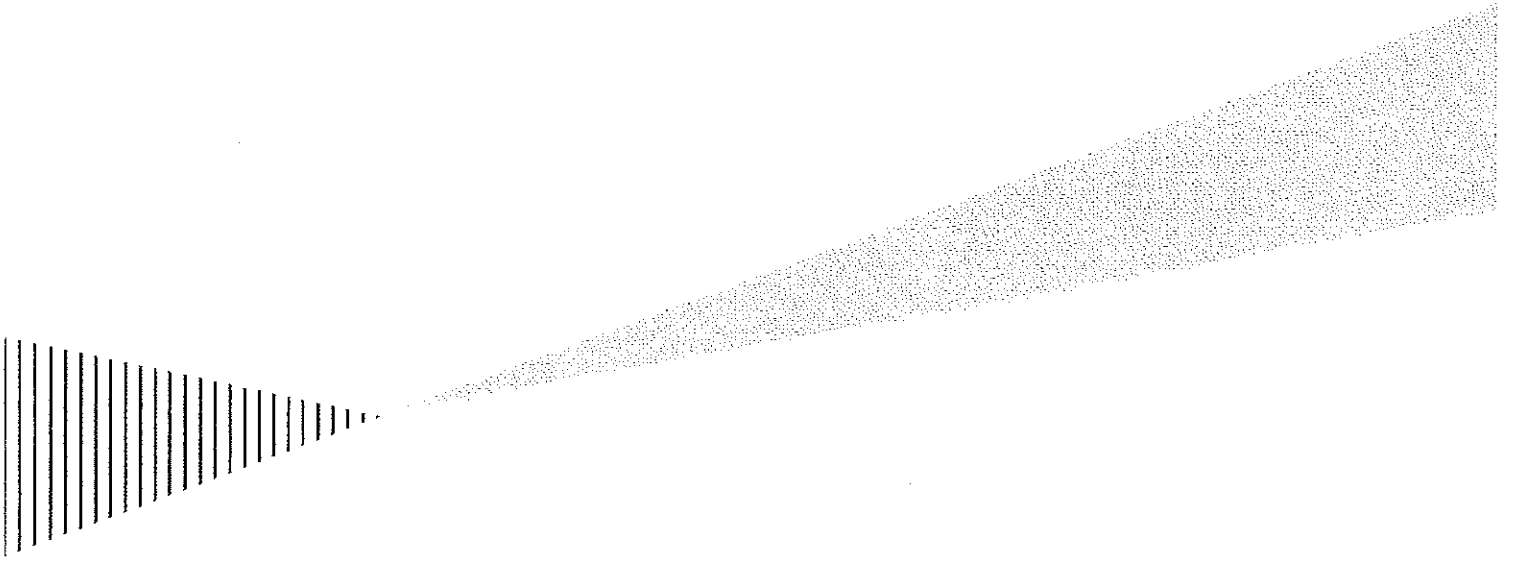


CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

The Norwalk Hospital Association and Subsidiaries
Year Ended September 30, 2015,
Period From January 1, 2014 to September 30, 2014, and Period From
October 1, 2013 to December 31, 2013
With Report of Independent Auditors

Ernst & Young LLP



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The Norwalk Hospital Association and Subsidiaries
Consolidated Financial Statements and Supplementary Information

Year Ended September 30, 2015,
Period From January 1, 2014 to September 30, 2014, and
Period From October 1, 2013 to December 31, 2013

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Report of Independent Auditors

The Board of Directors
Western Connecticut Health Network, Inc.

We have audited the accompanying consolidated financial statements of The Norwalk Hospital Association and Subsidiaries, which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the year ended September 30, 2015, the period from January 1, 2014 to September 30, 2014, and the period from October 1, 2013 to December 31, 2013, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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 consolidated financial position of The Norwalk Hospital Association and Subsidiaries at September 30, 2015 and 2014, and the consolidated results of their operations and changes in net assets and their cash flows for the year ended September 30, 2015, the period from January 1, 2014 to September 30, 2014, and the period from October 1, 2013 to December 31, 2013, in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet and statement of operations are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

January 28, 2016

The Norwalk Hospital Association and Subsidiaries

Consolidated Balance Sheets (In Thousands)

	September 30	
	2015	2014
	<i>(As Adjusted)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 50,659	\$ 80,871
Investments, current portion	13,983	13,898
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$22,773 in 2015 and \$23,903 in 2014	45,628	42,686
Due from related parties	40	87
Pledges receivable, current portion	23,303	2,575
Inventories	3,004	2,061
Prepaid expenses and other	4,375	4,211
Total current assets	140,992	146,389
Assets limited as to use:		
Funds restricted by donor	33,857	35,342
Board designated funds	28,493	—
Beneficial interest in charitable remainder trust	7,556	8,008
Construction funds	8,743	23,405
Total assets limited as to use	78,649	66,755
Investments	120,411	117,398
Other assets	29,615	35,596
Investment in joint venture	1,640	1,640
Interest rate swap	—	2,510
Property, plant, and equipment:		
Land and land improvements	27,942	27,918
Buildings and building improvements	229,740	209,966
Equipment and other	277,546	260,589
Construction-in-progress (estimated cost to complete at September 30, 2015: \$21,721)	86,191	78,197
	621,419	576,670
Less accumulated depreciation	350,789	330,345
Total property, plant, and equipment	270,630	246,325
Pledges receivable, less current portion	1,746	1,428
Bond issuance costs, net	285	—
Total assets	\$ 643,968	\$ 618,041

	September 30	
	2015	2014
	<i>(As Adjusted)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 26,775	\$ 33,949
Payroll-related accruals	15,167	21,918
Due to third-party payors	27,894	36,053
Due to related parties	7,988	1,051
Interest payable	652	782
Current portion of long-term debt	7,647	7,039
Other accrued expenses	17	72
Total current liabilities	<u>86,140</u>	<u>100,864</u>
Accrued pension liability and other	65,271	46,164
Interest rate swap	418	—
Medical malpractice claims reserves	28,829	34,725
Long-term debt, less current portion	111,689	121,951
Total liabilities	<u>292,347</u>	<u>303,704</u>
Net assets:		
Unrestricted	280,297	264,980
Unrestricted attributable to noncontrolling interest	2,035	2,005
Temporarily restricted	59,821	37,890
Permanently restricted	9,468	9,462
Total net assets	<u>351,621</u>	<u>314,337</u>

Total liabilities and net assets	<u>\$ 643,968</u>	<u>\$ 618,041</u>
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See accompanying notes.

The Norwalk Hospital Association and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (In Thousands)

	Year Ended September 30, 2015	Period From January 1, 2014 to September 30, 2014	Predecessor
			Company Period From October 1, 2013 to December 31, 2013
		(As Adjusted)	(As Adjusted)
Unrestricted revenues:			
Net patient service revenue	\$ 387,757	\$ 290,938	\$ 96,958
Provision for uncollectible accounts	13,942	22,340	4,056
Net patient service revenue, less provision for uncollectible accounts	373,815	268,598	92,902
Net assets released from restrictions	1,753	1,439	517
Other operating revenue	14,004	10,489	2,799
	389,572	280,526	96,218
Expenses:			
Salaries, benefits, and fees	213,329	153,895	50,984
Supplies and other	111,176	81,481	24,854
Insurance	7,862	5,047	455
Depreciation and amortization	20,786	14,615	4,535
Interest	2,068	1,770	622
State of Connecticut Hospital Tax	14,644	9,282	3,473
	369,865	266,090	84,923
Income from operations before gain on extinguishment of long-term debt	19,707	14,436	11,295
Gain on extinguishment of long-term debt	2,625	—	—
Income from operations	22,332	14,436	11,295
Nonoperating gains (losses):			
Contributions	31,165	4,574	257
Investment income, net	3,893	1,593	670
Change in unrealized gains and losses on investments	(6,535)	2,157	4,183
Operating expenses of Norwalk Hospital Foundation, Inc.	(2,086)	(1,186)	(412)
Loss on equipment disposal	—	(669)	(5)
Interest rate swap activity:			
Interest cost on interest rate swap	(356)	(162)	(56)
Change in value of interest rate swap	(2,928)	(2,502)	459
	(3,284)	(2,664)	403
	23,153	3,805	5,096
Excess of revenues over expenses, before noncontrolling interest in joint venture	45,485	18,241	16,391
Less: net income attributable to noncontrolling interest in joint venture	(1,968)	(1,117)	(529)
Excess of revenues over expenses	43,517	17,124	15,862

Continued on next page

The Norwalk Hospital Association and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)
(In Thousands)

	Year Ended September 30, 2015	Period From January 1, 2014 to September 30, 2014	Predecessor Company Period From October 1, 2013 to December 31, 2013
		(As Adjusted)	(As Adjusted)
Unrestricted net assets:			
Excess of revenues over expenses (continued)	\$ 43,517	\$ 17,124	\$ 15,862
Net assets released from restrictions used for property, plant and equipment	10	3,444	—
Change in pension obligations	(28,544)	(36,140)	14,343
Transfer from Western Connecticut Health Network, Inc.	270	28,507	—
Net unrestricted other changes in joint venture	(1,874)	(599)	(430)
Net income attributable to noncontrolling interest	1,968	1,117	529
Increase in unrestricted net assets	15,347	13,453	30,304
Temporarily restricted net assets:			
Contributions	25,310	849	676
Investment income, net	557	663	277
Change in unrealized gains and losses on investments	(1,721)	949	1,609
Transfer from Western Connecticut Health Network, Inc.	—	8,008	—
Change in beneficial interest in charitable trust	(452)	—	—
Net assets released from restrictions used for property, plant and equipment	(10)	(3,444)	—
Net assets released from restrictions	(1,753)	(1,439)	(517)
Increase in temporarily restricted net assets	21,931	5,586	2,045
Permanently restricted net assets:			
Contributions	6	—	6
Increase in permanently restricted net assets	6	—	6
Increase in net assets	37,284	19,039	32,355
Net assets at beginning of period	314,337	295,298	246,491
Net assets at end of period	\$ 351,621	\$ 314,337	\$ 278,846

See accompanying notes.

