

**JOHNSON MEMORIAL MEDICAL CENTER**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**SEPTEMBER 30, 2014 AND 2013**

# JOHNSON MEMORIAL MEDICAL CENTER

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
**Johnson Memorial Medical Center**

We have audited the accompanying consolidated financial statements of Johnson Memorial Medical Center (the Organization), which comprise the consolidated balance sheets as of September 30, 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 policies 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 Medical Center 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 Organization will continue as a going concern. As described in Note 1, the Organization experienced recurring losses from operations, had an unrestricted net asset deficit of \$12,121,840, and had current liabilities that exceeded current assets by \$32,273,795 as of September 30, 2014. The Organization has a credit agreement and mortgages that require certain financial and non-financial covenants be maintained. The Organization failed certain covenants during the year ended September 30, 2014 and defaulted on certain payments due on its mortgages and due to creditors. In addition, the Organization filed for relief under Chapter 11 of the U.S. Bankruptcy Code subsequent to September 30, 2014 and entered into asset purchase agreements for the sale of the Organization which are 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 MEDICAL CENTER

## CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2014 AND 2013

	2014	2013
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,469,221	\$ 805,902
Patient trust funds	59,530	69,759
Patients accounts receivable, net of allowances for uncollectible accounts of \$5,186,000 in 2014 and \$4,170,000 in 2013	11,658,028	10,135,389
Insurance and other receivables	1,078,149	2,026,862
Inventories	1,295,797	1,317,470
Prepaid expenses and other current assets	2,288,803	1,110,135
<b>Total Current Assets</b>	<u>17,849,528</u>	<u>15,465,517</u>
<b>Assets Whose Use is Limited</b>		
Beneficial interests in perpetual trusts	3,793,323	3,729,727
Restricted cash and board designated investments	224,048	268,338
Cash and investments restricted by donor	1,029,209	1,030,601
<b>Total Assets Whose Use is Limited</b>	<u>5,046,580</u>	<u>5,028,666</u>
<b>Other Assets</b>		
Property, plant and equipment, net	23,269,815	27,034,256
Investment in joint ventures and other assets	3,408,630	3,173,049
Investments, other	1,100	1,100
Deferred financing costs, net	288,663	299,787
Other noncurrent assets	1,600,193	476,000
<b>Total Other Assets</b>	<u>28,568,401</u>	<u>30,984,192</u>
	<u>\$ 51,464,509</u>	<u>\$ 51,478,375</u>

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

# JOHNSON MEMORIAL MEDICAL CENTER

## CONSOLIDATED BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2014 AND 2013

	2014	2013
<b>Liabilities and Net Assets (Deficit)</b>		
<b>Current Liabilities</b>		
Trade accounts payable and accrued expenses	\$ 8,408,688	\$ 7,095,451
Accrued payroll and related costs	2,789,581	2,807,220
Current portion of payments due under plan of reorganization	4,100,000	2,050,000
Patient trust funds	59,530	69,759
Senior debt under revolving line of credit	1,604,830	2,208,858
Current portion of mortgage payable	29,141,197	29,202,278
Current portion of subordinated and other debt	125,772	457,587
Current portion of capital lease obligations	197,299	14,365
Estimated amounts due to third-party reimbursement agencies	2,911,614	2,784,065
Other current liabilities	784,812	672,681
<b>Total Current Liabilities</b>	<u>50,123,323</u>	<u>47,362,264</u>
<b>Long-Term Liabilities</b>		
Payments due under plan of reorganization - less current portion	2,411,446	4,017,048
Subordinated debt - less current portion	17,435	125,022
Other long-term debt	2,350,000	2,350,000
Self-insurance liabilities and reserves for incurred but not reported professional liability claims	2,344,272	641,424
Other liabilities	401,097	623,786
Obligations under capital lease - less current portion	721,036	45,579
<b>Total Long-Term Liabilities</b>	<u>8,245,286</u>	<u>7,802,859</u>
<b>Total Liabilities</b>	<u>58,368,609</u>	<u>55,165,123</u>
<b>Net Assets (Deficit)</b>		
Unrestricted	(12,121,840)	(8,766,006)
Temporarily restricted	410,595	335,709
Permanently restricted	4,807,145	4,743,549
<b>Total Net Assets (Deficit)</b>	<u>(6,904,100)</u>	<u>(3,686,748)</u>
	<u>\$ 51,464,509</u>	<u>\$ 51,478,375</u>

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

# JOHNSON MEMORIAL MEDICAL CENTER

## CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
<b>Operating Revenue</b>		
Net patient service revenue	\$ 96,614,360	\$ 91,030,996
Provision for bad debts	4,537,178	4,709,325
Net patient service revenue less provision for bad debts	92,077,182	86,321,671
Grant and other income	501,330	370,611
Other revenue	550,814	526,531
Net assets released from restriction	269,758	459,171
<b>Total Operating Revenue</b>	<u>93,399,084</u>	<u>87,677,984</u>
<b>Expenses</b>		
Salaries	40,411,635	43,355,432
Employee benefits	10,541,692	10,483,743
Professional fees	6,908,956	5,014,763
Depreciation and amortization	3,226,575	4,269,259
Outsourced staffing and contracted services	5,192,947	4,934,252
Supplies, drugs and patient care	12,822,617	10,543,386
Leases and service contracts	1,624,365	1,622,194
Occupancy costs	3,441,747	3,489,884
Insurance	1,669,982	1,292,568
Provider tax	859,088	899,469
Other expenses	6,010,913	5,267,473
Interest	1,985,339	1,899,374
<b>Total Expenses</b>	<u>94,695,856</u>	<u>93,071,797</u>
<b>Loss from Operations Before</b>		
<b>Impairment Loss on Long-Lived Assets</b>	(1,296,772)	(5,393,813)
<b>Impairment Loss on Long-Lived Assets</b>	<u>(2,452,326)</u>	<u>(2,355,632)</u>
<b>Loss from Operations</b>	(3,749,098)	(7,749,445)
<b>Nonoperating Revenue (Loss)</b>		
Investment income	166,175	160,097
(Loss) gain on sale of equipment	(13,263)	1,200
Equity earnings in joint ventures	232,022	72,279
	<u>384,934</u>	<u>233,576</u>
<b>Deficiency of Revenues over Expenses</b>	<u>\$ (3,364,164)</u>	<u>\$ (7,515,869)</u>

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

**JOHNSON MEMORIAL MEDICAL CENTER**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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	2014	2013
<b>Unrestricted Net Assets</b>		
Deficiency of revenues over expenses	\$ (3,364,164)	\$ (7,515,869)
Net assets released from restriction for purchase of property and equipment	8,330	89,765
<b>Change in Unrestricted Net Assets</b>	<b>(3,355,834)</b>	<b>(7,426,104)</b>
<b>Temporarily Restricted Net Assets</b>		
Grants and other contributions	352,974	583,123
Income and realized gains on investments	--	148
Net assets released from restriction	(278,088)	(548,936)
<b>Change in Temporarily Restricted Net Assets</b>	<b>74,886</b>	<b>34,335</b>
<b>Permanently Restricted Net Assets</b>		
Increase in fair value of beneficial interest in perpetual trusts	63,596	113,235
<b>Change in Net Assets</b>	<b>(3,217,352)</b>	<b>(7,278,534)</b>
<b>Net Assets (Deficit) - Beginning</b>	<b>(3,686,748)</b>	<b>3,591,786</b>
<b>Net Assets (Deficit) - End</b>	<b>\$ (6,904,100)</b>	<b>\$ (3,686,748)</b>

