JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2014 AND 2013

JOHNSON MEMORIAL HOSPITAL

CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Johnson Memorial Hospital

We have audited the accompanying consolidated financial statements of Johnson Memorial Hospital, which comprise the consolidated balance sheets as of September 30, 2014 and 2013, 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Johnson Memorial Hospital as of September 30, 2014 and 2013, 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 Hospital will continue as a going concern. As described in Note 1, the Hospital had an unrestricted net asset deficit of $4,478,834 and had current liabilities that exceeded current assets by $15,984,256 as of September 30, 2014. The Hospital is a party to a credit agreement and mortgage that require certain financial and non-financial covenants be maintained. The Hospital failed certain covenants during the year ended September 30, 2014 and defaulted on certain payments due on its mortgage and due to creditors. In addition, the Hospital filed for relief under Chapter 11 of the U.S. Bankruptcy Code subsequent to September 30, 2014 and entered into an asset purchase agreement for the sale of the Hospital which is contingent on a number of conditions, including the approval of the Bankruptcy Court. These conditions raise substantial doubt about the Hospital’s ability to continue as a going concern. The consolidated 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
March 30, 2015

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2014 AND 2013

	2014	2013
Assets		
Current Assets		
Cash and cash equivalents	$ 445,784	$ 210,152
Patients accounts receivable, net of allowances for uncollectible accounts, $4,679,000 in 2014 and $3,725,000 in 2013	8,776,261	7,632,109
Other receivables	607,918	1,691,228
Inventories	1,295,797	1,317,470
Prepaid expenses and other current assets	1,729,849	899,407
Total Current Assets	12,855,609	11,750,366
Assets Whose Use is Limited		
Beneficial interests in perpetual trusts	3,793,323	3,729,727
Restricted cash and board designated investments	224,048	268,338
Investments permanently restricted by donor	843,587	843,587
Total Assets Whose Use is Limited	4,860,958	4,841,652
Other Assets		
Property, plant and equipment, net	16,509,196	17,066,172
Investments in joint ventures	3,397,937	3,165,915
Deferred financing costs, net	165,616	172,864
Other noncurrent assets	1,600,193	476,000
Total Other Assets	21,672,942	20,880,951
	$ 39,389,509	$ 37,472,969

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

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2014 AND 2013

	2014	2013
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Trade accounts payable	$ 6,252,350	$ 5,189,596
Accrued payroll and related costs	1,864,833	2,048,896
Current portion of payments due under plan of reorganization	3,895,000	1,947,500
Senior debt under revolving line of credit	1,604,830	2,208,858
Current portion of mortgage payable	11,987,500	11,987,500
Current portion of subordinated and other debt	107,587	457,587
Current portion of capital lease obligations	197,299	14,365
Estimated amounts due to third-party reimbursement agencies	2,675,513	2,564,571
Other current liabilities	254,953	168,332
Total Current Liabilities	28,839,865	26,587,205
Long-Term Obligations		
Due to affiliate corporations	1,873,147	2,317,342
Payments due under plan of reorganization - less current portion	2,406,796	3,930,808
Subordinated debt - less current portion	17,435	125,022
Other long-term debt	2,350,000	2,350,000
Obligations under capital lease - less current portion	721,036	45,579
Self-insurance liabilities and reserves for incurred but not reported professional liability claims	2,344,272	641,424
Other liabilities	346,001	604,927
Total Long-Term Obligations	10,058,687	10,015,102
Total Liabilities	38,898,552	36,602,307
Net Assets (Deficit)		
Unrestricted	(4,478,834)	(3,971,579)
Temporarily restricted	332,881	268,927
Permanently restricted	4,636,910	4,573,314
Total Net Assets	490,957	870,662
	$ 39,389,509	$ 37,472,969

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

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Operating Revenue		
Net patient service revenue	$ 73,858,252	$ 68,075,182
Provision for bad debts	4,311,679	4,584,989
Net patient service revenue less provision for bad debts	69,546,573	63,490,193
Grant and other income	452,889	324,460
Net assets released from restriction	235,925	443,523
Total Operating Revenue	70,235,387	64,258,176
Expenses		
Salaries	27,728,732	30,381,654
Employee benefits	6,826,133	6,806,518
Professional fees and outsourced staffing	6,456,495	4,548,191
Depreciation and amortization	2,341,190	3,115,981
Purchased services	4,220,508	3,902,675
Supplies, drugs and patient care	10,710,946	8,704,335
Leases and service contracts	1,582,064	1,563,348
Occupancy costs	3,357,185	3,419,322
Insurance	1,452,164	1,092,058
Other expenses	5,005,309	4,210,400
Interest	1,454,502	1,368,245
Total Expenses	71,135,228	69,112,727
Loss from Operations	(899,841)	(4,854,551)
Nonoperating Revenue (Loss)		
Investment income	165,497	158,800
(Loss) gain on sale of equipment	(13,263)	1,200
Equity earnings in joint ventures	232,022	72,279
	384,256	232,279
Deficiency of Revenue over Expenses	$ (515,585)	$ (4,622,272)

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

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (DEFICIT)

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Unrestricted Net Assets		
Deficiency of revenues over expenses	$ (515,585)	$ (4,622,272)
Net assets released from restriction for purchase of property and equipment	8,330	89,765
Change in Unrestricted Net Assets	(507,255)	(4,532,507)
Temporarily Restricted Net Assets		
Grants and contributions	308,209	539,569
Net assets released from restriction	(244,255)	(533,288)
Change in Temporarily Restricted Net Assets	63,954	6,281
Permanently Restricted Net Assets		
Increase in fair value of beneficial interests in perpetual trusts	63,596	113,235
Change in Net Assets	(379,705)	(4,412,991)
Net Assets - Beginning	870,662	5,283,653
Net Assets - End	$ 490,957	$ 870,662

