Connecticut Children's Medical Center and Subsidiaries

Consolidated Financial Statements and Supplementary Information

September 30, 2015 and 2014

BAKER TILLY

Candor. Insight. Results.

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September 30, 2015 and 2014

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Independent Auditors' Report

Board of Directors
Connecticut Children's Medical Center and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Connecticut Children's Medical Center and Subsidiaries, which comprise the consolidated balance sheet as of September 30, 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity 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 consolidated 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 audit. We did not audit the financial statements of The Children's Fund of Connecticut, Inc., a wholly-owned subsidiary, which statements reflect total assets constituting 8 percent of consolidated total assets at September 30, 2015, and total revenues and other income constituting 1 percent of consolidated total revenues and other income for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Children's Fund of Connecticut, Inc., is based solely on the report of the other auditors. We conducted our audit in conformity 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Connecticut Children's Medical Center and Subsidiaries as of September 30, 2015, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Connecticut Children's Medical Center and Subsidiaries for the year ended September 30, 2014, were audited by another auditor whose report, dated March 27, 2015, expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual entities 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 audit 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 conformity 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 as a whole.

Baker Tilly Virchow Krause, LLP

New York, New York
December 4, 2015

Connecticut Children's Medical Center and Subsidiaries

Consolidated Balance Sheet
September 30, 2015 and 2014

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	$ 10,245,260	$ 5,760,243
Funds held by trustee under revenue bond agreement	435,186	5,021,620
Patient accounts receivable, less allowance for doubtful accounts of approximately $4,727,000 in 2015 and $7,432,000 in 2014	35,293,659	35,223,272
Due from affiliated entities	1,040,023	713,768
Inventories	1,443,429	1,389,353
Other current assets	11,485,755	13,541,186
Total current assets	59,943,312	61,649,442
Assets Whose Use is Limited		
Investments	31,951,929	34,873,798
Funds held in trust by others	75,285,353	82,885,871
Interest in Foundation	100,379,776	104,410,463
Total assets whose use is limited	207,617,058	222,170,132
Property, Plant and Equipment		
Buildings	144,535,354	136,902,649
Furniture and equipment	113,305,291	106,426,925
Construction in progress	13,845,701	16,921,791
	271,686,346	260,251,365
Less accumulated depreciation	(138,009,171)	(121,434,591)
Total property, plant and equipment	133,677,175	138,816,774
Other Assets		
Bond issuance costs	627,071	679,656
Ground lease	2,328,806	2,358,098
Other	29,582,733	24,358,613
Total other assets	32,538,610	27,396,367
Total assets	$ 433,776,155	$ 450,032,715

	2015	2014
Liabilities and Net Assets		
Current Liabilities		
Current portion of bonds payable	$ 1,415,000	$ 1,350,000
Current portion of notes payable	5,918,464	6,189,100
Accounts payable and accrued expenses	40,501,685	46,780,505
Accrued wages	21,616,615	19,047,697
Due to third parties	20,369,039	33,564,770
Due to affiliated entities	17,465,304	7,752,261
Accrued interest payable and other current liabilities	58,357	64,013
Total current liabilities	107,344,464	114,748,346
Bonds Payable, Less Current Portion	35,269,625	36,685,000
Notes Payable, Less Current Portion	16,920,593	22,855,716
Accrued Pension Liability	19,397,464	11,770,096
Other Long Term Liabilities	36,277,323	35,220,533
Total liabilities	215,209,469	221,279,691
Net Assets		
Unrestricted	96,011,925	102,337,958
Temporarily restricted	29,432,838	26,191,341
Permanently restricted	93,121,923	100,223,725
Total net assets	218,566,686	228,753,024
Total liabilities and net assets	$ 433,776,155	$ 450,032,715

See notes to consolidated financial statements

Connecticut Children's Medical Center and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets
Years Ended September 30, 2015 and 2014

	2015	2014
Revenues		
Patient service revenues	$ 343,770,471	$ 309,418,514
Provision for bad debts	(2,520,081)	(4,813,073)
Patient service revenues, less provision for bad debts	341,250,390	304,605,441
Other revenues	12,738,591	8,551,408
Net assets released from restrictions for operations	15,612,408	13,845,714
Total revenues	369,601,389	327,002,563
Expenses		
Salaries	170,680,248	167,935,132
Benefits	41,717,189	41,735,053
Supplies and other	133,500,477	132,224,466
Depreciation and amortization	18,176,443	15,604,157
Interest	1,234,420	1,242,337
Total expenses	365,308,777	358,741,145
Income (loss) from operations	4,292,612	(31,738,582)
Other Income		
Investment return, net	2,077,941	4,002,893
Income from trusts held by others	3,326,528	3,135,171
Loss on disposal of property, plant and equipment	(655,403)	-
Change in equity interest in net assets of the Foundation	2,197,421	6,519,525
Total other income	6,946,487	13,657,589
Excess (deficiency) of revenues over expenses	11,239,099	(18,080,993)

See notes to consolidated financial statements

	2015	2014
Unrestricted Net Assets (continued)		
Excess (deficiency) of revenues over expenses (from previous page)	$ 11,239,099	$ (18,080,993)
Transfer to affiliated organizations, net	(909,390)	-
Unrealized loss on investments	(3,852,126)	(1,709,497)
Net assets released from restrictions for capital	719,323	1,746,968
Change in funded status of pension and post-retirement plans	(6,921,768)	(3,807,134)
Change in equity interest in the net assets of the Foundation	(6,601,171)	(547,812)
Change in unrestricted net assets	(6,326,033)	(22,398,468)
Temporarily Restricted Net Assets		
Transfer from affiliated organization	7,849,025	10,054,736
Net assets released from restrictions for operations	(15,612,408)	(13,845,714)
Net assets released from restrictions for capital	(719,323)	(1,746,968)
Bequests, gifts and grants	11,849,856	9,391,284
Change in equity interest in the net assets of the Foundation	(125,653)	402,458
Change in temporarily restricted net assets	3,241,497	4,255,796
Permanently Restricted Net Assets		
Change in funds held in trust by others	(7,600,518)	3,685,543
Change in equity interest in the net assets of the Foundation	498,716	431,168
Change in permanently restricted net assets	(7,101,802)	4,116,711
Change in net assets	(10,186,338)	(14,025,961)
Net Assets at Beginning of Year	228,753,024	242,778,985
Net Assets at End of Year	$ 218,566,686	$ 228,753,024

