

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION**

**SEPTEMBER 30, 2016 AND 2015**

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONTENTS

---

<b>Independent Auditors' Report .....</b>	<b>1-2</b>
---	------------

### **Financial Statements**

Consolidated Balance Sheets .....	3-4
Consolidated Statements of Operations and Changes in Net Assets .....	5-6
Consolidated Statements of Cash Flows .....	7-8

<b>Notes to the Consolidated Financial Statements .....</b>	<b>9-39</b>
---	-------------

<b>Independent Auditors' Report on Other Financial Information .....</b>	<b>40</b>
--	-----------

### **Other Financial Information**

Consolidating Balance Sheets .....	41-44
Consolidating Statements of Operations .....	45-46



## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
**The Waterbury Hospital**

We have audited the accompanying financial statements of The Waterbury Hospital and Subsidiaries (the Hospital), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated 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 Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 Waterbury Hospital and Subsidiaries as of September 30, 2016 and 2015, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Subsequent Event*

As discussed in Note 1 to the financial statements, on October 1, 2016, Greater Waterbury Health Network, Inc., the sole member of the Hospital, entered into an asset purchase agreement to sell substantially all of its business assets, including those of the Hospital, to an external party. Our opinion is not modified with respect to this matter.

*Marcum LLP*

Hartford, CT  
March 21, 2017

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2016 AND 2015

	2016	2015
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 9,683,341	\$ 19,596,473
Restricted cash	1,575,000	1,350,000
Short-term investments	552,299	515,895
Patient accounts receivable, less allowance (\$3,521,000 in 2016 and \$5,154,000 in 2015)	26,882,895	31,343,967
Grants and other receivables	11,957,931	3,837,291
Inventories of supplies	2,916,781	3,450,432
Prepaid insurance and other expenses	1,760,521	2,026,256
<b>Total Current Assets</b>	<b>55,328,768</b>	<b>62,120,314</b>
<b>Other Assets</b>		
Funds held in trust by others	45,342,562	43,411,397
Long-term investments	10,949,648	10,619,780
Other receivables	196,190	42,571
Goodwill	--	1,813,567
CHEFA obligations issue expense, less amortization	--	204,696
<b>Total Other Assets</b>	<b>56,488,400</b>	<b>56,092,011</b>
<b>Property, Plant and Equipment</b>		
Land	287,549	287,549
Buildings and improvements	90,055,596	94,388,568
Equipment	194,384,481	193,718,575
Construction in progress	--	13,934
	284,727,626	288,408,626
Less accumulated depreciation	(259,849,320)	(254,197,440)
<b>Total Property, Plant and Equipment</b>	<b>24,878,306</b>	<b>34,211,186</b>
<b>Total Assets</b>	<b>\$ 136,695,474</b>	<b>\$ 152,423,511</b>

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

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2016 AND 2015

	2016	2015
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 19,790,736	\$ 25,852,591
Salaries, wages, payroll taxes and amounts withheld from employees	6,001,300	5,770,331
Due to third-party reimbursement agencies	5,641,257	7,348,352
Current portion of CHEFA obligations	--	516,408
Current portion of notes payable and capital lease obligations	1,291,333	1,455,894
Due to affiliates	17,558,438	61,370
<b>Total Current Liabilities</b>	<b>50,283,064</b>	<b>41,004,946</b>
<b>Pension Obligations and Other Noncurrent Liabilities</b>	<b>56,868,108</b>	<b>26,049,588</b>
<b>CHEFA Obligations - less current portion</b>	<b>--</b>	<b>23,273,336</b>
<b>Notes Payable and Capital Lease Obligations - less current portion</b>	<b>2,354,420</b>	<b>3,647,977</b>
<b>Net Assets</b>		
Unrestricted	(32,170,513)	1,355,351
Temporarily restricted	8,722,091	8,220,369
Permanently restricted	48,134,598	46,203,433
<b>Total Net Assets Excluding Noncontrolling Interests</b>	<b>24,686,176</b>	<b>55,779,153</b>
<b>Noncontrolling Interests</b>	<b>2,503,706</b>	<b>2,668,511</b>
<b>Total Net Assets</b>	<b>27,189,882</b>	<b>58,447,664</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 136,695,474</b>	<b>\$ 152,423,511</b>

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

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
<b>Unrestricted Revenues</b>		
Net patient service revenues	\$ 251,555,002	\$ 233,136,332
Provision for bad debts	<u>(6,305,027)</u>	<u>(4,475,372)</u>
Net patient service revenues less provision for bad debts	245,249,975	228,660,960
Other operating revenues	4,788,271	4,475,083
Net assets released from restrictions	<u>5,095,359</u>	<u>5,014,429</u>
	<u>255,133,605</u>	<u>238,150,472</u>
<b>Operating Expenses</b>		
Salaries	119,708,188	116,923,196
Employee benefits	60,065,348	32,501,463
Supplies and other	94,316,815	103,134,046
Depreciation	6,799,201	7,533,050
Interest and amortization	1,807,209	1,471,296
Impairment of long-lived assets and goodwill	<u>6,485,028</u>	<u>--</u>
	<u>289,181,789</u>	<u>261,563,051</u>
<b>Loss from Operations</b>	(34,048,184)	(23,412,579)
<b>Nonoperating Gains</b>		
Unrestricted gifts and bequests	1,803,267	661,066
Investment income	<u>1,704,177</u>	<u>1,798,705</u>
	<u>3,507,444</u>	<u>2,459,771</u>
<b>Deficiency of Revenues over Expenses Before Changes in Net Unrealized Gains (Losses) on Investments</b>	(30,540,740)	(20,952,808)
<b>Changes in Net Unrealized Gains (Losses) on Investments</b>	<u>33,974</u>	<u>(292,013)</u>
<b>Deficiency of Revenues Over Expenses</b>	(30,506,766)	(21,244,821)
<b>Less Excess of Revenues over Expenses Attributable to Noncontrolling Interests</b>	<u>(747,586)</u>	<u>(750,533)</u>
<b>Deficiency of Revenues Over Expenses Attributable to Controlling Interest</b>	<u>(31,254,352)</u>	<u>(21,995,354)</u>

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

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
<b>Unrestricted Net Assets, Controlling Interest</b>		
Deficiency of revenues over expenses	\$ (31,254,352)	\$ (21,995,354)
Net assets released from restrictions used for purchase of property and equipment	110,787	95,170
Interest rate swap adjustment	129,544	(338,948)
Pension liability adjustments	<u>(2,511,843)</u>	<u>258,010</u>
<b>Change in Unrestricted Net Assets, Controlling Interest</b>	<u>(33,525,864)</u>	<u>(21,981,122)</u>
<b>Unrestricted Net Assets, Noncontrolling Interest</b>		
Excess of revenues over expenses	747,586	750,533
Distributions	<u>(912,391)</u>	<u>(798,316)</u>
<b>Change in Unrestricted Net Assets, Noncontrolling Interest</b>	<u>(164,805)</u>	<u>(47,783)</u>
<b>Temporarily Restricted Net Assets</b>		
Gifts and bequests	1,012,487	447,582
Income from investments	415,731	704,133
Net realized and unrealized gains (losses) on investments	659,841	(561,598)
Grants	3,619,809	4,010,322
Net assets released from restrictions	<u>(5,206,146)</u>	<u>(5,109,597)</u>
<b>Change in Temporarily Restricted Net Assets</b>	<u>501,722</u>	<u>(509,158)</u>
<b>Permanently Restricted Net Assets</b>		
Change in fair value of funds held in trust by others	<u>1,931,165</u>	<u>(2,706,364)</u>
<b>Change in Permanently Restricted Net Assets</b>	<u>1,931,165</u>	<u>(2,706,364)</u>
<b>Change in Net Assets</b>	(31,257,782)	(25,244,427)
<b>Net Assets - Beginning</b>	<u>58,447,664</u>	<u>83,692,091</u>
<b>Net Assets - End</b>	<u>\$ 27,189,882</u>	<u>\$ 58,447,664</u>

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



# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
<b>Cash Flows from Operating Activities and Nonoperating Revenues</b>		
Decrease in net assets	\$ (31,257,782)	\$ (25,244,427)
Adjustments to reconcile decrease in net assets to net cash used in operating activities and nonoperating revenues:		
Impairment of long-lived assets and goodwill	6,485,028	--
Provision for bad debts	6,305,027	4,475,372
Depreciation and amortization	7,122,772	7,572,040
Pension liability adjustments	2,511,843	(258,010)
Distributions to noncontrolling interests	912,391	798,316
Net realized and unrealized gains and change in fair value of funds held in trust by others	(2,617,659)	4,465,890
Restricted gifts, bequests and income from investments	(1,428,218)	(1,151,716)
Change in market value of interest rate swap	(129,544)	338,948
	(12,096,142)	(9,003,587)
Changes in operating working capital other than cash and cash equivalents:		
Patient accounts receivable, net	(1,843,955)	(5,025,695)
Grants and other receivables	(8,120,640)	6,471
Inventories of supplies	533,651	463,513
Prepaid insurance and other expenses	265,735	(102,904)
Accounts payable and accrued expenses	(6,061,855)	2,529,823
Salaries, wages, payroll taxes and amounts withheld from employees	230,969	(4,071,569)
Due to third-party reimbursement agencies	(1,707,095)	3,176,371
Increase in pension obligations and other noncurrent liabilities	28,436,221	613,673
	11,733,031	(2,410,317)
<b>Net Cash Used in Operating Activities and Nonoperating Revenues</b>	(363,111)	(11,413,904)