The Norwalk Hospital Association and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended September 30, 2015	Period From January 1, 2014 to September 30, 2014	Predecessor Company
			Period From October 1, 2013 to December 31, 2013
		(As Adjusted)	(As Adjusted)
Operating activities			
Increase in net assets	\$ 37,284	\$ 19,039	\$ 32,355
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization	20,786	14,615	4,535
Change in unrealized gains and losses on investments	8,256	(3,106)	(5,792)
Loss on disposal of equipment	—	669	5
Change in pension obligations	28,544	36,140	(14,343)
Provision for uncollectible accounts	13,942	22,340	4,056
Gain on extinguishment of long-term debt	(2,625)	—	—
Change in value of interest rate swap	2,928	2,502	(459)
Transfer from Western Connecticut Health Network, Inc.	—	(35,819)	—
Restricted contributions and investment income	(25,873)	(1,512)	(959)
Change in beneficial interest in charitable remainder trust	452	—	—
Changes in operating assets and liabilities (see Note 14)	(63,959)	(30,505)	(7,919)
Net cash provided by operating activities	19,735	24,363	11,479
Investing activities			
Net decrease in assets whose use is limited	14,662	27,463	8,840
Purchases and sales of investments, net	(38,362)	(2,666)	(386)
Additions to property, plant, and equipment, net	(45,091)	(48,865)	(12,787)
Net cash used in investing activities	(68,791)	(24,068)	(4,333)
Financing activities			
Proceeds from long-term debt	—	3,021	—
Restricted contributions and investment income	25,873	1,512	959
Payments of long-term debt	(7,029)	(4,367)	(3,843)
Net cash provided by (used in) financing activities	18,844	166	(2,884)
Net (decrease) increase in cash and cash equivalents	(30,212)	461	4,262
Cash and cash equivalents at beginning of period	80,871	80,410	76,148
Cash and cash equivalents at end of period	\$ 50,659	\$ 80,871	\$ 80,410

See accompanying notes.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

September 30, 2015

1. Organization and Significant Accounting Policies

Organization and Basis of Presentation

The Norwalk Hospital Association (NHA), a not-for-profit organization incorporated under the General Statutes of the State of Connecticut, was a wholly owned subsidiary of Norwalk Health Services Corporation (NHSC) through October 1, 2014.

Affiliation

On January 1, 2014 (the Transaction Date), Western Connecticut Health Network, Inc. (WCHN) became the sole corporate member of NHSC, and a corporate affiliation was completed. All assets and liabilities were revalued to fair value as of January 1, 2014. NHA became a consolidated subsidiary within WCHN's financial statements effective January 1, 2014.

In connection with the affiliation, the assets acquired and liabilities assumed were marked to fair value at the Transaction Date. The increase to NHA's net assets at the Transaction Date was \$16,452 when reported at fair value, as compared to the historical value of the net assets as reported by the predecessor company of \$278,846. The \$16,452 increase in NHA's net assets comprised the following (impacting unrestricted net assets):

Property, plant, and equipment	\$ 41,246
Goodwill	(13,843)
Intangible assets	(5,760)
Investment in joint venture	(628)
Bond issuance costs, net	(1,256)
Medical malpractice claims reserves	652
Long-term debt	(3,959)
	<u>\$ 16,452</u>

NHA elected to apply pushdown accounting, use of the acquirer's basis of accounting in the preparation of the acquiree's separate financial statements, consistent with Accounting Standards Update (ASU) 2014-17, *Business Combinations (Topic 805): Pushdown Accounting, a consensus of the FASB Emerging Issues Task Force*.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Significant Accounting Policies (continued)

The accompanying consolidated financial statements present the results of operations for the period prior to the Transaction Date, which is reported as the predecessor company based upon historical value, and the financial position and results of operations subsequent to the affiliation, which are reported using fair values as the initial basis established at the Transaction Date.

The accompanying consolidated statements of operations and changes in net assets and cash flows disclose activity related to the year ended September 30, 2015, and for the periods from January 1, 2014 to September 30, 2014 and October 1, 2013 to December 31, 2013, and are hereafter referred to collectively as the "Periods under Audit."

On September 30, 2014, a grant agreement was entered into between NHSC and NHA under which all of NHSC's cash, investments, and real estate assets were transferred to NHA through WCHN. NHSC's liabilities were also transferred to NHA through WCHN. The transfer consisted of the following:

Cash and cash equivalents	\$ 696
Investments	26,978
Beneficial interest in trust	8,008
Property, plant, and equipment	1,075
Accounts payable	(242)
	<u>\$ 36,515</u>

The transfer was reported as follows in the consolidated statement of operations and changes in net assets for the nine-month period ended September 30, 2014:

Unrestricted net assets	\$ 28,507
Temporarily restricted net assets	8,008
	<u>\$ 36,515</u>

On October 1, 2014, NHSC merged into WCHN. At that time, WCHN became the sole corporate member of NHA. As a result of this transaction, two subsidiaries of NHSC, Norwalk Hospital Foundation, Inc. (NHF) and Norwalk Hospital Physicians & Surgeons, Inc. (NHP&S) were merged into NHA (collectively referred to as the Hospital) as of October 1, 2014. Effective September 30, 2015, NHP&S was dissolved and all remaining assets were transferred to NHA on that date.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Significant Accounting Policies (continued)

NHP&S is a not-for-profit organization established under the General Statutes of the State of Connecticut and provides physician services to patients primarily in the greater Norwalk area. NHP&S also provides physician support to NHA. NHF is a 501(c)(3) organization whose tax-exempt status is based upon its support of WCHN and the health care providers affiliated with it, including NHA and other health care organizations from time to time associated with WCHN which qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code. The Board of NHA is appointed by WCHN.

In accordance with Accounting Standards Codification Topic 805, this transaction was accounted for similar to a pooling of interests with retrospective adjustment in prior period financial statements for the periods in which the entities were under common control. Therefore, the accompanying consolidated financial statements as of September 30, 2015 and 2014 and for the Periods under Audit reflect the financial position, operations, changes in net assets and cash flows of the Hospital, including NHF and NHP&S, as if the merger has been completed on October 1, 2013; all relevant disclosures have been adjusted.

The following table presents selected financial statement amounts as of September 30, 2014 (in thousands):

	September 30, 2014
Total assets:	
The Norwalk Hospital Association (as Previously Reported)	\$ 614,395
Norwalk Hospital Physicians & Surgeons, Inc.	3,711
Norwalk Hospital Foundation, Inc.	48,294
Intercompany eliminations	(48,359)
As Adjusted	<u>\$ 618,041</u>
Total net assets:	
The Norwalk Hospital Association (as Previously Reported)	\$ 314,953
Norwalk Hospital Physicians & Surgeons, Inc.	(776)
Norwalk Hospital Foundation, Inc.	47,997
Intercompany eliminations	(47,837)
As Adjusted	<u>\$ 314,337</u>

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Significant Accounting Policies (continued)

The following table presents selected financial statement amounts for the period from January 1, 2014 to September 30, 2014 and the period from October 1, 2013 to December 31, 2013:

	Period from January 1, 2014 to September 30, 2014	Predecessor Company Period from October 1, 2013 to December 31, 2013
Total unrestricted revenues:		
The Norwalk Hospital Association (as Previously Reported)	\$ 260,238	\$ 89,251
Reclassification	9,282	3,473
The Norwalk Hospital Physicians & Surgeons, Inc.	22,700	7,119
Norwalk Hospital Foundation, Inc.	278	128
Intercompany eliminations	(11,972)	(3,753)
As Adjusted	<u>\$ 280,526</u>	<u>\$ 96,218</u>
Excess (deficiency) of revenues over expenses:		
The Norwalk Hospital Association (as Previously Reported)	\$ 23,111	\$ 17,378
The Norwalk Hospital Physicians & Surgeons, Inc.	(6,168)	(1,335)
Norwalk Hospital Foundation, Inc.	3,306	(181)
Intercompany eliminations	(3,125)	—
As Adjusted	<u>\$ 17,124</u>	<u>\$ 15,862</u>

Principles of Consolidation

The Hospital's consolidated financial statements include the accounts of NHA, NHP&S and NHF, and its majority interest in Norwalk Surgery Center, LLC. All material intercompany transactions have been eliminated.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. 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. Significant estimates reflected in the consolidated financial statements include contractual allowances and allowance for uncollectible accounts for patient service revenue and the related patient accounts receivable, estimated revenue settlements due to or from third parties, the asset retirement obligation, fair value accounting associated with the affiliation, reserves for malpractice, workers' compensation and other self-insured liabilities, and benefit plan assumptions.

