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THE CONNECTICUT HOSPICE, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2015 AND 2014

THE CONNECTICUT HOSPICE, INC.

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Independent Auditors' Report

To the Board of Directors
The Connecticut Hospice, Inc.

We have audited the accompanying financial statements of The Connecticut Hospice, Inc. (the Hospital), which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities and change in unrestricted net assets, changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the 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, the financial statements referred to above present fairly, in all material respects, the financial position of The Connecticut Hospice, Inc., as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blum, Shapiro & Company, P.C.

West Hartford, Connecticut
April 20, 2016

THE CONNECTICUT HOSPICE, INC.

STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 143,991	\$ 1,066,312
Short-term investments	219,675	250,225
Patient accounts receivable, less allowance for doubtful accounts of \$250,000 in 2015 and 2014	1,860,146	963,167
Due from third party	1,430,624	432,806
Inventories	198,755	203,907
Other current assets	211,984	194,355
Total current assets	<u>4,065,175</u>	<u>3,110,772</u>
Property and Equipment, Net	<u>1,197,541</u>	<u>1,226,804</u>
Assets Held for Sale	<u>332,200</u>	<u>332,200</u>
Other Assets		
Long-term investments	6,210,525	4,823,952
Due from The John D. Thompson Hospice Institute, net	11,699,176	12,053,592
Total other assets	<u>17,909,701</u>	<u>16,877,544</u>
Total Assets	<u>\$ 23,504,617</u>	<u>\$ 21,547,320</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 4,088,601	\$ 3,270,091
Accrued liabilities	2,990,080	2,969,068
Due to related party	433,332	425,156
Due to third party	2,651,852	1,315,232
Line of credit	2,286,887	2,321,778
Liability under capital leases	41,408	62,042
Total current liabilities	<u>12,492,160</u>	<u>10,363,367</u>
Net Assets		
Unrestricted	8,883,320	9,254,070
Temporarily restricted	960,745	961,491
Permanently restricted	1,168,392	968,392
Total net assets	<u>11,012,457</u>	<u>11,183,953</u>
Total Liabilities and Net Assets	<u>\$ 23,504,617</u>	<u>\$ 21,547,320</u>

The accompanying notes are an integral part of the financial statements

THE CONNECTICUT HOSPICE, INC.

STATEMENTS OF ACTIVITIES AND CHANGE IN UNRESTRICTED NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Unrestricted Revenues, Gains and Other Support		
Net patient service revenue	\$ 28,269,537	\$ 27,048,542
Net assets released from restrictions	561,847	1,272,298
Provision for bad debts	(294,714)	(67,353)
Other revenue	68,979	76,807
Total unrestricted revenues, gains and other support	<u>28,605,649</u>	<u>28,330,294</u>
Expenses		
Employee compensation	13,653,361	13,944,431
Purchased services and supplies	7,176,888	7,582,948
Management services	5,000,000	4,500,000
Fringe benefits	2,473,637	2,617,008
Plant and utilities	503,764	494,608
Nonmedical general	829,073	851,188
Rent	284,160	284,160
Dietary	203,257	193,615
Depreciation	175,143	147,325
Interest	72,378	71,794
Total expenses	<u>30,371,661</u>	<u>30,687,077</u>
Loss from Operations	<u>(1,766,012)</u>	<u>(2,356,783)</u>
Other Income		
Unrestricted contributions	1,714,095	2,261,092
Net realized investment income	196,320	145,948
Net unrealized gain (loss) on investments	(462,991)	164,378
Transfer of underwater endowment funds	(52,162)	-
Total other income	<u>1,395,262</u>	<u>2,571,418</u>
Change in Unrestricted Net Assets	(370,750)	214,635
Unrestricted Net Assets - Beginning of Year	<u>9,254,070</u>	<u>9,039,435</u>
Unrestricted Net Assets - End of Year	<u>\$ 8,883,320</u>	<u>\$ 9,254,070</u>

The accompanying notes are an integral part of the financial statements

THE CONNECTICUT HOSPICE, INC.

