, to be used for patient services. The outstanding balance on this capital lease at September 30, 2010 was \$441,720. Under the terms of the lease, the Hospital has the option to renew for five periods for five years each.

Deferred financing costs are amortized over a period consistent with the life of the bonds.

# The William W. Backus Hospital

## Notes to Financial Statements (continued)

### **9. Related Party Transactions**

The Hospital processes payroll and disbursements for several of its affiliated entities for which it is reimbursed. Reimbursements due to the Hospital at September 30, 2010 and 2009 were approximately \$647,000 and \$668,000, respectively. Amounts due from affiliates at September 30, 2009 include advances to Backus Properties of approximately \$1,720,000 for building improvements and property acquisitions during 2009. Amounts due from the Foundation include monies in support of charity care and Hospital programs of approximately \$43,000 for 2009. Amounts due the Hospital from Backus Properties and the Foundation were eliminated upon the merger of those entities as described in Note 1.

### **10. Retirement Benefit Plans**

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

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

The Hospital also provides noncontributory postretirement health care benefits to eligible retirees and to eligible spouses of retirees who retired prior to January 1, 1994. Subsequent to 1993, covered retirees contribute a percentage of the costs based on years of service. In addition, the Hospital sponsored a nonqualified pension benefit program. Included in other long-term liabilities at September 30, 2010 and 2009 is approximately \$2,600,000 and \$3,600,000, respectively, related to the future obligation for the nonqualified benefits.

The William W. Backus Hospital  
Notes to Financial Statements (continued)

**10. Retirement Benefit Plans (continued)**

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

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<i>(In thousands)</i>			
Unrecognized actuarial (loss) gain	\$ (43,157)	\$ (67,240)	\$ 1,734	\$ 1,249
Unrecognized prior service cost		(15)		
Unrecognized transition obligation			(889)	(1,213)
	<u>\$ (43,157)</u>	<u>\$ (67,255)</u>	<u>\$ 845</u>	<u>\$ 36</u>

The actuarial loss and transition obligation included in unrestricted net assets and expected to be recognized in net periodic benefit cost during the year ending September 30, 2011 are \$2,743,736 and \$323,491, respectively.

At September 30, 2009, the unfunded status of the pension plan is included in long-term liabilities in the amount of \$71,685,446. The unfunded status of the postretirement benefits is \$4,968,915, with \$462,097 included in short-term liabilities, and the remainder of \$4,506,818 included in long-term liabilities. At September 30, 2010, the unfunded status of the pension plan is included in long-term liabilities in the amount of \$44,062,536. The unfunded status of the postretirement benefits is \$4,266,082, with \$452,466 included in short-term liabilities, and the remainder of \$3,813,616 included in long-term liabilities.

The following table sets forth the funded status of the plans as of the measurement date of September 30, 2010 and 2009.

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<i>(In thousands)</i>			
<b>Change in projected benefit obligation</b>				
Benefit obligation at beginning of year	\$ (171,831)	\$ (133,189)	\$ (4,969)	\$ (5,156)
Service cost	(1,836)	(4,484)	(15)	(22)
Interest cost	(7,684)	(9,002)	(267)	(338)
Change in assumptions	(11,951)	(38,217)	387	(558)
Actuarial (loss) gain	(3,598)	(2,156)	154	382
Effect of curtailment	34,551			
Effect of early measurement date elimination		11,740		295
Benefits paid	4,083	3,477	444	428
Benefit obligation at end of year	<u>\$ (158,266)</u>	<u>\$ (171,831)</u>	<u>\$ (4,266)</u>	<u>\$ (4,969)</u>



The William W. Backus Hospital  
Notes to Financial Statements (continued)