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



# JOHNSON MEMORIAL MEDICAL CENTER

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
<b>Cash Flows From Operating Activities and Reorganization Items</b>		
Change in net assets	\$ (3,217,352)	\$ (7,278,534)
Adjustments to reconcile change in net assets (deficit) to net cash provided by operating activities:		
Impairment loss on long-lived assets	2,452,326	2,355,632
Depreciation and amortization	3,226,575	4,269,259
Accretion of asset retirement obligation	11,074	10,374
Provision for bad debt	4,537,178	4,709,325
Loss (gain) on disposal of assets	13,263	(1,200)
Equity earnings in joint ventures	(232,022)	(72,279)
Change in net realized and unrealized gains on investments	(63,596)	(113,235)
Changes in assets and liabilities:		
Patient accounts receivable	(6,059,817)	(3,795,003)
Insurance and other receivables	948,713	(1,318,655)
Prepaid expenses and other current assets	(1,178,668)	32,094
Inventories	21,673	(62,879)
Restricted cash and board designated investments	45,682	96,476
Restricted grants and contributions	(352,974)	(583,123)
Other noncurrent assets	(1,127,752)	(31,000)
Payments due under plan of reorganization	443,398	(658,897)
Accounts payable and accrued expenses	1,313,237	2,249,014
Accrued payroll and related costs	(17,639)	(211,035)
Estimated amounts due to third-party reimbursement agencies	127,549	1,289,797
Self-insurance liabilities	1,702,848	(499,676)
Other current liabilities	112,131	(190,080)
Other liabilities	(222,689)	(159,817)
<b>Net Cash Provided by Operating Activities and Reorganization Items</b>	<u>2,483,138</u>	<u>36,558</u>
<b>Cash Flows From Investing Activities</b>		
Capital expenditures	<u>(961,673)</u>	<u>(502,463)</u>
<b>Net Cash Used in Investing Activities</b>	<u>(961,673)</u>	<u>(502,463)</u>

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

# JOHNSON MEMORIAL MEDICAL CENTER

## CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
<b>Cash Flows From Financing Activities</b>		
Restricted grants and contributions	\$ 352,974	\$ 583,123
Principal payments on mortgage and subordinated debt	(500,483)	(535,012)
Proceeds from other debt	--	1,400,000
Payments on revolving line of credit	(604,028)	(1,295,355)
Principal payments on capital lease obligations	(106,609)	(72,300)
<b>Net Cash Used in Financing Activities</b>	<u>(858,146)</u>	<u>80,456</u>
<b>Net Change in Cash and Cash Equivalents</b>	663,319	(385,449)
<b>Cash and Cash Equivalents - Beginning</b>	<u>805,902</u>	<u>1,191,351</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 1,469,221</u>	<u>\$ 805,902</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid for interest	<u>\$ 1,258,348</u>	<u>\$ 1,258,897</u>

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

**JOHNSON MEMORIAL MEDICAL CENTER**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION**

***ORGANIZATION***

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

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

***JANUARY 14, 2015 BANKRUPTCY FILING***

On January 14, 2015, the Corporation, Hospital, HCHS, 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, HCHS, 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.

**JOHNSON MEMORIAL MEDICAL CENTER**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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**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 owed by the Hospital and JMMC in order for a portion of the debt to be assumed by Saint Francis as part of the proposed sales transactions. None of the People's debt related to Evergreen is expected to be assumed by Saint Francis under the proposed Evergreen asset purchase agreement.

On January 16, 2015, the Debtors and a lender have negotiated the terms of a debtor in possession loan in the amount 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 Organization expensed legal and consulting costs of approximately \$850,000 related to the bankruptcy filing and the proposed sales transactions.

***ORIGINAL BANKRUPTCY FILING***

As a result of the severe financial operating deficits, management determined it would be unable to pay its obligations in the normal course of business during fiscal year 2009 or service its debt in a timely fashion. On November 4, 2008, the Hospital, the Corporation and Evergreen, filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. This generally delayed payments of liabilities incurred prior to filing those petitions while the Corporation, the Hospital and Evergreen developed a joint plan of reorganization that was satisfactory to their creditors, and allowed these entities to continue as going concerns.

On August 11, 2010, the Bankruptcy Court confirmed the original plan of reorganization which was subject to the satisfaction of a number of conditions precedent. One of the conditions was that the Hospital, the Corporation, and Evergreen 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.

**JOHNSON MEMORIAL MEDICAL CENTER**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

*ORIGINAL BANKRUPTCY FILING (CONTINUED)*

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

As of September 30, 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 Debtor'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.

Evergreen'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 September 1, 2047.

The Corporation's secured debt with a bank (secured by a lien on land and buildings located in Enfield, Connecticut and a blanket lien on all furniture, fixtures, and equipment) was reinstated as such maturity existed before any default, and is payable in monthly installments through September 30, 2014 at which time the outstanding principal balance plus accrued interest thereon became due and payable, however, the loan has not been repaid.

*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.

**JOHNSON MEMORIAL MEDICAL CENTER**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

***ORIGINAL BANKRUPTCY FILING (CONTINUED)***

*Trade and Other Miscellaneous Claims* – The holders of approximately \$11 million of trade and other miscellaneous claims were entitled to receive \$780,802 on the effective date, \$283,525 on the first anniversary of the effective date, \$541,275 on the second anniversary of the effective date and \$1,056,775 on the each of the third, fourth, and fifth anniversaries of the effective date.

The holders of approximately \$175,000 of convenience claims were entitled to receive 50% of their allowed claim. Unexpired leases and contracts not rejected by the Debtors 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.

The Hospital and Evergreen 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 \$5,572,000 were past due under the secured mortgages as of September 30, 2014. The \$29,141,197 balance of the mortgages 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 Corporation, along with the Hospital 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.

**JOHNSON MEMORIAL MEDICAL CENTER**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

*AFFILIATION WITH SAINT FRANCIS CARE, INC. (CONTINUED)*

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.

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 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.

**JOHNSON MEMORIAL MEDICAL CENTER**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

***GOING CONCERN***

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. During 2014, the Organization experienced recurring losses from operations, had an unrestricted net asset deficit of \$12,121,840, and had current liabilities that exceeded current assets by \$32,273,795 as of September 30, 2014. The Hospital, EHCC and JMMC failed certain debt covenants during the year ended September 30, 2014 and defaulted on certain payments due on their mortgages and amounts due to their creditors. In addition, the Corporation filed for relief under Chapter 11 of the U.S. Bankruptcy Code subsequent to September 30, 2014. These conditions raise substantial doubt about the Corporation's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

It is the plan of management to ensure that the Corporation continues as a going concern 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.

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 Corporation will have an impact on the Corporation's ability to continue as a going concern.