STATEMENTS OF CHANGES IN NET ASSETS FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Unrestricted Net Assets		
Change in unrestricted net assets	\$ <u>(370,750)</u>	\$ <u>214,635</u>
Temporarily Restricted Net Assets		
Net realized investment income	30,716	22,792
Net unrealized gain (loss) on investments	(82,878)	34,382
Contributions	561,101	1,028,419
Transfer of underwater endowment funds	52,162	-
Net assets released from restrictions	<u>(561,847)</u>	<u>(1,272,298)</u>
Decrease in temporarily restricted net assets	<u>(746)</u>	<u>(186,705)</u>
Permanently Restricted Net Assets		
Contributions	<u>200,000</u>	<u>200,000</u>
Increase (Decrease) in Net Assets	(171,496)	227,930
Net Assets - Beginning of Year	<u>11,183,953</u>	<u>10,956,023</u>
Net Assets - End of Year	<u>\$ <u>11,012,457</u></u>	<u>\$ <u>11,183,953</u></u>

The accompanying notes are an integral part of the financial statements

THE CONNECTICUT HOSPICE, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ (171,496)	\$ 227,930
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	175,143	147,325
Bad debt expense	294,714	67,353
Assets held for sale	-	(332,200)
Net realized and unrealized (gains) losses on investments	318,833	(220,998)
Contributions restricted for long-term investment	(200,000)	(200,000)
(Increase) decrease in operating assets:		
Patient accounts receivable	(1,191,693)	1,348,625
Due to/from third party	338,802	727,911
Inventories and other current assets	(12,477)	99,077
Due from The John D. Thompson Hospice Institute, net	354,416	145,530
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	<u>847,698</u>	<u>(1,504,574)</u>
Net cash provided by operating activities	<u>753,940</u>	<u>505,979</u>
Cash Flows from Investing Activities		
Purchases of property and equipment, net	(145,880)	(538,481)
Purchase of investments	(3,376,875)	(2,528,171)
Sale of investments	<u>1,702,019</u>	<u>2,845,252</u>
Net cash used in investing activities	<u>(1,820,736)</u>	<u>(221,400)</u>
Cash Flows from Financing Activities		
Proceeds from contributions restricted for long-term investment	200,000	200,000
Payments on capital lease obligations	(20,634)	(20,089)
Net proceeds from (payments on) line of credit	<u>(34,891)</u>	<u>152,627</u>
Net cash provided by financing activities	<u>144,475</u>	<u>332,538</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(922,321)	617,117
Cash and Cash Equivalents - Beginning of Year	<u>1,066,312</u>	<u>449,195</u>
Cash and Cash Equivalents - End of Year	<u>\$ 143,991</u>	<u>\$ 1,066,312</u>
Cash Paid During the Year for Interest	\$ 72,378	\$ 71,794

The accompanying notes are an integral part of the financial statements

THE CONNECTICUT HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

The Connecticut Hospice, Inc. (the Hospital) is a not-for-profit corporation exempt from federal and state income taxes. The Hospital is engaged principally in providing inpatient and homecare services for patients with progressive and irreversible illnesses. The Hospital is accredited with commendation by The Joint Commission (TJC) with the first certification in the United States of America for a hospital in Advanced Palliative Care with no requirements for improvement identified. TJC also accredits the home care agency. The State of Connecticut Department of Public Health licenses and Medicare certifies the hospital, hospice and home care agency.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Net Asset Categories

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

Unrestricted

Unrestricted net assets represent available resources other than donor-restricted contributions. Net assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes are included in unrestricted net assets.

Temporarily Restricted

Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure. Temporarily restricted net assets as of September 30, 2015 and 2014, are available to support operations and capital expenditures.