**10. Retirement Benefit Plans (continued)**

	Pension Benefits		Postretirement Benefits	
	2010	2009	2010	2009
	<i>(In thousands)</i>			
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 100,145	\$ 100,957		
Actual return on plan assets	10,017	2,662		
Effect of early measurement date elimination		(8,097)		
Contributions	8,124	8,100	\$ 444	\$ 428
Benefits paid	(4,083)	(3,477)	(444)	(428)
Fair value of plan assets at end of year	<u>\$ 114,203</u>	<u>\$ 100,145</u>	<u>\$</u>	<u>\$</u>
<b>Underfunded status</b>				
Accrued benefit liability recognized in the balance sheets	<u>\$ (44,063)</u>	<u>\$ (71,686)</u>	<u>\$ (4,266)</u>	<u>\$ (4,969)</u>
<b>Components of net periodic benefit cost</b>				
Service cost	\$ 1,836	\$ 4,484	\$ 15	\$ 22
Interest cost	7,684	9,002	267	338
Expected return on plan assets	(6,901)	(7,605)		
Net amortization and deferral	1,964	1,129	269	(541)
Net periodic benefit cost	<u>\$ 4,583</u>	<u>\$ 7,010</u>	<u>\$ 551</u>	<u>\$ (181)</u>
<b>Assumptions:</b>				
Weighted-average assumptions used to determine benefit obligations:				
Discount rate	5.10%	5.60%	5.10%	5.60%
Rate of compensation increase		5.00		
Weighted-average assumptions used to determine net periodic benefit cost:				
Discount rate	5.60	7.25	5.60	7.25
Expected long-term rate of return on plan assets	6.75	8.00		
Rate of compensation increase	5.00	5.00		

The accumulated benefit obligation at September 30, 2010 and 2009 was \$158,266,226 and \$137,279,286, respectively.

The William W. Backus Hospital  
Notes to Financial Statements (continued)

**10. Retirement Benefit Plans (continued)**

The asset allocations for the retirement plan at the end of 2010 and 2009 and the target allocation by asset category are as follows:

Asset Category	Target Allocation		Percentage of Plan Assets	
	Minimum	Maximum	2010	2009
US Equity Large Cap	20%	50%	31%	27%
US Equity Small Cap		15	5	4
International Equity	10	30	17	17
Core Fixed Income	20	60	47	52
Total			100%	100%

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

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

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

## The William W. Backus Hospital

### Notes to Financial Statements (continued)

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

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

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

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

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

	<b>Pension Benefits</b>	<b>Postretirement Benefits</b>
Expected employer contributions for 2011	\$ 8,100,000	\$ 452,466
Estimated future benefit payments:		
2011	5,057,112	452,466
2012	5,586,022	439,761
2013	6,060,768	433,204
2014	6,598,072	424,838
2015	7,158,748	401,741
2016-2020	43,816,630	1,669,284

The William W. Backus Hospital  
Notes to Financial Statements (continued)

**10. Retirement Benefit Plans (continued)**

Assumed healthcare cost trend rates for 2010 are as follows:

Health care trend rate assumed for next year	8.00%
Rate to which the cost rate trend rate is assumed to decline (the ultimate trend rate)	5.00%
Year that the rate reaches the ultimate trend rate	2014

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

	<b>One-Percentage-Point</b>	
	<b>Increase</b>	<b>Decrease</b>
	<i>(In thousands)</i>	
Effect on total of service and interest cost components	\$ 1	\$ (2)
Effect on postretirement benefit obligation	\$ 9	\$ (7)

**11. Property, Plant, and Equipment**

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

	<b>2010</b>	<b>2009</b>
Land and land improvements	\$ 4,889,512	\$ 2,408,486
Buildings and leasehold improvements	125,274,358	109,893,844
Equipment	101,055,036	95,975,645
Construction in process (2010 estimated cost to complete \$4,601,400)	630,806	4,251,661
Less accumulated depreciation	<u>(132,727,325)</u>	<u>(114,398,504)</u>
	<b><u>\$ 99,122,387</u></b>	<b><u>\$ 98,131,132</u></b>

Unamortized internally developed software costs totaled \$968,970 and \$1,280,233 at September 30, 2010 and 2009, respectively. Amortization expense for the years ended September 30, 2010 and 2009 was \$591,171 and \$213,372, respectively.

The Hospital wrote off approximately \$853,000 of fully depreciated assets in 2010.

The William W. Backus Hospital  
Notes to Financial Statements (continued)

**11. Property, Plant, and Equipment (continued)**

In 2004, the Hospital began leasing space to be used for patient services. The initial lease term is for a period of ten years, with two five-year renewal options available at the discretion of the Hospital. Rent expense for the years ended September 30, 2010 and 2009 was \$640,018 and \$705,436, respectively.