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

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Cash Flows From Operating Activities and Reorganization Items		
Change in net assets	$ (379,705)	$ (4,412,991)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	2,341,190	3,115,981
Accretion of asset retirement obligation	11,074	10,374
Provision for uncollectible accounts	4,311,679	4,584,989
Equity earnings in joint ventures	(232,022)	(72,279)
Gain on disposal of equipment	(13,263)	(1,200)
Change in net realized and unrealized gains on investments	(63,596)	(113,235)
Changes in assets and liabilities:		
Patient accounts receivable	(5,455,831)	(3,813,315)
Other receivables	1,083,310	(1,468,699)
Prepaid expenses and other current assets	(830,442)	(46,345)
Inventories	21,673	(62,879)
Restricted cash and board designated investments	44,290	94,759
Other noncurrent assets	(1,124,193)	(31,000)
Restricted grants and contributions	(308,209)	(539,569)
Accounts payable and accrued expenses	1,062,754	1,789,043
Accrued payroll and related costs	(184,063)	(124,015)
Estimated amounts due to third-party reimbursement agencies	110,942	1,291,991
Other liabilities	(172,305)	(108,707)
Self-insurance liabilities	1,702,848	(499,676)
Payments due under plan of reorganization	423,488	(624,637)
Net Cash Provided by (Used in) Operating Activities and Reorganization Items	2,349,619	(1,031,410)
Cash Flows From Investing Activities		
Capital expenditures	(809,777)	(391,219)
Net Cash Used in Investing Activities	(809,777)	(391,219)

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

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Cash Flows From Financing Activities		
Restricted grants and contributions	$ 308,209	$ 539,569
Proceeds from other long-term debt	--	1,400,000
Principal payments on mortgage and subordinated debt	(457,587)	(270,688)
Net payments on revolving line of credit	(604,028)	(1,295,355)
Principal payments on capital lease obligations	(106,609)	(60,246)
Payments (to) from affiliates	(444,195)	500,174
Net Cash (Used in) Provided by Financing Activities	(1,304,210)	813,454
Net Change in Cash and Cash Equivalents	235,632	(609,175)
Cash and Cash Equivalents - Beginning	210,152	819,327
Cash and Cash Equivalents - Ending	$ 445,784	$ 210,152
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	$ 1,084,115	$ 354,510

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

ORGANIZATION

Johnson Memorial Hospital (the 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 the Hartford and Tolland Connecticut counties. Admitting physicians are primarily practitioners in this same geographic area. The Hospital has controlling interests in Johnson Professional Associates, P.C. (JPA) and Johnson Memorial Hospital Development Fund, Inc. (Development). The Hospital is a subsidiary of Johnson Memorial Medical Center (the Corporation), a not-for-profit, non-stock holding company. The other subsidiaries of the Corporation are Johnson Health Care, Inc. (Health Care), Home & Community Health Services, Inc. (Home and Community) and Johnson Evergreen Corporation (Evergreen), which are not-for-profit companies, and WellCare, Inc., a taxable entity.

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

JANUARY 14, 2015 BANKRUPTCY FILING

On January 14, 2015, the Corporation, Hospital, Home and Community, Health Care and JPA filed a voluntary joint petition for relief under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for District of Connecticut, Hartford Division (Bankruptcy Court). Evergreen filed a separate Chapter 11 petition on January 14, 2015. The aforementioned entities are collectively referred to as the Debtors.

In connection with these bankruptcy filings, the Debtors filed motions with the Bankruptcy Court under Bankruptcy Code Section 363 to sell the Corporation, Hospital, Evergreen, Home and Community, and Health Care to Saint Francis Care, Inc. (Saint Francis).

Saint Francis and the Corporation have negotiated two separate asset purchase agreements, one for the sale of the Corporation, Hospital, Home and Community, and Health Care and a separate agreement for the sale of Evergreen which are both subject to Bankruptcy Court approval. Saint Francis will not purchase Evergreen unless it is successful in executing the other asset purchase agreement.

The sales process in the Bankruptcy Court will be the subject of a number of court hearings and the creditors may object to the proposed sale. Also, the proposed sale of Evergreen to Saint Francis will be subject to the best offer as there will be an opportunity for other potential buyers to submit competing offers and an auction is expected to occur if there are competing bids.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

JANUARY 14, 2015 BANKRUPTCY FILING (CONTINUED)

In addition to Bankruptcy Court approval, approval from the State of Connecticut Office of Health Care Access (OHCA), the Office of the Attorney General and from state and federal antitrust authorities is required.

Saint Francis and People's United Bank (People's) have negotiated the restructuring of the People's mortgage debt for a portion of it to be assumed by Saint Francis as part of the proposed sales transactions.

On January 16, 2015, the Debtors and a lender negotiated the terms of a debtor in possession loan of up to $7 million, subject to certain limits, to finance the Debtors' operations through the bankruptcy process.

During the year ended September 30, 2014, the Hospital expensed legal and consulting costs of approximately $850,000 related to the bankruptcy filing and the proposed sales transaction.

ORIGINAL BANKRUPTCY FILING

As a result of the Hospital's 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 of the U.S. Bankruptcy Code (Bankruptcy Code) in the Bankruptcy Court. This generally delayed payments of liabilities incurred prior to filing those petitions while the Hospital developed a plan of reorganization that was satisfactory to its creditors, and allowed it to continue as a going concern.

On August 11, 2010, the Bankruptcy Court confirmed the Hospital's original plan of reorganization which was subject to the Hospital's satisfaction of a number of conditions precedent. One of the conditions precedent was that the Hospital, the Corporation, and Evergreen were required to obtain a line of credit of at least $6 million. On September 30, 2010, the plan of reorganization became effective when these debtors received financing under an $8 million line of credit and all other material conditions precedent to the plan becoming binding were resolved. The Bankruptcy Court issued a final decree on December 29, 2010.

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

ORIGINAL BANKRUPTCY FILING (CONTINUED)

As of September 30, 2014 and 2013, 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 Hospital's original 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 through January 1, 2048. The Hospital will also remain obligated as guarantor of the Corporation's secured debt in the amounts of $2,940,000 and $3,001,081, respectively, as of September 30, 2014 and 2013 and Evergreen's secured debt of $14,213,697 as of September 30, 2014 and 2013.

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 $125,022 and $232,609 as of September 30, 2014 and 2013, respectively.

Priority and Administrative Claims – All priority and administrative claims were to be paid as allowed by the Court.

Trade and Other Miscellaneous Claims - The holders of approximately $11 million of trade and other miscellaneous claims were entitled to receive $705,232 on the effective date, $256,025 on the first anniversary of the effective date, $488,775 on the second anniversary of the effective date and $954,275 on the each of the third, fourth, and fifth anniversaries of the effective date.

The holders of approximately $145,000 of convenience claims were entitled to receive 50% of their allowed claim. Unexpired leases and executory contracts not rejected by the Hospital were scheduled to be 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 the each of the third, fourth, and fifth anniversaries of the effective date. The Hospital has also recorded a liability of $468,384 and $438,767 as of September 30, 2014 and 2013, 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 under the terms of the plan of reorganization.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

ORIGINAL BANKRUPTCY FILING (CONTINUED)

The Hospital failed to pay the amounts owed to the unsecured creditors and the PBGC that were due on October 1, 2013 and October 1, 2014.