Regulatory Matters

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

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with maturities of three months or less at date of purchase, other than amounts held in the investment portfolio and assets limited as to use. The carrying value of cash equivalents approximates its fair value. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Hospital's policy to monitor the financial strength of these institutions.

Investments

The Hospital's investment portfolio reported in the accompanying consolidated balance sheets is designated as trading. Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value, based upon quoted market prices. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses, unless the income or loss is restricted by donor or law.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Significant Accounting Policies (continued)

Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that the Hospital holds limited partnership interests, are reported based upon net asset value and derived from the application of the equity method of accounting. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, the Hospital's holdings, may be determined by the investment manager or general partner, and for "fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The Hospital accounts for these investments using the equity method of accounting, except for investments held by the defined benefit pension plan, and reports its share of the increase or decrease in the funds' value as investment gain or loss. Alternative investments held by the defined benefit pension plan are reported at fair value as estimated in an unquoted market. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Hospital's annual consolidated financial statement reporting.

Fair Value of Financial Instruments

The carrying values of financial instruments classified as current assets and current liabilities as of September 30, 2015 and 2014, approximates fair value based on current market conditions. The fair values of other financial instruments are disclosed in the respective notes and/or in Note 4.

Assets Limited as to Use

Assets limited as to use represent investments with donor restrictions; unrestricted assets set aside by the Board of Directors for the purpose of providing for future improvement, expansion and replacement of property, plant and equipment; assets held by trustees under bond indenture agreements; and beneficial interest in charitable remainder trust. Assets limited as to use are reported at fair value based upon quoted market prices.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

1. Organization and Significant Accounting Policies (continued)

Patient Accounts Receivable

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for uncollectible accounts result from the provision for uncollectible accounts. Accounts written off as uncollectible are deducted from the allowance for uncollectible accounts.

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

- Historical write-off and collection experience using a hindsight or look-back approach;
- Revenue and volume trends by payor, particularly the self-pay components;
- Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients;
- Cash collections as a percentage of net patient revenue less the provision for uncollectible accounts; and
- Trending of days revenue in accounts receivable

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

The Hospital's primary concentration of credit risk is patient accounts receivable, which consists of amounts owed by various governmental agencies, insurance companies and private patients.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Significant Accounting Policies (continued)

Beneficial Interest in Charitable Remainder Trust

The Hospital has been named sole or participating beneficiary in a remainder trust. Under the terms of this trust, the Hospital has the irrevocable right to receive the remaining principal and income earned on the trust assets. The Hospital has recorded the fair value of the Hospital's proportionate interest in the assets held in the remainder trust. In 2015, no distributions were received from this trust.

Inventories

The Hospital uses the first-in, first-out method, in the valuation of its inventory.

Investments in Joint Ventures

The Hospital has invested in a joint venture that is accounted for under the equity method of accounting. The Hospital has a 50% noncontrolling interest in Reef Road Associates, II, LLC (the Joint Venture), which represents property, on which the Joint Venture plans to construct a medical office building.

Property, Plant, and Equipment

Property, plant, and equipment purchased subsequent to the Transaction Date are stated at cost, less accumulated depreciation. Property, plant and equipment existing at the Transaction Date were recorded at fair value based upon an independent valuation. Property, plant and equipment received as a donation are recorded at the fair value on the date received. The Hospital 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. The useful lives range from 3 to 40 years.

Excess of Revenues over Expenses

The accompanying consolidated statements of operations and changes in net assets includes the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, include net assets released

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Significant Accounting Policies (continued)

from restrictions used for property, plant and equipment, changes in pension obligations, the permanent transfer of assets to and from affiliates for other than goods and services, net income attributable to noncontrolling interest, and net unrestricted other changes in joint venture.

Transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported within income from operations.

Other Operating Revenue

Other operating revenue consists primarily of the rental income, grants, cafeteria revenues, EHR incentive payments and administrative services (see Note 16).

Nonoperating Gains (Losses)

Activities other than in connection with providing health care services are considered to be nonoperating. Nonoperating gains (losses) primarily consist of contributions; investment income, net; changes in unrealized gains and losses on investments; operating expense of NHF; loss on equipment disposal; and interest rate swap activity.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time frame or purpose. Temporarily restricted net assets primarily consist of contributions restricted for health care services and beneficial interest in charitable remainder trust. Permanently restricted net assets consist of endowment gifts that have been restricted by donors and are to be maintained in perpetuity.

Income Taxes

NHA, NHP&S and NHF 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. NHA, NHP&S and NHF are also exempt from state and local taxes. Norwalk Surgery Center, LLC is a limited liability corporation and is treated as a partnership for income tax purposes.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

I. Organization and Significant Accounting Policies (continued)

The Hospital has net operating loss carryforwards from unrelated business activities of approximately \$4,434 and \$3,267 at September 30, 2015 and 2014, respectively, which will begin expiring in 2022. These losses generate a potential deferred tax asset of approximately \$1,773 and \$1,307 at September 30, 2015 and 2014, respectively, which is offset by a corresponding valuation allowance of the same amount due to the uncertainty of utilizing the deferred tax asset in future periods.

Asset Retirement Obligation

The Hospital records a liability for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. The fair value of a liability for a conditional asset retirement obligation is recognized in the period in which the obligation is incurred if a reasonable estimate of fair value can be made. As of September 30, 2015 and 2014, \$9,034 and \$8,907, respectively, is included in accrued pension liability and other relating to such obligations. During the Periods under Audit, the Hospital recorded accretion expense of \$440, \$324 and \$108, respectively, which is recorded on the consolidated statements of operations within supplies and other. During the Periods under Audit, retirement obligations settled were \$313, \$305 and \$209, respectively.

Electronic Health Record Incentive Program

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in calendar year 2011 for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology. The Hospital utilizes a grant accounting model to recognize EHR incentive revenues. Under this accounting policy, EHR incentive payments are recognized as revenues when attestation that the EHR meaningful use criteria for the required period of time was demonstrated. Accordingly, the Hospital recognized \$616 and \$1,562 of EHR revenue for the year ended September 30, 2015 and the period from January 1, 2014 to September 30, 2014, respectively. The EHR revenue recognized for the year ended September 30, 2015 consisted of \$616 of Medicare revenue, and the EHR revenue recognized for the period from January 1, 2014 to September 30, 2014 consisted of \$1,191 and \$371 of Medicare and Medicaid revenue, respectively. No EHR revenue was recognized for the period from October 1, 2013 to December 31, 2013. EHR revenues are included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

1. Organization and Significant Accounting Policies (continued)

The Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

State of Connecticut Hospital Tax

Pursuant to Connecticut General Statutes, the State of Connecticut Hospital Tax is based on a percentage of the Hospital's net patient service revenue. Inpatient and outpatient service revenue was taxed at 6.0% and 5.5%, and 6.0% and 3.8%, respectively, for the period July 1, 2015 through September 30, 2015 and October 1, 2013 through June 30, 2015, respectively.

Reclassifications

Certain reclassifications have been made to the amounts previously reported for the period from January 1, 2014 to September 30, 2014 and the period from October 1, 2013 to December 31, 2013 in the consolidated balance sheets and consolidated statements of operations and changes in net assets in order to conform with the year ended September 30, 2015 presentation. State of Connecticut Hospital Tax in the amount of \$9,282 and \$3,473, respectively, was reclassified from net patient service revenue to an operating expense. In addition, physician fees in the amount of \$7,676 and \$2,130, respectively, were reclassified from supplies and other expense to salaries, benefits, and fees expense.

New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of ASU 2014-09, as amended by ASU 2015-14, is required on October 1, 2018, and management is currently evaluating the effect of this guidance on its consolidated financial statements.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Net Patient Service Revenue and Charity Care

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges, and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to ongoing and future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

The Hospital has established estimates based on information presently available of amounts due to or from Medicare, Medicaid, and third-party payors for adjustments to current and prior year payment rates, based on industry-wide and Hospital-specific data. Such amounts are included in the accompanying consolidated balance sheets. Additionally, certain payors' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

For the Periods under Audit, approximately 28%, 28%, and 26% and 11%, 10% and 10% and 61%, 62% and 64% respectively, of net patient service revenue was received from Medicare, Medicaid and non-governmental payors, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Hospital manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable include 27%, 9%, and 64% and 27%, 9%, and 64% for Medicare, Medicaid and non-government payors, respectively, at September 30, 2015 and 2014, respectively.

The Hospital believes it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

2. Net Patient Service Revenue and Charity Care (continued)

and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement through 2012 for Medicare and 1994 for Medicaid. Other years remain open for settlement.