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

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	2016	2015
<b>Cash Flows from Investing Activities</b>		
Increase in restricted cash	\$ (225,000)	\$ (675,000)
Purchases of investments	39,739,833	(34,385,260)
Sales of investments	(37,686,942)	36,431,275
Other assets	(153,619)	35,381
Additions to property, plant and equipment	<u>(2,137,782)</u>	<u>(989,103)</u>
<b>Net Cash (Used in) Provided by Investing Activities</b>	<u>(463,510)</u>	<u>417,293</u>
<b>Cash Flows from Financing Activities</b>		
Restricted gifts, bequests and income from investments	1,428,218	1,151,716
Cash received from (paid to) affiliates	17,497,068	(538,746)
Distributions to noncontrolling interests	(912,391)	(798,316)
Payment of swap	(1,851,544)	--
Principal payments on debt obligations	<u>(25,247,862)</u>	<u>(1,131,501)</u>
<b>Net Cash Used in Financing Activities</b>	<u>(9,086,511)</u>	<u>(1,316,847)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(9,913,132)	(12,313,458)
<b>Cash and Cash Equivalents - Beginning</b>	<u>19,596,473</u>	<u>31,909,931</u>
<b>Cash and Cash Equivalents - End</b>	<u>\$ 9,683,341</u>	<u>\$ 19,596,473</u>

**Supplemental Cash Flow Information**

Cash paid during the year for interest on borrowings was \$1,416,096 and \$1,333,442 for the years ended September 30, 2016 and 2015, respectively.

During 2015 the Hospital obtained various equipment by entering into capital leases totaling \$4,840,907.

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

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

---

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

#### *ORGANIZATION*

The Waterbury Hospital (the Hospital), a voluntary association incorporated under the General Statutes of the State of Connecticut, is a wholly-owned subsidiary of Greater Waterbury Health Network, Inc. (sole member) (the Network or GWHN). The Board of the Hospital, which is appointed by the Network, controlled the operations of the Hospital. In addition to the Hospital, the accompanying financial statements include Access Rehab Centers, LLC (Access), Greater Waterbury Imaging Center Limited Partnership (GWIC), Imaging Partners, LLC, Alliance Medical Group, Inc. (AMG) and Cardiology Associates of Greater Waterbury, LLC (CAGW) to the extent of the Hospital's ownership interest in these subsidiaries and affiliated entities.

During June 2010, the Hospital entered into an arrangement with certain gastroenterology physician-members of the Hospital's medical staff to form Waterbury Gastroenterology Co-Management Company, LLC (GI Co-Management Company), a Connecticut limited liability company. This company was formed as a collaborative effort between the Hospital and the physicians for the purpose of improving the quality and efficiency of the gastroenterology service line at the Hospital. The Hospital's investment of \$50,000 in the GI Co-Management Company is included in the Hospital's consolidated financial statements in long-term investments and is recorded at cost.

The Hospital entered into a members' agreement, making it an equal member with St. Mary's Hospital, located in Waterbury, Connecticut, in a joint venture to form The Harold Leever Regional Cancer Center, Inc. (the Cancer Center). The Cancer Center is a Connecticut non-stock corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The purpose of the joint venture is to develop, construct, own and operate the Cancer Center. Both member hospitals transferred the revenue and related expenses of their respective radiation oncology services to the Cancer Center in October 2002. Both member hospitals made working capital advances to the Cancer Center. The Cancer Center is not included in the Hospital's consolidated financial statements. During the years ended September 30, 2016 and 2015, the Cancer Center provided unrestricted grants of \$1,500,000 and \$500,000, respectively, to the Hospital that are included in unrestricted gifts and bequests in the consolidated statements of operations and changes in net assets.

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

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

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

*SALE OF PRIMARY BUSINESS*

Effective October 1, 2016, the Network entered into an asset purchase agreement with Prospect CT Medical Foundation, Inc., Prospect Waterbury, Inc. and Prospect Waterbury Home Health, Inc. all of which are indirectly owned by Prospect Medical Holdings, Inc. (collectively referred to as Prospect). The asset purchase agreement covered substantially all of the business assets of the Network and its wholly owned subsidiaries including the Hospital, VNA, GWMRI and AMG. The agreement also provided for the purchase of the Network's joint venture interests in Access, GWIC, Imaging Partners, LLC, Heart Center of Greater Waterbury, Inc., the Cancer Center, GI Co-Management Company and Valley Imaging Partners, LLC. The agreement did not include the purchase of the Children's Center of Greater Waterbury Health Network, Inc. (the Children's Center) and the Network's ownership interests in the Healthcare Alliance Insurance Company, Ltd. (HAIC). The agreement also included a provision for Prospect to invest \$55 million in future capital improvements (Future Capital Commitment) and that amount is subject to certain adjustments as detailed in the agreement.

The sale included, to the extent transferrable by law, all of the Network's owned real property, leased property, current assets (including patient accounts receivable, prepaid expenses and inventories), intellectual properties, permits, licenses and other included assets as further described in the agreement. The sale did not include the Network's cash and investments and any board-designated, restricted or trustee held or escrowed funds, third-party settlement receivables and certain other excluded assets as further described in the agreement.

The sale also provided for Prospect to assume, to the extent transferrable by law, all significant contracts, trade accounts payable and current liabilities, future obligations under any assumed contracts and leases, the Network's defined benefit plan benefit obligations, the Network's withdrawal obligations under the Connecticut Health Care Associates Pension Plan (see Note 9 for further information), capital lease obligations, asset retirement obligations and any claims for malpractice or general liability made or asserted against the Network after the date of the purchase and certain other included liabilities as further described in the agreement. The sale did not include assumption of the Network's obligations related to third-party settlements and any claims for malpractice or general liability made or asserted against the Network before the date of the purchase and certain other excluded liabilities as further described in the agreement.

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

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

*SALE OF PRIMARY BUSINESS (CONTINUED)*

As a condition of the sale, prior to September 30, 2016 the Hospital repaid in full the Hospital's Series D Bond Financing and terminated the related swap instruments, combined totaling approximately, \$25.0 million as further described in Note 7. In addition, the Network executed a member substitution agreement with the Easter Seal Rehabilitation Center of Greater Waterbury, Inc. (Easter Seal) effective October 1, 2016, whereby Easter Seal became the sole member of the Children's Center.

The purchase price in the agreement is outlined as \$31.8 million plus or minus the amount by which the Network's Net Working Capital (essentially consisting of the non-cash current assets and liabilities of the Network as further defined in the agreement) exceeds a targeted working capital amount of \$6.8 million, minus the amount of any capital lease obligations in excess of \$6.5 million, minus the unfunded defined benefit and Connecticut Health Care Associates (CHCA) pension liabilities, and minus the Network's asset retirement obligation of approximately \$2.9 million. The agreement allows for a purchase price shortfall adjustment to be deducted from Prospect's Future Capital Commitment in the event that the purchase price after adjustments falls below zero and the Network is unable to pay due to insufficient cash (subject to certain limits as described in the agreement). The purchase price is also subject to an adjustment period which has been extended multiple times to include any final adjustments to the Net Working Capital, pension liabilities or asset retirement obligations. Currently, the Network does not expect any material adjustments to the final purchase price.

The remaining assets and liabilities of the Network after the sale are expected to consist of the Network's residual cash, restricted funds, funds held in trust, third-party settlements receivable and payable and the ownership interests in HAIC. The Network is expected to continue its existence as an independent foundation and continue to follow policies to help provide funds for charitable and indigent care.

*PRINCIPLES OF CONSOLIDATION*

The consolidated financial statements include the accounts of the Hospital, its subsidiaries and affiliated entities. Recognition has been given to noncontrolling interests in the affiliates which is reflected as a component of unrestricted net assets. All significant intercompany accounts and transactions are eliminated in consolidation.

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

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

***USE OF ESTIMATES***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectible accounts receivable for services to patients, and liabilities, including estimated net settlements with third-party reimbursement agencies and professional and pension liabilities, and disclosure of contingent assets and contingent liabilities at the date of the financial statements. Estimates also affect the amounts of revenues and expenses reported during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

***REGULATORY MATTERS***

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

***TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS***

Temporarily restricted net assets are available to provide grant related services, free care, and educational seminars. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity or in funds held in trust by others.

***DONOR RESTRICTED GIFTS***

Unconditional promises to give cash are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises to give are received. Amortization of the discounts is included in gifts and bequests on the consolidated statements of operations and changes in net assets.

Gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets.

***CASH AND CASH EQUIVALENTS***

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

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

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

***RESTRICTED CASH***

At September 30, 2016 and 2015, the Hospital had a \$4.5 million surety bond with an insurance company to support its self-insured workers' compensation program that was collateralized by a bank account, which is reflected within restricted cash on the consolidated balance sheets. As of September 30, 2016 and 2015, there were no borrowings on the surety bond.

***ACCOUNTS RECEIVABLE***

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

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to net patient service revenues and third-party payor programs.

***GRANTS AND OTHER RECEIVABLES***

Grants and other receivables are recorded at the time the grant contracts are awarded by the grantor or earned by the Hospital and its subsidiaries. Revenue is recognized ratably over the period of the grant.

***INVENTORIES***

Inventories are stated at the lower of cost or market. The Hospital values its inventories using the first in first out method.

***INVESTMENTS***

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) and unrealized gains and losses are included in the deficiency of revenues over expenses unless the income or loss is restricted by donor or law.

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

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

*INVESTMENTS (CONTINUED)*

Unrealized gains and losses on investments related to permanently restricted net assets and certain temporarily restricted net assets are included in temporarily restricted net assets under State law which allows the Board of Trustees to appropriate as much of the net (depreciation) appreciation of investments as is prudent considering the Hospital's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Reference is made to Note 5.

*PROPERTY, PLANT AND EQUIPMENT*

Property, plant and equipment are recorded at cost. The Hospital and its subsidiaries provide for depreciation of property, plant and equipment and amortization of assets recorded under capital leases using the straight-line method in amounts sufficient to amortize the cost of the assets over their estimated useful lives which range from 3 to 40 years.

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

Conditional asset retirement obligations of approximately \$2.9 million as of September 30, 2016 and 2015, are recorded in other noncurrent liabilities related to future asbestos remediation. During 2016 and 2015, there were no retirement obligations incurred or settled; however, subsequent to year end, these obligations were assumed by Prospect in the transaction described above.

*GOODWILL*

Goodwill, which has an indefinite life, is not amortized and is evaluated for impairment at least annually or whenever events or business conditions indicate that the carrying values of such assets may not be fully recoverable. During the year ended September 30, 2016, the Hospital recorded an impairment loss of approximately \$1.8 million to reflect a full impairment of its goodwill, related to the sale further disclosed in Note 1.



**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

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

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

The Hospital records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. The Hospital recorded an impairment loss of approximately \$4.7 million during the year ended September 30, 2016, related to the sale further disclosed in Note 1.

***NONOPERATING GAINS (LOSSES)***

Activities, other than in connection with providing health care services, are considered to be nonoperating. Nonoperating gains consist primarily of income on invested funds, gains and losses on sales of securities, changes in unrestricted unrealized gains and losses and unrestricted gifts and bequests.

***DEFICIENCY OF REVENUES OVER EXPENSES***

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

***INCOME TAXES***

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital is also exempt from state income taxes. Access, GWIC, CAGW, and Imaging Partners LLC are partnerships. For tax purposes, these partnerships are pass-through entities. Taxation does not occur at the partnership level. Accordingly, no provision for taxes is included. AMG is tax exempt under Section 501 (c)(3) of the Internal Revenue Code.

Management has analyzed the tax positions taken and has concluded that as of September 30, 2016, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

---

### NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

#### *MEDICAL MALPRACTICE AND WORKERS' COMPENSATION INSURANCE*

The Hospital has a policy of self-insuring the deductible portion of its workers' compensation claims. The deductible limit is \$750,000 per claim for the years ended September 30, 2016 and 2015. Management records its best estimate of losses as they occur. The accrued workers' compensation self-insurance liabilities of \$10,110,368 and \$10,250,333 at September 30, 2016 and 2015, respectively, have been discounted at 2.25%.

Effective October 1, 2006, the Hospital obtained "claims-made" medical malpractice insurance coverage, through the Network, from HAIC under retrospectively-rated policies whose ultimate premium is based primarily on the Hospital's experience. HAIC is a multi-provider captive insurance company domiciled in the Cayman Islands. The Network is a one half owner of HAIC with one other local hospital that also holds a 50% ownership. The Hospital's insurance coverage is \$1,500,000 per occurrence and \$5,000,000 in the aggregate. In addition to the coverage from HAIC, the Hospital recorded reserves of approximately \$1,627,639 and \$1,647,702, which are reflected within other noncurrent liabilities on the consolidated balance sheets at September 30, 2016 and 2015, respectively, related to claims that were incurred subsequent to October 1, 2006, but not yet reported. These reserves were discounted at 2.25% at September 30, 2016 and 2015.

The Hospital recorded a receivable of \$7,296,457 and \$0 as of September 30, 2016 and 2015, respectively, related to retrospective premium credits owed by HAIC which is included with grants and other receivables on the balance sheet.

The Hospital also obtains excess insurance coverage for professional and general liability, through the Network, from HAIC. These policies have limits of \$25,000,000 per claim and \$25,000,000 aggregate, in excess of the underlying limits in the primary layer, for both professional and general liability.

The Hospital also purchased a loss transfer insurance policy which provides \$1,000,000 of coverage for each medical incident that was incurred between October 1, 2003 and October 1, 2006 and specifically reported to the insurance company on the effective date of the transfer policy (February 7, 2008) in addition to medical incidents incurred during the aforementioned period which are first reported after the effective date of the policy. This policy also provides \$1,000,000 of coverage for general liability incurred but not reported claims that occurred after October 1, 2003 through October 1, 2006 and were first reported after the effective date of the policy. The policy has annual aggregate limits of \$4,500,000 for medical incidents and \$3,000,000 for general liability cases with a combined \$25,000,000 total limit for all policy years. These aggregate limits are eroded by claims previously paid by the Hospital or other insurance.

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

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

***RETIREMENT BENEFIT PLANS***

The Hospital maintains a defined benefit pension plan for eligible individuals and participates in two multi-employer pension plans that cover certain union employees. Reference is made to Note 9.

***OTHER NONCURRENT LIABILITIES***

Other noncurrent liabilities include the long-term portion of liabilities for medical malpractice, workers' compensation, retirement benefits, the interest rate swap (in 2015), and conditional asset retirement obligations.

***RISKS AND UNCERTAINTIES***

The Hospital invests in a variety of investment securities which are exposed to various risks, such as interest rate risk, financial market risk, currency risk and credit risk. Due to the level of risk associated with investment securities, coupled with economic events, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Hospital's September 30, 2016 financial statements, in addition to the funded status of its defined benefit pension plan.

***BAD DEBTS***

Accounting principles generally accepted in the United States of America require certain health care entities to present the provision for bad debts associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) with footnote disclosures on the policies for recognizing revenue and assessing bad debts, in addition to qualitative and quantitative information about changes in the allowance for doubtful accounts. Refer to Note 2 for the additional disclosures.

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 2 - NET PATIENT SERVICE REVENUES AND CHARITY CARE**

The following table summarizes net patient service revenues:

	2016	2015
Gross patient service revenues	<u>\$ 1,011,048,353</u>	<u>\$ 996,544,955</u>
Deductions		
Allowances	755,161,772	756,297,793
Regulatory	<u>4,331,579</u>	<u>7,110,830</u>
	<u>759,493,351</u>	<u>763,408,623</u>
Net patient service revenues, before provision for bad debts	251,555,002	233,136,332
Provision for bad debts	<u>6,305,027</u>	<u>4,475,372</u>
Net patient service revenues		
less provision for bad debts	<u>\$ 245,249,975</u>	<u>\$ 228,660,960</u>

Patient accounts receivable and revenues are recorded when patient services are performed.

Amounts received from most payors are different from the established billing rates of the Hospital, and these differences are accounted for as allowances. Net revenues have also been affected by State of Connecticut Disproportionate Share program in 2016 and 2015 which is reflected in the regulatory amounts in the table above.

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For the years ended September 30, 2016 and 2015, the Hospital recorded approximately \$650,000 and \$3.0 million, respectively, as a decrease to net patient service revenues as changes in estimates related to third-party payor settlements and adjustments to accruals recorded in prior years.

During 2016 and 2015, approximately 45% and 40%, respectively, of net patient service revenues were received under the Medicare program, 16% and 17%, respectively, under the state Medicaid program, and 39% and 43%, respectively, from contracts with other third-parties.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

---

### NOTE 2 - NET PATIENT SERVICE REVENUES AND CHARITY CARE (CONTINUED)

Inpatient services rendered to Medicaid program beneficiaries admitted prior to January 1, 2015, except for those beneficiaries in the State's Aid to Families with Dependent Children (AFDC) population, were reimbursed under a cost reimbursement methodology. The Hospital was reimbursed a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the State. For inpatients admitted on or after January 1, 2015, the Hospital was reimbursed under an All Patient Refined Diagnosis Related Group System (APR-DRG) where payments were established prospectively. Outpatient services were reimbursed at predetermined fee schedules or based on a percentage of charges. Effective July 1, 2016, Medicaid outpatient services are paid under a Medicaid APC payment system.

The significant concentrations of net accounts receivable for services to patients include 41% from Medicare, 18% from Medicaid, 29% from commercial insurance carriers and 12% from others at September 30, 2016 (41%, 16%, 28% and 15%, respectively, in 2015). Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

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

Cost reports for the Hospital, which serve as a basis for final settlement with government payors, have been settled by final settlement through 2013 for Medicare. Other years remain open for settlement.

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

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

---

### NOTE 2 - NET PATIENT SERVICE REVENUES AND CHARITY CARE (CONTINUED)

#### *ALLOWANCE FOR DOUBTFUL ACCOUNTS*

The Hospital's estimation of the allowance for doubtful 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 the charges are recorded. On a monthly basis, the Hospital reviews its accounts receivable balances, the effectiveness of the Hospital's reserve policies and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

- Revenue and volume trends by 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;
- Various allowance coverage statistics.

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 doubtful accounts.

A summary of the Hospital's allowance for doubtful accounts activity for the years ended September 30, 2016 and 2015 is as follows:

	Balance at Beginning of Period	Additions Recorded in the Provision for Bad Debts	Accounts Written off, Net of Recoveries and Other	Balance at End of Period
Allowance for doubtful accounts:				
Year ended September 30, 2015	\$ (9,207,000)	\$ (4,475,372)	\$ 8,528,372	\$ (5,154,000)
Year ended September 30, 2016	\$ (5,154,000)	\$ (6,305,027)	\$ 7,938,027	\$ (3,521,000)

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 2 - NET PATIENT SERVICE REVENUES AND CHARITY CARE (CONTINUED)**

*MEASURING CHARITY CARE*

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

The Hospital implemented effective October 1, 2013 a change to its charity care policy to discount all self-pay receivables by 50 percent upon final billing. These self-pay discounts amounted to approximately \$6.9 million and \$5.3 million for the years ended September 30, 2016 and 2015, respectively.

Self-pay revenues are derived primarily from patients who do not have any form of health care coverage. The Hospital evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other governmental assistance programs, as well as the Hospital's policy for charity care. The Hospital provides care without charge to certain patients that qualify under its charity care policy. For the years ended September 30, 2016 and 2015, the Hospital estimates that its costs of care provided under its charity care programs approximated \$1,531,000 and \$1,212,000, respectively.

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

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

#### NOTE 3 - INVESTMENTS

The composition of investments, including other assets and funds held in escrow is set forth in the following table. Investments are stated at fair value:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Short-term investments:				
Certificates of deposit and mutual funds	\$ 446,195	\$ 552,299	\$ 435,568	\$ 515,895
Investments of funds held in trust by others	\$ 41,966,722	\$ 45,342,562	\$ 42,606,849	\$ 43,411,397
Long-term investments and Board - designated endowment funds:				
Certificates of deposit and money market funds	\$ 426,766	\$ 426,766	\$ 941,149	\$ 941,149
Marketable equity securities	197,835	371,614	197,835	363,882
U.S. Government obligations	108,451	144,488	108,451	148,198
Corporate bonds	2,665,881	2,722,024	2,659,057	2,632,832
Mutual funds	6,443,434	6,961,372	5,826,773	6,206,686
	<u>\$ 9,842,367</u>	<u>\$ 10,626,264</u>	<u>\$ 9,733,265</u>	<u>\$ 10,292,747</u>

The Hospital had long-term investments in partnerships and joint ventures that were recorded at cost of \$323,384 and \$327,033 as of September 30, 2016 and 2015, respectively, as it was not practicable to estimate fair value. These investments are not included in the tables above.

Unrestricted investment income, including income on funds held in trust by others and gains are comprised of the following for the years ended September 30, 2016 and 2015:

	2016	2015
Income		
Interest and dividends	\$ 1,711,498	\$ 1,801,313
Realized losses on sales of investments	(7,321)	(2,608)
Changes in net unrealized gains (losses) on investments	33,974	(292,013)
	<u>\$ 1,738,151</u>	<u>\$ 1,506,692</u>



**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 4 - FAIR VALUE MEASUREMENTS**

The Hospital categorizes assets and liabilities for disclosure purposes based on whether the inputs used to determine their fair values are observable or unobservable. The Hospital utilizes a three-level fair value hierarchy that prioritizes the inputs used to measure assets at fair value. Level inputs are as follows:

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

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

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

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

The fair value of the interest rate swap was determined based on an estimate of the net present value of the expected cash flows using relevant mid-market data inputs and based on the assumption of no unusual market conditions or forced liquidation.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

#### NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes fair value measurements, by level, at September 30, 2016, for all assets and liabilities which are measured at fair value on a recurring basis in the consolidated financial statements:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 14,207,654	\$ --	\$ --	\$ 14,207,654
Common stock-insurance	139,846	--	--	139,846
Mutual funds:				
U.S. large cap	16,764,998	--	--	16,764,998
U.S. mid cap	3,329,020	--	--	3,329,020
U.S. small cap	3,332,399	--	--	3,332,399
International developed	6,740,717	--	--	6,740,717
Emerging markets	4,322,202	--	--	4,322,202
Fixed income securities:				
Investment grade taxable	1,933,938	10,950,198	--	12,884,136
International developed bonds	--	490,838	--	490,838
Global high yield taxable	1,700,431	--	--	1,700,431
Real estate investment trusts	2,725,159	--	--	2,725,159
Other	942,034	231,094	--	1,173,128
Total assets at fair value	<u>\$ 56,138,398</u>	<u>\$ 11,672,130</u>	<u>\$ --</u>	<u>\$ 67,810,528</u>

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

#### NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes fair value measurements, by level, at September 30, 2015, for all assets and liabilities which are measured at fair value on a recurring basis in the consolidated financial statements:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 24,461,715	\$ --	\$ --	\$ 24,461,715
Common stock-insurance	156,240	--	--	156,240
Mutual funds:				
U.S. large cap	17,690,238	--	--	17,690,238
U.S. mid cap	2,952,563	--	--	2,952,563
U.S. small cap	2,604,780	--	--	2,604,780
International developed	6,591,363	--	--	6,591,363
Emerging markets	2,273,498	--	--	2,273,498
Fixed income securities:				
Investment grade taxable	1,916,391	10,166,399	--	12,082,790
International developed bonds	--	678,855	--	678,855
Global high yield taxable	4,990	1,850,028	--	1,855,018
Real estate investment trusts	2,382,816	--	--	2,382,816
Other	<u>1,138,690</u>	<u>297,946</u>	--	<u>1,436,636</u>
Total assets at fair value	<u>\$ 62,173,284</u>	<u>\$ 12,993,228</u>	<u>\$ --</u>	<u>\$ 75,166,512</u>
Liabilities:				
Interest rate swap	<u>\$ --</u>	<u>\$ 1,851,544</u>	<u>\$ --</u>	<u>\$ 1,851,544</u>

#### NOTE 5 - RESTRICTED ENDOWMENTS

The Hospital's endowments consist of donor-restricted endowment funds and Board-designated endowment funds. Net assets associated with endowment funds are classified and reported based on donor-imposed restrictions.

The Hospital's Board of Trustees has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and, if applicable (c) accumulations to the permanent endowment made in accordance with the related gift's donor instructions.

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 5 - RESTRICTED ENDOWMENTS (CONTINUED)**

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard for expenditure as proscribed by UPMIFA. In accordance with UPMIFA, the Hospital considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment funds:

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

***RETURN OBJECTIVES AND RISK PARAMETERS***

For the permanently restricted endowment funds, the bank, acting in its capacity as trustee, determines and directs the investment policy and asset allocation. For the unrestricted and temporarily restricted endowment funds, the Hospital's Board of Trustees has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Hospital expects these endowment funds, over time, to provide an average rate of return that exceeds the rate of inflation by 3.5% annually. Actual returns in any given year may vary from this amount.

***STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES***

To satisfy its long-term rate of return objectives, the 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.

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 5 - RESTRICTED ENDOWMENTS (CONTINUED)**

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

The Hospital has a policy of evaluating the spending decisions for each endowment fund based upon the intentions of the donors and specific contractual agreements. In determining the annual amount to be spent, the Hospital considers the long-term expected return on its endowment. The spending policy is designed to limit spending to the expected long-term real rate of return. The annual distribution from the endowment funds is expected to be contained within a range of 4-6% of the trusts' market value. This is consistent with the Hospital's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

***ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2016***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ --	\$ 7,297,792	\$ 48,134,598	\$ 55,432,390

***CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2016***

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ --	\$ 7,049,429	\$ 46,203,433	\$ 53,252,862
Investment return:				
Investment income	--	184,392	--	184,392
Net appreciation (realized and unrealized)	--	668,279	1,931,165	2,599,444
Total investment return	--	852,671	1,931,165	2,783,836
Appropriation of endowment assets for expenditure	--	(604,308)	--	(604,308)
Endowment net assets, ending balance	\$ --	\$ 7,297,792	\$ 48,134,598	\$ 55,432,390

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 5 - RESTRICTED ENDOWMENTS (CONTINUED)**

*ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2015*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ --	\$ 7,049,429	\$ 46,203,433	\$ 53,252,862

*CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ 3,315,500	\$ 7,607,185	\$ 48,909,797	\$ 59,832,482
Investment return:				
Investment income	140,679	445,901	--	586,580
Net depreciation (realized and unrealized)	(118,499)	(566,800)	(2,706,364)	(3,391,663)
Total investment return	22,180	(120,899)	(2,706,364)	(2,805,083)
Appropriation of endowment assets for expenditure	(3,337,680)	(436,857)	--	(3,774,537)
Endowment net assets, ending balance	\$ --	\$ 7,049,429	\$ 46,203,433	\$ 53,252,862

**NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets at September 30, 2016 and 2015 are restricted amounts which are to be held in perpetuity, the income from which is expendable to provide free care, scholarships for the children of the Hospital's employees, and for the operations of the Hospital. Also included in permanently restricted net assets are funds held in trust by others. The Hospital is the restricted income beneficiary of funds held in trust by others. The total trust assets, as reported by the trustees, had an aggregate fair value at September 30, 2016 and 2015 of \$45,342,562 and \$43,411,397, respectively. Distributions of \$1,853,293 and \$1,996,055 from these assets for the years ended September 30, 2016 and 2015, respectively, are included in investment income.

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)**

Temporarily restricted net assets are available to provide psychiatric services, free care and educational seminars.

During 2016 and 2015, net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes in providing grant related services, free care, and various miscellaneous services in the amounts of \$3,619,809, \$847,834, and \$627,716, respectively in 2016, and \$4,010,322, \$692,333 and \$311,774, respectively in 2015. In addition, \$110,787 and \$95,170 were released for the purchase of property and equipment in 2016 and 2015, respectively.

**NOTE 7 - DEBT**

***SERIES D BOND FINANCING***

In December 2010, the Hospital refinanced its Series C bond financing and financed an additional \$8,000,000 for various capital projects that were completed over a two-year period. The par amount of the Series D debt was \$25,918,000 and interest was a variable interest rate equal to the product of (i) sixty-eight percent (68%) and (ii) the sum of the LIBOR Rate and three hundred basis points (2.39% and 2.18% at September 30, 2016 and 2015, respectively). The bonds required monthly principal and interest payments, based upon a 10-year amortization schedule, from 2011 through 2020 with the remaining principal balance due in 2020.

The terms of the bonds provided for, among other things, a pledge of gross receipts of the Hospital, restriction on the incurrence of certain indebtedness of the Hospital and provided for covenants regarding the Hospital's debt service coverage ratios, minimum levels of cash on hand, sale and lease of assets and other covenants similar in financings of this type.

In connection with this refinancing, the Hospital entered into an interest rate swap with a bank, which allowed it to convert its variable interest rate liability to a fixed interest rate liability of 4.475% without changing the structure of the underlying debt. At September 30, 2016 and 2015, the notional value of outstanding interest rate swap was \$0 and \$23,789,744, respectively. The Hospital recognizes the fair value of its interest rate swap in the consolidated balance sheet as a liability, recorded in other noncurrent liabilities. At September 30, 2015, the fair value of interest rate swap was in a liability position of \$1,851,544. The Hospital designated its interest rate swap as a cash flow hedge for accounting purposes, and accordingly deferred gains or losses associated with the swap in net assets.

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 7 - DEBT (CONTINUED)**

***SERIES D BOND FINANCING (CONTINUED)***

In connection with the sale further discussed in Note 1, on September 30, 2016, the Hospital repaid the Series D Bonds and terminated the related interest rate swap.

***OTHER DEBT***

Access has a \$250,000 line of credit with a bank. There were no borrowings under this line of credit at September 30, 2016 and 2015.

The Hospital has entered into various capital leases for equipment. The leases call for monthly payments through September 2020 and are secured by the equipment. The balance of the capital lease liabilities were approximately \$3.6 million at September 30, 2016 and \$5.1 million at September 30, 2015. These capital lease obligations were assumed by Prospect in conjunction with the sale further described in Note 1.

The carrying values of assets subject to capital leases were \$3,965,744 and \$5,401,906 at September 30, 2016 and 2015, respectively.

The fair value of all of the above debt, using the discounted cash flow analyses, was approximately \$3,651,000 at September 30, 2016 and \$30,745,000 at September 30, 2015.

**NOTE 8 - RENTAL EXPENSE AND LEASE COMMITMENTS**

The Hospital has entered into operating leases for office space and office equipment. Rental expense is recorded on a straight-line basis over the terms of the leases. Rental expense for the years ended September 30, 2016 and 2015 was \$4,593,649 and \$4,595,375, respectively. Subsequent to September 30, 2016, the future obligations were assumed by Prospect in the transaction described above.



**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 9 - EMPLOYEE BENEFIT PLANS**

The Hospital has a noncontributory defined benefit cash balance plan (the Plan). Under the Plan, each participant who elected to transfer their balances to the Plan from the former defined contribution plan receives a credit of 6% of compensation allocated to their cash balance accounts. All other participants receive a 3% credit. Additionally, each participant receives an interest credit to their cash balance account based on the yield to maturity on three-year treasury bills. The Plan covers substantially all non-union employees age 21 and older with one year of service. It is the Hospital's policy to make contributions to the Plan sufficient to meet the minimum funding requirements of applicable laws and regulations.

The Plan was frozen to non-union participants effective June 30, 2015. Participants who are part of the Connecticut Healthcare Associates Technical Unit remain active in the Plan. Non-union employees no longer accrue additional employer contribution credits in the Plan. These participants will continue to receive interest credits based on their account balances in accordance with the terms of the Plan and will be entitled to their account balance (the retirement benefit they have earned up to June 30, 2015) plus applicable interest credits after the Plan was frozen.

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

#### NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

Following is a summary of the Plan's funded status using the measurement dates of September 30, 2016 and 2015 and amounts recognized in the Hospital's consolidated financial statements.

	2016	2015
<b>Change in Benefit Obligation</b>		
Benefit obligation beginning of year	\$ (35,306,982)	\$ (36,236,973)
Service cost	(618,227)	(1,210,019)
Interest cost	(1,169,406)	(1,218,771)
Actuarial loss	(3,318,565)	(318,307)
Benefits paid	2,193,952	2,506,357
Administrative expenses paid	834,705	280,850
Curtailments, settlements and special termination benefits	--	889,881
Benefit obligation, end of year	\$ (37,384,523)	\$ (35,306,982)
<b>Change in Plan Assets</b>		
Fair value of plan assets, beginning of year	\$ 23,951,075	\$ 25,988,705
Actual return on plan assets	677,509	(454,219)
Employer contributions	1,276,854	1,203,796
Benefits paid	(2,193,952)	(2,506,357)
Administrative expenses paid	(834,705)	(280,850)
Fair value of plan assets, end of year	\$ 22,876,781	\$ 23,951,075
Funded status	\$ (14,507,742)	\$ (11,355,907)
Accrued pension liability	\$ (14,507,742)	\$ (11,355,907)
<b>Components of Net Periodic Pension Cost</b>		
Service cost	\$ 618,227	\$ 1,210,019
Interest cost	1,169,406	1,218,771
Expected return on plan assets	(1,188,371)	(1,126,585)
Amortization of actuarial loss	1,313,794	1,155,130
Amortization of prior service cost	3,790	27,271
Additional amount recognized from curtailment	--	84,839
Net periodic pension cost	\$ 1,916,846	\$ 2,569,445
Accumulated benefit obligation	\$ 37,284,559	\$ 35,213,276

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)**

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic cost:

	2016	2015
Unrecognized prior service cost	\$ (5,534)	\$ (9,324)
Unrecognized actuarial losses	<u>(18,019,234)</u>	<u>(15,503,601)</u>
	<u>\$ (18,024,768)</u>	<u>\$ (15,512,925)</u>

Changes in benefit obligations recognized in unrestricted net assets include:

	2016	2015
Prior service cost	\$ --	\$ 84,839
Current year actuarial losses	(3,829,427)	(1,009,230)
Amortization of prior service cost	3,790	27,271
Amortization of net loss	<u>1,313,794</u>	<u>1,155,130</u>
	<u>\$ (2,511,843)</u>	<u>\$ 258,010</u>

The prior service cost and actuarial losses included in unrestricted net assets and that would have been expected to be recognized in net periodic cost during the year ending September 30, 2017 are \$3,790 and \$1,767,152, respectively.

***ASSUMPTIONS***

The significant weighted-average assumptions used to determine benefit obligations at September 30 are as follows:

	2016	2015
Discount rate	3.18%	3.58%
Rate of compensation increase	2.00%	2.00%

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)**

*ASSUMPTIONS (CONTINUED)*

The significant weighted-average assumptions used to determine net periodic benefit cost for years ended September 30 are as follows:

	2016	2015
Discount rate	3.58%	3.55%
Expected return on plan assets	5.50%	4.50%
Rate of compensation increase	2.00% for 2 years, 3.00% thereafter	2.00% for 2 years, 3.00% thereafter

*EXPECTED LONG-TERM RETURN ON PLAN ASSETS*

To develop the expected long-term rate of return on assets assumptions, the Hospital considered the historical returns and the future expectations of returns for each asset class, as well as target asset allocations of the pension portfolio. This resulted in the selection of the 5.5% and 4.5% long-term rate of return for 2016 and 2015, respectively.

*INVESTMENT POLICY*

There are no longer any investment policies relative to the Plan as it pertains to the Hospital as the Plan obligations were assumed by Prospect in conjunction with the sale discussed in Note 1.

The Plan's weighted-average asset allocations at September 30, 2015, by asset category are as follows:

Asset Category	Plan Assets	Asset Allocation Policy	
		Target	Range
U.S. Equity	24%	25%	20% - 30%
Non-U.S. Equity	13%	15%	10% - 20%
Core fixed income	63%	60%	55% - 65%

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)**

*INVESTMENT POLICY (CONTINUED)*

The Pension Committee of the Board of Trustees (the Committee) is responsible for employee benefit program policies with respect to plan assets and the retention of qualified managers, consultants and trustee/custodians. The purpose of the Committee is to ensure the Plan assets accumulate monies required to meet the anticipated benefit payments of the Plan and contributions are made by the Hospital on a basis determined by the Plan's actuary to be adequate to fund the benefits. The investment objective of the Committee is to maximize total return after inflation within the limits of prudent risk taking by diversifying across asset classes and multiple managers. The Committee has established an asset allocation policy that sets a target and range for each asset class, as shown in the table above.

*CONTRIBUTIONS*

There are no future contributions from the Hospital as the Plan obligations were assumed by Prospect in conjunction with the sale discussed in Note 1.

*ESTIMATED FUTURE BENEFIT PAYMENTS*

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

2017	\$ 3,497,000
2018	3,195,000
2019	2,994,000
2020	2,844,000
2021	2,708,000
2022-2026	11,713,000

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)**

As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following table sets forth by level within the fair value hierarchy the investment assets and investment liabilities at fair value, as of September 30, 2016.

	Level 1	Level 2	Level 3	Total
Cash equivalents	<u>\$22,876,781</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$22,876,781</u>

The following table sets forth by level within the fair value hierarchy the investment assets and investment liabilities at fair value, as of September 30, 2015.

	Level 1	Level 2	Level 3	Total
Commingled funds and private equity	<u>\$ --</u>	<u>\$ --</u>	<u>\$23,951,075</u>	<u>\$23,951,075</u>

The following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

	2016	2015
Balance as of beginning of fiscal year	\$ 23,951,075	\$ 25,988,705
Change in unrealized depreciation	(306,830)	(565,059)
Purchases	1,174,706	11,621,663
Sales	<u>(24,818,951)</u>	<u>(13,094,234)</u>
Balance as of September 30,	<u>\$ --</u>	<u>\$ 23,951,075</u>

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)**

***OTHER BENEFIT PLANS***

The Hospital participates in multi-employer pension plans that cover substantially all union employees. Contributions to the plans are based upon a percentage of each participant's total salary. The risks of participating in these multi-employer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer.
- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers.
- If the Hospital chose to stop participating in the multi-employer plans, it would be required to pay those plans an amount based on the underfunded status of the plans, referred to as a withdrawal liability.

The following table presents the Hospital's participation in these plans as of and for the years ended September 30, 2016 and 2015.

Pension Trust Fund	Pension Plan Employer Identification Number	Pension Protection Act ("PPA") Certified Zone Status <sup>1</sup>		FIP / RP Status Pending / Implemented <sup>2</sup>	Contributions		Surcharge Imposed	Expiration Date of Collection Bargaining Agreement <sup>3</sup>
		2016	2015		2016	2015		
Connecticut Health Care Associates Pension Fund	06-1313462	Green	Green	N/A	\$ 1,929,003	\$ 1,966,612	No	September 30, 2017
New England Health Care Employees Pension Fund	22-3071963	Green	Green	N/A	<u>384,692</u>	<u>647,943</u>	No	February 28, 2017
Total Contributions:					<u>\$ 2,313,695</u>	<u>\$ 2,614,555</u>		

<sup>1</sup> The most recent PPA zone status available in 2016 and 2015 is for the plan's year-ending during 2015 and 2014, respectively. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

<sup>2</sup> The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented.

<sup>3</sup> Lists the expiration dates of the collective-bargaining agreements to which the plans are subject.

During the years ended September 30, 2016 and 2015, the Hospital's contributions to the Connecticut Health Care Associates Pension Plan represented 98.7% of the total contributions made to the plan by all participating employers.

During the years ended September 30, 2016 and 2015, the Hospital's contributions to the New England Health Care Employees Pension Plan represented 2.8% of the total contributions made to the plan by all participating employers.

**THE WATERBURY HOSPITAL AND SUBSIDIARIES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

---

**NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)**

***OTHER BENEFIT PLANS (CONTINUED)***

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. As of September 30, 2016, and in conjunction with the sale discussed in Note 1, the Hospital has recorded a liability of \$28,300,000, which represents the amount agreed upon for Prospect to assume the future withdrawal obligations related to the Connecticut Health Care Associates Pension Plan.

In addition, the Hospital has a supplemental employee retirement plan for certain executives. The plan provides for a total benefit and is partially funded. As of September 30, 2016 and 2015, liabilities of \$523,948 and \$424,337, respectively, have been reflected in the consolidated balance sheets.

As noted above, the Hospital also has a noncontributory defined benefit cash balance plan covering substantially all non-union employees age 21 and older with one year of service. Total pension expense, relating to this plan, charged to operations during the years ended September 30, 2016 and 2015 was \$1,916,846 and \$2,569,445, respectively.

**NOTE 10 - SELF-INSURANCE CLAIMS**

There have been medical malpractice and workers' compensation claims that fall within the Hospital's partially self-insured program which have been asserted against the Hospital. In addition, there are known incidents that have occurred through September 30, 2016 and 2015 that may result in the assertion of claims. Hospital management has accrued its best estimate of these contingent losses. Other claims may be asserted arising from services provided to patients or workers' compensation incidents in the past. Hospital management has provided reserves for these contingent liabilities.

**NOTE 11 - CONTINGENCIES**

The Hospital is a party to various lawsuits incidental to its business. The ultimate outcome is not determinable at this time.



# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

---

#### NOTE 12 - DUE TO AFFILIATES

The amounts due to affiliates of \$17,558,438 and \$61,370 at September 30, 2016 and 2015, respectively, represent receivables from and (payables) to affiliates that do not eliminate in consolidation. These balances are comprised of the following:

	<u>2016</u>	<u>2015</u>
Greater Waterbury Health Network, Inc.	\$ (14,609,880)	\$ 18,858
Alliance Medical Group of Greater Waterbury, P.C.	(9,983)	(9,983)
Greater Waterbury Management Resources, Inc.	101,842	(71,745)
GI Co-Management Company	--	1,500
VNA	<u>(3,040,417)</u>	<u>--</u>
	<u>\$ (17,558,438)</u>	<u>\$ (61,370)</u>

#### NOTE 13 - FUNCTIONAL EXPENSES

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

	<u>2016</u>	<u>2015</u>
Health care services	\$ 223,929,713	\$ 198,311,075
General and administrative	65,025,331	62,925,062
Fundraising	<u>226,745</u>	<u>326,914</u>
	<u>\$ 289,181,789</u>	<u>\$ 261,563,051</u>

#### NOTE 14 - SUBSEQUENT EVENTS

The Hospital evaluates the impact of subsequent events, events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date or for disclosure in the notes to the financial statements. The Hospital evaluated events occurring subsequent to September 30, 2016 through March 21, 2017, the date on which the accompanying consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements, other than the sale disclosed in Note 1.

**INDEPENDENT AUDITORS' REPORT  
ON OTHER FINANCIAL INFORMATION**

Board of Trustees  
**The Waterbury Hospital**

We have audited the consolidated financial statements of The Waterbury Hospital as of and for the years ended September 30, 2016 and 2015, and our report thereon dated March 21, 2017, which contained an unmodified opinion on those consolidated financial statements, appears on pages 1-2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Marcum LLP*

Hartford, CT  
March 21, 2017

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET

**SEPTEMBER 30, 2016**

	The Waterbury Hospital	Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
<b>Assets</b>								
<b>Current Assets</b>								
Cash and cash equivalents	\$ 6,543,706	\$ 788,956	\$ 2,081,436	\$ 27	\$ 155,116	\$ 114,100	\$ --	\$ 9,683,341
Restricted cash	1,575,000	--	--	--	--	--	--	1,575,000
Short-term investments	--	--	552,299	--	--	--	--	552,299
Patient accounts receivable, net	21,515,681	948,208	1,653,304	--	2,754,253	487,484	(476,035)	26,882,895
Grants and other receivables	11,771,238	--	--	--	46,214	140,479	--	11,957,931
Inventories of supplies	2,632,237	--	38,853	--	242,254	3,437	--	2,916,781
Prepaid insurance and other expenses	1,249,771	--	57,294	5,173	320,273	128,010	--	1,760,521
<b>Total Current Assets</b>	<u>45,287,633</u>	<u>1,737,164</u>	<u>4,383,186</u>	<u>5,200</u>	<u>3,518,110</u>	<u>873,510</u>	<u>(476,035)</u>	<u>55,328,768</u>
<b>Other Assets</b>								
Funds held in trust by others	45,342,562	--	--	--	--	--	--	45,342,562
Long-term investments	10,857,417	31,477	60,754	--	--	--	--	10,949,648
Other receivables	165,128	--	31,062	--	--	--	--	196,190
Goodwill	--	--	--	--	--	--	--	--
CHEFA obligations issue expense, less amortization	--	--	--	--	--	--	--	--
<b>Total Other Assets</b>	<u>56,365,107</u>	<u>31,477</u>	<u>91,816</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>56,488,400</u>
Property, plant and equipment:								
Land	287,549	--	--	--	--	--	--	287,549
Buildings and improvements	85,549,945	1,150,646	581,383	1,670	2,657,581	114,371	--	90,055,596
Equipment	184,589,149	5,989,828	899,017	480,957	2,164,848	260,682	--	194,384,481
Construction in progress	--	--	--	--	--	--	--	--
Less accumulated depreciation	(249,206,014)	(5,874,415)	(1,079,417)	(55,542)	(3,378,914)	(255,018)	--	(259,849,320)
<b>Total Property, Plant and Equipment</b>	<u>21,220,629</u>	<u>1,266,059</u>	<u>400,983</u>	<u>427,085</u>	<u>1,443,515</u>	<u>120,035</u>	<u>--</u>	<u>24,878,306</u>
<b>Total Assets</b>	<u>\$ 122,873,369</u>	<u>\$ 3,034,700</u>	<u>\$ 4,875,985</u>	<u>\$ 432,285</u>	<u>\$ 4,961,625</u>	<u>\$ 993,545</u>	<u>\$ (476,035)</u>	<u>\$ 136,695,474</u>

*See independent auditors' report on other financial information.*

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET (CONTINUED)

**SEPTEMBER 30, 2016**

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>								
<b>Current Liabilities</b>								
Accounts payable and accrued expenses	\$ 19,191,255	\$ 216,877	\$ 138,421	\$ 9,901	\$ 680,012	\$ 30,305	\$ (476,035)	\$ 19,790,736
Salaries, wages, payroll taxes and amounts withheld from employees	2,775,505	--	669,546	--	630,042	1,926,207	--	6,001,300
Due to third-party reimbursement agencies	5,641,257	--	--	--	--	--	--	5,641,257
Current portion of CHEFA obligations	--	--	--	--	--	--	--	--
Current portion of notes payable and capital lease obligations	1,276,314	--	--	--	15,019	--	--	1,291,333
Due to (from) affiliates	19,683,123	--	--	(8,517)	(950,918)	(1,165,250)	--	17,558,438
<b>Total Current Liabilities</b>	<u>48,567,454</u>	<u>216,877</u>	<u>807,967</u>	<u>1,384</u>	<u>374,155</u>	<u>791,262</u>	<u>(476,035)</u>	<u>50,283,064</u>
<b>Pension Obligations and Other Noncurrent Liabilities</b>	<u>56,693,244</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>174,864</u>	<u>--</u>	<u>--</u>	<u>56,868,108</u>
<b>CHEFA Obligations - less current portion</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>Notes Payable and Capital Lease Obligations - less current portion</b>	<u>2,344,833</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>9,587</u>	<u>--</u>	<u>--</u>	<u>2,354,420</u>
<b>Net Assets</b>								
Unrestricted	(41,588,851)	1,803,407	2,643,363	366,266	4,403,019	202,283	--	(32,170,513)
Temporarily restricted	8,722,091	--	--	--	--	--	--	8,722,091
Permanently restricted	48,134,598	--	--	--	--	--	--	48,134,598
<b>Total Net Assets Excluding Noncontrolling Interests</b>	<u>15,267,838</u>	<u>1,803,407</u>	<u>2,643,363</u>	<u>366,266</u>	<u>4,403,019</u>	<u>202,283</u>	<u>--</u>	<u>24,686,176</u>
<b>Noncontrolling Interests</b>	<u>--</u>	<u>1,014,416</u>	<u>1,424,655</u>	<u>64,635</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,503,706</u>
<b>Total Net Assets</b>	<u>15,267,838</u>	<u>2,817,823</u>	<u>4,068,018</u>	<u>430,901</u>	<u>4,403,019</u>	<u>202,283</u>	<u>--</u>	<u>27,189,882</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 122,873,369</u>	<u>\$ 3,034,700</u>	<u>\$ 4,875,985</u>	<u>\$ 432,285</u>	<u>\$ 4,961,625</u>	<u>\$ 993,545</u>	<u>\$ (476,035)</u>	<u>\$ 136,695,474</u>

*See independent auditors' report on other financial information.*

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2015

		Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
<b>Assets</b>								
<b>Current Assets</b>								
Cash and cash equivalents	\$ 14,963,006	\$ 1,153,413	\$ 1,930,496	\$ 516,135	\$ 836,009	\$ 197,414	\$ --	\$ 19,596,473
Restricted cash	1,350,000	--	--	--	--	--	--	1,350,000
Short-term investments	--	--	515,895	--	--	--	--	515,895
Patient accounts receivable, net	27,695,330	894,270	1,813,635	338	1,067,144	400,572	(527,322)	31,343,967
Grants and other receivables	3,708,354	--	--	--	46,214	115,571	(32,848)	3,837,291
Inventories of supplies	3,254,037	--	33,554	--	159,568	3,273	--	3,450,432
Prepaid insurance and other expenses	1,401,820	--	91,677	4,999	398,000	129,760	--	2,026,256
<b>Total Current Assets</b>	<u>52,372,547</u>	<u>2,047,683</u>	<u>4,385,257</u>	<u>521,472</u>	<u>2,506,935</u>	<u>846,590</u>	<u>(560,170)</u>	<u>62,120,314</u>
<b>Other Assets</b>								
Funds held in trust by others	43,411,397	--	--	--	--	--	--	43,411,397
Long-term investments	10,521,190	35,127	63,463	--	--	--	--	10,619,780
Other receivables	42,571	--	--	--	--	--	--	42,571
Goodwill	200,500	--	--	--	--	1,613,067	--	1,813,567
CHEFA obligations issue expense, less amortization	204,696	--	--	--	--	--	--	204,696
<b>Total Other Assets</b>	<u>54,380,354</u>	<u>35,127</u>	<u>63,463</u>	<u>--</u>	<u>--</u>	<u>1,613,067</u>	<u>--</u>	<u>56,092,011</u>
<b>Property, plant and equipment:</b>								
Land	287,549	--	--	--	--	--	--	287,549
Buildings and improvements	89,897,882	1,150,646	589,543	1,670	2,634,456	114,371	--	94,388,568
Equipment	183,390,801	5,979,477	847,408	1,033,094	2,152,626	315,169	--	193,718,575
Construction in progress	13,934	--	--	--	--	--	--	13,934
Less accumulated depreciation	(243,205,726)	(5,681,900)	(1,017,961)	(1,028,351)	(2,987,690)	(275,812)	--	(254,197,440)
<b>Total Property, Plant and Equipment</b>	<u>30,384,440</u>	<u>1,448,223</u>	<u>418,990</u>	<u>6,413</u>	<u>1,799,392</u>	<u>153,728</u>	<u>--</u>	<u>34,211,186</u>
<b>Total Assets</b>	<u>\$ 137,137,341</u>	<u>\$ 3,531,033</u>	<u>\$ 4,867,710</u>	<u>\$ 527,885</u>	<u>\$ 4,306,327</u>	<u>\$ 2,613,385</u>	<u>\$ (560,170)</u>	<u>\$ 152,423,511</u>

*See independent auditors' report on other financial information.*

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2015

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>								
<b>Current Liabilities</b>								
Accounts payable and accrued expenses	\$ 24,179,749	\$ 428,278	\$ 434,036	\$ 11,729	\$ 1,013,231	\$ 345,738	\$ (560,170)	\$ 25,852,591
Salaries, wages, payroll taxes and amounts withheld from employees	3,538,095	--	261,203	--	539,301	1,431,732	--	5,770,331
Due to third-party reimbursement agencies	7,348,352	--	--	--	--	--	--	7,348,352
Current portion of CHEFA obligations	516,408	--	--	--	--	--	--	516,408
Current portion of notes payable and capital lease obligations	1,440,902	--	--	--	14,992	--	--	1,455,894
Due to (from) affiliates	3,000,067	--	--	(91,537)	(1,867,734)	(979,426)	--	61,370
<b>Total Current Liabilities</b>	<u>40,023,573</u>	<u>428,278</u>	<u>695,239</u>	<u>(79,808)</u>	<u>(300,210)</u>	<u>798,044</u>	<u>(560,170)</u>	<u>41,004,946</u>
<b>Other Noncurrent Liabilities</b>	<u>25,870,676</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>178,912</u>	<u>--</u>	<u>--</u>	<u>26,049,588</u>
<b>CHEFA Obligations - less current portion</b>	<u>23,273,336</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>23,273,336</u>
<b>Notes Payable and Capital Lease</b>								
<b>Obligations - less current portion</b>	<u>3,623,371</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>24,606</u>	<u>--</u>	<u>--</u>	<u>3,647,977</u>
<b>Net Assets</b>								
Unrestricted	(10,077,417)	1,985,763	2,712,106	516,539	4,403,019	1,815,341	--	1,355,351
Temporarily restricted	8,220,369	--	--	--	--	--	--	8,220,369
Permanently restricted	46,203,433	--	--	--	--	--	--	46,203,433
<b>Total Net Assets Excluding Noncontrolling Interests</b>	<u>44,346,385</u>	<u>1,985,763</u>	<u>2,712,106</u>	<u>516,539</u>	<u>4,403,019</u>	<u>1,815,341</u>	<u>--</u>	<u>55,779,153</u>
<b>Noncontrolling Interests</b>	<u>--</u>	<u>1,116,992</u>	<u>1,460,365</u>	<u>91,154</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,668,511</u>
<b>Total Net Assets</b>	<u>44,346,385</u>	<u>3,102,755</u>	<u>4,172,471</u>	<u>607,693</u>	<u>4,403,019</u>	<u>1,815,341</u>	<u>--</u>	<u>58,447,664</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 137,137,341</u>	<u>\$ 3,531,033</u>	<u>\$ 4,867,710</u>	<u>\$ 527,885</u>	<u>\$ 4,306,327</u>	<u>\$ 2,613,385</u>	<u>\$ (560,170)</u>	<u>\$ 152,423,511</u>

*See independent auditors' report on other financial information.*

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS

**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
<b>Unrestricted Revenues</b>								
Net patient service revenues	\$ 212,409,106	\$ 3,822,543	\$ 12,687,922	\$ --	\$ 18,737,776	\$ 6,279,738	\$ (2,382,083)	\$ 251,555,002
Provision for bad debts	(5,505,105)	(13,964)	(86,487)	--	(511,079)	(188,392)	--	(6,305,027)
Net patient service revenues less provision for bad debts	206,904,001	3,808,579	12,601,435	--	18,226,697	6,091,346	(2,382,083)	245,249,975
Other operating revenues	1,779,240	--	1,373	165,388	4,452,754	1,624,329	(3,234,813)	4,788,271
Net assets released from restrictions	5,095,359	--	--	--	--	--	--	5,095,359
	<u>213,778,600</u>	<u>3,808,579</u>	<u>12,602,808</u>	<u>165,388</u>	<u>22,679,451</u>	<u>7,715,675</u>	<u>(5,616,896)</u>	<u>255,133,605</u>
<b>Operating Expenses</b>								
Salaries	81,860,214	756,971	7,859,801	--	20,710,709	8,520,493	--	119,708,188
Employee benefits	53,015,584	--	1,691,358	--	3,059,380	2,299,026	--	60,065,348
Supplies and other	86,223,563	1,869,165	1,907,195	45,854	8,282,913	1,614,620	(5,626,495)	94,316,815
Depreciation	6,034,736	196,164	99,499	23,157	391,224	54,421	--	6,799,201
Interest and amortization	1,805,096	--	--	--	2,113	--	--	1,807,209
Impairment of long-lived assets and goodwill	4,871,961	--	--	--	--	1,613,067	--	6,485,028
	<u>233,811,154</u>	<u>2,822,300</u>	<u>11,557,853</u>	<u>69,011</u>	<u>32,446,339</u>	<u>14,101,627</u>	<u>(5,626,495)</u>	<u>289,181,789</u>
<b>(Loss) Income from Operations</b>	<u>(20,032,554)</u>	<u>986,279</u>	<u>1,044,955</u>	<u>96,377</u>	<u>(9,766,888)</u>	<u>(6,385,952)</u>	<u>9,599</u>	<u>(34,048,184)</u>
<b>Nonoperating Gains</b>								
Unrestricted gifts and bequests	1,812,867	--	--	--	--	--	(9,600)	1,803,267
Investment income	1,694,711	--	9,466	--	--	--	--	1,704,177
	<u>3,507,578</u>	<u>--</u>	<u>9,466</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(9,600)</u>	<u>3,507,444</u>
<b>(Deficiency) Excess of Revenues Over Expenses Before Changes in Net Unrealized (Losses) Gains on Investments</b>	<u>(16,524,976)</u>	<u>986,279</u>	<u>1,054,421</u>	<u>96,377</u>	<u>(9,766,888)</u>	<u>(6,385,952)</u>	<u>(1)</u>	<u>(30,540,740)</u>
<b>Changes in Net Unrealized (Losses) Gains on Investments</b>	<u>8,198</u>	<u>--</u>	<u>25,776</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>33,974</u>
<b>(Deficiency) Excess of Revenues Over Expenses Less Excess of Revenue over Expenses Attributable to Noncontrolling Interests</b>	<u>(16,516,778)</u>	<u>986,279</u>	<u>1,080,197</u>	<u>96,377</u>	<u>(9,766,888)</u>	<u>(6,385,952)</u>	<u>(1)</u>	<u>(30,506,766)</u>
	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(747,586)</u>	<u>(747,586)</u>
<b>(Deficiency) Excess of Revenues Over Expenses Attributable to Controlling Interest</b>	<u>\$ (16,516,778)</u>	<u>\$ 986,279</u>	<u>\$ 1,080,197</u>	<u>\$ 96,377</u>	<u>\$ (9,766,888)</u>	<u>\$ (6,385,952)</u>	<u>\$ (747,587)</u>	<u>\$ (31,254,352)</u>

*See independent auditors' report on other financial information.*

# THE WATERBURY HOSPITAL AND SUBSIDIARIES

## CONSOLIDATING STATEMENT OF OPERATIONS

**FOR THE YEAR ENDED SEPTEMBER 30, 2015**

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
<b>Unrestricted Revenues</b>								
Net patient service revenues	\$ 196,451,648	\$ 3,894,327	\$ 12,042,564	\$ --	\$ 16,771,796	\$ 6,357,459	\$ (2,381,462)	\$ 233,136,332
Provision for (bad debts) recoveries	<u>(3,747,762)</u>	<u>19,794</u>	<u>(78,388)</u>	<u>241</u>	<u>(478,532)</u>	<u>(190,725)</u>	<u>--</u>	<u>(4,475,372)</u>
Net patient service revenues less provision for bad debts	192,703,886	3,914,121	11,964,176	241	16,293,264	6,166,734	(2,381,462)	228,660,960
Other operating revenues	1,447,376	--	1,060	267,013	5,546,330	1,675,739	(4,462,435)	4,475,083
Net assets released from restrictions	<u>5,014,429</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>5,014,429</u>
	<u>199,165,691</u>	<u>3,914,121</u>	<u>11,965,236</u>	<u>267,254</u>	<u>21,839,594</u>	<u>7,842,473</u>	<u>(6,843,897)</u>	<u>238,150,472</u>
<b>Operating Expenses</b>								
Salaries	80,843,782	689,576	7,424,833	--	19,098,182	8,866,823	--	116,923,196
Employee benefits	26,186,763	60,000	1,568,158	--	3,499,202	1,187,340	--	32,501,463
Supplies and other	95,779,267	1,915,855	1,889,949	42,007	9,012,461	1,347,305	(6,852,798)	103,134,046
Depreciation	6,676,828	210,160	109,239	2,067	458,758	75,998	--	7,533,050
Interest and amortization	<u>1,466,226</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>5,070</u>	<u>--</u>	<u>--</u>	<u>1,471,296</u>
	<u>210,952,866</u>	<u>2,875,591</u>	<u>10,992,179</u>	<u>44,074</u>	<u>32,073,673</u>	<u>11,477,466</u>	<u>(6,852,798)</u>	<u>261,563,051</u>
<b>(Loss) Income from Operations</b>	<u>(11,787,175)</u>	<u>1,038,530</u>	<u>973,057</u>	<u>223,180</u>	<u>(10,234,079)</u>	<u>(3,634,993)</u>	<u>8,901</u>	<u>(23,412,579)</u>
<b>Nonoperating Gains</b>								
Unrestricted gifts and bequests	669,966	--	--	--	--	--	(8,900)	661,066
Investment income	<u>1,788,788</u>	<u>--</u>	<u>9,917</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,798,705</u>
	<u>2,458,754</u>	<u>--</u>	<u>9,917</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(8,900)</u>	<u>2,459,771</u>
<b>(Deficiency) Excess of Revenues Over Expenses Before Changes in Net Unrealized (Losses) Gains on Investments</b>	<u>(9,328,421)</u>	<u>1,038,530</u>	<u>982,974</u>	<u>223,180</u>	<u>(10,234,079)</u>	<u>(3,634,993)</u>	<u>1</u>	<u>(20,952,808)</u>
<b>Changes in Net Unrealized (Losses) Gains on Investments</b>	<u>(289,566)</u>	<u>--</u>	<u>(2,447)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(292,013)</u>
<b>(Deficiency) Excess of Revenues Over Expenses</b>	<u>(9,617,987)</u>	<u>1,038,530</u>	<u>980,527</u>	<u>223,180</u>	<u>(10,234,079)</u>	<u>(3,634,993)</u>	<u>1</u>	<u>(21,244,821)</u>
<b>Less Excess of Revenue over Expenses Attributable to Noncontrolling Interests</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(750,533)</u>	<u>(750,533)</u>
<b>(Deficiency) Excess of Revenues Over Expenses Attributable to Controlling Interest</b>	<u>\$ (9,617,987)</u>	<u>\$ 1,038,530</u>	<u>\$ 980,527</u>	<u>\$ 223,180</u>	<u>\$ (10,234,079)</u>	<u>\$ (3,634,993)</u>	<u>\$ (750,532)</u>	<u>\$ (21,995,354)</u>

*See independent auditors' report on other financial information.*