In addition, mortgage payments totaling approximately $1,256,000 were past due under the secured mortgage as of September 30, 2014. The $11,987,500 balance of the mortgage has been classified as a current liability at September 30, 2014 based on the fact that People's Bank had the right to demand repayment at September 30, 2014.

AFFILIATION WITH SAINT FRANCIS CARE, INC.

On July 12, 2012, the Hospital, along with the Corporation and Evergreen (collectively, the Johnson Entities) entered into an affiliation agreement with Saint Francis Care 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.

All payments made by Saint Francis under this agreement were considered to be an unsecured loan. Under the terms of the affiliation agreement, this loan would be payable in the event that the Corporation sought the closing of an alternative transaction, if the proceeds of this alternative transaction exceeded the amounts necessary to satisfy all other secured and unsecured debt owed by the Corporation.

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, the Hospital, and Evergreen.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

AFFILIATION WITH SAINT FRANCIS CARE, INC. (CONTINUED)

Saint Francis will provide medical leadership in the Hospital's oncology program, infectious disease program, hospitalist program and management services in both case management and psychiatry 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, 2014, there were no advances to the Hospital under this letter of credit and $350,000 was advanced to the Hospital as of September 30, 2013.

During 2014, Saint Francis agreed to provide credit support of $2 million to the Johnson Entities in the form of a guaranty and letter of credit issued by a bank as security for the Johnson Entities' deductible under their workers' compensation policy. Certain fees and interest will be owed to Saint Francis under this agreement. As of September 30, 2014, there were no borrowings under this letter of credit.

GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Hospital will continue as a going concern. As of September 30, 2014, the Hospital had an unrestricted net asset deficit of $4,478,834 and had current liabilities that exceeded current assets by $15,984,256. The Hospital is a party to a credit agreement and mortgage that require certain financial and non-financial covenants be maintained. The Hospital failed certain covenants during the year ended September 30, 2014 and defaulted on certain payments due on its mortgage and payments due to its creditors. In addition, the Hospital filed for relief under Chapter 11 of the U.S. Bankruptcy Code subsequent to September 30, 2014. These conditions raise substantial doubt about the Hospital's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

It is the plan of management to ensure that the Hospital continues as a going concern and the Corporation is pursuing the potential sale of the Hospital and the other Debtors to Saint Francis under Bankruptcy Code Section 363. Management believes that such a sale will preserve and maximize the going concern value of the Debtors' properties, provide jobs for the Debtors' employees, and allow for the continued delivery of health care services to residents of North Central Connecticut.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

GOING CONCERN (CONTINUED)

The actions taken by the Corporation with respect to the potential transaction with Saint Francis and the courses of action taken by Bankruptcy Court and the creditors of the Hospital will have an impact on the Hospital's ability to continue as a going concern.

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

PRINCIPLES OF CONSOLIDATION AND PRESENTATION

The accompanying consolidated financial statements include the accounts of Johnson Memorial Hospital, Johnson Professional Associates, P.C., and Johnson Memorial Hospital 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.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

NET ASSET CATEGORIES

To ensure observance of limitations and restrictions placed on the use of resources available to the Hospital, the accounts of the Hospital are maintained in the following net asset categories:

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

NET ASSET CATEGORIES (CONTINUED)

Temporarily Restricted – The Hospital 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 statements of operations and changes in net assets 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 statements of operations. At September 30, 2014 and 2013 the Hospital had temporarily restricted net assets of $332,881 and $268,927, 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 and contractual allowances 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.

DONOR RESTRICTED GIFTS

Unconditional promises to give cash are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises to give are received. Amortization of the discounts is included in gifts and bequests on the consolidated statements of operations and changes in net assets.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

DONOR RESTRICTED GIFTS (CONTINUED)

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 as unrestricted net assets.

CASH AND CASH EQUIVALENTS

The Hospital 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.

PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable result from the health care services provided by the Hospital and JPA. 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.

INVENTORIES

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

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 Hospital's beneficial interest in perpetual trusts are recorded as changes in permanently restricted net assets.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

INVESTMENT IN JOINT VENTURES

The Hospital has three 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 revenue in the consolidated statements of operations. The Hospital has a 25% interest in Northeast Regional Radiation Oncology Network, Inc. ($3,299,195 and $3,108,378 as of September 30, 2014 and 2013, respectively) and has a 15% ownership interest in Tolland Imaging Center, LLC ($81,604 and $41,285 as of September 30, 2014 and 2013, respectively).

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. The Hospital provides for depreciation of property, plant and equipment and amortization of assets recorded under capital leases using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

Financial Accounting Standards Board ASC 410-20, *Accounting for Asset Retirement Obligations*, provides guidance on accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Asset retirement obligations include, but are not limited to, certain types of environmental issues which are legally required to be remediated upon an asset's retirement as well as contractually required asset retirement obligations. ASC 410-20 provides clarifying guidance on conditional asset retirement obligations. Conditional asset retirement obligations are obligations whose settlement may be uncertain. ASC 410-20's guidance requires such conditional asset retirement obligations to be estimated and recognized. Application of these pronouncements affects the Hospital with respect to required future asbestos remediation.

Conditional asset retirement obligations of $346,001 and $334,927 as of September 30, 2014 and 2013, 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 $346,001 at September 30, 2014 and 2013. There were no retirement obligations incurred or settled during 2014 and 2013. Reference is made to Note 14 regarding other environmental exposures.

IMPAIRMENT OF LONG-LIVED ASSETS

The Hospital records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There were no impairment losses recorded in 2014 and 2013.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

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 and losses on sales of equipment and the changes in the Hospital's share of equity of the joint ventures accounted for under the equity method.

DEFERRED FINANCING FEES

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 $7,248 for the years ended September 30, 2014 and 2013.

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) and permanent transfers of assets to and from affiliates for other than goods and services.

INCOME TAXES

The Hospital and Development are not-for-profit corporations as defined in Section 501(c)(3) of the Internal Revenue Code, and therefore are exempt from federal and state income taxes, except on net income derived from unrelated business activities. JPA is a professional corporation that has experienced losses since inception and accordingly, no provisions for federal or state income taxes have been recorded.