The Hospital leases various types of equipment with annual payments ranging from \$103 to \$55,600. Expenses as a result of these leases were approximately \$375,000 and \$478,000 for the years ended September 30, 2010 and 2009, respectively.

Prior to the merger described in Note 1, the Hospital leased various properties from a related party. Rent expense for those leases totaled approximately \$644,000 for the year ended September 30, 2009. Leases with unrelated parties previously held by the related party were assumed by the Hospital.

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

2011	\$ 935,358
2012	726,417
2013	718,648
2014	137,725
2015	65,380
	<u>\$ 2,583,528</u>

The William W. Backus Hospital  
Notes to Financial Statements (continued)

**12. Concentrations of Credit Risk**

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

	<b>2010</b>	<b>2009</b>
Medicare	<b>27%</b>	25%
Self pay	<b>24</b>	24
Health Maintenance Organizations	<b>15</b>	17
Anthem Blue Cross/Blue Shield	<b>14</b>	14
Medicaid	<b>10</b>	8
Commercial	<b>5</b>	5
Other state agencies	<b>5</b>	7
	<b>100%</b>	100%

**13. Contingencies**

There have been malpractice claims that fall within the Hospital's partially self-insured program (see Note 1) which have been asserted against the Hospital. In addition, there are known incidents that have occurred through September 30, 2010 that may result in the assertion of claims. Hospital management, in conjunction with its consulting actuaries, has accrued its best estimate of these contingent losses.

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

The William W. Backus Hospital  
Notes to Financial Statements (continued)

**14. Other Operating Revenues**

Other operating revenues consist of the following:

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Rental income	\$ 1,222,133	\$ 568,148
Cafeteria sales	1,063,020	1,049,650
Grants	733,844	642,728
Condominium income	389,640	440,047
Miscellaneous	361,626	424,282
Child care	355,497	336,700
Purchase discounts	351,343	274,879
Interest	196,253	476,907
	<b>\$ 4,673,356</b>	<b>\$ 4,213,341</b>

**15. Functional Expenses**

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

	<b>Year Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Health care services	\$ 213,627,999	\$ 202,673,597
General and administrative	48,673,060	48,413,021
Fundraising	190,865	
	<b>\$ 262,491,924</b>	<b>\$ 251,086,618</b>

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

The William W. Backus Hospital  
Notes to Financial Statements (continued)

**16. Cash Flows**

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

	<u>2010</u>	<u>2009</u>
(Increase) decrease in assets:		
Accounts receivable	\$ (9,057,522)	\$ (19,326,365)
Collection on pledges	348,127	
Due from affiliates	(141,929)	(513,894)
Inventories of supplies, prepaid expenses, and other	(783,378)	(474,757)
Increase (decrease) in liabilities:		
Due to third-party reimbursement agencies	3,243,626	6,975,152
Accounts payable	(421,931)	514,416
Employee related obligations	(1,497,412)	(279,391)
Interest payable and other accrued liabilities	1,523,472	466,534
Salaries and wages, payroll taxes, and taxes withheld from payroll	(1,998,968)	1,417,046
Self-insured professional liability	(66,430)	(1,358,443)
Other liabilities	(325,475)	133,463
Changes in operating assets and liabilities	<u>\$ (9,177,820)</u>	<u>\$ (12,446,239)</u>

Noncash investing and financing activities include the following:

Trusts acquired in merger of Foundation	\$ 2,327,313
Net property acquired in merger of Properties	\$ 5,593,682
Capital lease acquired in merger of Properties	\$ 1,072,619
Capital lease	\$ 458,781

**17. Subsequent Events**

Management evaluated subsequent events through December 2, 2010, the date the financial statements were issued.