Permanently Restricted

Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that only the income earned thereon be available for operations. Permanently restricted net assets of \$1,168,392 and \$968,392 as of September 30, 2015 and 2014, respectively, are to be held in perpetuity, the income from which is expendable to support health care services and is reported as investment income.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made in the areas of patient accounts receivable.

Federal Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes pursuant to Section 501(a) of the Code.

THE CONNECTICUT HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS

Cash and Cash Equivalents

Cash and cash equivalents include cash and investments in highly liquid securities. The Hospital's deposits in financial institutions may, at times, exceed federal depository insurance limits. Management believes that its deposits are not subject to credit risk.

Inventories

Inventories, consisting principally of medical and pharmaceutical supplies, are stated at the lower of cost or market.

Property and Equipment

Property and equipment acquisitions and improvements thereon that individually exceed \$600 are capitalized at cost. The Hospital provides for depreciation using the straight-line method over the estimated useful lives of the various assets, which range from 3 to 40 years. Repairs and maintenance are charged to expense as incurred.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is 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. See Note 4 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment income includes the Hospital's gains and losses on investments bought and sold as well as held during the year.

Operating Measure

The Hospital has defined an operating measure in the statements of activities and change in unrestricted net assets whereby all support, revenue and expenses are considered operating except for contributions, investment income, and gains and losses from the Hospital's endowment and other investments.

Contributions

Contributions are defined as voluntary, nonreciprocal transfers. Unrestricted and unconditional contributions are recognized as support when received or pledged, if applicable. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of such assets. When a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities and change in unrestricted net assets as net assets released from restrictions. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

The Hospital's policy is to recognize the expiration of donor restrictions for contributions of property and equipment or the use of contributions restricted for property and equipment in the year the property and equipment are placed in service.

THE CONNECTICUT HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS

Net Patient Service Revenue and Patient Accounts Receivable

Net patient service revenue is reported at the established net realizable amounts from patients, third-party agencies and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party agencies. Net patient service revenue and patient accounts receivable are recorded when patient services are performed. Adjustments and settlements under reimbursement agreements with third-party agencies are accrued on an estimated basis in the period the related services are provided and adjusted in future periods, if necessary, as final settlements are determined and estimates are refined.

As of September 30, 2015 and 2014, 87% and 95%, respectively, of patient accounts receivable were due from federal and state governmental payors and 13% and 5%, respectively, were due from nongovernmental payors. Nongovernmental payors are primarily managed-care companies. As of September 30, 2015, the Hospital had approximately ten managed-care contracts. Risk of nonpayment from federal and state governmental payors and managed-care companies is considered minimal. Risk of nonpayment from self-pay payors is more significant than with third-party payors. Management has recorded an allowance for doubtful accounts that, in its opinion, is sufficient to provide for any risks related to nonpayment.

Charity Care

The Hospital's policy is to provide care to all patients and their families, regardless of their ability to pay for services.

All care provided to patients that do not have the means to pay for services and that are not covered by Medicaid is considered to be charity care. Additionally, a significant amount of care is provided to patients covered by Medicare, Medicaid or other third parties, for which payment is substantially less than the cost of providing the care.

The Hospital estimates the amount of charity care approximated \$336,000 and \$230,000 for the years ended September 30, 2015 and 2014, respectively, and the total amount of free and unreimbursed patient care approximated \$2,045,000 and \$2,744,000 for the years ended September 30, 2015 and 2014, respectively. The Hospital depends on the success of its philanthropic programs to offset the costs of providing this charity care.

Contributed Services

Under GAAP, contributed services are recognized in the financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition. However, many volunteers have donated significant amounts of time in supporting the Hospital's mission.

Volunteers assist the employees of the Hospital in carrying out a wide array of services including art, bereavement, pastoral care, nursing, social work, groundskeeping, maintenance, development and clerical assistance. These volunteers are essential to the operations of the Hospital. They enhance the quality of care provided to the patients and their families. Although they do not qualify for inclusion in the consolidated financial statements under GAAP, the estimated value of contributed services was \$2,052,000 and \$2,092,000 for the years ended September 30, 2015 and 2014, respectively.