The Hospital 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, 2014, 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 Hospital, Development, and JPA 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 2011.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

ADVERTISING

The Hospital expenses advertising costs as incurred. Advertising expenses for the years ended September 30, 2014 and 2013 were \$5,039 and \$40,673, respectively.

BENEFICIAL INTEREST 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 unrealized gains from the trust funds were \$63,596 in 2014 and \$113,235 in 2013 and are included in changes in permanently restricted net assets.

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 Hospital provides care to patients who meet certain criteria under its charity care policy without charge, or at amounts less than its established rates. The Hospital does not pursue collection of amounts determined to be charity care. For the year ended September 30, 2014 the charges and costs related to charity care were \$387,403 and \$202,458 and for the year ended September 30, 2013, the charges and costs related to charity care were \$310,398 and \$134,040, respectively.

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 Hospital 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)

BAD DEBTS

ASU 2011-07, *Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*, requires certain 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. Refer to Note 2 for the additional disclosures required by ASU 2011-07.

RECLASSIFICATIONS

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

SUBSEQUENT EVENTS

The Hospital evaluates the impact of subsequent events, events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date or for disclosure in the notes to the consolidated financial statements. The Hospital evaluated events occurring subsequent to September 30, 2014 through March 30, 2015, 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 financial statements other than the disclosures related to the January 14, 2015 bankruptcy filing.

NOTE 2 – CONSOLIDATED ENTITIES

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.

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, 2014 and 2013:

	2014	2013
Gross patient service revenue		
Inpatients	$ 61,452,314	$ 62,288,196
Outpatients	115,686,167	105,897,974
	177,138,481	168,186,170
Deductions		
Contractual and other allowances	102,892,826	99,800,590
Charity care provided free of charge - at charges	387,403	310,398
	103,280,229	100,110,988
Net patient service revenue	73,858,252	68,075,182
Provision for bad debts	4,311,679	4,584,989
Net patient service revenue less provision for bad debts	$ 69,546,573	$ 63,490,193

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from most payers are different from the established billing rates of the Hospital, 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, 2014 and 2013, the Hospital recorded approximately $310,000 and ($469,000), respectively, as an increase (decrease) to net patient service revenue for changes in estimates related to third-party payer settlement accruals recorded in prior years.

The following table represents the percentages of net revenue received from payers during the years ended September 30, 2014 and 2013:

	2014	2013
Medicare	37%	36%
Medicaid	13%	7%
Third parties	44%	43%
Other	6%	14%

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

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

The current Connecticut Medicaid inpatient hospital reimbursement model of interim per diem rates and case rate settlements will transition to an All Patient Refined Diagnosis Related Group System (APR-DRG) where hospital payments will be established prospectively. Connecticut Medicaid outpatient hospital reimbursement will move from the current system of reimbursement based on Revenue Center Codes to a prospective payment system based on the complexity of services performed. The new inpatient reimbursement methodology will be effective for admissions on or after January 1, 2015; while the new outpatient reimbursement methodology will not be implemented until at least January 1, 2016. The Hospital has not determined the estimated impact of these proposed changes on net patient service revenue in future years.

The significant concentrations of net accounts receivable for services to patients by payer at September 30, 2014 and 2013 follow:

	2014	2013
Medicare	39%	27%
Medicaid	20%	11%
Third parties	37%	44%
Other	4%	18%

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 Hospital 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 Hospital has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

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

MEASURING CHARITY CARE

The Hospital 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 Hospital. Essentially, these policies define charity services as those services for which no payment is possible. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized poverty income levels for the State, but also includes certain cases where incurred charges are significant when compared to incomes. These charges are not included in net patient service revenues for financial reporting purposes.

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 Hospital's gross charges. The Hospital evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other governmental assistance programs, as well as the Hospital's policy for charity care. The Hospital provides care without charge to certain patients that qualify under its charity care policy. For the years ended September 30, 2014 and 2013, the Hospital estimates that its costs of care provided under its charity care programs approximated $202,000 and $134,000, respectively.

The Hospital'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 Hospital's gross charity care charges provided. The Hospital's gross charity care charges include only services provided to patients who are unable to pay and qualify under the Hospital's charity care policy. To the extent the Hospital receives reimbursement through the various governmental assistance programs in which it participates to subsidize its care of indigent patients, the Hospital does not include these patients charges in its cost of care provided under its charity care program. Additionally, the Hospital does not report a charity care patient's charges in revenues or in the provision for bad debts as it is the Hospital's policy not to pursue collection of amounts related to these patients.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Hospital'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 Hospital's collection efforts. The Hospital'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 Hospital reviews its accounts receivable balances, the effectiveness of the Hospital's reserve policies and various analytics to support the basis for its estimates.

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS (CONTINUED)

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 Hospital 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.

A summary of the Hospital's allowance for doubtful accounts activity for the years ended September 30, 2014 and 2013 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, 2013	$ (2,702,000)	$ (4,584,989)	$ 3,561,989	$ (3,725,000)
Year ended September 30, 2014	$ (3,725,000)	$ (4,311,679)	$ 3,357,679	$ (4,679,000)

ICD-10 IMPLEMENTATION

The Hospital 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 patient services provided by the Hospital will require much greater specificity when ICD-10 becomes effective on October 1, 2015.

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

ICD-10 IMPLEMENTATION (CONTINUED)

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

NOTE 4 – 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 recorded on the balance sheets at fair value.

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 1,201,322	$ 1,201,322	$ 1,136,345	$ 1,136,345
Money market funds	12,122	12,122	20,460	20,460
Mutual funds - equity	56,730	65,074	560,817	577,579
Mutual funds - fixed	44,414	44,516	110,126	104,946
Collective funds - equity	496,374	523,180	70,415	80,670
Collective funds - fixed	332,613	351,046	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	783,027	864,449	807,823	894,907
U.S. mid cap	359,596	414,548	216,666	258,354
U.S. small cap	189,136	208,034	201,958	225,209
International developed	487,064	521,272	329,802	352,583
Emerging markets	247,151	247,414	260,180	244,309
Real estate	256,803	264,411	199,572	188,086
Tangible assets - commodities	168,678	143,570	233,497	219,202
	$ 4,635,030	$ 4,860,958	$ 4,612,983	$ 4,841,652

NOTE 4 – ASSETS WHOSE USE IS LIMITED (CONTINUED)

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

	2014	2013
Income		
Interest and dividend income	$ 209,480	$ 198,178
Less investment management fees	(43,983)	(39,378)
Net investment income	$ 165,497	$ 158,800