See notes to consolidated financial statements

Connecticut Children's Medical Center and Subsidiaries

Consolidated Statement of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	$ (10,186,338)	$ (14,025,961)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Noncash items:		
Provision for bad debts	2,520,081	4,813,073
Depreciation and amortization	18,176,443	15,604,157
Realized and unrealized losses on investments	2,029,246	1,709,497
Change in value of funds held by others	7,600,518	(3,685,543)
Change in funded status of pension and post-retirement plans	6,921,768	3,807,134
Change in interest in Foundation	4,030,687	(6,805,339)
Other changes in net assets:		
Bequests, gifts and grants	(11,849,856)	(9,391,284)
Transfer from affiliated organizations	(7,849,025)	(10,054,736)
Changes in operating assets and liabilities:		
Patient accounts receivable	(2,590,468)	(8,688,015)
Due to/from affiliated entities, net	9,386,788	2,978,294
Inventories	(54,076)	(295,066)
Other current assets	2,055,431	2,667,661
Other long-term assets	(5,142,243)	(5,755,755)
Accounts payable and accrued expenses	(6,278,820)	6,926,864
Accrued wages	2,568,918	1,837,008
Accrued interest payable and other current liabilities	(5,656)	(243,322)
Due to third parties	(13,195,731)	20,169,966
Pension liability	705,600	(394,320)
Other long-term liabilities	1,056,790	3,068,282
Net cash (used in) provided by operating activities	(99,943)	4,242,595
Cash Flows from Investing Activities		
Purchase of property, plant and equipment, net	(13,036,844)	(27,469,197)
Change in funds held by trustee under revenue bond agreement	4,586,434	11,986,702
Change in investments, net	892,623	(2,786,671)
Net cash used in investing activities	(7,557,787)	(18,269,166)
Cash Flows from Financing Activities		
Bequests, gifts and grants	11,849,856	9,391,284
Transfer from affiliates	7,849,025	10,054,736
Principal payments on bonds and notes payable	(7,866,634)	(6,988,038)
Proceeds from debt issued	310,500	4,078,877
Net cash provided by financing activities	12,142,747	16,536,859
Increase in cash and cash equivalents	4,485,017	2,510,288
Cash and Cash Equivalents, Beginning	5,760,243	3,249,955
Cash and Cash Equivalents, Ending	$ 10,245,260	$ 5,760,243

See notes to consolidated financial statements

1. Organization and Accounting Policies

The Connecticut Children's Medical Center (the "Medical Center") is a wholly-owned, tax-exempt subsidiary of CCMC Corporation. The Board of the Medical Center, appointed by CCMC Corporation, controls the operations of the Medical Center.

The Medical Center is the sole member of Connecticut Children's Specialty Group, Inc. ("CCSG") and The Children's Fund of Connecticut, Inc. (the "Children's Fund"). CCSG was formed to provide and promote children's health care and to support the Medical Center. The Children's Fund was formed to further the charitable mission of the Medical Center and to improve pediatric care in the Hartford Region.

Regulatory Matters

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, such as estimated uncollectibles for patient accounts receivable, and liabilities, such as third party settlements, medical malpractice insurance liabilities and pension and postretirement liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting 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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Medical Center and its subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include cash, money market funds and certificates of deposit. Restricted cash has been restricted by the donor to a specific time frame or purpose.

Investments

Investments consist of fixed income securities, equity securities (including readily tradeable stocks, exchange traded funds and mutual funds), interests in common collective/commingled trusts and investments in funds of funds. All investments, including funds held by trustee under revenue bond agreements, are measured at fair value at the balance sheet dates (see Note 16). Investment income (including realized gains and losses on investments, interest and dividends) is included in other income unless the income or loss is restricted by donor or law. The cost of securities sold is based on the specific identification method. Unrealized gains and losses on investments are excluded from excess (deficiency) of revenues over expenses unless the loss is considered to be other-than-temporary. Other-than-temporary losses are included in other income which is a component of excess (deficiency) of revenues over expenses. Based on current market conditions, as well as the Medical Center's ability and intent to hold impaired assets to recovery, no other than temporary losses were recorded.

Inventories

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

Funds Held in Trust by Others

The Medical Center has an irrevocable right to receive income earned on certain trust assets established for its benefit. Distributions received by the Medical Center are unrestricted and included in income from trusts held by others in the statement of operations and changes in net assets. The Medical Center's interest in the fair value of the trust assets is included in assets whose use is limited. Changes in the market value of the trust assets are reported as increases or decreases to permanently restricted net assets.

The Interest in Foundation represents the Medical Center's interest in the net assets of Connecticut Children's Medical Center Foundation, Inc. (the "Foundation"). This investment is accounted for in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") *958-20, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. In 2015 and 2014, the Medical Center did not require and did not receive any unrestricted financial support from the Foundation. The Foundation will provide support in future fiscal years as necessary.

Bond Issuance Costs

Bond issuance costs incurred to obtain financing for construction and renovation programs are being amortized using the straight-line method. The difference between the straight-line method and the effective-interest method is immaterial.

Property, Plant, and Equipment

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

Pension Plan

The Medical Center has a noncontributory defined benefit pension plan in effect covering all eligible employees. The Medical Center's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

Donor Restricted Gifts

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

Interest Rate Swap Agreements

The Medical Center utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. The Medical Center is exposed to credit loss in the event of non-performance by the counterparties to its interest rate swap agreements. The Medical Center is also exposed to the risk that the swap receipts may not offset its variable rate debt exposure.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those where use by the Medical Center has been limited by donors to a specific time frame or purpose. Temporarily restricted net assets consist primarily of contributions restricted for certain health care and children's services. Permanently restricted net assets, which are primarily assets held in trusts by others and endowment gifts, have been restricted by donors and are to be maintained in perpetuity.

Medical Malpractice Insurance

The Medical Center purchases malpractice coverage in which the primary level of coverage is $4,000,000 per claim and $12,000,000 in the aggregate. There is an additional $6,000,000 of professional liability purchased through an external insurance company. In addition, there are four layers of excess indemnity coverage with four different insurance companies at $10,000,000 per claim on the first three layers and $15,000,000 per claim on the fourth layer, totaling $45,000,000 in the aggregate. There are no deductibles. Additionally, the Medical Center purchased a loss capping policy to limit the exposure on existing claims as of September 30, 2012. Under this policy, any existing claim that settles for greater than the amount reserved for this claim is covered and paid by the insurance company, limiting the Medical Center's liability for increases in claims up to $10,000,000 per claim and $20,000,000 in the aggregate. Should claims settle for greater than the amount already reserved and the $20,000,000 loss capping policy, the Medical Center is fully liable for the excess.

Insurance Recovery Receivable and Insurance Claims Liability

The Medical Center presents anticipated insurance recoveries separately from estimated insurance liabilities for medical malpractice claims and similar contingent liabilities on the consolidated balance sheets. The current portion of the insurance recovery receivable and related insurance claims liability totaled $6,460,657 and $7,579,924 at September 30, 2015 and 2014, respectively, and is included within other current assets and accounts payable and accrued expenses in the accompanying consolidated balance sheets. The non-current portion of the insurance recovery receivable and related insurance claims liability totaled $22,092,207 and $18,873,772 at September 30, 2015 and 2014, respectively, and is included within other assets and other long-term liabilities in the accompanying consolidated balance sheets.

Excess (Deficiency) of Revenues over Expenses

The consolidated statements of operations and changes in net assets include excess (deficiency) of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses include transfers to affiliated organizations, unrealized gains and losses on investments, net assets released from restrictions for capital, change in the equity interest in the net assets of the Foundation and changes in the funded status of the pension and postretirement plans.

Other Income

Activities, other than in connection with providing health care services, are considered to be nonoperating and are included in other income. Other income consists primarily of income on invested funds, unrestricted gifts and bequests, realized gains and losses on sales of securities and income from funds held in trust by others.

Advertising

The Medical Center's policy is to expense advertising costs as incurred. Total advertising expense was $911,134 and $899,439 for the years ended September 30, 2015 and 2014, respectively.