During the Periods under Audit, the Hospital recorded an increase of \$10,170 and decreases in net patient service revenue of approximately \$550 and \$1,100, respectively, related to changes in previously estimated third-party payor settlements.

The following summarizes net patient service revenue:

	Year Ended September 30, 2015	Period From January 1, 2014 to September 30, 2014 <i>(As Adjusted)</i>	Predecessor Company Period From October 1, 2013 to December 31, 2013 <i>(As Adjusted)</i>
Gross patient service revenue	\$ 999,315	\$ 726,199	\$ 240,875
Deductions:			
Allowances	595,838	422,820	139,556
Charity care (at charges)	15,720	12,441	4,361
	<u>611,558</u>	<u>435,261</u>	<u>143,917</u>
Net patient service revenue	387,757	290,938	96,958
Provision for uncollectible accounts	13,942	22,340	4,056
Net patient service revenue less provision for uncollectible accounts	<u>\$ 373,815</u>	<u>\$ 268,598</u>	<u>\$ 92,902</u>

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

2. Net Patient Service Revenue and Charity Care (continued)

Patient service revenue, net of contractual allowances and charity care and before the provision for uncollectible accounts, recognized in the period from major payor sources is as follows:

	Year Ended September 30, 2015	Period From January 1, 2014 to September 30, 2014 <i>(As Adjusted)</i>	Predecessor Company
			Period From October 1, 2013 to December 31, 2013 <i>(As Adjusted)</i>
Third-party payors	\$ 371,548	\$ 278,511	\$ 91,977
Self-pay patients	16,209	12,427	4,981
	<u>\$ 387,757</u>	<u>\$ 290,938</u>	<u>\$ 96,958</u>

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

For the Periods under Audit the estimated cost of charity care provided was approximately \$5,641, \$4,277 and \$1,457, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital-specific data.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

3. Investments and Assets Limited as to Use

The composition of investments and assets limited as to use is set forth in the following table:

	September 30	
	2015	2014
	<i>(As Adjusted)</i>	
Cash and cash equivalents	\$ 13,983	\$ 13,897
Money market funds	8,744	23,405
Common collective funds	1,444	—
Mutual funds	174,535	152,379
Alternative investments (at equity method)	6,781	362
	<u>\$ 205,487</u>	<u>\$ 190,043</u>

Also included within assets limited as to use is a beneficial interest in a charitable remainder trust of \$7,556 and \$8,008 at September 30, 2015 and 2014, respectively.

Investment income, net, included in non-operating gains (losses) for the Periods under Audit consists of:

	Year Ended September 30, 2015	Period From January 1, 2014 to September 30, 2014	Predecessor Company Period From October 1, 2013 to December 31, 2013
Interest and dividend income	\$ 3,893	\$ 1,593	\$ 670
	<u>\$ 3,893</u>	<u>\$ 1,593</u>	<u>\$ 670</u>

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Values of Financial Instruments

For assets and liabilities required to be measured at fair value, the Hospital measures fair value 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 the unit of account from the Hospital'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) for purposes of applying other accounting pronouncements.

The Hospital follows a valuation hierarchy that is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined 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 that 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 Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value in the accompanying consolidated balance sheets are classified in the tables below in one of the three categories described above:

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 50,659	\$ --	\$ --	\$ 50,659
Investments and assets limited as to use:				
Cash and cash equivalents	13,983	--	--	13,983
Money market funds	8,744	--	--	8,744
Mutual funds:				
Domestic equity	80,293	--	--	80,293
International equity	30,857	--	--	30,857
Fixed income	63,385	--	--	63,385
Common collective funds:				
International equity	--	1,444	--	1,444
	\$ 247,921	\$ 1,444	\$ --	\$ 249,365

	September 30, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 80,871	\$ --	\$ --	\$ 80,871
Investments and assets limited as to use:				
Cash and cash equivalents	13,897	--	--	13,897
Money market funds	23,405	--	--	23,405
Mutual funds:				
Domestic equity	72,066	--	--	72,066
International equity	29,188	--	--	29,188
Fixed income	51,125	--	--	51,125
	\$ 270,552	\$ --	\$ --	\$ 270,552

The amounts reported in the tables above do not include alternative investments totaling \$6,781 and \$362 at September 30, 2015 and 2014, respectively, which are accounted for under the equity method of accounting. The Hospital has unfunded commitments to alternative investments of approximately \$3,186 as of September 30, 2015.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Values of Financial Instruments (continued)

Financial assets carried at fair value included in the defined benefit pension plan of NHA (see Note 6) are classified in the table below in one of the three categories described above:

	September 30, 2015			
	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	\$ 445	\$ --	\$ --	\$ 445
Mutual funds:				
Domestic equity	81,353	--	--	81,353
International equity	33,075	--	--	33,075
Fixed income	63,046	--	--	63,046
Common collective funds:				
International equity	--	1,685	--	1,685
Alternative investments	--	--	15,980	15,980
Unallocated immediate participation group annuity contract	--	148	--	148
	<u>\$ 177,919</u>	<u>\$ 1,833</u>	<u>\$ 15,980</u>	<u>\$ 195,732</u>
	September 30, 2014			
	Level 1	Level 2	Level 3	Fair Value
Cash and cash equivalents	\$ 1,413	\$ --	\$ --	\$ 1,413
Mutual funds:				
Domestic equity	96,660	--	--	96,660
International equity	31,719	--	--	31,719
Fixed equity	66,348	--	--	66,348
Alternative investments	--	--	5,012	5,012
Unallocated immediate participation group annuity contract	--	156	--	156
	<u>\$ 196,140</u>	<u>\$ 156</u>	<u>\$ 5,012</u>	<u>\$ 201,308</u>

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

4. Fair Values of Financial Instruments (continued)

Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based upon 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. Level 3 assets consist of alternative investments held by the defined benefit plan, the valuation for which is described in Note 1. Many of the investments categorized in Level 2 consist of shares or units in investment funds, as opposed to direct interests in the funds' underlying holdings, which may be marketable. Fair value for alternative investments is determined by the Hospital's management for each investment using net asset value as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value. The classification of the alternative investments in Level 2 or 3 is based, in part, on the Hospital's ability to redeem its interest at or near the measurement date. If the interest can be redeemed in the near term, the investment is classified in Level 2. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Further, 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 estimate of fair value at the reporting date.

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

	September 30	
	2015	2014
Beginning balance at October 1	\$ 5,012	\$ —
Purchases	11,045	5,000
Change in unrealized gains and losses	(77)	12
Ending balance at September 30	<u>\$ 15,980</u>	<u>\$ 5,012</u>

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

5. Pledges Receivable

Pledges receivable include the following unconditional promises to give:

	September 30	
	2015	2014
Due within one year	\$ 23,465	\$ 2,767
Due within two to five years	1,846	1,543
	<u>25,311</u>	<u>4,310</u>
Allowance and discount for uncollectible pledges	(262)	(307)
Present value of pledges receivable	<u>\$ 25,049</u>	<u>\$ 4,003</u>

The allowance recognizes the estimated uncollectible portion of pledges and the discount of pledges to net present value. Pledges are discounted using an average rate of .87% and .85% as of September 30, 2015 and 2014, respectively.

6. Long-Term Debt and Credit Facility

Long-term debt consisted of the following:

	September 30	
	2015	2014
The Norwalk Hospital revenue bonds financed with CHEFA:		
Series G	\$ —	\$ 22,104
Series H	—	7,585
Series I	—	8,904
Series J	—	84,696
Intercompany debt with Western Connecticut Health Network, Inc.	115,287	—
The Norwalk Hospital – Connecticut Hospital Association Trust	—	133
Norwalk Hospital – CHEFA loan	1,845	2,898
Norwalk Surgery Center – term loan	1,947	2,670
Norwalk Surgery Center – note payable	257	—
	<u>119,336</u>	<u>128,990</u>
Less current portion	7,647	7,039
	<u>\$ 111,689</u>	<u>\$ 121,951</u>

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Long-Term Debt and Credit Facility (continued)

The following is a summary of the combined aggregate amount of maturities and sinking fund requirements of the aforementioned obligations at September 30, 2015, according to their long-term amortization schedule and excluding the unamortized fair value adjustment recorded at the Transaction Date:

	Norwalk Hospital	Norwalk Surgery Center, LLC	Total
2016	\$ 6,769	\$ 878	\$ 7,647
2017	6,666	920	7,586
2018	6,180	406	6,586
2019	6,420	-	6,420
2020	6,655	-	6,655
Thereafter	83,355	-	83,355
	<u>\$ 116,045</u>	<u>\$ 2,204</u>	<u>\$ 118,249</u>

The fair value of the Hospital's long-term debt as determined by the Hospital's investment advisor using a discounted cash flow analysis was approximately \$118,606 and \$128,868 at September 30, 2015 and 2014, respectively. These fair values are categorized as Level 2 in the fair value hierarchy described in Note 4.