NOTE 5 – 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 Hospital 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 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes fair value measurements, by level, at September 30, 2014 and 2013, 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, 2014				
Beneficial interests in perpetual trusts				
Cash and cash equivalents	$ 133,687	$ --	$ --	$ 133,687
Money market funds	12,122	--	--	12,122
Mutual funds - equity	65,074	--	--	65,074
Mutual funds - fixed	44,516	--	--	44,516
Collective funds - equity	--	--	523,180	523,180
Collective funds - fixed	--	--	351,046	351,046
Equities				
U.S. large cap	864,449	--	--	864,449
U.S. mid cap	414,548	--	--	414,548
U.S. small cap	208,034	--	--	208,034
International developed	521,272	--	--	521,272
Emerging markets	247,414	--	--	247,414
Real estate	264,411	--	--	264,411
Tangible assets-commodities	--	--	143,570	143,570
Total beneficial interests in perpetual trusts	2,775,527	--	1,017,796	3,793,323
Restricted cash and board designated investments	224,048	--	--	224,048
Investments permanently restricted by donor	843,587	--	--	843,587
	$ 3,843,162	$ --	$ 1,017,796	$ 4,860,958

NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

	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
Emerging markets	244,309	--	--	244,309
Real estate	188,086	--	--	188,086
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
Investments permanently restricted by donor	843,587	--	--	843,587
	$ 4,139,936	$ --	$ 701,716	$ 4,841,652

NOTE 5 – FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

	Beneficial Interests in Perpetual Trusts
Balance at October 1, 2012	$ 237,296
Purchases of investments	233,497
Changes in fair value	230,923
Balance at September 30, 2013	701,716
Purchases of investments	426,381
Sales of investments	(64,819)
Changes in fair value	(45,482)
Balance at September 30, 2014	$ 1,017,796

NOTE 6 – RESTRICTED ENDOWMENTS

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

NOTE 6 – RESTRICTED ENDOWMENTS (CONTINUED)

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

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. The Hospital 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 Hospital 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 Hospital 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 Hospital 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 Hospital 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 Hospital'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 6 – RESTRICTED ENDOWMENTS (CONTINUED)

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2014 AND 2013:

	Unrestricted	Permanently Restricted	Total
September 30, 2014			
Donor-restricted endowment funds	$ --	$ 843,587	$ 843,587
Beneficial interests in perpetual trusts	--	3,793,323	3,793,323
	$ --	$ 4,636,910	$ 4,636,910

	Unrestricted	Permanently Restricted	Total
September 30, 2013			
Donor-restricted endowment funds	$ --	$ 843,587	$ 843,587
Beneficial interests in perpetual trusts	--	3,729,727	3,729,727
	$ --	$ 4,573,314	$ 4,573,314

CHANGES IN ENDOWMENT NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	Unrestricted	Permanently Restricted	Total
September 30, 2014			
Endowment net assets, beginning	$ --	$ 4,573,314	$ 4,573,314
Investment return:			
Investment income	165,497	--	165,497
Net unrealized gains	--	63,596	63,596
Total investment return	165,497	63,596	229,093
Appropriation of endowment assets for expenditure	(165,497)	--	(165,497)
Endowment net assets, ending	$ --	$ 4,636,910	$ 4,636,910

NOTE 6 – RESTRICTED ENDOWMENTS (CONTINUED)

CHANGES IN ENDOWMENT NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013 (CONTINUED)

	Unrestricted	Permanently Restricted	Total
September 30, 2013			
Endowment net assets, beginning	$ --	$ 4,460,079	$ 4,460,079
Investment return:			
Investment income	158,000	--	158,000
Net unrealized gains	--	113,235	113,235
Total investment return	158,000	113,235	271,235
Appropriation of endowment assets for expenditure	(158,000)	--	(158,000)
Endowment net assets, ending	$ --	$ 4,573,314	$ 4,573,314

NOTE 7 – TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets of $332,881 and $268,927 as of September 30, 2014 and 2013, respectively, consist of assets restricted to make capital purchases and restricted amounts received from various fundraising events.

Permanently restricted net assets of $4,636,910 and $4,573,314 at September 30, 2014 and 2013, respectively, represent assets to be held in perpetuity, the income from which is expendable to support health care services and the general operations of the Hospital.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

The components of cost and the related accumulated depreciation comprising property, plant and equipment as of September 30, 2014 and 2013 are as follows:

	2014	2013
Land	$ 406,997	$ 406,997
Land improvements	1,568,864	1,558,879
Building and improvements	24,689,760	24,574,732
Fixed and movable equipment	34,042,317	32,774,770
	60,707,938	59,315,378
Less accumulated depreciation	(44,198,742)	(42,249,206)
	$ 16,509,196	$ 17,066,172

Depreciation expense for property, plant and equipment amounted to $2,334,000 and $2,932,000 for the years ended September 30, 2014 and 2013, respectively. Included within depreciation and amortization expense on the statements of operations is amortization for capital leased assets of $21,606 and $14,170 for the years ended September 30, 2014 and 2013, respectively (see Note 10).

NOTE 9 – DEBT

MORTGAGE NOTE PAYABLE

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, 2014 were 6.63% and 1.48%, respectively. The interest rates in effect at September 30, 2013 were 6.63% and 1.52%, respectively.

As of September 30, 2014 and 2013, there was a principal balance of $11,987,500 due on the mortgage.

NOTE 9 – DEBT (CONTINUED)

MORTGAGE NOTE PAYABLE (CONTINUED)

The Hospital is required to meet covenants under the mortgage. During the year ended September 30, 2014, the Hospital failed certain covenants and failed to make any mortgage principal payments resulting in a delinquent balance of approximately $1,256,000 at September 30, 2014. 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, 2014.

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 $125,022 and $232,609 at September 30, 2014 and 2013, respectively.

Future minimum payments by year and in the aggregate for the mortgage loan and subordinated debt were as follows at September 30, 2014:

2015	$ 12,095,087
2016	17,435
	$ 12,112,522

REVOLVING LOAN

In September 2010, the Hospital, along with several affiliates (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 up to 4%. The interest rate as of September 30, 2014 was 7.75%. The Hospital has granted the lender a security interest in accounts receivable. In connection with the bankruptcy filing, on January 16, 2015, this lender entered into a debtor in possession loan agreement with the Borrowers which replaced the Revolving Loan and Security Agreement.

The Hospital is jointly and severally liable for the full payment of the debt under this agreement, including any debt incurred by Evergreen and Home & Community Health Services, Inc.