Income Taxes

The Medical Center and its subsidiaries are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Medical Center has net operating loss carryforwards from unrelated business activities of approximately $586,000 which begin expiring on September 30, 2029. These net operating loss carryforwards result in a potential deferred tax asset of approximately $234,400 which is offset by a valuation allowance of the same amount.

New Accounting Pronouncement

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Medical Center will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017; early application is not permitted. The Medical Center has not yet determined the impact of adoption of ASU No. 2014-09 on its consolidated financial statements.

Subsequent Events

The Medical Center evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the consolidated financial statements are issued, for potential recognition in the consolidated financial statements as of the balance sheet date. For the year ended September 30, 2015, the Medical Center evaluated subsequent events through December 4, 2015, which is the date the consolidated financial statements were issued. No events occurred that require disclosure in or adjustment to the consolidated financial statements.

2. Net Revenue from Services to Patients and Charity Care

The Medical Center provides health care services primarily to residents of the region. Revenues from the Medicaid program accounted for approximately 36% and 37% of the Medical Center's net patient service revenue for the years ended September 30, 2015 and 2014, respectively. Laws and regulations governing the Medicaid programs are complex and subject to interpretation. The Medical Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, 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 Medicaid program. Changes in the Medicaid program and the reduction of funding levels could have an adverse impact on the Medical Center.

The following table summarizes net revenues from services to patients:

	2015	2014
Total gross revenues from patients	$ 779,425,997	$ 702,777,015
Less total contractual allowances	439,248,437	387,252,545
Less charity care	2,258,042	1,531,966
Less administrative and other allowances	4,149,047	4,573,990
Total allowances	445,655,526	393,358,501
DSH settlement with State of Connecticut	10,000,000	-
Patient service revenues	343,770,471	309,418,514
Less provision for bad debts	2,520,081	4,813,073
Patient service revenues, less provision for bad debts	$ 341,250,390	$ 304,605,441

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from certain payors are different from established billing rates of the Medical Center, and the difference is accounted for as allowances. The Medical Center records its provision for bad debts based upon a review of all of its outstanding receivables. Write-offs of receivable balances are related primarily to its population of underinsured patients. An underinsured patient is one who has commercial insurance which leaves a significant portion of the Medical Center's reimbursement to be paid by the patient, either through large deductibles or co-pay requirements. Self-pay patients are rare in the pediatric environment, as Medicaid is readily available to children. Self-pay net revenue approximated $3,600,000 and $3,500,000 for the years ended September 30, 2015 and 2014, respectively.

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payor settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined. In 2015, the Medical Center received a $10,000,000 settlement related to prior years that increased net patient service revenue. There were no impacts to net patient service revenue for the year ended September 30, 2015 for net adjustments and settlements relating to prior years.

The Medical Center has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Medical Center receives per diem and fee-for-service payments for certain covered services based upon discounted fee schedules.

The Medical Center 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 Medical Center. Essentially, those policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Medical Center utilizes the generally recognized poverty income levels for the state of Connecticut, but also includes certain cases where incurred charges are significant when compared to incomes.

The costs of charity care incurred were $928,834 and $730,330 for the years ended September 30, 2015 and 2014, respectively. The costs of charity care are derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing the Medical Center's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients.

3. Related-Party Transactions

Certain Medical Center employees render management and other services to affiliated entities for which the Medical Center is reimbursed. The amount of such reimbursement was $807,034 and $738,852 for the years ended September 30, 2015 and 2014, respectively.

Due to affiliated organizations, net, includes $16,425,281 and $7,038,493 at September 30, 2015 and 2014, respectively, which is primarily related to cash advanced from the Foundation for operating purposes. Interest is not charged and there are no fixed repayment terms on these advances.

4. Concentrations of Credit Risk

The Medical Center's financial instruments that are exposed to concentrations of credit risk primarily consist of cash and cash equivalents, short-term investments and patient accounts receivable.

The Medical Center's cash and cash equivalents are placed with high credit quality financial institutions. The Medical Center's investment policy limits its exposure to concentrations of credit risk. In the normal course of business, the Medical Center maintains cash balances in excess of the Federal Deposit Insurance Corporation's ("FDIC") insurance limit. Cash balances exceeded FDIC limits by approximately $10,418,000 and $5,300,000 at September 30, 2015 and 2014, respectively.

The Medical Center provides health care services and grants credit without collateral to its patients, most of whom are Connecticut residents and are insured under third-party payor agreements. An estimated allowance for doubtful accounts as well as contractual allowances is maintained at levels considered adequate to reduce the account balances to net realizable value. The mix of receivables from patients and third-party payors at September 30 was as follows:

	2015	2014
Medicaid	35 %	36 %
Medicaid managed care	2	1
Commercial/managed care - contracted	51	49
Commercial/managed - non-contracted	4	6
Patients and other	8	8
	100 %	100 %

5. Investments

The composition of investments as of September 30, stated at fair value, is set forth in the following table:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Short-term investments	$ 35,653	$ 35,653	$ 89,300	$ 89,300
Marketable equity securities	543,174	536,981	485,570	696,734
Fixed income securities	26,363	27,377	26,363	28,182
Institutional managed equity funds	23,772,244	23,624,360	19,664,509	23,130,409
Institutional managed bond fund	7,365,317	7,397,486	10,837,642	10,860,612
Other	356,020	330,072	65,131	68,561
	$ 32,098,771	$ 31,951,929	$ 31,168,515	$ 34,873,798

Investments consisted of mutual funds and individual securities that comprised approximately 76% equity securities and 24% fixed income investments at September 30, 2015, and 69% equity securities and 31% fixed income investments at September 30, 2014.

The following table summarizes the unrealized losses on investments held at September 30, 2015:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Marketable equity securities	$ 7,995,517	$ 1,312,313	$ 4,099,045	$ 1,608,196	$ 12,094,562	$ 2,920,509
Fixed income securities	3,290,101	63,907	-	-	3,290,101	63,907
Institutional managed equity funds	522,612	23,753	-	-	522,612	23,753
Other	150,836	5,848	44,461	6,253	195,297	12,101
Total investments	$ 11,959,066	$ 1,405,821	$ 4,143,506	$ 1,614,449	$ 16,102,572	$ 3,020,270

The following table summarizes the unrealized losses on investments held at September 30, 2014:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Marketable equity securities	$ 14,327	$ 437	$ 17,172	$ 6,998	$ 31,499	$ 7,435
Fixed income securities	5,275,918	521,573	1,875,013	134,435	7,150,931	656,008
Institutional managed equity funds	39,636	462	64,956	44	104,592	506
Other	128,083	14,640	-	-	128,083	14,640
Total investments	$ 5,457,964	$ 537,112	$ 1,957,141	$ 141,477	$ 7,415,105	$ 678,589

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors, the length of time and extent to which the market value has been less than cost along with the Medical Center's intent and ability to hold the investments. During the years ended September 30, 2015 and 2014, the Medical Center has not recorded any other-than-temporary declines in the fair value of investments, as the Corporation has the ability and intent to hold the securities to recovery.

Investment returns for the years ended September 30 are as follows:

	2015	2014
Interest and dividend income	$ 782,951	$ 728,192
Realized gain	1,822,880	3,938,791
Net swap activity	(367,708)	(499,834)
Investment fees and other	(160,182)	(164,256)
	2,077,941	4,002,893
Unrealized loss on investments	(3,852,126)	(1,709,497)
Total	$ (1,774,185)	$ 2,293,396

6. Restricted Net Assets

Endowments

The endowment consists of seven individual donor-restricted funds established for a variety of purposes which are held and controlled by the Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. At September 30, 2015 and 2014, the Medical Center had $22,267,000 and $21,942,979, respectively, in endowments held at the Foundation which are recorded by the Medical Center through its interest in the Foundation.