During the Periods under Audit, the Hospital paid interest of \$3,905, \$3,108 and \$1,663, respectively. The Hospital capitalized interest of approximately \$1,466 and \$2,126 for the years ended September 30, 2015 and 2014, respectively.

In 2015, Norwalk Surgery Center, LLC issued a note payable in connection with the repurchase of five shares of stock. The note is payable in 36 monthly installments of \$11, with interest at 3.25%.

On March 18, 2014, Norwalk Surgery Center, LLC obtained a \$3,020 four-year term loan from Siemens Financial Services. The loan bears interest at a fixed rate of 4.23%. Monthly payments of principal and interest are required based upon a four-year amortization schedule. The loan is secured by a first lien on all business assets of Norwalk Surgery Center, LLC. The proceeds of the loan were used to pay off the then-outstanding balance of a prior term loan with the Bank of Fairfield.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Long-Term Debt and Credit Facility (continued)

On December 7, 2012, the Hospital financed a portion of the construction of an outpatient pavilion and other equipment through the issuance of the State of Connecticut Health and Educational Facilities Authority (CHEFA) Revenue Bonds, Series J (Series J Bonds), in the original principal amount of \$82,000. Interest-only payments were required for the first two years of the Series J Bonds. In May 2015, the Hospital amended the loan agreement associated with the Series J Bonds (with principal then outstanding of \$80,935), primarily to reduce the interest rate and amend certain financial covenants. The amended loan terms qualified as an extinguishment of the debt under applicable accounting requirements. The Hospital recorded a gain on the extinguishment of long-term debt of \$2,625 in the consolidated statements of operations in 2015. The Series J Bonds are subject to mandatory tender on December 1, 2024 and bear interest at a rate per annum equal to 70% of the sum of the one-month LIBOR Rate plus 125 basis points. The interest rate on the Series J Bonds is reset monthly.

In connection with the loan amendment, the WCHN Obligated Group, as defined below, was expanded to include NHA and NHF, through the execution of Supplemental Master Trust Indenture No. 12., supplementing the Master Trust Indenture dated as of September 1, 1991 (the "WCHN Master Trust Indenture"). The WCHN Obligated Group consists of WCHN, DH, Western Connecticut Health Network Foundation, Inc. (WCHNF), Western Connecticut Medical Group, Inc., NHA and NHF (collectively, the WCHN Obligated Group). All members of the WCHN Obligated Group are jointly and severally liable under the WCHN Master Trust Indenture to make all payments required with respect to obligations under the WCHN Master Trust Indenture. As a result of these changes to the WCHN Obligated Group, the CHEFA series G, H, I and J revenue bonds are an obligation of the Obligated Group and the Hospital reflected its obligation to WCHN in its debt disclosures.

On December 7, 2012, NHA entered into an interest rate swap agreement to reduce interest rate volatility on the Series J Bonds. The swap confirmation has a notional amount of \$82,000. Under the terms of the confirmation, NHA pays a fixed rate of 1.2343% to the counterparty, and the counterparty pays a variable rate of 70% of one-month LIBOR to NHA. The payments under the swap confirmation are based on the outstanding notional amount; the notional amount will amortize at the same rate as the Series J Bonds. The payments under the swap confirmation effectively produce a synthetic fixed rate of 2.1093%, effective with the refinancing, on the Series J Bonds through December 1, 2024. The fair value of the interest rate swap at September 30, 2015 and 2014, based on the present value of future cash flows based on the mid-market gross value for similar financial instruments, was \$418 (liability) and \$2,510 (asset), respectively, categorized as Level 2 in the fair value hierarchy.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Long-Term Debt and Credit Facility (continued)

In 2011, the Hospital financed the construction of the parking garage and other equipment through a private placement of CHEFA Revenue Bonds, Series G, H, and I, in the aggregate principal amount of \$46,840. As of May 8, 2015, the repayment of the Series G, H and I Bonds are secured by the Gross Receipts pledged by the WCHN Obligated Group under the WCHN Master Trust Indenture. The WCHN Master Trust Indenture also establishes a debt service coverage ratio requirement and restricts the incurrence of certain indebtedness by the WCHN Obligated Group. No violations of financial covenants under the WCHN Master Trust Indenture existed as of September 30, 2015.

The Series G Bonds initially totaling \$25,000 mature serially through 2025 with interest at an annual rate of 5.12%. Interest on the bonds is payable semiannually each June 1 and December 1.

The Series H Bonds initially totaling \$10,040 mature serially through 2020 with interest at an annual rate of 3.49%. Interest on the bonds is payable semiannually each June 1 and December 1.

The Series I Bonds initially totaling \$11,800 mature serially through 2020 with interest at an annual rate of 3.4%. Interest on the bonds is payable semiannually each June 1 and December 1.

In 2007, the Hospital financed certain equipment related to an energy project through CHEFA, which issued \$9,066 in debt under a Master Financing Agreement (the Agreement), dated as of April 1, 2007, with Bank of America Public Capital Corp. as the lender (the Lender). The loan is payable in 120 equal installments of \$93 beginning June 3, 2007, with interest of 4.38%. The Hospital has granted a collateral interest to the Lender in the equipment financed.

In connection with this borrowing, the Hospital applied to the Department of Public Utility Control (DPUC) for a capital grant for customer-side distributed resources. Pursuant to the application, DPUC approved a rate reduction subsidy with regard to certain of the equipment financed under this Agreement. Effective July 3, 2010, the rate reduction subsidy of \$1 per month is remitted by the Connecticut Light and Power Company directly to the Lender and is recorded as a reduction to interest expense.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Long-Term Debt and Credit Facility (continued)

In 2007, the Hospital entered into an agreement with the Connecticut Hospital Association Trust (the Trust) to borrow up to \$2,000 from the energy conservation and loan management loan fund. The loan, which is interest-free, will enable the Hospital to convert electrical energy and to manage its electrical energy needs. The loan is payable in 84 equal monthly installments of \$22, beginning April 1, 2008. The loan was paid in full in fiscal year 2015.

In connection with the affiliation described in Note 1, long-term debt was adjusted to fair value at the Transaction Date, and the existing unamortized bond discount was written off. The fair value adjustment included a decrease in the carrying value of \$724, \$200, \$234, \$2,696, and \$105 related to the Series G, H, I, and J Bonds and the CHEFA loan, respectively, that is being amortized as interest expense using the effective-interest method over the remaining life of the bonds. Approximately \$1,256 of unamortized bond issuance costs was written off.

7. Pension Plans

The Hospital has a defined benefit pension plan (the Plan) covering all eligible employees. The benefits are based on years of service and the employee's average compensation (as defined in the Plan document). The Hospital's funding policy is to contribute, at a minimum, for each plan year, an amount necessary to satisfy the Employee Retirement Income Security Act (ERISA) minimum funding requirements.

Effective September 30, 2013, the Plan was frozen for all purposes (except as provided below) for those participants who are not covered by the collective bargaining agreement between the Hospital and the Connecticut Health Care Associates, National Union of Hospital and Health Care Employees, AFSCME, AFL-CIO Nurses' Union (Non-Union Participants). Subsequent to September 30, 2013, no Non-Union Participants shall accrue benefits under the Plan and no compensation or service after that date shall be taken into account in determining such participants' accrued benefits under the Plan, provided, however, that interest credits shall continue to be credited as required by applicable law. Plan participants who are members of the Connecticut Health Care Associates, National Union of Hospital and Health Care Employees, AFSCME, and AFL-CIO Nurses' Union, and who were employed by the Hospital on or before December 31, 2006 (when the Plan was frozen for all new hires), shall continue to accrue benefits under the Plan.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Pension Plans (continued)

Effective December 31, 2006, the Plan was amended to provide that no employees hired on or after January 1, 2007, would be eligible to participate in the Plan. Employees hired before that date, who satisfied the Plan's eligibility requirements, participated and earned benefits under the Plan until it was frozen as described above.

The following tables set forth the changes in benefit obligations, changes in Plan assets and components of net periodic benefit cost for the Plan:

	September 30, 2015	September 30, 2014	December 31, 2013
Change in benefit obligation			
Benefit obligations at beginning of period	\$ 222,292	\$ 187,980	\$ 198,076
Service cost	2,029	1,284	457
Interest cost	10,127	7,303	2,380
Actuarial loss (gain)	10,398	32,701	(10,524)
Benefits paid	(9,555)	(6,976)	(2,409)
Benefit obligations at end of period	235,291	222,292	187,980
Change in plan assets			
Fair value of plan assets at beginning of period	201,308	194,441	185,015
Actuarial return on plan assets	(3,021)	8,968	10,210
Employer contributions	7,000	4,875	1,625
Benefits paid	(9,555)	(6,976)	(2,409)
Fair value of plan assets, end of period	195,732	201,308	194,441
(Unfunded) funded status	\$ (39,559)	\$ (20,984)	\$ 6,461

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Pension Plans (continued)

	Year Ended September 30, 2015	January 1, 2014 to September 30, 2014	October 1, 2013 to December 31, 2013
Components of net periodic benefit cost			
Service cost	\$ 2,029	\$ 1,284	\$ 457
Interest cost	10,127	7,303	2,380
Expected return on plan assets	(15,076)	(10,896)	(3,529)
Amortization of net loss	932	—	790
Net periodic benefit (income) cost	<u>\$ (1,988)</u>	<u>\$ (2,309)</u>	<u>\$ 98</u>

The actuarial loss in 2015 primarily relates to changes in the discount rate and mortality table used to measure the benefit obligation.