The Corporation's continuation as a going concern is also ultimately dependent upon its future financial performance, which will be affected by general economic, competitive and other factors, many of which are beyond the Corporation's control. There can be no assurance that the Corporation's plans to ensure continuation as a going concern will be successful.

***PRINCIPLES OF CONSOLIDATION AND PRESENTATION***

The accompanying consolidated financial statements include the accounts of Johnson Memorial Medical Center, Johnson Memorial Hospital, The Johnson Evergreen Corporation, Home & Community Health Services, Johnson Health Care, Inc., Johnson Professional Associates, P.C., Johnson Medical Specialists, P.C., and Johnson Development Fund, Inc. JPA and Development are entities in which the Hospital has a controlling financial interest. All inter-company accounts have been eliminated in consolidation.



**JOHNSON MEMORIAL MEDICAL CENTER**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

*PRINCIPLES OF CONSOLIDATION AND PRESENTATION (CONTINUED)*

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

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

*Temporarily Restricted* – The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the 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 financial statements. At September 30, 2014 and 2013, the Organization had temporarily restricted net assets of \$410,595 and \$335,709, 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.

**JOHNSON MEMORIAL MEDICAL CENTER**  
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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

*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 and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets.

*CASH AND CASH EQUIVALENTS*

The Organization considers all highly liquid investments with remaining maturities of three months or less at date of purchase to be cash equivalents. Cash and cash equivalents are held at a limited number of financial institutions and at times, the amounts on deposit exceed insured limits.

*BENEFICIAL INTERESTS IN PERPETUAL TRUSTS*

The Hospital is the beneficiary of several trust funds. Although the principal balances in the trust funds are permanently restricted, the income earned on the trust funds is unrestricted. The increases in unrealized gains from the trust funds were \$63,596 in 2014 and \$113,235 in 2013 and are included in changes in permanently restricted net assets.

**JOHNSON MEMORIAL MEDICAL CENTER**  
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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

***INVESTMENTS PERMANENTLY RESTRICTED BY DONOR***

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

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

***ACCOUNTS RECEIVABLE***

Patient accounts receivable result from the health care services provided by the Corporation's subsidiaries. The amount of the allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 3 for additional information relative to net patient service revenue recognition and third-party payer programs.

***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) is included in the deficiency of revenues over expenses unless the income or loss is restricted by donor or law.

Unrealized gains and losses on investments on the Organization's beneficial interests in perpetual trusts are recorded as changes in permanently restricted net assets.

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**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 revenues in the consolidated statements of operations. The Hospital has a 25% interest in Northeast Regional Radiation Oncology Network, Inc. (NRRON) (\$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). JMMC leases space to NRRON under the terms of an operating lease and recognized rental income of \$232,000 and \$225,240 for the years ended September 30, 2014 and 2013, respectively.

***INVENTORIES***

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

***IMPAIRMENT OF LONG-LIVED ASSETS***

The Organization records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. Evergreen recorded impairment losses of \$2,452,326 and \$2,355,632 during the years ended September 30, 2014 and 2013, respectively. Management believes that the other entities with long-lived assets included in the consolidated financial statements will generate undiscounted cash flows that will at least recover the value in their long-lived assets at their current carrying values.

***PROPERTY, PLANT AND EQUIPMENT***

Property, plant and equipment are recorded at cost. As of September 30, 2014 and 2013, Evergreen reduced the carrying value of its building and improvements by \$2,452,326 and \$2,355,632, respectively, related to the aforementioned impairment loss. The adjusted carrying value is the new cost basis. The Organization provides for depreciation of property, plant and equipment and amortization of assets recorded under capital leases using the straight-line method over the estimated useful lives of the assets as follows:

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

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

***PROPERTY, PLANT AND EQUIPMENT (CONTINUED)***

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

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

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 16 regarding other environmental exposures.

***RISKS AND UNCERTAINTIES***

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

***NONOPERATING REVENUE***

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

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

***DEFICIENCY OF REVENUE OVER EXPENSES***

The statements of operations and changes in net assets include the deficiency of revenue over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from the deficiency of revenue over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

***INCOME TAXES***

The Corporation, the Hospital, Evergreen, HCHS, Health Care, and Development are generally exempt from income taxes under Internal Revenue Code, Section 501(a), as organizations described in Section 501(c)(3). JPA is a professional corporation that has experienced losses since inception and accordingly, no provisions for federal or state income taxes have been recorded.

The Organization accounts for uncertainty in income tax positions in the consolidated financial statements by applying a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

Management has analyzed the tax positions taken and has concluded that as of September 30, 2013, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Corporation and its subsidiaries are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes that these organizations are no longer subject to income tax examinations prior to 2011.

***ADVERTISING***

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

***RECOGNITION OF GRANT REVENUE***

Grants are generally considered to be exchange transactions in which the grantor requires the performance of specified activities. Entitlement to cost reimbursement grants is conditioned on the expenditure of funds in accordance with grant restrictions and, therefore, revenue is recognized to the extent of grant expenditures. Entitlement to performance based grants is conditioned on the attainment of specific performance.

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**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)**

***CHARITY CARE***

The Organization provides care to patients who meet certain criteria under its charity care policies without charge, or at amounts less than its established rates. The Organization does not pursue collection of amounts determined to be charity care and these amounts are not reported as net patient service revenues. For the year ended September 30, 2014 the charges and costs related to charity care were \$421,153 and \$219,000 and for the year ended September 30, 2013, the charges and costs related to charity care were \$353,488 and \$152,000, 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 Organization accounts for its insurance claims and related insurance recoveries in accordance with the provisions of ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, which indicates that health care entities should not net insurance recoveries against the related claim liabilities.

***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 3 for the additional disclosures required by ASU 2011-07.

***RECLASSIFICATIONS***

Certain 2013 reported amounts have been reclassified to conform to the 2014 financial statement presentation.

***SUBSEQUENT EVENTS***

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

**JOHNSON MEMORIAL MEDICAL CENTER**  
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**NOTE 2 – CONSOLIDATED ENTITIES**

Johnson Memorial Hospital is an acute care hospital located in Stafford Springs, Connecticut. The Hospital is licensed for 92 beds and provides a broad range of inpatient and outpatient services primarily throughout Hartford and Tolland Connecticut counties. Admitting physicians are primarily practitioners in the same geographic area. The Hospital has a controlling interest in JPA and Development.

JPA is a medical practice that is controlled by the Hospital. Although the Hospital does not have direct ownership interests in JPA, the Hospital has a controlling voting interest in the Board of JPA, thus enabling the Hospital to control the economic activities of JPA. Also, the Hospital provides funding to JPA to fund its operating losses.

Johnson Memorial Hospital Development Fund, Inc. is a not-for-profit organization that raises funds for the Hospital and other affiliates in which the Hospital has a controlling financial interest by virtue of control of its board of directors and the fact that substantially all of Development's assets are for the use of the Hospital.

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

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

JMS is a medical practice that is controlled by the Corporation. Although the Corporation does not have direct ownership interests in JMS, the Corporation has a controlling voting interest in the Board of JMS, thus enabling the Corporation to control the economic activities of JMS. The Corporation is in the process of dissolving JMS as it has not rendered medical services in several years.