Interpretation of Relevant Law

The Medical Center's Board and senior management have interpreted the 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. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard for expenditure prescribed by UPMIFA. In accordance with UPMIFA, the Medical Center considers the following factors in making a determination 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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Medical Center to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies at September 30, 2015 and 2014.

Return Objectives and Risk Parameters

The Medical Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that equal or exceed relevant benchmarks. The Medical Center expects its endowment funds, over time, to provide an average rate of return of at least 5% 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 Medical Center 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 Medical Center targets a diversified asset allocation strategy that places a greater emphasis on equity-based investments to achieve its long-term return objectives within the guidelines of its investment policy and prudent risk constraints.

Endowment Net Asset Composition by Type of Fund

All endowment net assets are donor-restricted endowment funds.

Changes in endowment net assets for the years ended September 30 consisted of the following:

	2015		
	Temporarily Restricted	**Permanently Restricted**	**Total**
Endowment net assets, beginning balance	$ 4,605,125	$ 17,337,854	$ 21,942,979
Contributions	-	498,716	498,716
Investment return	417,438	-	417,438
Net appreciation (realized and unrealized)	794,207	-	794,207
Appropriation of endowment assets for expenditure	(1,386,340)	-	(1,386,340)
Endowment net assets, ending balance	$ 4,430,430	$ 17,836,570	$ 22,267,000

	2014		
Endowment net assets, beginning balance	$ 2,738,483	$ 16,906,686	$ 19,645,169
Contributions	-	431,168	431,168
Investment return	411,618	-	411,618
Net appreciation (realized and unrealized)	2,055,469	-	2,055,469
Appropriation of endowment assets for expenditure	(600,445)	-	(600,445)
Endowment net assets, ending balance	$ 4,605,125	$ 17,337,854	$ 21,942,979

Income from endowment funds is considered temporarily restricted until it meets the original donor's time or purpose restriction of the donation. These funds are commingled with other temporarily restricted contributions for the same purposes (see tables below for discussion of the purpose of restrictions) and invested until such time that the funds are utilized. The Medical Center's spending policy is that any expenditure associated with the endowment is appropriated based on the donor's intention.

Temporarily Restricted

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

	2015	2014
Equipment purchases	2 %	2 %
Education	7	8
Other health care services	91	90
	100 %	100 %

Permanently Restricted

Permanently restricted net assets at September 30 are restricted to:

	2015	2014
Health care and children's services	81 %	83 %
Other health care services	14	13
Education	5	4
	100 %	100 %

7. Pension Plan

Effective January 1, 1993, the State of Connecticut mandated that individuals hired by the Medical Center were no longer eligible to participate in the State of Connecticut pension plan ("State Plan"). Employees who were participants in the State Plan as of December 31, 1992 can remain participants in the State Plan so long as they continue to remain employed by the Medical Center.

Effective January 1, 1994, the Medical Center adopted a defined benefit pension plan covering substantially all of its employees. Benefits for employees who are participants in the State Plan are reduced to reflect vested benefits provided under the State Plan.

Effective January 1, 1999, the Medical Center converted its pension plan to a Cash Balance Retirement Plan (the "Plan"). Plan benefits are based on years of service and the employee's compensation. Contributions to the Plan are intended to provide for benefits attributed to services rendered to date and benefits expected to be earned in the future. Future benefits are earned and credited by participants based on a percentage of compensation (ranging from 2.5% to 12.5%) associated with years of service. Plan participants earn a return based on an interest rate established annually at the beginning of the pay year. Plan participants vest in their benefits after three years of service.

On February 26, 2009, the Board of Directors of the Medical Center adopted a resolution to freeze the Plan effective May 1, 2009.

Included in unrestricted net assets at September 30, 2015 and 2014 are unrecognized actuarial losses of $27,031,839 and $19,507,126, respectively. The actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2016 is $1,387,641.

The following table presents a reconciliation of the beginning and ending balances of the Plan's projected benefit obligation and the fair value of plan assets, as well as the funded status of the plan and accrued pension liability included in the consolidated balance sheets at year ended September 30:

	2015	2014
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 88,747,942	$ 79,974,687
Interest cost	3,431,884	3,384,986
Actuarial loss, including the effects of any assumption changes	2,780,248	7,632,859
Benefits paid	(4,216,712)	(2,244,590)
Benefit obligation at end of year	$ 90,743,362	$ 88,747,942
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 76,977,846	$ 71,617,405
Contributions	-	100,000
Actual return on plan assets	(1,415,236)	7,505,031
Benefits paid	(4,216,712)	(2,244,590)
Fair value of plan assets at end of year	$ 71,345,898	$ 76,977,846
Funded status of the plan	$ (19,397,464)	$ (11,770,096)

The weighted-average assumptions used to develop the projected benefit obligation as of September 30 are as follows:

	2015	2014
Discount rate	4.00 %	4.00 %
Rate of compensation	N/A	N/A
Cash balance interest credit	5.50	5.50
Return on plan assets	6.75	6.75

Net periodic pension costs for the years ended September 30 consist of the following:

	2015	2014
Interest cost	$ 3,431,884	$ 3,384,986
Expected return on plan assets	(4,717,144)	(4,226,469)
Net amortization, net actuarial loss	1,387,915	1,078,430
Net periodic benefit costs	$ 102,655	$ 236,947

The weighted-average assumptions used to determine net periodic benefit costs as of September 30 are as follows:

	2015	2014
Discount rate	4.00 %	4.45 %
Cash balance interest credit	5.50	5.50
Expected long-term rate of return on plan assets	6.75	6.75
Rate of compensation	N/A	N/A

The expected long-term rate of return on plan assets was developed through analysis of historical market returns, current market conditions and the fund's past experience. Estimates of future market returns by asset category are lower than actual long-term historical returns in order to reflect current market conditions.

The accumulated benefit obligation at September 30, 2015 and 2014 was $90,743,362 and $88,747,942, respectively.

Plan Assets

The Plan assets are managed by outside investment managers. The investment strategy with respect to pension assets is to maximize return while protecting principal. The investment manager has the flexibility to adjust the asset allocation and move funds to the asset class that offers the most opportunity. The investment objective for Plan assets over a full market cycle time period is to generate a return in excess of the passive portfolio benchmark for each asset class.