As a result of the affiliation described in Note 1, the funded status of the Plan was adjusted to fair value on the Transaction Date.

Assumptions

Weighted-average assumptions used to determine benefit obligations

	2015	2014
Discount rate	4.49%	4.64%
Rate of increase in compensation	3.50	3.50

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Pension Plans (continued)

Weighted-average assumptions used to determine net periodic benefit (income) cost

	Year Ended September 30, 2015	January 1, 2014 to September 30, 2014	October 1, 2013 to December 31, 2013
Discount rate	4.64%	5.29%	4.90%
Expected long-term return on plan assets	7.50	7.50	8.00
Rate of increase in compensation	3.50	3.50	3.50

The Hospital's expected long-term rate of return on assets assumption is derived from a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the Plan to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. While the review gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate.

Amounts recorded in unrestricted net assets and not yet amortized as components of net periodic benefit costs total \$62,192 and \$34,628 as of September 30, 2015 and 2014, respectively, and represent unrecognized actuarial losses. The amortization of these components expected to be recognized in net periodic costs for the year ended September 30, 2016 is \$3,268.

The accumulated benefit obligation was \$229,204, \$216,483 and \$192,676 at September 30, 2015, September 30, 2014 and December 31, 2013, respectively. The Plan's measurement date is September 30.

Plan Assets

The Hospital maintains target allocation percentages among various asset classes based on an investment policy established for the Plan which is designed to achieve long-term objectives of return, while mitigating against downside risk and considering expected cash flows. The current weighted-average target asset allocation is 50% in equities, 25% in fixed income securities and 25% in alternative investments. The investment policy is reviewed from time to time to ensure consistency with the long-term objective of funding the Plan to a level sufficient to pay benefits as they become due.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

7. Pension Plans (continued)

As discussed in Note 4, the Hospital follows a three-level hierarchy to categorize assets measured at fair value. In accordance with the hierarchy, as of September 30, 2015 and 2014, 91%, 3% and 6% and 97%, 3% and 0%, respectively of the Plan's assets which are measured at fair value on a recurring basis were categorized as Level 1, Level 2 and Level 3 investments, respectively.

Contributions

Management expects to contribute \$7,000 to the Plan during fiscal year 2016.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	<u>Benefit Payments</u>
Fiscal years:	
2016	\$ 8,600
2017	8,930
2018	9,300
2019	9,800
2020	10,470
2021 to 2025	62,500

The Hospital also sponsors a defined contribution savings plan covering substantially all of its employees. Pension expense related to the Hospital's defined contribution plan was approximately \$5,214, \$5,330 and \$1,402 for the Periods under Audit, respectively.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

8. Professional Liability Self-Insurance

From October 1, 2005 through February 28, 2014, the Hospital was insured for general liability and professional liability claims by Maple Street Indemnity Company, Ltd. (MSI) on a claims-made basis. MSI, previously structured as a wholly owned subsidiary of NHSC, was a captive insurance company, incorporated under the laws of the Bermuda Monetary Authority. The Hospital had professional liability coverage through MSI of \$35,000 per claim and \$48,000 in the aggregate. MSI purchased \$30,000 of excess reinsurance coverage above a self-insured retention of \$5,000 per claim and \$18,000 in the aggregate.

Effective March 1, 2014, MSI merged with Western Connecticut Health Network Insurance Co., Ltd. (WCHNIC), a wholly owned subsidiary of DH. All claims prior to March 1, 2014, that were previously insured by MSI were assumed by WCHNIC through a loss portfolio transfer, and all risk was transferred.

Coverage for medical malpractice insurance with WCHNIC is on a claims-made basis. Effective March 1, 2014, the Hospital has professional liability coverage through WCHNIC of \$45,000 per claim and \$70,000 in the aggregate. WCHNIC purchased \$40,000 of excess reinsurance coverage above a self-insured retention of \$5,000 per claim and \$30,000 in the aggregate. The Hospital has recorded a liability of \$2,573 and \$3,618 at September 30, 2015 and 2014, respectively, based on a discount rate of 3.5% for incurred-but-not-reported claims, which is included in accrued pension liability and other on the accompanying consolidated balance sheets. In addition, medical malpractice insurance recoveries and the related claim liabilities of \$28,829 and \$34,725 are included in other assets and medical malpractice claims reserves, respectively, as of September 30, 2015 and 2014, respectively.

9. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets of \$59,821 and \$37,890 as of September 30, 2015 and 2014, respectively, include beneficial interest in a charitable remainder trust, the income of which is expendable to support health care services. Permanently restricted net assets of \$9,468 and \$9,462 as of September 30, 2015 and 2014, respectively, represent investments to be held in perpetuity, the income from which is expendable to support health care services.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

10. Endowments

The NHF endowment funds consist of donor-restricted funds to be invested in perpetuity to provide a permanent source of income. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NHF classifies net assets of donor-restricted endowment funds for organizations subject to an enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA). Connecticut enacted its UPMIFA statute effective October 1, 2007. This standard requires not-for-profit organizations subject to an enacted version of UPMIFA to classify the portion of the endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure by the organization. The portion to be classified as temporarily restricted consists of accumulated unspent income and appreciation.

Leadership of NHF has interpreted the Connecticut UPMIFA statute as requiring the preservation 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, NHF 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, NHF considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of NHF 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 NHF
- (7) The investment policies of NHF

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

10. Endowments (continued)

NHF 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 purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that NHF must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by NHF's Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, NHF 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). NHF targets a diversified asset allocation to achieve its long-term objective within prudent risk constraints. Each year, the NHF Board of Directors will approve an endowment and similar fund spending rate. The objectives of the portfolio are the enhancement of capital and real purchasing power while limiting exposure to risk of loss. The endowment spending rate will be calculated on the 13 quarter trailing average market value of each portfolio as of the prior May 31. The computed value may be adjusted for large contributions, withdrawals, or market value swings as necessary. A default spending cap on appreciation of seven percent in any given year is currently in effect. The NHF Board of Directors abides by these regulations and will adjust this rate accordingly.

Prior to the enactment of UPMIFA, NHF followed the provisions of the Uniform Management of Institutional Funds Act.

Endowment net asset composition by type of fund as of September 30, 2015 consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ --	\$ 2,594	\$ 9,468	\$ 12,062
Board designated endowment funds	9,725	--	--	9,725
Endowment funds at end of year	\$ 9,725	\$ 2,594	\$ 9,468	\$ 21,787

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

10. Endowments (continued)

Changes in endowment net assets for the year ended September 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds beginning of year	\$ —	\$ 3,905	\$ 9,462	\$ 13,367
Investment return:				
Investment income, net	43	239	—	282
Change in unrealized gains and losses	(318)	(1,301)	—	(1,619)
Total investment return	(275)	(1,062)	—	(1,337)
Contributions	10,000	—	6	10,006
Appropriation of endowment assets for expenditures	—	(249)	—	(249)
Endowment funds end of year	<u>\$ 9,725</u>	<u>\$ 2,594</u>	<u>\$ 9,468</u>	<u>\$ 21,787</u>

Endowment net asset composition by type of fund as of September 30, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ 3,905	\$ 9,462	\$ 13,367

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

10. Endowments (continued)

Changes in endowment net assets for the year ended September 30, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Endowment funds beginning of year	\$ 3,194	\$ 9,455	\$ 12,649
Investment return:			
Investment income	286	—	286
Net realized and unrealized gains and loss	542	—	542
Total investment return	828	—	828
Contributions	—	7	7
Appropriation of endowment assets for expenditures	(117)	—	(117)
Endowment funds end of year	<u>\$ 3,905</u>	<u>\$ 9,462</u>	<u>\$ 13,367</u>

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level fund of the corpus that UPMIFA requires NHF to retain as a fund of perpetual duration. These deficiencies result 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 deficiencies of this nature which were reported in unrestricted net assets for 2015 or 2014.