THE CONNECTICUT HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS

Subsequent Events

In preparing these financial statements, management has evaluated subsequent events through April 20, 2016, which represents the date the financial statements were available to be issued.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

NOTE 3 - RELATED PARTY TRANSACTIONS

The Connecticut Hospice Institute (a/k/a The John D. Thompson Hospice Institute for Education, Training and Research, Inc.) (the Institute) is a separate not-for-profit corporation exempt from federal and state income taxes engaged principally in offering education, training, research, clerkships, internships and residencies to physicians, nurses, social workers and others pertaining to the care of patients with progressive and irreversible illnesses and their families. The programs of the Institute previously mentioned are achieved through a strategic alliance of the management and Board of Directors of the Institute and the Hospital. The accounting records of the Institute and the Hospital are separately maintained, and separate financial statements are prepared.

As strategically allied entities, the Hospital and the Institute periodically pay expenses and advance cash to each other in order to pay for operating expenses and capital additions. There are no terms for the repayment of these advances.

The Hospital leases the facility used for clinical and administrative activities from the Institute under an operating lease that expires in 2021. Under this lease, effective May 6, 2001, the Hospital leases 23,489 square feet of the facility located at 100 Double Beach Road, Branford, Connecticut. Under this lease, the Hospital will pay \$284,160 per year through May 6, 2016. The succeeding five-year term will be negotiated based on the then prevailing rates in New Haven County and building appraisals. Included in the lease are electricity, heat and hot water.

The Hospital also purchased certain administrative, management, dietary, housekeeping and system technology services from the Institute for a fee of \$416,667 and \$375,000 per month for the years ended September 30, 2015 and 2014, respectively.

NOTE 4 - INVESTMENTS

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

THE CONNECTICUT HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS

Level 2

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted process for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3

Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The Hospital has no Level 3 investments at September 30, 2015 and 2014.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Common Stocks

Common stocks are valued at the closing price reported in the active market in which the individual securities are traded.

Mutual Funds

Mutual funds are valued at the quoted net asset value of shares held by the Hospital at year end.

Structured Products

Structured products are valued based on estimated values obtained from third parties or issuers based on underlying securities of the structured product that are traded on inactive markets.

Corporate and Municipal Bonds

Corporate and municipal bonds are valued based on yields currently available on comparable securities of issuers with similar durations and credit ratings.

U.S. Government and Agency Securities

U.S. Government and agency securities are valued at the closing price reported in the active market in which the individual securities are traded.

There have been no changes in the methodologies used at September 30, 2015 and 2014.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital 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 fair value measurement at the reporting date.

THE CONNECTICUT HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS

The following tables set forth by level, within the fair value hierarchy, the Hospital's assets at fair value as of September 30, 2015 and 2014:

Description	September 30, 2015	Fair Value Measurements Using	
		Level 1	Level 2
Equities:			
Common stock	\$ 386,237	\$ 386,237	\$ -
Structured products	110,560	-	110,560
Mutual funds:			
Equities	304,005	304,005	-
Fixed income	1,349,481	1,349,481	-
Other	985,755	985,755	-
Fixed income:			
Corporate bonds and notes	1,462,503	-	1,462,503
Municipal securities	915,302	-	915,302
Structured products	257,100	-	257,100
Total Investments at Fair Value	5,770,943	\$ 3,025,478	\$ 2,745,465
Certificates of deposit	659,257		
Total Investments	\$ 6,430,200		
Description	September 30, 2014	Fair Value Measurements Using	
		Level 1	Level 2
Equities:			
Common stock	\$ 235,649	\$ 235,649	\$ -
Structured products	116,200	-	116,200
Mutual funds:			
Equities	151,012	151,012	-
Fixed income	21,247	21,247	-
Other	630,971	630,971	-
Fixed income:			
Corporate bonds and notes	2,016,721	-	2,016,721
Municipal securities	1,311,532	-	1,311,532
Structured products	252,725	-	252,725
Total Investments at Fair Value	4,736,057	\$ 1,038,879	\$ 3,697,178
Certificates of deposit	338,120		
Total Investments	\$ 5,074,177		

There were no transfers between levels of investments during the years ended September 30, 2015 and 2014.

