# Lawrence + Memorial Corporation and Subsidiaries

**Consolidated Financial Statements and Supplemental Information**
**September 30, 2013 and 2012**

# Lawrence + Memorial Corporation and Subsidiaries
## Index
## September 30, 2013 and 2012

**Report of Independent Auditors**

To the Board of Trustees of
Lawrence + Memorial Corporation

We have audited the accompanying consolidated financial statements of Lawrence + Memorial Corporation (the "Corporation"), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended.

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

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We did not audit the financial statements of Visiting Nurse Association of Southeastern Connecticut, Inc., a wholly owned subsidiary, which statements reflect total assets of $18,372,801 and $16,783,939 as of September 30, 2013 and September 30, 2012, respectively, and total revenues of $14,990,091 and $14,726,801 for the years then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for Visiting Nurse Association of Southeastern Connecticut, Inc., is based solely on the report of the other auditors. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation'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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lawrence + Memorial Corporation (the "Corporation") and its subsidiaries at September 30, 2013 and September 30, 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information, on pages 28 through 33, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations. Accordingly, we do not express an opinion on the financial position, results of operations, and changes in net assets, of the individual organizations. However, the consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, based on our audits is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

January 10, 2013

# Lawrence + Memorial Corporation and Subsidiaries
## Consolidated Balance Sheets
## September 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 11,532,247 | $ 15,956,015 |
| Investments | 181,339,986 | 207,930,544 |
| Patient accounts receivable, net of allowance for doubtful accounts of $6,158,515 and $7,078,212, respectively | 42,732,035 | 32,312,475 |
| Other receivables | 7,868,879 | 6,898,102 |
| Inventories | 7,501,154 | 4,503,709 |
| Prepaid expenses and other current assets | 3,557,507 | 3,094,289 |
| Debt service fund | 1,306,255 | 1,307,110 |
| Total current assets | 255,838,063 | 272,002,244 |
| Assets limited as to use | | |
| Cash | 182,366 | 180,789 |
| Construction fund | 9,541,685 | - |
| Investments held in trust | 985,034 | 1,471,261 |
| Endowment investments | 34,155,796 | 24,574,488 |
| Funds held in trust by others | 10,956,429 | 6,451,420 |
| Contributions receivable | 2,702,993 | 1,158,095 |
| Funds held in escrow by agreement with State of Connecticut Health and Educational Facilities Authority and trustees | 2,247,255 | 2,247,125 |
| Total assets limited as to use | 60,771,558 | 36,083,178 |
| Intangibles assets, net | 3,352,875 | - |
| Deferred financing costs and other assets, net | 1,776,176 | 1,857,504 |
| Property, plant and equipment, net | 208,182,039 | 148,493,609 |
| | $ 529,920,711 | $ 458,436,535 |
| **Liabilities and Net Assets** | | |
| Current liabilities | | |
| Accounts payable | $ 40,933,051 | $ 27,382,558 |
| Accrued vacation and sick pay | 12,580,707 | 12,710,157 |
| Salaries, wages, payroll taxes and amounts withheld from employees | 10,101,654 | 5,389,708 |
| Due to third party payors | 5,870,981 | 5,646,905 |
| Other current liabilities | 123,017 | 358,122 |
| Current portion of long-term debt | 9,347,876 | 2,762,007 |
| Total current liabilities | 78,957,286 | 54,249,457 |
| Accrued pension and other postretirement benefits | 42,309,345 | 51,185,800 |
| Other liabilities | 21,676,677 | 20,384,647 |
| Long-term debt less current portion | 101,001,797 | 79,507,217 |
| Total liabilities | 243,945,105 | 205,327,121 |
| Net assets | | |
| Unrestricted | 246,531,146 | 226,133,341 |
| Temporarily restricted | 24,154,982 | 21,084,266 |
| Permanently restricted | 15,289,478 | 5,891,807 |
| Total net assets | 285,975,606 | 253,109,414 |
| | $ 529,920,711 | $ 458,436,535 |