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



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**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	\$ 208,384,764	\$ 199,573,726
Contractual and other allowances	111,770,404	108,542,730
Net patient service revenue	96,614,360	91,030,996
Provision for bad debts	4,537,178	4,709,325
Net patient service revenue less provision for bad debts	\$ 92,077,182	\$ 86,321,671

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

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For the years ended September 30, 2014 and 2013, the Organization 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	19%	15%
Third Parties	37%	36%
Other	7%	13%

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

# JOHNSON MEMORIAL MEDICAL CENTER

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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

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	38%	31%
Medicaid	23%	18%
Third Parties	36%	35%
Other	3%	16%

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The Organization believes that it is in compliance with all applicable laws and regulations. Cost reports for the Hospital, which serve as a basis for final settlement with government payers, have been settled by final settlement through 2010 for Medicare and 2007 for Medicaid. Other years remain open for settlement.

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

# JOHNSON MEMORIAL MEDICAL CENTER

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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

#### *MEASURING CHARITY CARE*

The Organization accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Organization. Essentially, these policies define charity services as those services for which no payment is possible. In assessing a patient's inability to pay, the Organization utilizes the generally recognized poverty income levels for the state, but also includes certain cases where incurred charges are significant when compared to incomes. These charges are not included in net patient service revenue for financial reporting purposes.

Self-pay revenues are derived primarily from patients who do not have any form of health care coverage. The revenues associated with self-pay patients are generally reported at the Organization's gross charges.

The Organization evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other governmental assistance programs, as well as the Organization's policy for charity care. The Organization provides care without charge to certain patients that qualify under its charity care policy. For the years ended September 30, 2014 and 2013, the Organization estimates that its costs of care provided under its charity care programs approximated \$219,000 and \$152,000, respectively.

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

# JOHNSON MEMORIAL MEDICAL CENTER

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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

##### *BAD DEBTS*

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

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

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

A summary of the Organization'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	\$ (3,032,000)	\$ (4,709,325)	\$ 3,571,325	\$ (4,170,000)
Year ended September 30, 2014	\$ (4,170,000)	\$ (4,537,178)	\$ 3,521,178	\$ (5,186,000)

# JOHNSON MEMORIAL MEDICAL CENTER

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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

#### *ICD-10 IMPLEMENTATION*

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

In January 2009, the Centers for Medicare and Medicaid Services (CMS) published its tenth revision of International Statistical Classification of Diseases and Related Health Problems (ICD-10) and related changes to the formats used for certain electronic transactions. ICD-10 contains significantly more diagnostic and procedural codes than the existing ICD-9 coding system, and as a result, the coding for the services provided by the Organization will require much greater specificity when ICD-10 becomes effective on October 1, 2015.

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

### NOTE 4 – REGULATORY ENVIRONMENT

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

# JOHNSON MEMORIAL MEDICAL CENTER

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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#### NOTE 5 – DEFERRED FINANCING COSTS

Deferred financing costs, which were incurred in connection with the debt, are being amortized over the term of the related debt. Amortization expense for deferred financing costs amounted to \$11,124 for the years ended September 30, 2014 and 2013.

#### NOTE 6 – ASSETS WHOSE USE IS LIMITED

The composition of assets whose use is limited, which include beneficial interests in perpetual trusts, cash restricted for payment of workers' compensation claims, and investments permanently restricted by donors, are set forth in the following table. Investments are recorded on the balance sheets at fair value.

September 30, 2014:	2014	
	Cost	Fair Value
Cash and cash equivalents	\$ 1,386,944	\$ 1,386,944
Money market funds	12,122	12,122
Mutual funds - equity	56,730	65,074
Mutual funds - fixed	44,414	44,516
Collective funds - equity	496,374	523,180
Collective funds - fixed	332,613	351,046
Equities		
U.S. large cap	783,027	864,449
U.S. mid cap	359,596	414,548
U.S. small cap	189,136	208,034
International developed	487,064	521,272
Emerging markets	256,803	264,411
Real estate	247,151	247,414
Tangible assets - commodities	168,678	143,570
	<u>\$ 4,820,652</u>	<u>\$ 5,046,580</u>

**JOHNSON MEMORIAL MEDICAL CENTER**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 6 – ASSETS WHOSE USE IS LIMITED (CONTINUED)**

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

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

	2014	2013
Investment income		
Dividends and interest	\$ 210,158	\$ 199,475
Less investment management fees	(43,983)	(39,378)
Net investment income	\$ 166,175	\$ 160,097

**JOHNSON MEMORIAL MEDICAL CENTER**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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**NOTE 7 – FAIR VALUE MEASUREMENTS**

Assets and liabilities recorded at fair value in the financial statements are categorized, for disclosure purposes, based upon whether the inputs used to determine their fair values are observable or unobservable utilizing a three-level fair value hierarchy that prioritizes the inputs used to measure assets and liabilities at fair value. Level inputs are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access on the reporting date.

Level 2 – Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specific (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs that are unobservable for the asset or liability.

The fair values of Level 1 securities were determined through quoted market prices, while fair values of Level 2 securities were determined primarily through prices obtained from third party pricing sources, where quoted market prices for such securities were not available. The fair values of Level 3 securities were determined primarily through information obtained from the relevant counterparties for such investments, as information on which these securities' fair values are based is generally not readily available in the market.



# JOHNSON MEMORIAL MEDICAL CENTER

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

#### NOTE 7 – 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	264,411	--	--	264,411
Real estate	247,414	--	--	247,414
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				
investments	224,048	--	--	224,048
Cash and investments permanently restricted by donor				
permanently restricted by donor	1,029,209	--	--	1,029,209
	\$ 4,028,784	\$ --	\$ 1,017,796	\$ 5,046,580

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**NOTE 7 – 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
Cash and investments permanently restricted by donor	1,030,601	--	--	1,030,601
	<u>\$ 4,326,950</u>	<u>\$ --</u>	<u>\$ 701,716</u>	<u>\$ 5,028,666</u>

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**NOTE 7 – FAIR VALUE MEASUREMENTS (CONTINUED)**

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

	Beneficial interests in <u>perpetual trusts</u>
Balance at September 30, 2012	\$ 237,296
Purchases of investments	233,497
Changes in fair value	<u>230,923</u>
Balance at September 30, 2013	701,716
Purchases of investments	426,381
Sales of investments	(64,819)
Changes in fair value	<u>(45,482)</u>
Balance at September 30, 2014	<u><u>\$ 1,017,796</u></u>

**NOTE 8 – RESTRICTED ENDOWMENTS**

The Organization’s endowments consist of donor-restricted endowment funds and beneficial interests in perpetual trusts. Net assets associated with endowment funds are classified and reported based on donor-imposed restrictions.

The Organization’s Board of Directors has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulations to the contrary. This does not apply to beneficial interests in perpetual trusts where the fair value of the investments is the basis for the amount recorded as permanently restricted net assets.

As a result of the interpretation of UPMIFA, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and, if applicable, (c) accumulations to the permanent endowment made in accordance with the related gift’s donor instructions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted or unrestricted net assets based on the donors’ stipulations and those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard for expenditures as proscribed by UPMIFA.