THE CONNECTICUT HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS

Investment income for the years ended September 30, 2015 and 2014, consists of the following:

	<u>2015</u>	<u>2014</u>
Realized gains (losses)	\$ 39,286	\$ (59,959)
Unrealized gains (losses)	(545,869)	280,957
Interest and dividends	<u>187,750</u>	<u>146,502</u>
Net Investment Income (Loss)	<u>\$ (318,833)</u>	<u>\$ 367,500</u>

At September 30, 2015, investments with a market value below cost for 12 months or more included certain investments with a market value of \$160,238 and an unrealized loss of \$56,505. At September 30, 2015, investments with a market value below cost for less than 12 months included certain investments with a market value of \$3,164,251 and an unrealized loss of \$384,119.

At September 30, 2014, investments with a market value below cost were immaterial.

NOTE 5 - RETIREMENT PLAN

The Hospital has a defined contribution retirement plan (the Plan) covering all eligible employees. The provision for pension costs charged against operations each year is sufficient to match a portion of employee contributions as specified under the terms of the plan agreement. The Hospital makes contributions to the Plan equal to amounts accrued for pension expense. Effective January, 1, 2016, the Hospital amended the Plan and changed the matching contribution from 1% of participants' eligible compensation to 3%. The total employer pension contributions were approximately \$112,000 and \$178,000 for the years ended September 30, 2015 and 2014, respectively.

NOTE 6 - PROPERTY AND EQUIPMENT

The components of property and equipment as of September 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Furniture and equipment	\$ 3,265,425	\$ 4,273,791
Property held for future use	<u>323,000</u>	<u>323,000</u>
	3,588,425	4,596,791
Less accumulated depreciation	<u>2,390,884</u>	<u>3,369,987</u>
Net Property and Equipment	<u>\$ 1,197,541</u>	<u>\$ 1,226,804</u>

Depreciation expense for the years ended September 30, 2015 and 2014, was \$175,143 and \$147,325, respectively.

Assets held for sale were \$332,200 as of September 30, 2015 and 2014.

THE CONNECTICUT HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - OPERATING LEASES

The Hospital is obligated under leases for office space and equipment through 2020. Total rent expense under the operating leases totaled approximately \$324,000 and \$318,000 in 2015 and 2014, respectively.

Future minimum lease payments are as follows:

Year Ending September 30

2016	\$	240,955
2017		175,267
2018		165,470
2019		8,645
2020		<u>722</u>
Total Future Minimum Lease Payments	\$	<u>591,059</u>

NOTE 8 - CAPITAL LEASES

The Hospital has leases for certain equipment that are classified as capital leases. The Hospital records the present value of the future minimum lease payments related to these leases as a liability on the statements of financial position with a corresponding asset within its property and equipment balance on the statements of financial position. Capital assets are depreciated over their useful lives on a straight-line basis, while the obligation is reduced upon each payment by the amount of the payment that represents the principal balance. The Hospital is obligated under capital leases for equipment with a net book value totaling \$71,192 and \$81,357 as of September 30, 2015 and 2014, respectively.

Future obligations on the equipment capital lease together with the present value of the net minimum lease payments as of September 30, 2015 are as follows:

Year Ending September 30

2016	\$	22,001
2017		<u>20,450</u>
		42,451
Less amount representing interest		<u>1,043</u>
Present Value of Minimum Capital Lease Payments	\$	<u>41,408</u>

Interest expense for the years ended September 30, 2015 and 2014, was \$1,367 and \$1,912, respectively.