The asset allocations for the Plan at September 30, by asset category, are as follows:

	Percentage of Plan Assets at Year-End	
	2015	2014
Asset Category:		
Domestic equities	35 %	37 %
International equities	19	19
Debt securities	40	38
Other	6	6
	100 %	100 %

The fair values of the Plan assets at September 30, 2015, by asset category, are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Money market mutual funds	$ 229,131	$ -	$ -	$ 229,131
Fixed income securities:				
U.S. government bonds	2,029,206	-	-	2,029,206
Municipal bonds	739,088	-	-	739,088
Corporate bonds	5,366,920	-	-	5,366,920
Foreign bonds	767,014	-	-	767,014
Fixed income mutual funds	3,715,799	11,693,762	-	15,409,561
Equity mutual funds	29,414,668	-	-	29,414,668
Multi-asset balanced mutual funds	-	14,836,238	-	14,836,238
Foreign multi-asset balanced mutual funds	-	2,554,072	-	2,554,072
Total	$ 42,261,826	$ 29,084,072	$ -	$ 71,345,898

The fair values of the Plan assets at September 30, 2014, by asset category, are as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Money market mutual funds	$ 357,228	$ -	$ -	$ 357,228
Fixed income securities:				
U.S. government bonds	2,273,832	-	-	2,273,832
Municipal bonds	693,600	-	-	693,600
Corporate bonds	4,982,567	-	-	4,982,567
Foreign bonds	865,871	-	-	865,871
Fixed income mutual funds	3,584,208	11,507,036	-	15,091,244
Equity mutual funds	34,389,192	-	-	34,389,192
Multi-asset balanced mutual funds	-	15,521,959	-	15,521,959
Foreign multi-asset balanced mutual funds	-	2,802,353	-	2,802,353
Total	$ 47,146,498	$ 29,831,348	$ -	$ 76,977,846

The Medical Center does not expect to contribute to its pension plan in fiscal 2016.

The Medical Center expects to pay the following benefit payments, which reflect expected future service as appropriate:

Fiscal year:	
2016	$ 7,675,000
2017	5,580,000
2018	6,057,000
2019	5,757,000
2020	5,841,000
Years 2021 - 2025	27,587,000

8. Post-Retirement Benefit Plan

The Medical Center sponsors the Connecticut Children's Medical Center Postretirement Welfare Plan (the "PRW Plan"), an unfunded plan which provides post-retirement medical benefits to retired employees who meet the specific criteria identified in the PRW Plan document. The Medical Center's contribution toward cost of medical coverage varies by years of pension credited service at retirement, ranging from 25% for employees with ten years of credited service to 100% for those employees with 25 plus years of credited service. The Medical Center's maximum fixed dollar commitment is $2,280 per year per retiree.

Included in unrestricted net assets at September 30, 2015 and 2014 are $2,993,289 and $2,468,074, respectively, of net unrecognized actuarial gains that have not yet been recognized in net periodic benefit cost. There is $214,966 of actuarial gain included in unrestricted net assets that is expected to be recognized in net periodic pension cost during the year ending September 30, 2016.

The following table presents a reconciliation of the beginning and ending balances of the PRW Plan's projected benefit obligation and the fair value of plan assets, as well as the funded status of the plan and accrued post-retirement obligation included in the consolidated balance sheets as of September 30:

	2015	2014
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 6,340,898	$ 5,658,107
Service cost	228,789	219,274
Interest cost	263,408	268,206
Actuarial losses (gains), including the effects of any assumption changes	(683,727)	330,315
Benefits paid	(77,730)	(135,004)
Benefit obligation at end of year	$ 6,071,638	$ 6,340,898
Change in plan assets:		
Fair value of plan assets at beginning of year	$ -	$ -
Contributions	77,730	135,004
Benefits paid	(77,730)	(135,004)
Fair value of plan assets at end of year	$ -	$ -
Accrued post-retirement obligation included in other long-term liabilities	$ (6,071,638)	$ (6,340,898)

The weighted-average assumptions used to develop the post-retirement benefit obligation as of September 30 are as follows:

	2015	2014
Discount rate	4.30 %	4.20 %
Healthcare cost trend rate:		
Current year	8.00	8.50
Ultimate	5.00	5.00
Number of years to reach ultimate	6	7

Net periodic benefits costs for the years September 30 consist of the following:

	2015	2014
Service cost	$ 228,789	$ 219,274
Interest cost	263,408	268,206
Net amortization,		
Net actuarial gain	(158,512)	(200,952)
Net periodic benefit costs	$ 333,685	$ 286,528

The weighted-average assumptions used to determine net periodic benefit costs are as follows for September 30:

	2015	2014
Discount rate	4.20 %	4.80 %
Health care cost trend rate		
Initial rate	8.50	9.00
Ultimate rate	5.00	5.00
Years to ultimate	6	7

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

	One-percentage Point	
	Increase	Decrease
Effect on postretirement benefit obligation	$ 95,451	$ 105,951
Effect on total of service and interest cost	10,384	14,123

The Medical Center expects to contribute $175,000 to its post-retirement benefit plan in fiscal 2016.

The Medical Center expects to pay the following benefit payments, which reflect expected future service as appropriate:

	Post-retirement Benefits
Fiscal year:	
2016	$ 175,000
2017	200,000
2018	230,000
2019	262,000
2020	282,000
Years 2021 - 2025	1,856,000

9. Bonds Payable

A summary of long-term debt is as follows:

	2015	2014
Hospital revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA)		
Series D (4.19% effective interest rate)	$ 36,684,625	$ 38,035,000
Less current portion	1,415,000	1,350,000
	$ 35,269,625	$ 36,685,000

In June 2011, the Medical Center along with the Foundation (the "Obligated Group") refinanced their existing State of Connecticut Health and Educational Facilities Authority ("CHEFA") hospital revenue bonds with variable rate revenue bonds (the Series D Bonds) with a principal amount of $41,580,000. The Series D Bonds were issued at par and directly placed with one investor. The investor has committed to holding the bonds for a ten year period, at the end of which, the investor may put the bonds back to the Obligated Group or extend their holding period at their discretion. The bonds mature in varying amounts through 2032, with interest rates based on 65% of LIBOR plus a spread of 1.52%, ranging from 1.63% to 1.65% in the current year.

The agreement and related documents provide, among other things, that the Series D Bonds and any additional bonds will be payable from payments to be made by the Obligated Group and that it will be obligated to make such payments so long as the Series D Bonds and any additional bonds are outstanding. The Series D Bonds are collateralized by an interest in revenues of the Medical Center and a mortgage on the facilities, ground lease, easements and other certain leases that comprise the overall hospital premises owned by the Medical Center.

Pursuant to the mortgage agreement and related documents, the Obligated Group is required to meet certain covenants including a day's cash on hand, debt to capitalization and a debt service coverage ratio requirement.

The carrying value of the bonds payable approximates fair value. The Medical Center classifies bonds payable in Level 2 of the valuation hierarchy.

The Medical Center is required to make monthly interest and semi-annual principal repayments for the Series D Bonds. A principal payment for the Series D bonds was paid on January 1, 2015. Interest paid for 2015 and 2014 was $618,683 and $636,884, respectively.

Principal payments for the next five years under the CHEFA obligations are as follows:

2016	$ 1,415,000
2017	1,500,000
2018	1,580,000
2019	1,665,000
2020	1,740,000
Aggregate thereafter	28,784,625
	$ 36,684,625

In November 2005, the Medical Center entered into an interest rate swap agreement (the 2005 swap) effectively converting $23,700,000 of its then existing variable-rate debt ("Series C debt") to a fixed-rate basis of 3.704% through June 2018. The fair value of the swap (a liability of $549,134 and $879,859 at September 30, 2015 and 2014, respectively,) is reported in other long-term liabilities. The change in value of $326,043 and $479,506 is reported as a component of income from investments for the years ended September 30, 2015 and 2014, respectively. The swap, while serving as an economic hedge, does not qualify for hedge accounting.