As of September 30, 2014 and 2013, there were outstanding borrowings of $1,604,830 and $2,208,858, respectively, under the Loan and Security Agreement.

NOTE 9 – DEBT (CONTINUED)

REVOLVING LOAN (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 2014, the Borrowers failed to comply with various covenants under the Revolving Loan and Security Agreement which resulted in the lender imposing an interest penalty.

OTHER DEBT

The other long-term debt of $2,350,000 as of September 30, 2014 and 2013 and $350,000 of other current debt at September 30, 2013, represented the amounts owed to Saint Francis under the terms of the affiliation agreement. Reference is made to Note 1. The long-term portion of this debt is not subject to interest.

NOTE 10 – LEASE OBLIGATIONS

CAPITAL LEASES

The Hospital 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 Hospital at the end of the lease term and is summarized as of September 30, 2014 and 2013 are as follows:

	2014	2013
Medical and other equipment	$ 965,000	$ 70,850
Less accumulated amortization	(21,606)	(15,351)
	$ 943,394	$ 55,499

NOTE 10 – LEASE OBLIGATIONS

CAPITAL LEASES (CONTINUED)

The Hospital entered into a five year capital lease agreement to lease generators with a cost of $688,000 which commenced on March 1, 2014. The monthly lease payments, including interest, will be $10,500 for the first year and $15,400 for the remainder of the lease term with total payments of $865,296. The Hospital made a security deposit of $206,000 to secure the lease that is returnable at the end of the lease period.

The Hospital entered into a three year capital lease agreement to lease a magnetic chiller with a cost of $277,000 which commenced on September 1, 2014. The monthly lease payments, including interest, will be $7,829 over the lease term with total payments of $281,844. The Hospital made a security deposit of $15,658 to secure the lease that is returnable at the end of the lease period.

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, 2014 are as follows:

2015	$ 253,947
2016	278,772
2017	270,943
2018	184,824
2019	77,010
Total future minimum lease payments	1,065,496
Less amounts representing interest	147,161
Present value of future minimum lease payments	918,335
Less current portion	197,299
	$ 721,036

OPERATING LEASES

The Hospital 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 $2,196,762 and $2,223,374 in 2014 and 2013, respectively. These leases have various terms and conditions. The Hospital subleases land to an affiliated corporation under a month-to-month lease arrangement. Sublease income was $180,000 for each of the fiscal years ended September 30, 2014 and 2013.

NOTE 10 – LEASE OBLIGATIONS

OPERATING LEASES (CONTINUED)

Minimum future rental commitments on non-cancelable operating leases with initial or remaining terms of more than one year as of September 30, 2014 are as follows:

2015	$ 394,267
	$ 394,267

NOTE 11 – EMPLOYEE BENEFIT PLANS

The Hospital formerly 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 the Plan were matched. The total expense incurred by the Hospital for contributions to the Plan was $272,339 and $147,244 in 2014 and 2013, respectively.

NOTE 12 – SELF-INSURANCE CLAIMS

There have been medical malpractice and workers' compensation claims that have been asserted against the Hospital. In addition, there are known incidents that have occurred through September 30, 2014 that may result in the assertion of claims. Hospital management 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. Hospital management has provided reserves for these contingent liabilities.

NOTE 13 – PROFESSIONAL, GENERAL LIABILITY AND WORKERS' COMPENSATION INSURANCE

For claims incurred through August 31, 2009, the Hospital was self-insured for professional liability and general liability claims, under a claims made policy, which covered the Corporation's entire health system. The Corporation has an excess umbrella claims made policy for claims in excess of the Corporation's self-insured limits.

For claims incurred after August 31, 2009, the Hospital 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 Corporation'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 Hospital has recorded accrued liabilities of $601,390 and $641,424 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, 2014 and 2013, respectively.

The Hospital was also self-insured for workers compensation claims through March 16, 2009 at which time it obtained commercial insurance. The Hospital's workers' compensation policy had no deductible and policy limits of $1,000,000 per case with no aggregate limit for claims incurred after March 16, 2009 through May 30, 2014. Effective May 31, 2014, the Hospital obtained a new workers' compensation insurance policy that had a $250,000 deductible per claim and a $2,000,000 aggregate deductible. The policy provides for policy limits of $1,000,000 per case with no annual limit.

As of September 30, 2014, the Hospital recorded a liability of $142,689 related to its estimated portion of the deductible for workers' compensation incidents that occurred between May 31, 2014 and September 30, 2014.

In accordance with the provisions of ASU 2010-24, the Hospital recorded recoverables from insurance companies for the estimated costs to settle fully insured malpractice and workers' compensation claims in the amounts of $1,855,146 and $438,332 as of September 30, 2014 and 2013, respectively. The Hospital has recorded liabilities equal to these amounts as of September 30, 2014 and 2013.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

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

The Hospital also has the following environmental exposures:

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 was required 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 originally provided for completion of the actions not later than December 31, 2014, but this deadline was extended until July 31, 2015. The Hospital signed a letter of intent with the Town of Stafford to participate in a project that will connect the Hospital to the Stafford Water Pollution Control Facility, as well as to connect it to services from Connecticut Water Company and Yankee Gas. As of September 30, 2014, funds to finance the 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.

NOTE 14 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

By letter dated April 7, 2014, the DEP agreed with a recommendation made in the January 2014 report that the consultant cease monitoring for nitrate based on the testing results for that constituent. The DEP expressed a concern and made a request that the consultant establish background concentrations for sulfate in groundwater for the site that is unaffected by release such as the on-site septic system or from the former x-ray developer tank. In October 2014, the DEP staff concurred with the consultant's proposed plan to continue monitoring on a semiannual basis, ammonia and nitrate in the remaining monitoring wells.

The engineer's estimate for semiannual monitoring is approximately $27,000 per year. The duration of monitoring and determination whether soil remediation is warranted is dependent upon the results of future monitoring and an estimate of the total costs was not determinable as of September 30, 2014.

NOTE 15 – TRANSACTIONS WITH AFFILIATES

During 2014 and 2013, the Hospital billed affiliated organizations $729,492 and $662,160, respectively, for certain expenses and rental of space.