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**NOTE 8 – RESTRICTED ENDOWMENTS (CONTINUED)**

In accordance with UPMIFA, the Organization considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment funds:

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

***RETURN OBJECTIVES AND RISK PARAMETERS***

For the permanently restricted endowment funds, the bank, acting in its capacity as trustee, determines and directs the investment policy and asset allocation. The Organization expects these endowment funds, over time, to provide an average rate of return that exceeds the rate of inflation annually. Actual returns in any given year may vary from this amount.

***STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES***

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

***SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO THE SPENDING POLICY***

The Organization has a policy of evaluating the spending decisions for each endowment fund based upon the intentions of the donors and specific contractual agreements. In determining the annual amount to be spent, the Organization considers the long-term expected return on its endowment. The spending policy is designed to limit spending to the expected long-term real rate of return. The annual distribution from the endowment funds is expected to be contained within a range of the trusts' market value that is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

# JOHNSON MEMORIAL MEDICAL CENTER

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

#### NOTE 8 – RESTRICTED ENDOWMENTS (CONTINUED)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
September 30, 2014				
Donor-restricted endowment funds	\$ (8,047)	\$ 23,434	\$ 1,013,822	\$ 1,029,209
Beneficial interests in perpetual trusts	--	--	3,793,323	3,793,323
	<u>\$ (8,047)</u>	<u>\$ 23,434</u>	<u>\$ 4,807,145</u>	<u>\$ 4,822,532</u>
September 30, 2013				
Donor-restricted endowment funds	\$ (7,680)	\$ 24,459	\$ 1,013,822	\$ 1,030,601
Beneficial interests in perpetual trusts	--	--	3,729,727	3,729,727
	<u>\$ (7,680)</u>	<u>\$ 24,459</u>	<u>\$ 4,743,549</u>	<u>\$ 4,760,328</u>

***CHANGES IN ENDOWMENT NET ASSET FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013:***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
September 30, 2014				
Endowment net assets, beginning	\$ (7,680)	\$ 24,459	\$ 4,743,549	\$ 4,760,328
Investment return:				
Investment income	165,130	--	--	165,130
Net unrealized gains	--	--	63,596	63,596
Total investment return	<u>165,130</u>	<u>--</u>	<u>63,596</u>	<u>228,726</u>
Appropriation of endowment assets for expenditure	<u>(165,497)</u>	<u>(1,025)</u>	<u>--</u>	<u>(166,522)</u>
Endowment net assets, ending	<u>\$ (8,047)</u>	<u>\$ 23,434</u>	<u>\$ 4,807,145</u>	<u>\$ 4,822,532</u>

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**NOTE 8 – RESTRICTED ENDOWMENTS (CONTINUED)**

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

**NOTE 9 – TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS**

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

	2014	2013
Grant proceeds subject to use restrictions	\$ 332,881	\$ 268,927
Other receivables subject to time restrictions	35,846	31,703
Indigent, elderly women's care	12,130	12,187
Scholarships	8,937	9,997
Other	<u>20,801</u>	<u>12,895</u>
	<u>\$ 410,595</u>	<u>\$ 335,709</u>

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

	2014	2013
Health care services and operations	\$ 4,744,256	\$ 4,680,660
Elderly assistance	40,261	40,261
Scholarships	<u>22,628</u>	<u>22,628</u>
	<u>\$ 4,807,145</u>	<u>\$ 4,743,549</u>

# JOHNSON MEMORIAL MEDICAL CENTER

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

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#### NOTE 10 – 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	4,084,387	4,074,402
Building and improvements	46,608,488	46,451,537
Fixed and movable equipment	<u>37,638,836</u>	<u>36,276,022</u>
	88,738,708	87,208,958
Less accumulated depreciation	<u>(65,468,893)</u>	<u>(60,174,702)</u>
	<u>\$ 23,269,815</u>	<u>\$ 27,034,256</u>

Depreciation expense for property, plant and equipment amounted to \$3,215,451 and \$4,258,135 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 \$19,084 for the years ended September 30, 2014 and 2013, respectively (see Note 12).

#### ***IMPAIRMENT OF LONG-LIVED ASSETS***

During the years ended September 30, 2014 and 2013, Evergreen continued to experience operating losses and had an average occupancy below the level required to generate positive cash flows from operations and to make debt and other payments as they became due.

As a result of these factors, management performed testing during the years ended September 30, 2014 and 2013 to compare the carrying values of the assets to the undiscounted cash flows expected to result from the continued operations, and in 2014 considered the estimated proceeds from the potential sale of Evergreen, and concluded that the recorded carrying values of the assets were not recoverable.

Fair value was estimated by management based on a cash flow analysis which indicated that the fair value of the property and equipment was approximately \$3 million as of September 30, 2014 which was less than the recorded carrying value. As of September 30, 2013, management estimated the carrying value to be \$6 million based on cash flows resulting from projected growth in the census that was expected to result from the establishment of an assisted living program and hospice program. However, such growth in the census did not materialize in 2014 and future cash flow projections no longer supported the \$6 million carrying value that was estimated at September 30, 2013. Evergreen recorded impairment losses on long-lived assets of \$2,452,326 and \$2,355,632 during the years ended September 30, 2014 and 2013, respectively.

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**NOTE 11 – DEBT**

On August 1, 2006, the Hospital entered into a \$13,700,000 commercial construction mortgage loan with a bank. The loan was used to finance the expansion and renovation of the emergency department, three nursing units, the psychiatric unit, and two medical and surgical units, and to refinance the Hospital's existing loans (collectively, the Project). In December 2007, the loan was converted to a term loan, which is guaranteed by the United States Department of Agriculture (USDA) through the USDA Rural Development Community Facilities Program. The term loan calls for equal quarterly principal payments of \$85,625 over 40 years and will mature on January 1, 2048. Fifty percent of the loan bears interest at the bank's five year cost of borrowing plus 1.50% and fifty percent of the loan bears interest at the three month LIBOR plus 1.25%. The interest rates in effect at September 30, 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, there was a principal balance of \$11,987,500 due on the Hospital's mortgage.

The Hospital is required to meet certain financial covenants under the mortgage. During the year ended September 30, 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.

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

Upon conversion to a term loan, fifty percent of the outstanding principal balance of the \$14,200,000 note began to accrue interest at the variable rate equal to three month LIBOR plus 1.20% (1.43% at September 30, 2014 and 1.47% at September 30, 2013).



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**NOTE 11 – DEBT (CONTINUED)**

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

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

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

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

As of September 30, 2014, there was a balance of \$14,213,697 due on Evergreen's loans.

Evergreen is required to meet certain financial covenants. During the year ended September 30, 2014, Evergreen failed certain covenants and failed to make certain loan payments resulting in a delinquent balance of \$1,308,603 at September 30, 2014. The bank has the right to demand immediate payment of the \$14,213,697 balance of the loan which has been classified as a current liability as of September 30, 2014.

In August 2004, JMMC entered into a mortgage loan with a bank in the amount of \$4,500,000 for the purpose of refinancing certain mortgage loans. The loan bears interest at a variable rate based on LIBOR plus 1.50% (1.73% at September 30, 2014 and 1.77% at September 30, 2013). Principal is payable in monthly installments of \$15,000. The balance of the JMMC mortgage loan was \$2,940,000 at September 30, 2014. JMMC failed to make mortgage payments resulting in a delinquent balance at September 30, 2014. The loan has been classified as a current liability as of September 30, 2014.