Upon the refunding of the Series C debt in June 2011, the Medical Center applied the 2005 swap against the newly issued Series D debt and entered into a new swap agreement (the 2011 swap), which along with the 2005 swap, effectively converts all of its outstanding Series D debt to a fixed-rate basis. The interest rate on the new swap is 4.6138%. The fair value of the 2011 swap (a liability of $553,115 and $1,012,213 as of September 30, 2015 and 2014, respectively,) is reported in other long-term liabilities. The change in value of $463,780 and $181,416 is reported as a component of income from investments for the years ended September 30, 2015 and 2014, respectively. The swap, while serving as an economic hedge, does not qualify for hedge accounting.

The 2011 swap has an embedded option that gives the Medical Center the right to terminate the swap beginning July 1, 2016, and on the first business day of each month thereafter. If the option is exercised by the Medical Center, the transaction will terminate and neither party will owe a termination payment amount. There is no exercise premium.

The following table summarizes the Medical Center's interest rate swap agreements:

Swap Type	Expiration Date	Medical Center Receives	Medical Center Pays	Notional Amount at September 30 2015	2014
Series C - Fixed to Floating (2005 Swap)	July 1, 2018	70% of LIBOR	3.70%	$ 9,675,000	$ 12,725,000
Series D - Fixed to Floating (2011 Swap)	July 1, 2032	65% LIBOR + 1.52%	4.61%	26,408,498	24,518,878
				$ 36,083,498	$ 37,243,878

The total notional amount differs from the amount outstanding on the debt as a result of the different amounts that the Medical Center receives. The notional amount of the 2011 swap is modified to adjust for the differing percentage of LIBOR received under the 2005 swap.

10. Notes Payable

Notes payable at September 30 consists of the following:

	2015	2014
Notes payable to an independent financing company payable in semi-annual installments of $199,606 through October 2015, interest free.	$ -	$ 399,211
Notes payable to a health care equipment manufacturing company in monthly installments of $18,392 through December 2015, at 4.15% interest. Secured by certain equipment.	51,544	265,880
Notes payable to a bank in monthly installments of $147,233 through October 2018 at 2.85% interest. Secured by certain equipment.	5,209,211	6,802,836
Notes payable to a bank in monthly installments of $128,417 through October 2018 at 1.455% interest. Secured by certain equipment.	7,068,428	8,495,319
Notes payable to a bank in monthly installments of $55,978 through June 2018 at 1.302% interest. Secured by certain equipment.	1,813,638	2,457,216
Notes payable to a bank in monthly installments of $114,385 through September 2019 at 2.52% interest. Secured by certain equipment.	5,217,573	6,441,905
Notes payable to a bank in monthly installments of $59,782 through August 2019 at 3.94% interest. Secured by certain equipment.	2,592,756	3,191,082
Notes payable to a bank in monthly installments of $9,845 through January 2021, interest free. Secured by certain equipment.	630,104	827,012
Notes payable to landlord for leasehold improvements payable in monthly installments of $1,431 through August 2019 at 6%, unsecured.	59,799	72,949
Notes payable to a hospital association payable in monthly installments of $6,529, interest free.	13,058	91,406
Note payable to a software company in quarterly installments of $25,875 through September 2017.	182,946	-
	22,839,057	29,044,816
Less current portion	5,918,464	6,189,100
Total	$ 16,920,593	$ 22,855,716

The carrying value of the notes payable approximates fair value. The Medical Center classifies notes payable in Level 2 of the valuation hierarchy.

Interest paid on the notes was $615,737 and $605,312 for the years ended September 30, 2015 and 2014, respectively.

Principal payments on the notes for the next five years are as follows:

2016	$ 5,918,394
2017	5,965,534
2018	5,857,646
2019	3,791,106
2020	1,266,924
Aggregate thereafter	39,453
	$ 22,839,057

11. Line of Credit

The Medical Center has a line of credit agreement with Bank of America, N.A. for $15,000,000. Amounts advanced under this line of credit are due on demand and interest is charged at the LIBOR rate plus 1.25%. There were no borrowings at September 30, 2015, and this line of credit expires on March 31, 2017.

12. Contingencies

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Medical Center, if any, are not presently determinable.

There have been malpractice claims that fall within the Medical Center's malpractice insurance which have been asserted against the Medical Center. In addition, there are known incidents that have occurred through September 30, 2015, that may result in the assertion of claims. Refer to Note 1.

The Medical Center is a party to various lawsuits incidental to its business. Management does not believe that the lawsuits will have a material adverse effect on the Medical Center's consolidated financial position.

The Medical Center and CCSG record as a liability the estimate for claims-made malpractice liabilities and the estimate for incurred but not reported claims. The estimate for incurred but not reported claims, discounted at 4.00%, totaled $4,312,042 and $5,576,736 at September 30, 2015 and 2014, respectively. The Medical Center has recorded related insurance recoveries receivable of $28,552,864 and $26,453,696 at September 30, 2015 and 2014, respectively, in consideration for the expected insurance recoveries for the total claims-made insurance.

The Medical Center records as a liability an estimate of workers' compensation claims. Such liability, undiscounted, totaled approximately $2,201,000 and $2,055,125 at September 30, 2015 and 2014, respectively.

13. Commitments

Ground Lease

The Medical Center has a ground lease with Hartford Hospital to lease the site on which the Medical Center stands. The lease term is 99 years beginning November 1, 1993 with an optional extension for an additional 99-year term.

The Ground Lease was recorded as a prepaid asset in the original amount of $2,900,000 and is amortized over the term of the lease. The net asset is recorded at $2,328,806 and $2,358,098 as of September 30, 2015 and 2014, respectively, and is included in other assets in the accompanying consolidated balance sheets. The lease includes certain covenants which restrict, among other things, the Medical Center's ability to be a party to mergers.

Parking Agreement

The Medical Center has a Parking Agreement with Hartford Hospital ("HH") for the use of 450 parking spaces on the Hartford Hospital campus. The agreement continues in full force and effect until the earlier of a written termination of the agreement by the Medical Center and HH or the termination of the ground lease.

14. Operating Leases

Rental and lease expense amounted to $14,066,271 and $12,985,729 for the years ended September 30, 2015 and 2014, respectively.

The minimum lease commitments under all noncancelable operating leases with initial or remaining terms of more than one year are as follows:

Fiscal years ending September 30:	
2016	$ 10,592,640
2017	9,482,912
2018	7,883,711
2019	7,810,014
2020	6,449,180
Thereafter	35,725,716
	$ 77,944,173

15. Functional Expenses

The Medical Center provides health care services to residents within its geographic location including pediatric care and outpatient surgery. Expenses related to providing these services are as follows:

	2015	2014
Health care services	$ 287,355,006	$ 288,254,913
General and administrative	77,953,771	70,486,232
	$ 365,308,777	$ 358,741,145

16. Fair Value of Financial Instruments

The Medical Center calculates fair value of its financial assets and liabilities, when applicable, based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on a unit of account from the Medial Center's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated). In order to increase consistency and comparability in fair value measurements, the Medical Center utilizes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described as follows:

Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 - Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3 - Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Medical Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Medical Center also financial assets and liabilities carried at fair value as of September 30, 2015 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 10,245,260	$ -	$ -	$ 10,245,260
Fixed income securities (a)	63,030	-	-	63,030
Domestic fixed	27,491,190	-	-	27,491,190
International fixed	35,050	-	-	35,050
Domestic equity	13,853,097	-	-	13,853,097