THE CONNECTICUT HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - DUE TO RELATED PARTY

During 2009, a board member advanced \$800,000 to the Hospital. This amount is recorded as due to related party on the statements of financial position. This note bears interest at 2.0% per year, and there currently is no formal repayment plan. During 2015 and 2014, the Hospital did not make principal payments. Outstanding principal and interest on the note as of September 30, 2015 and 2014, was \$433,332 and \$425,156, respectively.

NOTE 10 - LINE OF CREDIT

The Hospital has a line of credit in the amount of \$2,530,000. The line expires on May 9, 2016 with provisions for annual extensions and includes a due on demand feature. The Hospital has drawn down \$2,286,887 as of September 30, 2015. Interest, at a rate of 2% over LIBOR (2.588% at September 30, 2015), is payable monthly. The Hospital's investments are pledged as security on the line of credit. The Hospital also has letter of credit in the amount of \$613,000. The letter expires on May 9, 2016 with provisions for annual extensions and includes a due on demand feature. There were no draws on the letter as of September 30, 2015. The Hospital's investments are pledged as security on the letter of credit.

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2015 and 2014, are comprised of the following:

	<u>2015</u>	<u>2014</u>
Operations	\$ 631	\$ 25,005
Capital expenditures	<u>960,114</u>	<u>936,486</u>
	<u>\$ 960,745</u>	<u>\$ 961,491</u>

During the years ended September 30, 2015 and 2014, temporarily restricted net assets were released from restrictions to support the Hospital's activities as follows:

	<u>2015</u>	<u>2014</u>
Operations	\$ 511,847	\$ 592,780
Capital expenditures	<u>50,000</u>	<u>679,518</u>
	<u>\$ 561,847</u>	<u>\$ 1,272,298</u>

THE CONNECTICUT HOSPICE, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 12 - ENDOWMENT

The Hospital's endowment consists of approximately three individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Hospital has interpreted the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA) 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 Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by CTPMIFA. In accordance with CTPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the Hospital

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NOTES TO FINANCIAL STATEMENTS

Changes in endowment net assets for the years ended September 30, 2015 and 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - September 30, 2013	\$ -	\$ -	\$ 768,392	\$ 768,392
Investment return:				
Investment income	-	22,792	-	22,792
Investment gains	-	34,382	-	34,382
Total investment return	-	57,174	-	57,174
Contributions	-	-	200,000	200,000
Appropriation of endowment assets for expenditure	-	(57,174)	-	(57,174)
Endowment net assets - September 30, 2014	-	-	968,392	968,392
Investment return:				
Investment income	-	30,716	-	30,716
Investment losses	-	(82,878)	-	(82,878)
Total investment return	-	(52,162)	-	(52,162)
Contributions	-	-	200,000	200,000
Replenishment of reallocation for under- water endowment funds	-	52,162	-	52,162
Endowment Net Assets - September 30, 2015	\$ -	\$ -	\$ 1,168,392	\$ 1,168,392

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 CTPMIFA requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$52,162 as of September 30, 2015. The deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no such deficiencies as of September 30, 2014.

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NOTES TO FINANCIAL STATEMENTS

Return Objectives and Risk Parameters

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is broadly diversified among asset classes determined appropriate by the Board of Directors. The overall objective is the highest possible long-term rate of return consistent with accepting a low level of risk as it relates to the investment of total assets. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Hospital has a policy of appropriating for distribution the income earned on its endowment each year, subject to prudent spending consideration to offset operating expenses. All funds appropriated for distribution are done with approval from the Board of Directors.

NOTE 13 - FUNCTIONAL EXPENSES

Functional expenses for the Hospital for the years ended September 30, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Health care services	\$ 25,594,479	\$ 26,465,922
General and administrative	4,525,751	3,966,372
Fundraising	<u>251,431</u>	<u>254,783</u>
Total Functional Expenses	<u>\$ 30,371,661</u>	<u>\$ 30,687,077</u>

NOTE 14 - HEALTHCARE INDUSTRY

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation.