

**THE CHARLOTTE HUNGERFORD HOSPITAL**

**FINANCIAL STATEMENTS**

September 30, 2016 and 2015

THE CHARLOTTE HUNGERFORD HOSPITAL

FINANCIAL STATEMENTS  
September 30, 2016 and 2015

CONTENTS

INDEPENDENT AUDITOR'S REPORT .....	1
FINANCIAL STATEMENTS:	
BALANCE SHEETS .....	3
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS .....	4
STATEMENTS OF CASH FLOWS.....	6
NOTES TO THE FINANCIAL STATEMENTS.....	7

## INDEPENDENT AUDITOR'S REPORT

To the Board of Governors of  
The Charlotte Hungerford Hospital:

**Report on the Financial Statements**

We have audited the accompanying financial statements of The Charlotte Hungerford Hospital (the Hospital), a Connecticut not-for-profit, non-stock corporation, which comprise the balance sheets as of September 30, 2016 and 2015, and the related statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

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

***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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

---

(Continued)

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Charlotte Hungerford Hospital as of September 30, 2016 and 2015, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**CROWE HORWATH LLP**  
Crowe Horwath LLP

Simsbury, Connecticut  
January 25, 2017

THE CHARLOTTE HUNGERFORD HOSPITAL  
BALANCE SHEETS  
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,634,923	\$ 5,598,887
Accounts receivable (less allowance for doubtful accounts of \$2,021,028 in 2016 and \$2,065,788 in 2015)	12,967,655	13,732,468
Inventories	2,014,584	1,969,907
Other current assets	<u>1,629,999</u>	<u>1,624,373</u>
Total current assets	23,247,161	22,925,635
Assets whose use is limited:		
Investments held in trust for estimated self-insurance liabilities	3,595,585	3,554,247
Investments held under bond indentures	10,851,304	-
Donor restricted assets	6,646,114	6,997,698
Beneficial interest in assets held in trust by others	<u>20,312,336</u>	<u>19,644,506</u>
Total assets whose use is limited	41,405,339	30,196,451
Long-term investments	35,437,220	39,204,252
Property, plant and equipment:		
Land	155,467	155,467
Land improvements	6,141,173	6,065,958
Buildings	87,737,951	85,337,412
Fixed equipment	18,211,110	17,320,195
Moveable equipment	<u>54,184,457</u>	<u>51,167,168</u>
	166,430,158	160,046,200
Less: accumulated depreciation	<u>(126,819,150)</u>	<u>(120,950,456)</u>
	39,611,008	39,095,744
Construction in progress	<u>2,833,092</u>	<u>737,026</u>
Total property, plant and equipment	42,444,100	39,832,770
Other assets	<u>1,111,076</u>	<u>1,088,648</u>
Total assets	<u>\$ 143,644,896</u>	<u>\$ 133,247,756</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable	\$ 7,390,496	\$ 8,062,260
Estimated amounts due to third-party reimbursement agencies	4,408,534	2,797,659
Accrued salaries, wages and fees	4,912,249	4,471,292
Current portion of long-term debt	650,000	-
Other current liabilities	<u>543,860</u>	<u>531,004</u>
Total current liabilities	17,905,139	15,862,215
Estimated self-insurance liabilities	4,200,015	3,763,019
Long-term debt, net of current portion	12,025,000	-
Accrued pension liability	<u>53,813,088</u>	<u>42,419,641</u>
Total liabilities	87,943,242	62,044,875
Net assets:		
Unrestricted	28,743,204	44,560,677
Temporarily restricted	2,893,733	3,245,317
Permanently restricted	<u>24,064,717</u>	<u>23,396,887</u>
Total net assets	<u>55,701,654</u>	<u>71,202,881</u>
Total liabilities and net assets	<u>\$ 143,644,896</u>	<u>\$ 133,247,756</u>

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

THE CHARLOTTE HUNGERFORD HOSPITAL  
 STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS  
 For the years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted revenues:		
Net patient service revenues	\$ 112,296,101	\$ 116,129,644
Provision for bad debts, net of recoveries	<u>(2,054,040)</u>	<u>(2,393,914)</u>
Net patient service revenues less provision for bad debts	110,242,061	113,735,730
Other revenues	<u>6,483,839</u>	<u>6,810,204</u>
Total revenues	116,725,900	120,545,934
Expenses:		
Salaries and wages	55,898,471	57,705,714
Services	19,267,212	18,746,264
Supplies	15,365,100	15,718,481
Employee benefits	13,950,696	14,254,317
Depreciation and amortization	6,335,613	5,917,387
Physician fees	8,379,952	5,055,157
Repairs and maintenance	2,556,682	2,174,074
Insurance	<u>1,748,447</u>	<u>2,407,852</u>
Total expenses	<u>123,502,173</u>	<u>121,979,246</u>
Operating loss	(6,776,273)	(1,433,312)
Other income (expenses):		
Investment and other income, net	3,237,215	2,896,009
Non-operating expenses	(1,762,458)	(289,870)
Gifts and bequests	434,158	323,459
Gain from equity method investments	<u>52,413</u>	<u>31,113</u>
Total other income	<u>1,961,328</u>	<u>2,960,711</u>
Excess (deficiency) of revenues over expenses	<u>\$ (4,814,945)</u>	<u>\$ 1,527,399</u>

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

THE CHARLOTTE HUNGERFORD HOSPITAL  
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)  
For the years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted net assets:		
Excess (deficiency) of revenues over expenses	\$ (4,814,945)	\$ 1,527,399
Change in unrealized gains (losses) on investments	1,057,285	(2,530,303)
Pension related changes other than net periodic pension costs	<u>(12,059,813)</u>	<u>(13,805,331)</u>
Change in unrestricted net assets	(15,817,473)	(14,808,235)
Temporarily restricted net assets:		
Investment income	40,265	145,921
Contributions	246,476	175,117
Change in unrealized losses on investments	(50,405)	(288,680)
Net assets released from restrictions	<u>(587,920)</u>	<u>(295,159)</u>
Change in temporarily restricted net assets	(351,584)	(262,801)
Permanently restricted net assets:		
Change in beneficial interest in assets held in trust by others	<u>667,830</u>	<u>1,755,084</u>
Change in permanently restricted net assets	<u>667,830</u>	<u>1,755,084</u>
Change in net assets	(15,501,227)	(13,315,952)
Net assets, beginning of year	<u>71,202,881</u>	<u>84,518,833</u>
Net assets, end of year	<u>\$ 55,701,654</u>	<u>\$ 71,202,881</u>

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

THE CHARLOTTE HUNGERFORD HOSPITAL  
 STATEMENTS OF CASH FLOWS  
 For the years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (15,501,227)	\$ (13,315,952)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,335,613	5,917,387
Realized gains on investments	(2,004,943)	(1,460,055)
Unrealized (gains) losses on investments	(887,580)	2,818,985
Increase in beneficial interest in assets held in trust by others	(667,830)	(1,755,084)
Unrealized (gains) losses on donor restricted assets	(119,313)	262,801
Provision for bad debts, net of recoveries	2,054,040	2,393,914
Loss (gain) on disposal of equipment	6,976	(2,304)
Changes in assets and liabilities:		
Accounts receivable	(1,289,227)	(2,973,803)
Inventories	(44,677)	(17,646)
Other current assets	(5,626)	547,397
Other assets, net	(52,121)	(48,452)
Accounts payable	(671,764)	786,790
Estimated amounts due to third-party reimbursement agencies	1,610,875	920,284
Accrued salaries, wages and fees	440,957	14,982
Other current liabilities	12,856	(184,522)
Estimated self-insurance liabilities	436,996	(208,321)
Accrued pension liability	<u>11,393,447</u>	<u>10,834,453</u>
Net cash provided by operating activities	1,047,452	4,530,854
Cash flows from investing activities:		
Proceeds from sales of investments	15,536,755	5,347,812
Purchases of investments	(19,298,945)	(5,032,983)
Purchases of property, plant and equipment	<u>(8,924,226)</u>	<u>(6,470,146)</u>
Net cash used in investing activities	(12,686,416)	(6,155,317)
Cash flows from financing activities:		
Proceeds from borrowings of long-term debt	13,000,000	-
Principal payments on long-term debt	<u>(325,000)</u>	<u>-</u>
Net cash provided by financing activities	<u>12,675,000</u>	<u>-</u>
Net change in cash and cash equivalents	1,036,036	(1,624,463)
Cash and cash equivalents, beginning of year	<u>5,598,887</u>	<u>7,223,350</u>
Cash and cash equivalents, end of year	<u>\$ 6,634,923</u>	<u>\$ 5,598,887</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 104,347</u>	<u>\$ -</u>

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



THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 1 - GENERAL**

Organization: The Charlotte Hungerford Hospital (the Hospital), located in Torrington, Connecticut, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient and emergency care services for the residents of northwestern Connecticut.

In August 2016, the Hospital's Board of Governors entered into a formal affiliation agreement with Hartford HealthCare. On November 28, 2016, the Hospital and Hartford HealthCare filed a Certificate of Need (CON) application with the Connecticut State Department of Public Health's Office of Health Care Access and the Office of the Attorney General to approve the affiliation with Hartford HealthCare. If approved the Hospital would become part of the Hartford HealthCare network.

As of September 30, 2016, management has not received all regulatory approvals to fully execute an affiliation agreement. The Hospital will continue with its normal operations for the foreseeable future.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation: The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates relate to contractual allowances and the allowance for doubtful accounts on patient accounts receivable, self-insurance liabilities, valuation of investments, estimated settlements due to third-party reimbursement agencies and pension plan assumptions. Actual results could differ from those estimates.

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

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

*Temporarily restricted* - Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure.

*Permanently restricted* - Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that the income earned thereon be available for operations and beneficial interest in assets held in trust by others.

Assets Held in Trust by Others: The Hospital has been named sole or participating beneficiary in several perpetual trusts. Under the terms of these trusts, the Hospital has the irrevocable right to receive the income earned on the trust assets in perpetuity. The estimated present value of the future payments to the Hospital is recorded at the fair value of the assets held in the trust. Fluctuations in the value of such assets are recognized as changes in permanently restricted net assets.

---

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Recognition of Grant Revenue: Grants are generally considered to be exchange transactions in which the grantor requires the performance of specified activities. Entitlement to cost reimbursement grants is conditioned on the expenditure of funds in accordance with grant restrictions and, therefore, revenue is recognized to the extent of grant expenditures. Entitlement to performance based grants is conditioned on the attainment of specific performance goals and, therefore, revenue is recognized to the extent of performance achieved. The Hospital recognized \$2,258,825 and \$2,080,269 of grant revenue, included in other revenues, for the years ended September 30, 2016 and 2015, respectively. Grant receipts in excess of revenues recognized are presented as deferred grant support. Deferred grant support of \$81,122 and \$300,778 is included in other current liabilities in the accompanying balance sheets as of September 30, 2016 and 2015, respectively.

Cash and Cash Equivalents: Cash and cash equivalents include highly liquid investments with maturities of three months or less when purchased. In general, the Federal Deposit Insurance Corporation (FDIC) insures cash balances up to \$250,000 per depositor, per bank. It is the Hospital's policy to monitor the financial strength of the banks that hold its deposits on an ongoing basis. During the normal course of business, the Hospital maintains cash balances in excess of the FDIC insurance limit.

Inventories: Inventories, used in general operations of the Hospital, are stated at the lower of cost or market. Cost is determined by the specific identification method.

Investments: The Hospital accounts for its investments in accordance with FASB ASC 320, *Investments - Debt and Equity Securities*. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying balance sheets. Management determines the appropriate classification of its investments in invested securities at the time of the purchase and reevaluates such determination at each balance sheet date. Investment income (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenues over expenses.

All of the Hospital's investments, as of September 30, 2016 and 2015, were classified as available for sale. Available for sale securities may be sold prior to maturity and are carried at fair value.

Assets Whose Use is Limited: Assets whose use is limited include assets set aside for self-insurance trust arrangements, assets held by trustees under bond indenture agreements, donor restricted endowments and assets held in trust by others.

Fair Value Measurements: The Hospital classifies its investments in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value under GAAP and requires certain disclosures about fair value measurements (see Note 5). The definition of fair value under FASB ASC 820 focuses on the price that would be received to sell the asset, which is referred to as the exit price.

---

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Other Than Temporary Impairments on Investments: The Hospital accounts for other than temporary impairments in accordance with certain provisions of FASB ASC 320 *Investments - Debt and Equity Securities* and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairments recorded in 2016 or 2015.

Federal Income Taxes: The Hospital is a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

The Hospital accounts for uncertain tax positions in accordance with provisions of FASB ASC 740, *Income Taxes* which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Hospital does not have any uncertain tax positions as of September 30, 2016 or 2015. As of September 30, 2016 or 2015, the Hospital did not record any penalties or interest associated with uncertain tax positions. The Hospital would recognize interest and/or penalties related to income tax matters in income tax expense. The Hospital's prior three tax years are open and subject to examination.

Property, Plant and Equipment: Property, plant and equipment purchased by the Hospital is recorded at cost, or if received as a donation, at fair value on the date received. The Hospital provides for depreciation of property, plant and equipment for financial reporting purposes using the straight-line method over the estimated useful lives of the various assets. American Hospital Association lives are generally used and provide for a 15-50 year life for buildings and a 3-20 year life for building fixtures and equipment. Leased equipment is amortized on a straight-line basis over the shorter of the life of the applicable lease or life of the leased asset.

Depreciation expense was \$6,305,920 and \$5,879,781 for the years ended September 30, 2016 and 2015, respectively.

---

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments in Joint Ventures: The Hospital has invested in certain joint ventures which are accounted for under the equity method of accounting and included within other assets on the balance sheets. The Hospital's investment in these joint ventures is as follows:

	<u>Ownership Percentage</u>
Advanced Medical Imaging of Northwest CT, LLC (AMI)	50%
MedConn Collection Agency, LLC (MedConn)	33%
Urology Center of Northwest CT, LLC (Urology)	62.5%

The Hospital has recorded its share of AMI's net income of \$644,018 and \$506,231 within other revenues as of September 30, 2016 and 2015, respectively, as these services are a component of the Hospital operations. In addition, the 62.5% investment in Urology is presented under the equity method of accounting as it is immaterial to present in a consolidated presentation. The Hospital has recorded an asset of \$18,617 and \$42,886 related to the ownership of Urology as of September 30, 2016 and 2015, respectively. The Hospital has recorded its share of MedConn and Urology's net income of \$52,413 and \$31,113 in gain from equity method investments as of September 30, 2016 and 2015.

Other Income: Activities other than in connection with providing health care services are considered to be non-operating. Non-operating income consists primarily of income on investment funds, unrestricted gifts and bequests and gains from equity method investments.

Statements of Operations and Changes in Net Assets: For purposes of display, transactions deemed by management to be ongoing, major or central to the providing of healthcare services are reported as operating revenues and expenses. Investment income and realized gains and losses on securities are considered non-operating activity. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, except for losses that are deemed to be other than temporary, certain changes in pension liabilities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net assets or the change in net assets.

Subsequent Events: Subsequent events have been evaluated through January 25, 2017, the date through which procedures were performed to prepare the financial statements for issuance. Management believes there are no subsequent events having a material impact on the financial statements.

---

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

**NOTE 3 - REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE**

The following tables reconcile gross revenues to net revenues from services to patients:

	2016				
	Medicare	Medicaid and Medicaid HMOs	Blue Cross	Other	Total
Gross revenues from services to patients	\$ 141,282,183	\$ 65,352,800	\$ 29,758,781	\$ 57,669,060	\$ 294,062,824
Deductions and allowances	<u>(86,915,241)</u>	<u>(48,504,181)</u>	<u>(14,213,717)</u>	<u>(32,133,584)</u>	<u>(181,766,723)</u>
Net revenues from services to patients	<u>\$ 54,366,942</u>	<u>\$ 16,848,619</u>	<u>\$ 15,545,064</u>	<u>\$ 25,535,476</u>	<u>\$ 112,296,101</u>
	2015				
	Medicare	Medicaid and Medicaid HMOs	Blue Cross	Other	Total
Gross revenues from services to patients	\$ 137,901,587	\$ 61,199,842	\$ 27,818,056	\$ 56,786,623	\$ 283,706,108
Deductions and allowances	<u>(81,418,666)</u>	<u>(43,357,625)</u>	<u>(12,626,338)</u>	<u>(30,173,835)</u>	<u>(167,576,464)</u>
Net revenues from services to patients	<u>\$ 56,482,921</u>	<u>\$ 17,842,217</u>	<u>\$ 15,191,718</u>	<u>\$ 26,612,788</u>	<u>\$ 116,129,644</u>

**Net Patient Service Revenues and Net Accounts Receivable:** Net patient service revenue is reported at the established net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Net patient service revenue and accounts receivable are recorded when patient services are performed. Amounts received from most third-party payors are different from established billing rates of the Hospital, based on agreements with these payors, and these differences are accounted for as contractual allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, per diem payments, and discounted charges, including estimated retroactive settlements under payment agreements with third-party payors. Adjustments and settlements under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are provided and adjusted in future periods as final settlements are determined.

For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue based on its discounted rates. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Patient accounts receivable are based on gross charges and stated at net realizable value. Accounts receivable are reduced by an allowance for contractual adjustments, based on expected payment rates from payors under current reimbursement methodologies, and also by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate appropriate allowance for doubtful accounts and provision for bad debts based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for contractual adjustments and allowance for doubtful accounts.

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 3 - REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE (Continued)**

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and co-payment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

For uninsured patients that do not qualify for financial assistance, the Hospital offers a discount off its standard rates for services provided. The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible. The Hospital's allowance for doubtful accounts covers all accounts greater than six months for both self-pay accounts receivable and third party payors as of September 30, 2016 and 2015. The Hospital's provision for bad debts before recoveries totaled \$3,814,026 and \$3,985,617 for 2016 and 2015, respectively. The Hospital's bad debt recoveries totaled \$1,759,986 and \$1,591,703 for 2016 and 2015, respectively. The Hospital did not change its charity care or financial assistance policy during 2016 or 2015.

At September 30, 2016 and 2015, 63% and 64% of net patient accounts receivable were from governmental payors (Medicare and Medicaid) and 37% and 36% were from nongovernmental payors, respectively. Nongovernmental payors are primarily insurance companies and self-pay payors. Management has recorded an allowance for doubtful accounts, as noted above, which, in its opinion, is sufficient to provide for risk of nonpayment.

Charity Care: It is an inherent part of the Hospital's mission to provide necessary medical care free of charge, or at a discount, to individuals without insurance or other means of paying for such care. As the amounts determined to qualify for charity care are not pursued for collection, they are not reported as net patient service revenue. Patients who would otherwise qualify for charity care but who do not provide adequate information would be characterized as bad debt and included in the provision for bad debts. The amount of traditional charity care provided, determined on the basis of cost, was \$817,622 and \$695,328 for the years ended September 30, 2016 and 2015, respectively. The Hospital released assets whose use was restricted to fund free-care of \$69,519 and \$37,174, for the years ending September 30, 2016 and 2015, respectively.

Federal Regulatory Environment: The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Government activity continues to increase with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. While no known regulatory inquiries are pending, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions known or unasserted at this time.

---

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 4 - INVESTMENTS**

Market values of investments, as of September 30, 2016 and 2015, are summarized as follows:

	<u>2016</u>	<u>2015</u>
Long-term investments: (including Board and donor restricted)		
Equity securities	\$ 26,529,873	\$ 28,652,281
Corporate bonds	5,509,556	7,343,599
Mutual and exchange traded funds	4,458,433	5,601,435
Money market funds	15,353,891	3,269,362
Certificates of deposit	973,253	1,222,102
Municipal bonds	109,161	112,545
U.S. treasury and government agencies	<u>471</u>	<u>626</u>
 Total	 <u>\$ 52,934,638</u>	 <u>\$ 46,201,950</u>
 Investments held in trust for estimated self-insurance liabilities:		
Mutual funds	\$ 811,213	\$ 2,249,107
Money market funds	<u>2,784,372</u>	<u>1,305,140</u>
	<u>\$ 3,595,585</u>	<u>\$ 3,554,247</u>

Beneficial interest in assets held in trust of \$20,312,366 and \$19,644,506, as of September 30, 2016 and 2015, respectively, are held by bank trustees and are not under the Hospital's investment control. These assets are invested within diversified portfolios.

Investment and other income net is comprised of the following for the years ended September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Income, gains and (expenses):		
Interest and dividend income	\$ 1,610,862	\$ 1,814,779
Realized and unrealized gains on securities	2,892,523	(1,358,930)
Expenses	<u>(219,025)</u>	<u>(232,902)</u>
 Total	 <u>\$ 4,284,360</u>	 <u>\$ 222,947</u>

---

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 5 - FAIR VALUE MEASUREMENTS**

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Hospital's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Hospital has the ability to access as of the measurement date. The fair values of money market funds, exchange traded funds, mutual funds, the self insurance trust and equity securities that are readily marketable are determined by obtaining quoted prices from nationally recognized securities exchanges. The unit investment trust is valued at the closing price reported on the active market on which the individual trust is traded.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The fair values of the Hospital's Level 2 corporate, foreign, U.S. treasury and government agency and municipal bonds were determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. The fair value of certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. Funds held in trust by others represents beneficial interest in certain assets held by third parties. These interests are classified as Level 3 investments as the reported fair values are based on a combination of Level 1 and Level 2 inputs and significant unobservable inputs as determined by the trustees who exercise control over the investments.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

---

(Continued)



THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

**NOTE 5 - FAIR VALUE MEASUREMENTS** (Continued)

The following table presents the financial instruments, carried at fair value as of September 30, 2016, by the valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 15,353,891	\$ -	\$ -	\$ 15,353,891
Certificates of deposit	-	973,253	-	973,253
Equity securities:				
Industrials	3,005,210	-	-	3,005,210
Consumer discretionary	2,227,674	-	-	2,227,674
Financials	3,476,777	-	-	3,476,777
Technology	5,629,458	-	-	5,629,458
Consumer staples	2,849,100	-	-	2,849,100
Health care	4,553,596	-	-	4,553,596
Energy	1,904,551	-	-	1,904,551
Real estate	407,199	-	-	407,199
Utilities	2,476,308	-	-	2,476,308
Corporate bonds	-	5,509,556	-	5,509,556
Municipal bonds	-	109,161	-	109,161
Mutual and exchange traded funds:				
International	1,536,291	-	-	1,536,291
Index funds	1,189,089	-	-	1,189,089
Fixed income	907,566	-	-	907,566
Industry funds	533,000	-	-	533,000
Materials	138,996	-	-	138,996
U.S. large cap	99,493	-	-	99,493
U.S. mid and small cap	53,998	-	-	53,998
U.S. treasury and government agencies	-	471	-	471
Held under bond indentures	10,851,304	-	-	10,851,304
Self-insurance trust	3,595,585	-	-	3,595,585
Funds held in trust by others	-	-	20,312,336	20,312,336
<b>Total</b>	<b>\$ 60,789,086</b>	<b>\$ 6,592,441</b>	<b>\$ 20,312,336</b>	<b>\$ 87,693,863</b>

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

**NOTE 5 - FAIR VALUE MEASUREMENTS** (Continued)

The following table presents the financial instruments, carried at fair value as of September 30, 2015, by the valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 3,269,362	\$ -	\$ -	\$ 3,269,362
Certificates of deposit	-	1,222,102	-	1,222,102
Equity securities:				
Industrials	4,842,500	-	-	4,842,500
Consumer staples	4,383,341	-	-	4,383,341
Consumer discretionary	3,984,093	-	-	3,984,093
Health care	3,513,023	-	-	3,513,023
Energy	3,512,054	-	-	3,512,054
Financials	3,230,447	-	-	3,230,447
Technology	2,680,096	-	-	2,680,096
Utilities	1,968,485	-	-	1,968,485
Real estate	538,242	-	-	538,242
Corporate bonds	-	7,343,599	-	7,343,599
Municipal bonds	-	112,545	-	112,545
Mutual and exchange traded funds:				
Materials	2,460,530	-	-	2,460,530
Index funds	1,585,824	-	-	1,585,824
Fixed income	800,557	-	-	800,557
Industry funds	472,803	-	-	472,803
International	139,728	-	-	139,728
U.S. large cap	88,016	-	-	88,016
U.S. mid and small cap	53,977	-	-	53,977
U.S. treasury and government agencies	-	626	-	626
Self-insurance trust	3,554,247	-	-	3,554,247
Funds held in trust by others	-	-	19,644,506	19,644,506
<b>Total</b>	<b><u>\$ 41,077,325</u></b>	<b><u>\$ 8,678,872</u></b>	<b><u>\$ 19,644,506</u></b>	<b><u>\$ 69,400,703</u></b>

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 5 - FAIR VALUE MEASUREMENTS** (Continued)

A rollforward as of September 30, 2016 and 2015, of the amounts classified as Level 3 investments, within the fair value hierarchy is as follows:

	Funds Held in Trust by Others
Balance as of October 1, 2014	\$ 17,889,422
Interest and dividends	414,231
Distributions	(547,525)
Net realized gains	173,157
Fees	(97,595)
Net unrealized gains	1,812,816
Balance as of September 30, 2015	19,644,506
Interest and dividends	344,236
Distributions	(522,317)
Net realized gains	(109,592)
Fees	(86,517)
Net unrealized gains	1,042,020
Balance as of September 30, 2016	\$ 20,312,336

There were no transfers between fair value hierarchy Level 1, Level 2 and Level 3 for any invested assets recorded at fair value during 2016 and 2015. The valuation techniques used by the Hospital maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair values of the Hospital's Level 2 and Level 3 investments are determined by management after considering prices received from third party pricing services.

As of September 30, 2016 and 2015, the Hospital's other financial instruments include cash and cash equivalents, accounts payable, accrued expenses, estimated settlements due to and from third-party payors and long-term debt. The carrying amounts reported in the balance sheets for these financial instruments approximate their fair value.

**NOTE 6 - RESTRICTED ASSETS**

The Hospital's endowment and other restricted assets consist of multiple funds established for a variety of purposes. The endowment and other restricted assets include both donor-restricted endowment funds and funds held in trust by others. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor restrictions.

---

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

**NOTE 6 - RESTRICTED ASSETS** (Continued)

The Hospital has interpreted the relevant laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital during its annual budgeting process.

The Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Hospital; and (7) the investment policies of the Hospital.

The Hospital's endowment as of September 30, 2016 and 2015, was made up of investments restricted by donors of \$24,064,717 and \$23,396,887.

Changes in endowment for the year ended September 30, 2016, are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at beginning of year	\$ -	\$ 23,396,887	\$ 23,396,887
Investment return:			
Investment income, net	1,171,871	-	1,171,871
Net change in market value	-	667,830	667,830
Appropriations	<u>(1,171,871)</u>	<u>-</u>	<u>(1,171,871)</u>
Balance at end of year	<u>\$ -</u>	<u>\$ 24,064,717</u>	<u>\$ 24,064,717</u>

Changes in endowment for the year ended September 30, 2015, are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at beginning of year	\$ -	\$ 21,641,803	\$ 21,641,803
Investment return:			
Investment income, net	476,901	-	476,901
Net change in market value	-	1,755,084	1,755,084
Appropriations	<u>(476,901)</u>	<u>-</u>	<u>(476,901)</u>
Balance at end of year	<u>\$ -</u>	<u>\$ 23,396,887</u>	<u>\$ 23,396,887</u>

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 6 - RESTRICTED ASSETS** (Continued)

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2016 and 2015, there were no funds that were below the level required by donor or law.

Return Objectives and Risk Parameters: The Hospital's investment and spending policies for endowment assets attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets are invested in a manner that is intended to produce results that approximate the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

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

Spending Policy: During its annual budgeting process, the Hospital appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. During the years ended September 30, 2016 and 2015 the Hospital appropriated \$1,171,871 and \$476,901, respectively, of temporary restricted funds for expenditure as donor restrictions on those funds were met.

Temporarily restricted net assets are available for the following purposes as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Healthcare related services	\$ 165,645	\$ 335,364
Facility improvement	635,447	965,264
Purchases of equipment	513,000	513,000
Clinical educator	<u>1,579,641</u>	<u>1,431,689</u>
 Total	 <u>\$ 2,893,733</u>	 <u>\$ 3,245,317</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events by donors as follows:

	<u>2016</u>	<u>2015</u>
Facility improvement	\$ 518,401	\$ 239,226
Clinical educator	<u>69,519</u>	<u>55,933</u>
 Total	 <u>\$ 587,920</u>	 <u>\$ 295,159</u>

---

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

**NOTE 6 - RESTRICTED ASSETS** (Continued)

Endowment and other funds permanently restricted as of September 30, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Beneficial trusts	\$ 20,312,336	\$ 19,644,506
Held in perpetuity, income restricted for operations	3,752,381	3,752,381
Total	\$ 24,064,717	\$ 23,396,887

**NOTE 7 - PROFESSIONAL AND GENERAL LIABILITY AND WORKERS' COMPENSATION INSURANCE**

The Hospital self-insures the deductible amounts of the below coverages and all excess limits are covered by insurance policies purchased from commercial carriers. The Hospital's professional and general liability insurance limits are as follows:

<u>Policy Year</u>	<u>Deductible Amounts Per Claim/ Aggregate</u>	<u>Excess Coverage Limits</u>	<u>Type of Coverage</u>
Fiscal 1982-1984	\$100,00/500,000	\$ 10,000,000	Occurrence
Fiscal 1985	\$250,000/750,000	\$ 15,000,000	Occurrence
Fiscal 1986	\$500,000/1,500,000	\$ 15,000,000	Occurrence
Fiscal 1987-1988	\$1,000,000/3,000,000	\$ 20,000,000	GL Occurrence / PL Claims-made
Fiscal 1989-1990	\$1,000,000/3,000,000	\$ 25,000,000	GL Occurrence / PL Claims-made
Fiscal 1991-2001	\$1,000,000/3,000,000	\$ 30,000,000	GL Occurrence / PL Claims-made
Fiscal 2002	\$1,000,000/3,000,000	\$ 25,000,000	GL Occurrence / PL Claims-made
Fiscal 2003-2009	\$1,000,000/3,000,000	\$ 20,000,000	GL Occurrence / PL Claims-made
Fiscal 2010-2016	\$1,000,000/4,000,000	\$ 20,000,000	GL Occurrence / PL Claims-made

The Hospital's workers' compensation insurance limits are as follows:

<u>Policy Year</u>	<u>Self-Insured Retention/Aggregate</u>	<u>Excess Coverage Limits</u>	<u>Type of Coverage</u>
Fiscal 1993-2002	\$300,000/1,000,000	Statutory	Occurrence
Fiscal 2003	\$350,000/1,000,000	Statutory	Occurrence
Fiscal 2004-2012	\$325,000/1,000,000	Statutory	Occurrence
Fiscal 2013-2016	\$400,000/1,000,000	Statutory	Occurrence

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 7 - PROFESSIONAL AND GENERAL LIABILITY AND WORKERS' COMPENSATION INSURANCE** (Continued)

Professional, general liability and workers' compensation claims that fall within the Hospital's self-insurance levels have been asserted against the Hospital by various claimants. The claims are in various stages of activity and resolution. There are also known incidents that have occurred through September 30, 2016, that may result in the assertion of additional claims. Other claims may be asserted arising from services provided to patients or for other matters, for which no estimate of exposure can be determined at this time. The Hospital utilizes an independent actuary to estimate its self-insurance liability that reflects management's accrual of its best estimate of these self-insured losses under the policies described above, for occurrences through September 30, 2016.

The Hospital has established a trust for the purpose of setting aside assets for self-insurance purposes. Under the trust agreement, the trust assets can only be used for payment of professional and general liability losses, related expenses and the cost of administering the trust. The assets of, and contributions to the trust are reported in the accompanying financial statements. Income from trust assets and administrative costs are reported in the accompanying statements of operations and changes in net assets as other income.

Estimated self-insurance liabilities include estimates for claim obligations related to professional liability, general liability and workers' compensation claims. As of September 30, 2016 and 2015, the Hospital maintains a commercial policy for its employees' medical coverage. In fiscal years 2016 and 2015, management discounted accrued medical malpractice and workers' compensation losses at 3.00% and it is management's opinion that this provides for adequate loss contingencies.

**NOTE 8 - LEASES**

The Hospital has entered into non-cancellable operating and building rentals that expire in various years through fiscal year 2020 and beyond. Certain leases may be renewed at the end of their term.

The following is a schedule of future minimum lease payments under non-cancellable operating leases and building rentals as of September 30, 2016:

	Operating <u>Leases</u>	Building <u>Rentals</u>
For the year ended September 30:		
2017	\$ 445,333	\$ 1,140,605
2018	-	601,339
2019	-	445,727
2020	-	218,586
2021	-	219,908
Thereafter	-	<u>670,620</u>
Total minimum lease payments	<u>\$ 445,333</u>	<u>\$ 3,296,785</u>

Rental expense was \$1,418,967 and \$1,707,428 for the years ended September 30, 2016 and 2015, respectively and is included in "Services" on the statements of operations and changes in net assets.

---

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 9 - PENSION PLAN**

The Hospital has a noncontributory defined benefit pension plan (the Plan) that covers all eligible employees and provides for retirement, disability and optional survivor benefits. To participate in the Plan, an employee must meet certain eligibility requirements including attainment of age 21 and one-year of continuous service (defined as 1,000 hours of service in a 12-month period). The time period for employee benefits to become fully vested is five years of continuous service. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Effective January 1, 2011, the Hospital executed a "soft freeze" of the Plan allowing no new employees to participate. All employees that were currently enrolled in the Plan continued to vest and accrue benefits in line with Plan policies. Effective January 1, 2013, the Hospital executed a "hard freeze" of the Plan, freezing all vesting and accruing of benefits to employees enrolled in the Plan.

The Hospital's funding policy for the Plan is to contribute each year the amount as required by the Employee Retirement Income Security Act of 1974, as determined by actuarial valuations developed by the Plan's actuary. Such funding requirements have been met for fiscal years 2016 and 2015.

Significant disclosures relating to the Plan as of September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 125,603,363	\$ 116,600,051
Interest cost	5,655,884	5,068,072
Actuarial loss	14,109,928	7,907,890
Benefits paid	<u>(4,348,724)</u>	<u>(3,972,650)</u>
Benefit obligations at end of year	<u>\$ 141,020,451</u>	<u>\$ 125,603,363</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 83,183,722	\$ 85,014,863
Actual return on plan assets	7,495,799	(81,465)
Employer contributions	2,093,000	3,720,000
Expenses paid	(1,216,434)	(1,497,026)
Benefits paid	<u>(4,348,724)</u>	<u>(3,972,650)</u>
Fair value of plan assets at end of year	<u>\$ 87,207,363</u>	<u>\$ 83,183,722</u>
Accrued pension liability:		
Unfunded status and accrued pension liability	<u>\$ (53,813,088)</u>	<u>\$ (42,419,641)</u>

---

(Continued)



THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 9 - PENSION PLAN** (Continued)

	<u>2016</u>	<u>2015</u>
Components of net periodic benefit cost:		
Service cost	\$ 1,050,000	\$ 850,000
Interest cost	5,655,884	5,068,072
Expected return on plan assets	(6,584,853)	(6,286,593)
Amortization of prior service cost	173,007	173,007
Recognized net loss	<u>1,132,596</u>	<u>944,635</u>
Net periodic benefit cost	<u>\$ 1,426,634</u>	<u>\$ 749,121</u>

Assumptions:

Weighted-average assumptions used to determine benefit obligations:	<u>2016</u>	<u>2015</u>
Discount rate	3.86%	4.58%
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	4.58%	4.42%
Rate of compensation increase	N/A	N/A
Expected long-term return on plan assets	7.75%	7.75%

The accumulated benefit obligation at September 30, 2016 and 2015, under the Hospital's Plan was \$141,020,451 and \$125,603,363, respectively.

The Hospital expects to contribute \$1,500,000 to its pension plan for the fiscal year beginning October 1, 2016.

Amounts recorded in unrestricted net assets as of September 30, 2016 and 2015 not yet amortized as a component of net periodic benefit cost are as follows:

	<u>2016</u>	<u>2015</u>
Unamortized prior service costs	\$ 4,364,972	\$ 4,537,979
Unamortized actuarial loss	<u>60,888,313</u>	<u>48,655,493</u>
Total	<u>\$ 65,253,285</u>	<u>\$ 53,193,472</u>

The amortization of prior service costs expected to be recognized in net periodic benefit costs for the year ended September 30, 2017 is \$173,007. The amortization of actuarial loss expected to be recognized in net periodic benefit costs for the year ended September 30, 2017 is \$1,625,000.

The expected long-term rate of return assumption is determined by adding expected inflation to expected long-term real returns of various asset classes, taking into account expected volatility and the correlation between the returns of various asset classes.

---

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 9 - PENSION PLAN** (Continued)

The Hospital's target and actual pension plan weighted average asset allocations at September 30, 2016 by asset category was as follows:

<u>Asset Category</u>	<u>Target Allocations</u>	<u>Actual Allocations</u>
Equity securities	69%	65%
Debt securities	25%	30%
Short-term investments and other	6%	5%
	<hr/>	<hr/>
Total	<u>100%</u>	<u>100%</u>

The asset mix was determined by evaluating the expected return against the Plan's long-term objectives. Performance is monitored on a monthly basis and the portfolio is rebalanced back to target levels to ensure the targets are within reasonable range. The investment policy describes which securities are allowed in the portfolios and the financial objectives of the Plan with which the Investment Committee of the Board of Governors oversees. The Investment Committee monitors the investment performance quarterly to determine the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy.

The fair values of the Hospital's pension plan assets by asset category, are as follows, as of September 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common and preferred stocks	\$ 44,562,469	\$ -	\$ -	\$ 44,562,469
Exchange traded funds	12,525,095	-	-	12,525,095
Money market funds	5,306,562	-	-	5,306,562
Mutual funds	2,675,611	-	-	2,675,611
Unit investment trust	-	790,445	-	790,445
Corporate and foreign bonds	-	11,853,211	-	11,853,211
Certificates of deposit	-	6,805,529	-	6,805,529
U.S. treasury and government agencies	-	2,368,813	-	2,368,813
Municipal bonds	-	153,759	-	153,759
Other	-	165,869	-	165,869
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>\$ 65,069,737</u>	<u>\$ 22,137,626</u>	<u>\$ -</u>	<u>\$ 87,207,363</u>

---

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

**NOTE 9 - PENSION PLAN** (Continued)

The fair values of the Hospital's pension plan assets by asset category, are as follows, as of September 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common and preferred stocks	\$ 40,652,066	\$ -	\$ -	\$ 40,652,066
Exchange traded funds	18,675,024	-	-	18,675,024
Money market funds	4,244,356	-	-	
Mutual funds	2,690,104	-	-	2,690,104
Unit investment trust	-	615,690	-	615,690
Corporate and foreign bonds	-	12,948,982	-	12,948,982
Certificates of deposit	-	1,628,614	-	1,628,614
U.S. treasury and government agencies	-	1,173,896	-	1,173,896
Municipal bonds	-	359,240	-	359,240
Other	-	195,750	-	195,750
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 66,261,550</u>	<u>\$ 16,922,172</u>	<u>\$ -</u>	<u>\$ 83,183,722</u>

The valuation methods used to value these assets are described in Note 5.

The following are the benefit payments, which are expected to be paid in future years:

2017	\$ 4,828,571
2018	5,187,000
2019	5,525,373
2020	5,859,675
2021	6,144,956
Years 2022-2025	35,658,796

The Hospital also has established a 403(b) plan covering all full-time and part-time employees of the Hospital. Participants may elect to contribute a specific percentage of their compensation in pre-tax deferrals subject to established Internal Revenue Code limitations. For the years ended September 30, 2016 and 2015, the Hospital contributed \$611,317 and \$966,910, respectively, to the 403(b) plan.

**NOTE 10 - FUNCTIONAL EXPENSES**

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Patient care services	\$ 108,268,606	\$ 106,933,527
General and administrative	<u>15,233,567</u>	<u>15,045,719</u>
Total	<u>\$ 123,502,173</u>	<u>\$ 121,979,246</u>

(Continued)

THE CHARLOTTE HUNGERFORD HOSPITAL  
NOTES TO THE FINANCIAL STATEMENTS  
September 30, 2016 and 2015

---

**NOTE 11 - LONG TERM DEBT AND LINES OF CREDIT**

On February 1, 2016, the State of Connecticut Health and Educational Facilities Authority (CHEFA) issued \$13,000,000 of Series D Bonds (the Series D Bonds or Bonds) on behalf of the Hospital. The Series D Bonds mature serially from 2016 through 2036. The interest rate on the Bonds initially bear interest at a fixed rate of 2.24% from issuance through and including December 31, 2025. On January 1, 2026, the interest rate on the Series D Bonds shall be adjusted to the Adjusted Federal Home Loan Bank (FHLB) Rate, such adjusted rate shall remain fixed and in effect until January 1, 2036. The Loan Agreement with CHEFA and the Trust Indenture for the Series D Bonds contain certain covenants that require the Hospital to maintain a debt service coverage ratio of at least 1.1 to 1 at each fiscal year end and to maintain a ratio of unrestricted and temporarily restricted net assets to long term debt of 1.0 to 1 or greater. As of September 30, 2016 the Company was in compliance with all covenants.

Below is a summary of the Hospital's annual principal payments due relating to CHEFA as of September 30, 2016:

2017	\$ 650,000
2018	650,000
2019	650,000
2020	650,000
2021	650,000
Thereafter	<u>9,425,000</u>
 Total	 <u>\$ 12,675,000</u>

Effective September 11, 2014 the Hospital secured a revolving line of credit loan up to \$3,000,000 with Santander Bank, N.A.. As of September 30, 2016 and 2015, there were no outstanding borrowings against the line of credit.

**NOTE 12 - COMMITMENTS AND CONTINGENCIES**

The Hospital is party to various lawsuits incidental to its business. After consultation with legal counsel, management believes that the lawsuits and inquiries will not have a material adverse effect on the Hospital's financial position, results of operations or cash flows.

FASB ASC 410 *Asset Retirement and Environmental Obligations* addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as asbestos-containing facilities, when the amount of the liability can be reasonably estimated. Management currently believes that two facilities under their control could require a fair market value assessment of their Asset Retirement Obligation (ARO). As of September 30, 2016 and 2015, no ARO has been established, as no plans to renovate or sell any facility, or area within, with significant asbestos material have been identified and an estimate of the removal cannot be determined and therefore no settlement date has been determined. Management will continue to monitor its exposure for asbestos removal and establish an ARO for the fair market value of the associated costs once sufficient information has been obtained or a reasonable estimate can be made.

---

(Continued)

**NOTE 13 - RISKS AND UNCERTAINTIES**

Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

In addition, the Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.