	Level 1	Level 2	Level 3	Total
International equity	$ 108,084	$ -	$ -	$ 108,084
Mutual funds:				
Domestic	5,187,269	-	-	5,187,269
International	3,304,104	-	-	3,304,104
Multi-strategy	54,950	-	-	54,950
Equity:				
Domestic growth (c)	4,675,896	-	-	4,675,896
Domestic value (c)	4,620,275	-	-	4,620,275
International (c)	7,478,722	-	-	7,478,722
International equity common trust fund	-	5,990,498	-	5,990,498
Domestic equity common trust fund	-	8,262,493	-	8,262,493
Fixed Income:				
International	561,998	-	-	561,998
Domestic	2,763,097	-	-	2,763,097
Intermediate term (c)	7,284,582	-	-	7,284,582
Global (c)	2,520,778	-	-	2,520,778
Short-term (c)	153,999	-	-	153,999
Inflation protected (c)	815,210	-	-	815,210
Common trust fund (d)	-	2,093,716	-	2,093,716
Domestic fixed common trust fund	-	6,430,985	-	6,430,985
Fund of funds	-	192,734	-	192,734
Real estate investments	-	719,813	-	719,813
Foundation held funds and miscellaneous other investments (f)	330,342	2,245,370	-	2,575,712
Total	$ 91,546,933	$ 25,935,609	$ -	$ 117,482,542
Liabilities,				
Interest rate swap agreements (g)	$ -	$ 1,102,249	$ -	$ 1,102,249

Financial assets and liabilities carried at fair value as of September 30, 2014 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 5,760,243	$ -	$ -	$ 5,760,243
Fixed income securities (a)	117,482	-	-	117,482
Domestic fixed	6,535,302	-	-	6,535,302
International fixed	345,854	-	-	345,854
Marketable equity securities (b)	494,722	-	-	494,722
Domestic equity	17,454,812	-	-	17,454,812
International equity	1,599,252	-	-	1,599,252

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Domestic	$ 12,362,690	$ -	$ -	$ 12,362,690
International	3,331,872	-	-	3,331,872
Multi-strategy	3,024,061	-	-	3,024,061
Equity:				
Domestic growth (c)	5,495,099	-	-	5,495,099
Domestic value (c)	5,478,832	-	-	5,478,832
International (c)	8,129,521	-	-	8,129,521
International equity common trust fund	-	5,913,593	-	5,913,593
Domestic equity common trust fund	-	11,728,000	-	11,728,000
Fixed Income:				
International	618,442	-	-	618,442
Domestic	6,299,598	-	-	6,299,598
Intermediate term (c)	7,123,169	-	-	7,123,169
Global (c)	2,730,651	-	-	2,730,651
Short-term (c)	186,627	-	-	186,627
Inflation protected (c)	825,258	-	-	825,258
Common trust fund (d)	-	1,983,537	-	1,983,537
Domestic fixed common trust fund	-	7,155,394	-	7,155,394
Funds held by trustee under revenue bond agreement (e)	5,021,620	-	-	5,021,620
Fund of funds	-	2,247,593	-	2,247,593
Real estate investments	-	3,159,391	-	3,159,391
Foundation held funds and miscellaneous other investments (f)	423,285	2,995,632	-	3,418,917
Total	$ 93,358,392	$ 35,183,140	$ -	$ 128,541,532
Liabilities,				
Interest rate swap agreements (g)	$ -	$ 1,892,072	$ -	$ 1,892,072

(a) Includes investments in publicly traded fixed income investments, which may include government, municipal or corporate bonds of varied duration.

(b) Includes investments in publicly traded stock of domestic corporations.

(c) Includes investments in domestic and international equity mutual funds and exchange traded funds. Investments are broken out into the underlying funds' asset type and investment goals.

(d) The common trust fund seeks to gain exposure to large cap U.S. companies by replicating the S&P 500 Tobacco Free Index, which excludes any company for which tobacco is one of its top five revenue producing industries. There are no liquidity restrictions as the redemption frequency and notice period is daily.

(e) These funds reflect proceeds from borrowings that are held in trust for the Medical Center's use. Funds are generally invested in money market mutual funds and may be drawn on by the Medical Center to purchase capital assets.

(f) These funds reflect the value of the Medical Center's interest in funds held in trust for the Medical Center's benefit. The Medical Center received statements nd records its portion of the trusts' statement value.

(g) The value of the Medical Center's swaps is determined by examining the present value of the future cash flows among other factors. The Medical Center utilizes an independent third party to calculate the value of the swaps based on all of the relevant factors.

The following is a description of the Medical Center's valuation methodologies for assets measured at fair value. The fair value methodologies are not necessarily indicators of liquidity but are descriptive of the measures used to arrive at fair value pricing. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers and brokers. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Medical Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The amounts reported in the tables above exclude assets invested in the Medical Center's defined benefit pension plan (Note 7).

Connecticut Children's Medical Center and Subsidiaries

Consolidating Balance Sheet
September 30, 2015

	Connecticut Children's Medical Center	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Assets							
Current Assets							
Cash and cash equivalents	$ 8,339,532	$ -	$ 8,339,532	$ 283,277	$ 1,622,451	$ -	$ 10,245,260
Funds held by trustee under revenue bond agreement	435,186	-	435,186	-	-	-	435,186
Patient accounts receivable, less allowance for doubtful accounts of approximately $3,846,000 for the Medical Center and $881,000 for Specialty Group	31,383,650	-	31,383,650	3,910,009	-	-	35,293,659
Due from affiliated entities	640,957	-	640,957	399,066	-	-	1,040,023
Inventories	1,443,429	-	1,443,429	-	-	-	1,443,429
Other current assets	7,163,242	-	7,163,242	3,780,188	542,325	-	11,485,755
Total current assets	49,405,996	-	49,405,996	8,372,540	2,164,776	-	59,943,312
Assets Whose Use is Limited							
Investments	-	-	-	1,121,285	30,830,644	-	31,951,929
Funds held in trust by others	75,285,353	-	75,285,353	-	-	-	75,285,353
Interest in Foundation	-	100,379,776	100,379,776	-	-	-	100,379,776
Total assets whose use is limited	75,285,353	100,379,776	175,665,129	1,121,285	30,830,644	-	207,617,058
Property, Plant and Equipment							
Buildings	139,883,117	-	139,883,117	4,652,237	-	-	144,535,354
Furniture and equipment	110,714,702	-	110,714,702	2,334,983	255,606	-	113,305,291
Construction in progress	13,845,701	-	13,845,701	-	-	-	13,845,701
	264,443,520	-	264,443,520	6,987,220	255,606	-	271,686,346
Less accumulated depreciation	(134,135,876)		(134,135,876)	(3,753,127)	(120,168)	-	(138,009,171)
Total property, plant and equipment	130,307,644	-	130,307,644	3,234,093	135,438	-	133,677,175
Other Assets							
Bond issuance costs	627,071	-	627,071	-	-	-	627,071
Ground lease	2,328,806	-	2,328,806	-	-	-	2,328,806
Other	21,784,874	-	21,784,874	7,792,366	5,493	-	29,582,733
Total other assets	24,740,751	-	24,740,751	7,792,366	5,493	-	32,538,610
Total assets	$ 279,739,744	$ 100,379,776	$ 380,119,520	$ 20,520,284	$ 33,136,351	$ -	$ 433,776,155