The Norwalk Hospital Association and Subsidiaries
Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

11. Related-Party Transactions

The Hospital has recorded amounts due from (to) related parties as follows:

	September 30	
	2015	2014
	<i>(As Adjusted)</i>	
Western Connecticut Health Network Affiliates, Inc.	\$ 9	\$ 9
Norwalk Health Care, Inc.	-	38
SWC Corporation	(246)	40
The Danbury Hospital	(5,191)	(576)
Western Connecticut Health Network, Foundation, Inc.	31	(124)
Western Connecticut Health Network, Inc.	(218)	-
Western Connecticut Medical Group, Inc.	(2,333)	(351)
	\$ (7,948)	\$ (964)

The Hospital earned income from related parties for the Periods under Audit as follows:

	Year Ended September 30, 2015	January 1, 2014 to September 30, 2014	October 1, 2013 to December 31, 2013
	<i>(As Adjusted)</i>		<i>(As Adjusted)</i>
Western Connecticut Medical Group, Inc.	\$ 823	\$ -	\$ -
SWC Corporation	201	151	50
	\$ 1,024	\$ 151	\$ 50

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

11. Related Party Transactions (continued)

The Hospital paid expenses to related parties for the Periods under Audit as follows:

	Year Ended September 30, 2015	January 1, 2014 to September 30, 2014 <i>(As Adjusted)</i>	October 1, 2013 to December 31, 2013 <i>(As Adjusted)</i>
SWC Corporation	\$ 3,576	\$ 2,694	\$ 954
Maple Street Indemnity Company, Ltd.	-	731	1,096
Western Connecticut Health Network Insurance Co.	8,027	-	-
The Danbury Hospital	447	-	-
Western Connecticut Medical Group, Inc.	16,027	351	-
	<u>\$ 28,077</u>	<u>\$ 3,776</u>	<u>\$ 2,050</u>

12. Norwalk Surgery Center, LLC

On May 31, 2012, the Hospital transferred assets associated with its off-site ambulatory surgery business to Norwalk Surgery Center, LLC. The Hospital owns 63.21% and 64.11% of Norwalk Surgery Center, LLC at September 30, 2015 and 2014, respectively. The Hospital has consolidated noncontrolling interests relating to its investment in Norwalk Surgery Center, LLC. These noncontrolling interests represent the portion of the Norwalk Surgery Center, LLC not controlled by the Hospital, but are required to be presented on the Hospital's consolidated balance sheet under GAAP. These interests were approximately \$2,035 and \$2,005 as of September 30, 2015 and 2014, respectively.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

12. Norwalk Surgery Center, LLC (continued)

Changes in consolidated unrestricted net assets attributable to the noncontrolling interest are as follows:

	<u>Noncontrolling Interest</u>
Balance at September 30, 2013 (Predecessor Company)	\$ 1,388
Excess of revenues over expenses (from continuing operations)	529
Distributions	(430)
Balance at December 31, 2013 (Predecessor Company)	<u>1,487</u>
Excess of revenues over expenses (from continuing operations)	1,117
Distributions	(574)
Other changes	(25)
Balance at September 30, 2014	<u>2,005</u>
Excess of revenues over expenses (from continuing operations)	1,968
Distributions	(2,088)
Other changes	150
Balance at September 30, 2015	<u>\$ 2,035</u>

13. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. While the outcomes of the lawsuits and claims cannot be determined at this time, management believes that any loss that may arise from these lawsuits and claims will not have a material adverse effect on the financial position or on the net assets of the Hospital.

The Hospital has received requests for information from governmental authorities relating to, among other things, patient billings. These requests relate to compliance with certain laws and regulations. Management is cooperating with these governmental authorities in their information requests and ongoing investigations. While management does not believe that any of these inquiries or investigations will result in a material future loss, the ultimate results of these inquiries and investigations, including the impact on the Hospital, cannot be determined at this time.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

13. Commitments and Contingencies (continued)

Workers' Compensation Insurance

The Hospital is self-insured for workers' compensation benefits. Estimated liabilities of \$2,725 and \$2,337, using a discount rate of 3.5%, have been accrued as of September 30, 2015 and 2014, respectively, based on expected future payments pertaining to such years and are included in accrued pension liability and other in the accompanying consolidated balance sheets.

Operating Leases

The Hospital leases property and equipment under noncancelable operating leases that expire in various years through 2028. Certain leases may be renewed at the end of their term.

Future minimum payments under noncancelable operating leases, and future receipts under noncancelable subleases where the Hospital is receiving rental receipts, with initial terms of one year or more consisted of the following at September 30, 2015:

	Operating Lease Payments	Sublease Rental Receipts
2016	\$ 8,252	\$ 2,993
2017	8,102	3,067
2018	8,236	2,836
2019	8,064	2,108
2020	8,047	1,838
Thereafter	41,475	2,870
	\$ 82,176	\$ 15,712

Rental expense for the Periods under Audit was approximately \$8,432, \$6,551 and \$2,111 respectively, and is included within supplies and other in the accompanying consolidated statements of operations. Rental revenue for the Periods under Audit was approximately \$4,978, \$3,118 and \$999, respectively, and is included within other operating revenue in the accompanying consolidated statements of operations.

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

14. Change in Components of Operating Assets and Liabilities

	Year Ended September 30, 2015	Period From January 1, 2014 to September 30, 2014 <i>(As Adjusted)</i>	Predecessor Company Period From October 1, 2013 to December 31, 2013 <i>(As Adjusted)</i>
(Increase) decrease in operating assets:			
Patient accounts receivable	\$ (16,884)	\$ (33,030)	\$ (7,468)
Due from related parties	47	1,893	(1,349)
Prepaid expenses and other	5,532	12,724	(368)
Inventories	(943)	394	(150)
Pledges receivable	(21,046)	2,218	1,470
	(33,294)	(15,801)	(7,865)
Increase (decrease) in operating liabilities:			
Accounts payable	(7,174)	2,997	3,630
Payroll-related accruals	(6,751)	4,207	(7,823)
Due to third-party payors	(8,159)	(195)	5,762
Due to related parties	6,937	(1,238)	1,678
Interest payable	(130)	425	(461)
Accrued pension liability and other	(15,388)	(20,900)	(2,840)
	(30,665)	(14,704)	(54)
Change in working capital other than cash and cash equivalents	\$ (63,959)	\$ (30,505)	\$ (7,919)

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

15. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the Periods under Audit are as follows:

	Year Ended September 30, 2015	Period From January 1, 2014 to September 30, 2014 <i>(As Adjusted)</i>	Predecessor Company Period From October 1, 2013 to December 31, 2013 <i>(As Adjusted)</i>
Health care services	\$ 242,224	\$ 166,360	\$ 53,094
General and administrative	127,641	99,730	31,829
Fundraising	2,086	1,186	412
	<u>\$ 371,951</u>	<u>\$ 267,276</u>	<u>\$ 85,335</u>

16. Other Operating Revenue

Other operating revenue consisted of the following for the Periods under Audit:

	Year Ended September 30, 2015	Period From January 1, 2014 to September 30, 2014 <i>(As Adjusted)</i>	Predecessor Company Period From October 1, 2013 to December 31, 2013 <i>(As Adjusted)</i>
Rental income	\$ 4,978	\$ 3,118	\$ 999
Grants	1,877	1,534	487
Cafeteria	1,885	1,216	388
EHR incentive payments	616	1,562	—
Patient services	1,256	913	295
Administrative services	907	693	240
Other	2,485	1,453	390
	<u>\$ 14,004</u>	<u>\$ 10,489</u>	<u>\$ 2,799</u>

The Norwalk Hospital Association and Subsidiaries

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

17. Subsequent Events

The Hospital has performed an evaluation of subsequent events through January 28, 2016, the date the consolidated financial statements were issued, and noted the following subsequent events.

In September 2015, the Board approved the merger of the Retirement Plan for Employees of The Norwalk Hospital into the WCHN Pension Plan effective December 31, 2015. All plan assets and benefit obligations were transferred to WCHN as of the effective date.

In November 2015, Western Connecticut Health Network Investments, LLC (WCHN Investments), a wholly owned subsidiary of WCHN, was formed for the purpose of pooling the long-term investments of NHA, NHF, DH, and WCHNF. On December 31, 2015, the long term investments of NHA and NHF were contributed to WCHN Investments. In exchange, NHA and NHF received a pro rata share of the combined investments and investment returns of WCHN Investments. WCHN Investments became a member of the WCHN Obligated Group.

No other events have occurred that require disclosure in or adjustment to the accompanying consolidated financial statements.

Supplementary Information

The Norwalk Hospital Association and Subsidiaries

Consolidating Balance Sheet

September 30, 2015

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Hospital Physicians & Surgeons, Inc.	Norwalk Hospital Foundation, Inc.	Eliminations	Total
Assets						
Current assets:						
Cash and cash equivalents	\$ 43,468	\$ 1,312	\$ -	\$ 5,879	\$ -	\$ 50,659
Investments, current portion	8,796	-	-	5,187	-	13,983
Patient accounts receivable, net	44,470	1,158	-	-	-	45,628
Due from related parties	50	-	-	31	(41)	40
Pledges receivable, current portion	-	-	-	23,303	-	23,303
Inventories	2,726	278	-	-	-	3,004
Prepaid expenses and other	4,288	55	-	32	-	4,375
Total current assets	105,798	2,803	-	34,432	(41)	140,992
Assets limited as to use:						
Funds restricted by donor	-	-	-	33,857	-	33,857
Board designated funds	-	-	-	28,493	-	28,493
Beneficial interest in charitable remainder trusts	7,556	-	-	-	-	7,556
Construction funds	8,743	-	-	-	-	8,743
Total assets limited as to use	16,299	-	-	62,350	-	78,649
Investments	120,411	-	-	-	-	120,411
Other assets	29,615	-	-	-	-	29,615
Beneficial interest in Norwalk Hospital Foundation, Inc.	98,322	-	-	-	(98,322)	-
Investment in joint venture	1,640	-	-	-	-	1,640
Goodwill	-	4,142	-	-	(4,142)	-
Property, plant and equipment:						
Land and land improvements	27,942	-	-	-	-	27,942
Buildings and building improvements	229,740	-	-	-	-	229,740
Equipment and other	274,547	2,564	-	131	304	277,546
Construction in progress	86,191	-	-	-	-	86,191
Less: Accumulated depreciation	618,420	2,564	-	131	304	621,419
Total property, plant, and equipment	349,245	1,413	-	131	-	350,789
Pledges receivable, less current portion	269,175	1,151	-	-	304	270,630
Bond issuance costs, net	285	-	-	1,746	-	1,746
Total assets	\$ 639,545	\$ 8,096	\$ -	\$ 98,528	\$ (102,201)	\$ 643,968