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**NOTE 11 – DEBT (CONTINUED)**

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.

In September 2010, the Corporation, the Hospital, Evergreen, HCHS, JHC, Development, WellCare, Inc., JPA and JMS (the Borrowers) entered into a Revolving Loan and Security Agreement (senior debt under revolving line of credit) with a lender for an amount not to exceed the lesser of \$8 million or the maximum borrowing base (85% of the book value of all eligible receivables). Under the original agreement, amounts outstanding bear interest at the rate of the 3 month LIBOR rate plus 4.25% payable monthly in arrears. In the event of a default, the agreement provides for an increase in the interest rate by up to 4%. The interest rate as of September 30, 2014 was 7.75%. The Organization 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.

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.

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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### NOTE 12 – LEASE OBLIGATIONS

##### *CAPITAL LEASES*

The Organization has entered into non-cancelable capital lease obligations for certain equipment. The cost of the assets is being amortized over the useful lives of the assets or the shorter of the respective lease term or useful life if the asset does not transfer to the Organization at the end of the lease term and is summarized as of September 30, 2014 and 2013 are as follows:

	2014	2013
Medical and other equipment	\$ 1,026,398	\$ 132,248
Less accumulated amortization	<u>(43,686)</u>	<u>(37,431)</u>
	<u>\$ 982,712</u>	<u>\$ 94,817</u>

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 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	<u>77,010</u>
Total future minimum lease payments	1,065,496
Less amounts representing interest	<u>147,161</u>
Present value of future minimum lease payments	918,335
Less current portion	<u>197,299</u>
	<u>\$ 721,036</u>

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**NOTE 12 – LEASE OBLIGATIONS (CONTINUED)**

*OPERATING LEASES*

HCHS leases office space from an unaffiliated party in Enfield, Connecticut under a lease agreement. The lease commenced on December 1, 2011 and expires on November 30, 2016. The monthly rent is \$8,301 per month under the agreement plus additional rent for HCHS's proportional share of building operating expenses. The rent expense under this lease was \$140,762 and \$149,233 for the years ended September 30, 2014 and 2013, respectively.

The Organization leases various computer equipment, medical equipment and office space under operating leases, which expire at various dates through 2015. Rent expense under the operating leases was \$2,196,762 in 2014 and \$2,223,374 in 2013. These leases have various terms and conditions.

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	\$ 493,879
2016	99,612
2017	<u>16,602</u>
	<u>\$ 610,093</u>

**NOTE 13 – EMPLOYEE BENEFIT PLANS**

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

The Hospital has a defined contribution plan (the Plan) whereby all employees who have attained the age of 21 and completed one year of employment (1,000 hours of service) are eligible to participate and become fully vested after 5 years. Annually, the Hospital may contribute a defined amount of employees' salaries to the Plan. Effective January 1, 2011, the Hospital suspended the matching of non-union employee contributions; it continued to pay the match on union employees up until June 2012, at which time only those union employees that had been grandfathered in to the pension plan were matched. The total expense incurred by the Hospital for contributions to the Plan was \$272,339 and \$147,244 in 2014 and 2013, respectively.

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**NOTE 13 – EMPLOYEE BENEFIT PLANS (CONTINUED)**

Evergreen has a defined contribution plan whereby all employees who have attained the age of 21 and completed one year of employment (1,000 hours of service) are eligible to participate and become fully vested after 5 years. Annually, Evergreen may contribute a defined amount of employees' salaries to the Plan. Effective January 1, 2011, Evergreen suspended the matching of employee contributions. There were no expenses incurred by Evergreen for contributions in 2014 and 2013. It is uncertain whether this match will be reinstated.

HCHS has a defined contribution pension plan covering substantially all employees who have satisfied certain eligibility requirements. As of January 1, 2011, management suspended the matching of employee contributions and no expense was recorded in the 2014 and 2013 statement of operations. It is uncertain whether this match will be reinstated.

**NOTE 14 – SELF-INSURANCE CLAIMS**

There have been medical malpractice and workers' compensation claims that have been asserted against the Organization. In addition, there are known incidents that have occurred through September 30, 2014 that may result in the assertion of claims. Management of the Organization has accrued its best estimate of these contingent losses. Other claims may be asserted arising from services provided to patients or workers' compensation incidents in the past. Management of the Organization has provided reserves for these contingent liabilities.

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

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

For claims incurred after August 31, 2009, the Organization was covered under commercial claims made policies with no deductible and coverage of \$1,000,000 per claim and an annual aggregate of \$3,000,000 for all of the entities covered under the policy.

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

# JOHNSON MEMORIAL MEDICAL CENTER

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

The Organization has recorded accrued liabilities of \$690,063 and \$729,965 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 Organization 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 Organization recorded a liability of \$330,738 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 Organization recorded recoverables from insurance companies for the estimated costs to settle fully insured malpractice and workers’ compensation claims in the amounts of \$2,197,508 and \$740,156 as of September 30, 2014 and 2013, respectively. The Organization has recorded liabilities equal to these amounts as of September 30, 2014 and 2013.

#### **NOTE 16 – COMMITMENTS AND CONTINGENCIES**

The Organization is a party to various lawsuits incidental to its business. The Organization also has the following environmental exposures. The Connecticut Department of 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.

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#### NOTE 16 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

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.

**JOHNSON MEMORIAL MEDICAL CENTER**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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**NOTE 17 – CONCENTRATIONS OF CREDIT RISK**

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

The Organization places its cash deposits with high credit-quality institutions, which, at times, may exceed the Federal Deposit Insurance Corporation limits of \$250,000 per bank. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**NOTE 18 – FUNCTIONAL EXPENSES**

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

	<u>2014</u>	<u>2013</u>
Patient care services	\$ 77,537,882	\$ 76,620,100
General and administrative (including depreciation and amortization, interest and operations)	<u>17,157,974</u>	<u>16,451,697</u>
	<u>\$ 94,695,856</u>	<u>\$ 93,071,797</u>





**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTARY INFORMATION**

Board of Directors  
**Johnson Memorial Medical Center**

We have audited the consolidated financial statements of Johnson Memorial Medical Center as of and for the years ended September 30, 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 MEDICAL CENTER

## CONSOLIDATING BALANCE SHEET

**SEPTEMBER 30, 2014**

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
<b>Assets</b>								
<b>Current Assets</b>								
Cash and cash equivalents	\$ 765,196	\$ 445,784	\$ 300	\$ 800	\$ 1,673	\$ 255,468	\$ --	\$ 1,469,221
Patient trust funds	--	--	59,530	--	--	--	--	59,530
Patients accounts receivable, net of allowances for uncollectible accounts	--	8,776,261	1,598,868	1,230,587	--	52,312	--	11,658,028
Insurance and other receivables	3,960	607,918	414,903	51,368	--	--	--	1,078,149
Inventories	--	1,295,797	--	--	--	--	--	1,295,797
Prepaid expenses and other current assets	14,965	1,729,849	426,302	113,043	--	4,644	--	2,288,803
<b>Total Current Assets</b>	<u>784,121</u>	<u>12,855,609</u>	<u>2,499,903</u>	<u>1,395,798</u>	<u>1,673</u>	<u>312,424</u>	<u>--</u>	<u>17,849,528</u>
<b>Assets Whose Use is Limited</b>								
Beneficial interests in perpetual trusts	--	3,793,323	--	--	--	--	--	3,793,323
Restricted cash and board designated investments	--	224,048	--	--	--	--	--	224,048
Cash and investments restricted by donor	--	843,587	--	185,622	--	--	--	1,029,209
<b>Total Assets Whose Use is Limited</b>	<u>--</u>	<u>4,860,958</u>	<u>--</u>	<u>185,622</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>5,046,580</u>
<b>Other Assets</b>								
Property, plant and equipment, net	3,715,717	16,509,196	3,000,000	44,902	--	--	--	23,269,815
Investment in joint ventures and other assets	--	3,397,937	--	10,693	--	--	--	3,408,630
Investment deficit in affiliated corporations	(3,119,194)	--	--	--	--	--	3,119,194	--
Investments, other	1,100	--	--	--	--	--	--	1,100
Due from affiliated corporations	2,289,450	--	--	--	--	--	(2,289,450)	--
Deferred financing costs, net	--	165,616	123,047	--	--	--	--	288,663
Other noncurrent assets	--	1,600,193	--	--	--	--	--	1,600,193
<b>Total Other Assets</b>	<u>2,887,073</u>	<u>21,672,942</u>	<u>3,123,047</u>	<u>55,595</u>	<u>--</u>	<u>--</u>	<u>829,744</u>	<u>28,568,401</u>
	<u>\$ 3,671,194</u>	<u>\$ 39,389,509</u>	<u>\$ 5,622,950</u>	<u>\$ 1,637,015</u>	<u>\$ 1,673</u>	<u>\$ 312,424</u>	<u>\$ 829,744</u>	<u>\$ 51,464,509</u>

*See independent auditors' report on supplementary information.*

# JOHNSON MEMORIAL MEDICAL CENTER

## CONSOLIDATING BALANCE SHEET (CONTINUED)

**SEPTEMBER 30, 2014**

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
<b>Liabilities and Net Assets (Deficit)</b>								
<b>Current Liabilities</b>								
Trade accounts payable and accrued expenses	\$ 95,585	\$ 6,252,350	\$ 1,572,806	\$ 450,777	\$ --	\$ 37,170	\$ --	\$ 8,408,688
Accrued payroll and related costs	--	1,864,833	702,831	204,729	--	17,188	--	2,789,581
Current payments due under plan of reorganization	--	3,895,000	205,000	--	--	--	--	4,100,000
Patient trust funds	--	--	59,530	--	--	--	--	59,530
Senior debt under line of credit	--	1,604,830	--	--	--	--	--	1,604,830
Current portion of mortgage payable	2,940,000	11,987,500	14,213,697	--	--	--	--	29,141,197
Current portion of subordinated debt	18,185	107,587	--	--	--	--	--	125,772
Current portion of capital lease obligations	--	197,299	--	--	--	--	--	197,299
Estimated amounts due to third-party reimbursement agencies	--	2,675,513	187,353	48,748	--	--	--	2,911,614
Due to affiliated corporations	--	--	163,187	678,239	--	9,562	(850,988)	--
Other current liabilities	--	254,953	332,908	196,951	--	--	--	784,812
<b>Total Current Liabilities</b>	<u>3,053,770</u>	<u>28,839,865</u>	<u>17,437,312</u>	<u>1,579,444</u>	<u>--</u>	<u>63,920</u>	<u>(850,988)</u>	<u>50,123,323</u>
<b>Long-Term Obligations</b>								
Due to affiliate corporations	--	1,873,147	--	--	--	--	(1,873,147)	--
Payments due under plan of reorganization - less current portion	--	2,406,796	4,650	--	--	--	--	2,411,446
Mortgage payable - less current portion	--	--	--	--	--	--	--	--
Subordinated debt - less current portion	--	17,435	--	--	--	--	--	17,435
Other long-term debt	--	2,350,000	--	--	--	--	--	2,350,000
Self-insurance liabilities and IBNR	--	2,344,272	--	--	--	--	--	2,344,272
Other liabilities	53,408	346,001	--	--	--	--	1,688	401,097
Obligations under capital lease - less current portion	--	721,036	--	--	--	--	--	721,036
<b>Total Long-Term Obligations</b>	<u>53,408</u>	<u>10,058,687</u>	<u>4,650</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(1,871,459)</u>	<u>8,245,286</u>
<b>Total Liabilities</b>	<u>3,107,178</u>	<u>38,898,552</u>	<u>17,441,962</u>	<u>1,579,444</u>	<u>--</u>	<u>63,920</u>	<u>(2,722,447)</u>	<u>58,368,609</u>

*See independent auditors' report on supplementary information.*

**JOHNSON MEMORIAL MEDICAL CENTER**

**CONSOLIDATING BALANCE SHEET (CONTINUED)**

**SEPTEMBER 30, 2014**

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
<b>Net Assets (Deficit)</b>								
Unrestricted	\$ 543,215	\$ (4,478,834)	\$(11,819,012)	\$ (169,577)	\$ 1,673	248,504	\$ 3,552,191	\$(12,121,840)
Temporarily restricted	20,801	332,881	--	56,913	--	--	--	410,595
Permanently restricted	--	4,636,910	--	170,235	--	--	--	4,807,145
<b>Total Net Assets (Deficit)</b>	<u>564,016</u>	<u>490,957</u>	<u>(11,819,012)</u>	<u>57,571</u>	<u>1,673</u>	<u>248,504</u>	<u>3,552,191</u>	<u>(6,904,100)</u>
	<u>\$ 3,671,194</u>	<u>\$ 39,389,509</u>	<u>\$ 5,622,950</u>	<u>\$ 1,637,015</u>	<u>\$ 1,673</u>	<u>\$ 312,424</u>	<u>\$ 829,744</u>	<u>\$ 51,464,509</u>