Connecticut Children's Medical Center and Subsidiaries

Consolidating Balance Sheet
September 30, 2015

	Connecticut Children's Medical Center	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Liabilities and Net Assets (Deficiency)							
Current Liabilities							
Current portion of bonds payable	$ 1,415,000	$ -	$ 1,415,000	$ -	$ -	$ -	$ 1,415,000
Current portion of notes payable	5,904,502	-	5,904,502	13,962	-	-	5,918,464
Accounts payable and accrued expenses	35,669,910	-	35,669,910	3,976,571	855,204	-	40,501,685
Accrued wages	14,239,585	-	14,239,585	7,377,030	-	-	21,616,615
Due to third parties	12,264,644	-	12,264,644	8,104,395	-	-	20,369,039
Due to affiliated entities	14,848,033	-	14,848,033	2,617,271	-	-	17,465,304
Accrued interest payable and other current liabilities	50,382	-	50,382	7,975	-	-	58,357
Total current liabilities	84,392,056	-	84,392,056	22,097,204	855,204	-	107,344,464
Bonds Payable, Less Current Portion	35,269,625	-	35,269,625	-	-	-	35,269,625
Notes Payable, Less Current Portion	16,874,755	-	16,874,755	45,838	-	-	16,920,593
Accrued Pension Liability	19,397,464	-	19,397,464	-	-	-	19,397,464
Other Long Term Liabilities	25,935,775	-	25,935,775	10,341,548	-	-	36,277,323
Total liabilities	181,869,675	-	181,869,675	32,484,590	855,204	-	215,209,469
Net Assets (Deficiency)							
Unrestricted	(2,600,595)	78,298,640	75,698,045	(11,964,306)	32,278,186	-	96,011,925
Temporarily restricted	25,185,311	4,244,566	29,429,877	-	2,961	-	29,432,838
Permanently restricted	75,285,353	17,836,570	93,121,923	-	-	-	93,121,923
Total net assets (deficiency)	97,870,069	100,379,776	198,249,845	(11,964,306)	32,281,147	-	218,566,686
Total liabilities and net assets (deficiency)	$ 279,739,744	$ 100,379,776	$ 380,119,520	$ 20,520,284	$ 33,136,351	$ -	$ 433,776,155

Connecticut Children's Medical Center and Subsidiaries

Consolidating Statements of Operations and Changes in Net Assets
Year Ended September 30, 2015

	Connecticut Children's Medical Center	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Revenues							
Patient service revenues	$ 293,887,286	$ -	$ 293,887,286	$ 49,883,185	$ -	$ -	$ 343,770,471
Provision for bad debts	(852,481)	-	(852,481)	(1,667,600)	-	-	(2,520,081)
Patient service revenues, less provision for bad debts	293,034,805	-	293,034,805	48,215,585	-	-	341,250,390
Other revenues	3,320,641	-	3,320,641	5,702,400	4,942,214	(1,226,664)	12,738,591
Net assets released from restrictions for operations	15,485,926	-	15,485,926	-	126,482	-	15,612,408
Total revenues	311,841,372	-	311,841,372	53,917,985	5,068,696	(1,226,664)	369,601,389
Expenses							
Salaries	117,098,664	-	117,098,664	45,061,803	1,891,447	6,628,334	170,680,248
Benefits	29,255,836	-	29,255,836	10,351,445	585,390	1,524,518	41,717,189
Supplies and other	123,372,711	-	123,372,711	15,455,945	4,051,337	(9,379,516)	133,500,477
Depreciation and amortization	17,239,933	-	17,239,933	907,701	28,809	-	18,176,443
Interest	1,230,401	-	1,230,401	4,019	-	-	1,234,420
Total expenses	288,197,545	-	288,197,545	71,780,913	6,556,983	(1,226,664)	365,308,777
Income (loss) from operations	23,643,827	-	23,643,827	(17,862,928)	(1,488,287)	-	4,292,612
Other Income (Loss)							
Investment return, net	(367,232)	-	(367,232)	309,524	2,135,649	-	2,077,941
Income from trusts held by others	3,326,528	-	3,326,528	-	-	-	3,326,528
Loss on disposal of property, plant and equipment	(655,403)	-	(655,403)	-	-	-	(655,403)
Change in equity interest in net assets of the Foundation	-	2,197,421	2,197,421	-	-	-	2,197,421
Total other income (loss)	2,303,893	2,197,421	4,501,314	309,524	2,135,649	-	6,946,487
Excess (deficiency) of revenues over expenses	25,947,720	2,197,421	28,145,141	(17,553,404)	647,362	-	11,239,099

Connecticut Children's Medical Center and Subsidiaries

Consolidating Statements of Operations and Changes in Net Assets
Year Ended September 30, 2015

	Connecticut Children's Medical Center	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Unrestricted Net Assets (continued)							
Excess (deficiency) of revenues over expenses (from previous page)	$ 25,947,720	$ 2,197,421	$ 28,145,141	$ (17,553,404)	$ 647,362	$ -	$ 11,239,099
Transfer from affiliated organizations, net	(13,836,824)	-	(13,836,824)	12,927,434	-	-	(909,390)
Unrealized loss on investments	-	-	-	(326,677)	(3,525,449)	-	(3,852,126)
Net assets released from restrictions for capital	719,323	-	719,323	-	-	-	719,323
Change in funded status of pension and post-retirement plans	(6,921,768)	-	(6,921,768)	-	-	-	(6,921,768)
Change in equity interest in the net assets of the Foundation	-	(6,601,171)	(6,601,171)	-	-	-	(6,601,171)
Change in unrestricted net assets	5,908,451	(4,403,750)	1,504,701	(4,952,647)	(2,878,087)	-	(6,326,033)
Temporarily Restricted Net Assets							
Transfer from affiliated organization	7,849,025	-	7,849,025	-	-	-	7,849,025
Net assets released from restrictions for operations	(15,485,926)	-	(15,485,926)	-	(126,482)	-	(15,612,408)
Net assets released from restrictions for capital	(719,323)	-	(719,323)	-	-	-	(719,323)
Bequests, gifts and grants	11,726,856	-	11,726,856	-	123,000	-	11,849,856
Change in equity interest in the net assets of the Foundation	-	(125,653)	(125,653)	-	-	-	(125,653)
Change in temporarily restricted net assets	3,370,632	(125,653)	3,244,979	-	(3,482)	-	3,241,497
Permanently Restricted Net Assets							
Change in funds held in trust by others	(7,600,518)	-	(7,600,518)	-	-	-	(7,600,518)
Change in equity interest in the net assets of the Foundation	-	498,716	498,716	-	-	-	498,716
Change in permanently restricted net assets	(7,600,518)	498,716	(7,101,802)	-	-	-	(7,101,802)
Change in net assets	1,678,565	(4,030,687)	(2,352,122)	(4,952,647)	(2,881,569)	-	(10,186,338)
Net Assets (Deficiency) at Beginning of Year	96,191,504	104,410,463	200,601,967	(7,011,659)	35,162,716	-	228,753,024
Net Assets (Deficiency) at End of Year	$ 97,870,069	$ 100,379,776	$ 198,249,845	$ (11,964,306)	$ 32,281,147	$ -	$ 218,566,686