The Norwalk Hospital Association and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2015

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Hospital Physicians & Surgeons, Inc.	Norwalk Hospital Foundation, Inc.	Eliminations	Totals
Liabilities and net assets						
Current liabilities:						
Accounts payable	\$ 26,670	\$ 105	\$ —	\$ —	\$ —	\$ 26,775
Payroll-related accruals	15,029	138	—	—	—	15,167
Due to third-party payors	27,894	—	—	—	—	27,894
Due to related parties	7,983	—	—	46	(41)	7,988
Interest payable	649	3	—	—	—	652
Current portion of long-term debt	6,769	878	—	—	—	7,647
Other accrued expenses	—	17	—	—	—	17
Total current liabilities	84,994	1,141	—	46	(41)	86,140
Accrued pension liability and other	65,228	43	—	—	—	65,271
Interest rate swap	418	—	—	—	—	418
Medical malpractice claims reserves	28,829	—	—	—	—	28,829
Long-term debt, less current portion	110,363	1,326	—	—	—	111,689
Total liabilities	289,832	2,510	—	46	(41)	292,347
Net assets:						
Unrestricted	280,584	3,551	—	36,748	(40,586)	280,297
Unrestricted attributable to noncontrolling interest	—	2,035	—	—	—	2,035
Temporarily restricted	59,661	—	—	52,266	(52,106)	59,821
Permanently restricted	9,468	—	—	9,468	(9,468)	9,468
Total net assets	349,713	5,586	—	98,482	(102,160)	351,621
Total liabilities and net assets	\$ 639,545	\$ 8,096	\$ —	\$ 98,528	\$ (102,201)	\$ 643,968

The Norwalk Hospital Association and Subsidiaries

Consolidating Statement of Operations

Period from October 1, 2014 to September 30, 2015

	Norwalk Hospital Association	Norwalk Surgery Center LLC	Norwalk Hospital Physicians & Surgeons, Inc.	Norwalk Hospital Foundation, Inc.	Eliminations	Total
Unrestricted revenues						
Net patient service revenue	\$ 368,624	\$ 12,589	\$ 6,544	\$ -	\$ -	\$ 387,757
Provision for uncollectible accounts	13,113	169	660	-	-	13,942
Net patient service revenue, less provision for uncollectible accounts	355,511	12,420	5,884	-	-	373,815
Net assets released from restrictions	1,492	-	99	162	-	1,753
Other operating revenue	14,524	7	6,741	-	(7,268)	14,004
	371,527	12,427	12,724	162	(7,268)	389,572
Expenses						
Salaries, benefits and fees	207,752	2,015	10,266	-	(6,704)	213,329
Supplies and other	105,305	4,133	2,012	162	(456)	111,176
Insurance	7,524	-	338	-	-	7,862
Depreciation and amortization	20,264	414	108	-	-	20,786
Interest	1,952	116	-	-	-	2,068
State of Connecticut Hospital Tax	14,644	-	-	-	-	14,644
	357,441	6,698	12,724	162	(7,160)	369,865
Income from operations before gain on extinguishment of long-term debt	14,086	5,729	-	-	(108)	19,707
Gain on extinguishment of long-term debt	2,625	-	-	-	-	2,625
Income from operations	16,711	5,729	-	-	(108)	22,332
Nonoperating gains (losses)						
Contributions	-	-	-	31,165	-	31,165
Investment income, net	3,201	9	-	683	-	3,893
Change in unrealized gains and losses on investments	(4,977)	-	-	(1,558)	-	(6,535)
Operating expenses of Norwalk Hospital Foundation, Inc.	-	-	-	(2,194)	108	(2,086)
Change in equity interest in unrestricted net assets of Norwalk Hospital Foundation, Inc.	28,096	-	-	-	(28,096)	-
Interest rate swap activity:						
Interest cost on interest rate swap	(356)	-	-	-	-	(356)
Change in value of interest rate swap	(2,928)	-	-	-	-	(2,928)
	(3,284)	-	-	-	-	(3,284)
	23,036	9	-	28,096	(27,988)	23,153
Excess of revenues over expenses, before noncontrolling interest in joint venture	39,747	5,738	-	28,096	(28,096)	45,485
Less: net income attributable to noncontrolling interest	-	(1,968)	-	-	-	(1,968)
Excess of revenues over expenses	\$ 39,747	\$ 3,770	\$ -	\$ 28,096	\$ (28,096)	\$ 43,517

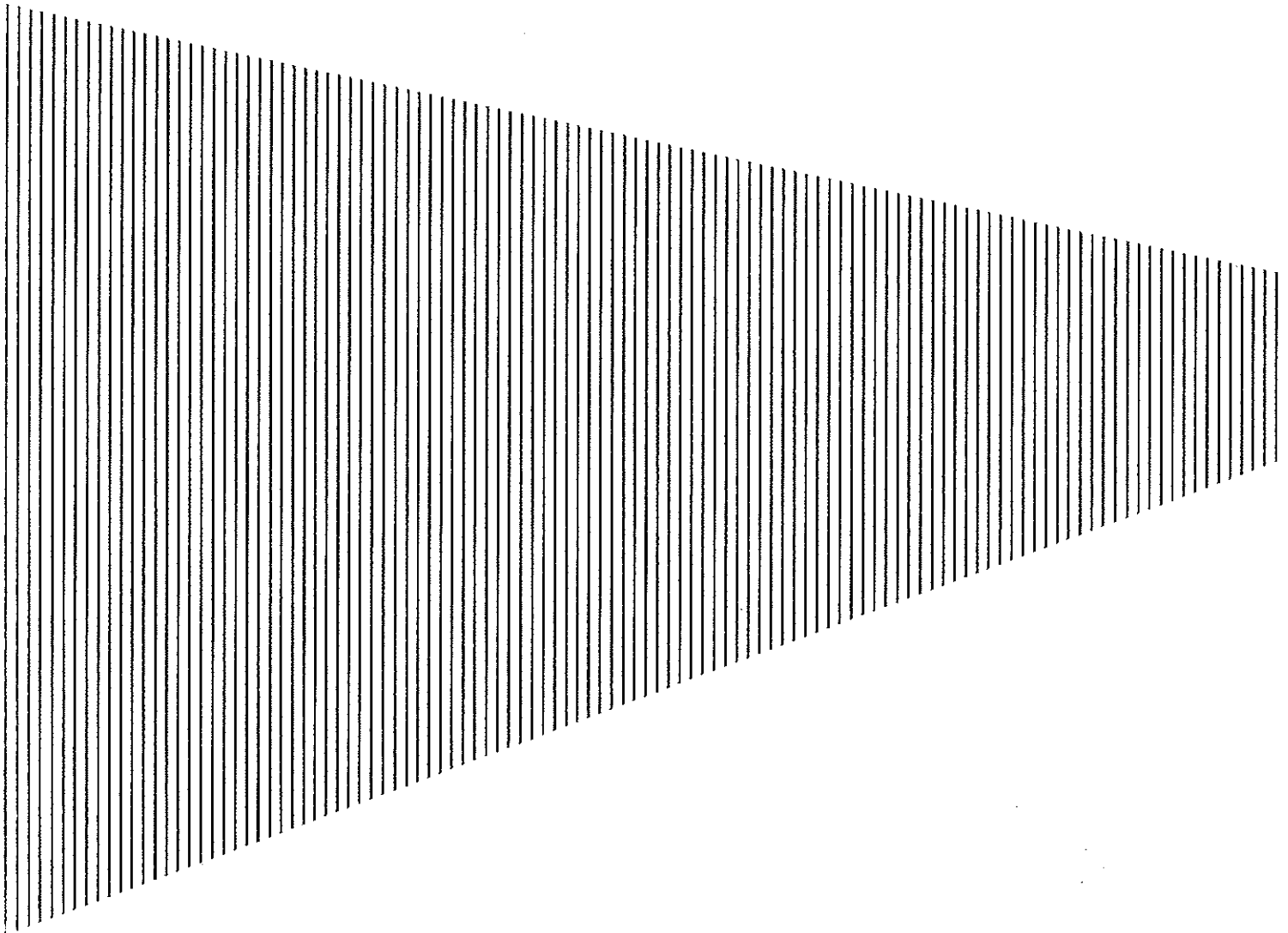
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