The amounts due from (to) affiliates represent receivables from and (payables) to affiliates that do not eliminate in consolidation. These balances are comprised of the following at September 30:

	2014	2013
Due to Johnson Memorial Corporation	$ (2,653,389)	$ (2,263,802)
Due from (to) Home and Community Health Services, Inc.	678,239	(70,249)
Due from Johnson Evergreen Corporation	163,187	79,991
Due to Johnson Health Care, Inc.	(61,184)	(63,281)
	$ (1,873,147)	$ (2,317,342)

The Hospital has provided guarantees of the debt of the Corporation and Evergreen which had balances of $2,940,000 and $14,213,697, respectively, as of September 30, 2014. During the years ended September 30, 2014 and 2013, the Corporation and Evergreen failed to make certain payments due under the terms of these debt agreements and failed other covenants. The bank has the ability to demand repayment of the debt from the Hospital in accordance with the terms of the guarantee.

NOTE 16 – CONCENTRATIONS OF CREDIT RISK

The Hospital's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, investments and accounts receivable. The Hospital 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 Hospital 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 17 – FUNCTIONAL EXPENSES

The Hospital provides general patient care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended September 30:

	2014	2013
Patient care services	$ 59,228,679	$ 58,346,318
General and administrative (including depreciation and amortization, interest and operations)	11,906,549	10,766,409
	$ 71,135,228	$ 69,112,727

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Johnson Memorial Hospital

We have audited the consolidated financial statements of Johnson Memorial Hospital as of and for the years ended September 30, 2014 and 2013, and our report thereon dated March 30, 2015, 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
March 30, 2015

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2014

	Hospital	JPA	Development	Elimination	Total
Assets					
Current Assets					
Cash and cash equivalents	$ 444,722	$ 1,062	$ --	$ --	$ 445,784
Patients accounts receivable, net of allowances for uncollectible accounts	8,595,481	180,780	--	--	8,776,261
Other receivables	580,488	27,430	--	--	607,918
Inventories	1,295,797	--	--	--	1,295,797
Prepaid expenses and other current assets	1,653,559	76,290	--	--	1,729,849
Total Current Assets	12,570,047	285,562	--	--	12,855,609
Assets Whose Use is Limited					
Beneficial interests in perpetual trusts	3,793,323	--	--	--	3,793,323
Restricted cash and board designated investments	224,048	--	--	--	224,048
Investments permanently restricted by donor	843,587	--	--	--	843,587
Total Assets Whose Use is Limited	4,860,958	--	--	--	4,860,958
Other Assets					
Property, plant and equipment, net	16,413,662	95,534	--	--	16,509,196
Investment in joint ventures	3,397,937	--	--	--	3,397,937
Due from affiliated corporations	6,495,322	(1,687)	--	(6,493,635)	--
Deferred financing costs, net	165,616	--	--	--	165,616
Other noncurrent assets	1,600,193	--	--	--	1,600,193
Total Other Assets	28,072,730	93,847	--	(6,493,635)	21,672,942
	$ 45,503,735	$ 379,409	$ --	$ (6,493,635)	$ 39,389,509

See independent auditors' report on supplementary information.

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2014

	Hospital	JPA	Development	Elimination	Total
Liabilities and Net Assets (Deficit)					
Current Liabilities					
Trade accounts payable	$ 5,855,188	$ 397,162	$ --	$ --	$ 6,252,350
Accrued payroll and related costs	1,753,717	111,116	--	--	1,864,833
Current portion of payments due under plan of reorganization	3,895,000	--	--	--	3,895,000
Senior debt under revolving line of credit	1,604,830	--	--	--	1,604,830
Current portion of mortgage payable	11,987,500	--	--	--	11,987,500
Current portion of subordinated and other debt	107,587	--	--	--	107,587
Current portion of capital lease obligations	197,299	--	--	--	197,299
Estimated amounts due to third-party agencies	2,675,513	--	--	--	2,675,513
Other current liabilities	254,953	--	--	--	254,953
Total Current Liabilities	28,331,587	508,278	--	--	28,839,865
Long-Term Obligations					
Due to affiliate corporations	695,633	15,640,134	--	(14,462,620)	1,873,147
Payments due under plan of reorganization - less current portion	2,406,796	--	--	--	2,406,796
Subordinated debt - less current portion	17,435	--	--	--	17,435
Other long-term debt	2,350,000				2,350,000
Obligations under capital lease - less current portion	721,036	--	--	--	721,036
Self-insurance liabilities and IBNR	2,344,272	--	--	--	2,344,272
Other liabilities	346,001	--	--	--	346,001
Total Long-Term Obligations	8,881,173	15,640,134	--	(14,462,620)	10,058,687
Total Liabilities	37,212,760	16,148,412	--	(14,462,620)	38,898,552

See independent auditors' report on supplementary information.

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2014

	Hospital	JPA	Development	Elimination	Total
Net Assets (Deficit)					
Unrestricted	$ 3,321,184	$ (15,769,003)	$ --	$ 7,968,985	$ (4,478,834)
Temporarily restricted	332,881	--	--	--	332,881
Permanently restricted	4,636,910	--	--	--	4,636,910
Total Net Assets (Deficit)	8,290,975	(15,769,003)	--	7,968,985	490,957
	$ 45,503,735	$ 379,409	$ --	$ (6,493,635)	$ 39,389,509

See independent auditors' report on supplementary information.

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2013

	Hospital	JPA	Development	Elimination	Total
Assets					
Current Assets					
Cash and cash equivalents	$ 188,181	$ 5,860	$ 16,111	$ --	$ 210,152
Patients accounts receivable, net of allowances for uncollectible accounts	7,312,397	319,712	--	--	7,632,109
Other receivables	1,688,323	2,905	--	--	1,691,228
Inventories	1,317,470	--	--	--	1,317,470
Prepaid expenses and other current assets	851,435	47,972	--	--	899,407
Total Current Assets	11,357,806	376,449	16,111	--	11,750,366
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
Investments permanently restricted by donor	843,587	--	--	--	843,587
Total Assets Whose Use is Limited	4,841,652	--	--	--	4,841,652
Other Assets					
Property, plant and equipment, net	16,922,312	143,860	--	--	17,066,172
Investment in joint ventures	3,165,915	--	--	--	3,165,915
Due from affiliated corporations	5,093,786	--	--	(5,093,786)	--
Deferred financing costs, net	172,864	--	--	--	172,864
Other noncurrent assets	476,000	--	--	--	476,000
Total Other Assets	25,830,877	143,860	--	(5,093,786)	20,880,951
	$ 42,030,335	$ 520,309	$ 16,111	$ (5,093,786)	$ 37,472,969

See independent auditors' report on supplementary information.