*See independent auditors' report on supplementary information.*

# JOHNSON MEMORIAL MEDICAL CENTER

## CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2013

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

*See independent auditors' report on supplementary information.*

# JOHNSON MEMORIAL MEDICAL CENTER

## CONSOLIDATING BALANCE SHEET (CONTINUED)

**SEPTEMBER 30, 2013**

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

*See independent auditors' report on supplementary information.*

**JOHNSON MEMORIAL MEDICAL CENTER**

**CONSOLIDATING BALANCE SHEET (CONTINUED)**

**SEPTEMBER 30, 2013**

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

*See independent auditors' report on supplementary information.*

# JOHNSON MEMORIAL MEDICAL CENTER

## CONSOLIDATING STATEMENT OF OPERATIONS

**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
<b>Operating Revenue</b>								
Net patient service revenue	\$ --	\$ 73,858,252	\$ 16,587,545	\$ 5,638,621	\$ --	\$ 529,942	\$ --	\$ 96,614,360
Provision for bad debts	--	4,311,679	107,536	113,657	--	4,306	--	4,537,178
Net patient service revenue less provision for bad debts	--	69,546,573	16,480,009	5,524,964	--	525,636	--	92,077,182
Grant and other income	--	452,889	--	48,441	--	--	--	501,330
Other revenue	1,210,840	--	132,823	52,876	--	--	(845,725)	550,814
Net assets released from restriction	--	235,925	--	33,833	--	--	--	269,758
<b>Total Operating Revenue</b>	<u>1,210,840</u>	<u>70,235,387</u>	<u>16,612,832</u>	<u>5,660,114</u>	<u>--</u>	<u>525,636</u>	<u>(845,725)</u>	<u>93,399,084</u>
<b>Expenses</b>								
Salaries	--	27,728,732	9,138,995	3,256,456	--	287,452	--	40,411,635
Employee benefits	--	6,826,133	2,812,886	863,794	--	38,879	--	10,541,692
Professional fees	28,287	6,456,495	281,426	51,021	--	91,727	--	6,908,956
Depreciation and amortization	288,025	2,341,190	585,708	11,652	--	--	--	3,226,575
Outsourced staffing and contracted services	60,739	4,220,508	551,550	356,751	--	3,399	--	5,192,947
Supplies, drugs and patient care	--	10,710,946	1,152,088	913,521	--	46,062	--	12,822,617
Leases and service contracts	--	1,582,064	27,971	12,830	--	1,500	--	1,624,365
Occupancy costs	196,826	3,357,185	549,739	140,762	--	42,960	(845,725)	3,441,747
Insurance	7,980	1,452,164	133,428	63,427	--	12,983	--	1,669,982
Provider tax	--	--	859,088	--	--	--	--	859,088
Other expenses	65,384	5,005,309	695,512	225,835	250	18,623	--	6,010,913
Interest	48,784	1,454,502	482,053	--	--	--	--	1,985,339
<b>Total Expenses</b>	<u>696,025</u>	<u>71,135,228</u>	<u>17,270,444</u>	<u>5,896,049</u>	<u>250</u>	<u>543,585</u>	<u>(845,725)</u>	<u>94,695,856</u>
<b>Loss from Operations Before</b>								
<b>Impairment Loss on Long-Lived Assets</b>	514,815	(899,841)	(657,612)	(235,935)	(250)	(17,949)	--	(1,296,772)
<b>Impairment Loss on Long-Lived Assets</b>	<u>--</u>	<u>--</u>	<u>(2,452,326)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(2,452,326)</u>
<b>Income (Loss) from Operations</b>	<u>514,815</u>	<u>(899,841)</u>	<u>(3,109,938)</u>	<u>(235,935)</u>	<u>(250)</u>	<u>(17,949)</u>	<u>--</u>	<u>(3,749,098)</u>

*See independent auditors' report on supplementary information.*



# JOHNSON MEMORIAL MEDICAL CENTER

## CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)

**FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
<b>Nonoperating Revenue (Loss)</b>								
Investment income	\$ --	\$ 165,497	\$ --	\$ 678	\$ --	\$ --	\$ --	\$ 166,175
Loss on sale of equipment	--	(13,263)	--	--	--	--	--	(13,263)
Equity earnings in joint ventures	--	232,022	--	--	--	--	--	232,022
	<u>--</u>	<u>384,256</u>	<u>--</u>	<u>678</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>384,934</u>
<b>Excess (Deficiency) of Revenues over Expenses</b>	<u>\$ 514,815</u>	<u>\$ (515,585)</u>	<u>\$ (3,109,938)</u>	<u>\$ (235,257)</u>	<u>\$ (250)</u>	<u>\$ (17,949)</u>	<u>\$ --</u>	<u>\$ (3,364,164)</u>

*See independent auditors' report on supplementary information.*

# JOHNSON MEMORIAL MEDICAL CENTER

## CONSOLIDATING STATEMENT OF OPERATIONS

**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	JMMC	Hospital	EHCC	HCHS	JMS	JHC	Elimination	Total
<b>Operating Revenue</b>								
Net patient service revenue	\$ --	\$ 68,075,182	\$ 16,055,367	\$ 6,354,913	\$ --	\$ 545,534	\$ --	\$ 91,030,996
Provision for bad debts	--	4,584,989	50,053	73,882	--	401	--	4,709,325
Net patient service revenue less provision for bad debts	--	63,490,193	16,005,314	6,281,031	--	545,133	--	86,321,671
Grant and other income	420	324,460	--	30,096	--	15,635	--	370,611
Other revenue	1,209,979	--	98,000	64,277	--	--	(845,725)	526,531
Net assets released from restriction	--	443,523	--	15,648	--	--	--	459,171
<b>Total Operating Revenue</b>	<u>1,210,399</u>	<u>64,258,176</u>	<u>16,103,314</u>	<u>6,391,052</u>	<u>--</u>	<u>560,768</u>	<u>(845,725)</u>	<u>87,677,984</u>
<b>Expenses</b>								
Salaries	--	30,381,654	8,962,330	3,724,353	--	287,095	--	43,355,432
Employee benefits	--	6,806,518	2,629,996	994,891	--	52,338	--	10,483,743
Professional fees	25,000	4,548,191	334,460	45,420	--	61,692	--	5,014,763
Depreciation and amortization	332,413	3,115,981	800,764	20,101	--	--	--	4,269,259
Outsourced staffing and contracted services	23,964	3,902,675	570,293	430,169	--	7,151	--	4,934,252
Supplies, drugs and patient care	--	8,704,335	995,359	800,777	--	42,915	--	10,543,386
Leases and service contracts	--	1,563,348	28,079	13,877	--	16,890	--	1,622,194
Occupancy costs	196,490	3,419,322	527,464	149,233	--	43,100	(845,725)	3,489,884
Insurance	7,541	1,092,058	120,347	61,169	--	11,453	--	1,292,568
Provider tax	--	--	899,469	--	--	--	--	899,469
Other expenses	109,788	4,210,400	718,333	214,952	250	13,750	--	5,267,473
Interest	51,292	1,368,245	479,837	--	--	--	--	1,899,374
<b>Total Expenses</b>	<u>746,488</u>	<u>69,112,727</u>	<u>17,066,731</u>	<u>6,454,942</u>	<u>250</u>	<u>536,384</u>	<u>(845,725)</u>	<u>93,071,797</u>
<b>Loss from Operations Before</b>								
Impairment Loss on Long-Lived Assets	463,911	(4,854,551)	(963,417)	(63,890)	(250)	24,384	--	(5,393,813)
<b>Impairment Loss on Long-Lived Assets</b>	<u>--</u>	<u>--</u>	<u>(2,355,632)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(2,355,632)</u>
<b>Income (Loss) from Operations</b>	<u>463,911</u>	<u>(4,854,551)</u>	<u>(3,319,049)</u>	<u>(63,890)</u>	<u>(250)</u>	<u>24,384</u>	<u>--</u>	<u>(7,749,445)</u>

*See independent auditors' report on supplementary information.*

# JOHNSON MEMORIAL MEDICAL CENTER

## CONSOLIDATING STATEMENT OF OPERATIONS (CONTINUED)

**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

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

*See independent auditors' report on supplementary information.*