## Other Financial Information

## Report of Independent Auditors on Other Financial Information

Board of Trustees  
The William W. Backus Hospital

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

*Ernst & Young LLP*

December 2, 2010

The William W. Backus Hospital

Consolidating Balance Sheet

September 30, 2010

	<b>The William W. Backus Hospital</b>	<b>Backus Medical Center Condominium Association, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 72,131,779			\$ 72,131,779
Assets whose use is limited – required for current liabilities	7,931,590			7,931,590
Accounts receivable, less allowance for uncollectible accounts	30,758,941			30,758,941
Pledges receivable	185,866			185,866
Due from affiliates	647,255	\$ 13,833		661,088
Inventories of supplies	3,799,896			3,799,896
Prepaid expenses and other	1,271,686	5,458		1,277,144
Total current assets	<u>116,727,013</u>	<u>19,291</u>		<u>116,746,304</u>
Assets whose use is limited:				
Board-designated investments	96,626,409			96,626,409
Held by trustee	26,988,802			26,988,802
Total assets whose use is limited	<u>123,615,211</u>			<u>123,615,211</u>
Less assets whose use is limited – required for current liabilities	<u>7,931,590</u>			<u>7,931,590</u>
	115,683,621			115,683,621
Property, plant, and equipment, net	99,122,387			99,122,387
Deferred financing costs	1,933,364			1,933,364
Other assets	1,603,864			1,603,864
Total assets	<u>\$ 335,070,249</u>	<u>\$ 19,291</u>		<u>\$ 335,089,540</u>

The William W. Backus Hospital

Consolidating Balance Sheet (continued)

September 30, 2010

	<b>The William W. Backus Hospital</b>	<b>Backus Medical Center Condominium Association, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable – trade	\$ 10,129,146			\$ 10,129,146
Salaries and wages, payroll taxes, and taxes withheld from payroll	6,206,054			6,206,054
Other accrued liabilities	8,212,416	\$ 1,222		8,213,638
Due to third-party reimbursement agencies	2,614,222			2,614,222
Interest payable	754,026			754,026
Current portion of long-term debt	2,032,691			2,032,691
Total current liabilities	<u>29,948,555</u>	<u>1,222</u>		<u>29,949,777</u>
Other liabilities:				
Long-term debt, less current portion	64,591,831			64,591,831
Employee related obligations	57,973,203			57,973,203
Self-insured professional liability	10,514,332			10,514,332
Due to third-party reimbursement agencies	12,767,632			12,767,632
Other	349,678			349,678
	<u>146,196,676</u>			<u>146,196,676</u>
Net assets:				
Unrestricted	147,348,055	18,069		147,366,124
Temporarily restricted	4,101,543			4,101,543
Permanently restricted	7,475,420			7,475,420
Total net assets	<u>158,925,018</u>	<u>18,069</u>		<u>158,943,087</u>
Total liabilities and net assets	<u>\$ 335,070,249</u>	<u>\$ 19,291</u>		<u>\$ 335,089,540</u>

The William W. Backus Hospital  
 Consolidating Statement of Operations

Year Ended September 30, 2010

	<b>The William W. Backus Hospital</b>	<b>Backus Medical Center Condominium Association, Inc.</b>	<b>Eliminations</b>	<b>Consolidated</b>
Operating revenues:				
Net patient service revenue	\$ 270,048,715			\$ 270,048,715
Other operating revenues	4,283,716	\$ 414,529	\$ (24,889)	4,673,356
Net assets released from restriction	91,211			91,211
	<u>274,423,642</u>	<u>414,529</u>	<u>(24,889)</u>	<u>274,813,282</u>
Operating expenses:				
Salaries, wages, and professional fees	109,179,026			109,179,026
Payroll taxes and other fringe benefits	27,181,443			27,181,443
Supplies, insurance, and other	90,666,775	414,529	(24,889)	91,056,415
Provision for uncollectible accounts	14,409,876			14,409,876
Depreciation and amortization	17,480,126			17,480,126
Interest	3,185,038			3,185,038
	<u>262,102,284</u>	<u>414,529</u>	<u>(24,889)</u>	<u>262,491,924</u>
Operating income	12,321,358			12,321,358
Nonoperating gains and (losses):				
Income from investments	6,218,347			6,218,347
Contributions	328,840			328,840
Other	(116,761)			(116,761)
Excess of revenues over expenses	<u>\$ 18,751,784</u>			<u>\$ 18,751,784</u>