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2013

	Hospital	JPA	Development	Elimination	Total
Liabilities and Net Assets (Deficit)					
Current Liabilities					
Trade accounts payable	$ 4,873,903	$ 315,693	$ --	$ --	$ 5,189,596
Accrued payroll and related costs	1,930,115	118,781	--	--	2,048,896
Current portion of payments due under plan of reorganization	1,947,500	--	--	--	1,947,500
Senior debt under revolving line of credit	2,208,858	--	--	--	2,208,858
Current portion of mortgage payable	11,987,500	--	--	--	11,987,500
Current portion of subordinated and other debt	457,587	--	--	--	457,587
Current portion of capital lease obligations	14,365	--	--	--	14,365
Estimated amounts due to third-party agencies	2,564,571	--	--	--	2,564,571
Other current liabilities	168,332	--	--	--	168,332
Total Current Liabilities	26,152,731	434,474	--	--	26,587,205
Long-Term Obligations					
Due to affiliate corporations	1,268,030	14,112,083	--	(13,062,771)	2,317,342
Payments due under plan of reorganization - less current portion	3,930,808	--	--	--	3,930,808
Subordinated debt - less current portion	125,022	--	--	--	125,022
Other long-term debt	2,350,000				2,350,000
Obligations under capital lease - less current portion	45,579	--	--	--	45,579
Self-insurance liabilities and IBNR	641,424	--	--	--	641,424
Other liabilities	604,927	--	--	--	604,927
Total Long-Term Obligations	8,965,790	14,112,083	--	(13,062,771)	10,015,102
Total Liabilities	35,118,521	14,546,557	--	(13,062,771)	36,602,307

See independent auditors' report on supplementary information.

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2013

	Hospital	JPA	Development	Elimination	Total
Net Assets (Deficit)					
Unrestricted	$ 2,069,573	$ (14,026,248)	$ 16,111	$ 7,968,985	$ (3,971,579)
Temporarily restricted	268,927	--	--	--	268,927
Permanently restricted	4,573,314	--	--	--	4,573,314
Total Net Assets (Deficit)	6,911,814	(14,026,248)	16,111	7,968,985	870,662
	$ 42,030,335	$ 520,309	$ 16,111	$ (5,093,786)	$ 37,472,969

See independent auditors' report on supplementary information.

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Hospital	JPA	Development	Elimination	Total
Operating Revenue					
Net patient service revenue	$ 70,768,074	$ 3,090,178	$ --	$ --	$ 73,858,252
Provision for bad debts	4,119,249	192,430	--	--	4,311,679
Net patient service revenue less provision for bad debts	66,648,825	2,897,748	--	--	69,546,573
Grant and other income	414,887	404,334	--	(366,332)	452,889
Net assets released from restriction	235,925	--	--	--	235,925
Total Operating Revenues	67,299,637	3,302,082	--	(366,332)	70,235,387
Expenses					
Salaries	25,111,602	1,967,477	--	649,653	27,728,732
Employee benefits	6,443,788	252,227	--	130,118	6,826,133
Professional fees and outsourced staffing	5,168,447	1,335,480	--	(47,432)	6,456,495
Depreciation and amortization	2,314,387	26,803	--	--	2,341,190
Purchased services	4,482,195	829,439	--	(1,091,126)	4,220,508
Supplies, drugs and patient care	10,615,125	95,821	--	--	10,710,946
Leases and service contracts	1,568,797	20,812	--	(7,545)	1,582,064
Occupancy costs	3,157,963	199,222	--	--	3,357,185
Insurance	1,285,657	166,507	--	--	1,452,164
Other expenses	4,854,260	151,049	--	--	5,005,309
Interest	1,454,502	--	--	--	1,454,502
Total Expenses	66,456,723	5,044,837	--	(366,332)	71,135,228
Income (Loss) from Operations	842,914	(1,742,755)	--	--	(899,841)

See independent auditors' report on supplementary information.

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	Hospital	JPA	Development	Elimination	Total
Nonoperating Revenue (Loss)					
Investment income	$ 165,497	$ --	$ --	$ --	$ 165,497
Loss on sale of equipment	(13,263)	--	--	--	(13,263)
Equity earnings in joint ventures	232,022	--	--	--	232,022
	384,256	--	--	--	384,256
Excess (Deficiency) of Revenues over Expenses	$ 1,227,170	$ (1,742,755)	$ --	$ --	$ (515,585)

See independent auditors' report on supplementary information.

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Hospital	JPA	Development	Elimination	Total
Operating Revenue					
Net patient service revenue	$ 64,089,036	$ 3,986,146	$ --	$ --	$ 68,075,182
Provision for bad debts	4,455,452	129,537	--	--	4,584,989
Net patient service revenue less provision for bad debts	59,633,584	3,856,609	--	--	63,490,193
Grant and other income	275,135	449,053	--	(399,728)	324,460
Net assets released from restriction	443,523	--	--	--	443,523
Total Operating Revenues	60,352,242	4,305,662	--	(399,728)	64,258,176
Expenses					
Salaries	26,864,410	2,743,273	--	773,971	30,381,654
Employee benefits	6,251,065	395,822	--	159,631	6,806,518
Professional fees and outsourced staffing	3,839,636	779,046	--	(70,491)	4,548,191
Depreciation and amortization	3,082,027	33,954	--	--	3,115,981
Purchased services	3,991,908	1,154,759	--	(1,243,992)	3,902,675
Supplies, drugs and patient care	8,594,710	109,625	--	--	8,704,335
Leases and service contracts	1,551,341	30,854	--	(18,847)	1,563,348
Occupancy costs	3,125,850	293,472	--	--	3,419,322
Insurance	818,443	273,615	--	--	1,092,058
Other expenses	4,090,417	119,983	--	--	4,210,400
Interest	1,368,245	--	--	--	1,368,245
Total Expenses	63,578,052	5,934,403	--	(399,728)	69,112,727
Loss from Operations	(3,225,810)	(1,628,741)	--	--	(4,854,551)

See independent auditors' report on supplementary information.

JOHNSON MEMORIAL HOSPITAL

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Hospital	JPA	Development	Elimination	Total
Nonoperating Revenue					
Investment income	$ 158,800	$ --	$ --	$ --	$ 158,800
Gain on sale of equipment	1,200	--	--	--	1,200
Equity earnings in joint ventures	72,279	--	--	--	72,279
	232,279	--	--	--	232,279
Deficiency of Revenues over Expenses	$ (2,993,531)	$ (1,628,741)	$ --	$ --	$ (4,622,272)

See independent auditors' report on supplementary information.