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

# Lawrence + Memorial Corporation and Subsidiaries
## Consolidated Statement of Operations
## September 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **Unrestricted revenues, gains and other support** | | |
| Net revenues from services to patients | $ 372,745,739 | $ 354,042,019 |
| Provision for bad debt | (14,555,970) | (12,408,255) |
| Net revenue less provision for bad debt | 358,189,769 | 341,633,764 |
| Other operating revenues | 21,448,860 | 14,772,422 |
| Net assets released from restriction used for operations | 748,784 | 1,308,521 |
| Total unrestricted revenues, gains and other support | 380,387,413 | 357,714,707 |
| **Expenses** | | |
| Salaries and wages | 193,780,844 | 180,787,943 |
| Employee benefits | 49,062,244 | 45,920,442 |
| Supplies | 49,529,083 | 49,112,557 |
| Purchased services | 32,278,640 | 27,928,678 |
| Other | 37,265,822 | 31,685,722 |
| Interest | 2,865,011 | 2,316,341 |
| Depreciation and amortization | 23,023,433 | 19,255,553 |
| Total expenses | 387,805,077 | 357,007,236 |
| (Loss)/income from operations | (7,417,664) | 707,471 |
| Nonoperating gains | | |
| Unrestricted investment income | 122,109 | 160,370 |
| Income from investments | 7,752,127 | 6,853,490 |
| Inherent contribution received from purchase of Westerly Hospital | 1,796,782 | - |
| Total nonoperating gains | 9,671,018 | 7,013,860 |
| Excess of revenues over expenses | 2,253,354 | 7,721,331 |
| Net unrealized gains on investments | 12,046,855 | 14,630,156 |
| Net assets released from restrictions used for purchase of property, plant and equipment | 167,751 | 136,178 |
| Transfer of net assets to L & M Indemnity | - | (1,673,732) |
| Pension related changes other than periodic pension costs | 5,929,845 | (10,751,244) |
| Increase in unrestricted net assets | $ 20,397,805 | $ 10,062,689 |

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

# Lawrence + Memorial Corporation and Subsidiaries
## Consolidated Statements of Changes in Net Assets
## September 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **Unrestricted net assets** | | |
| Excess of revenues over expenses | $ 2,253,354 | $ 7,721,331 |
| Net unrealized gains on investments | 12,046,855 | 14,630,156 |
| Net assets released from restrictions used for purchase of property, plant and equipment | 167,751 | 136,178 |
| Transfer of net assets to L & M Indemnity | - | (1,673,732) |
| Pension related changes other than periodic pension costs | 5,929,845 | (10,751,244) |
| Increase in unrestricted net assets | 20,397,805 | 10,062,689 |
| Beginning of year unrestricted net assets | 226,133,341 | 216,070,652 |
| End of year unrestricted net assets | $ 246,531,146 | $ 226,133,341 |
| **Temporarily restricted net assets** | | |
| Income from investments | $ 668,022 | $ 357,100 |
| Net assets released from restrictions | (916,535) | (1,444,699) |
| Inherent contribution received from purchase of Westerly Hospital | 871,209 | |
| Contributions received | 506,462 | 880,693 |
| Change in value of funds held in trust by others | 1,701,848 | 1,877,872 |
| Net realized and unrealized gains on investments | 239,710 | 488,575 |
| Increase in temporarily restricted net assets | 3,070,716 | 2,159,541 |
| **Temporarily restricted net assets** | | |
| Beginning of year | 21,084,266 | 18,924,725 |
| End of year | $ 24,154,982 | $ 21,084,266 |
| **Permanently restricted net assets** | | |
| Income from investments | $ 13,823 | $ - |
| Inherent contribution received from purchase of Westerly Hospital | 9,343,478 | - |
| Contributions received | 22,888 | - |
| Change in value of funds held in trust by others | 17,482 | 354,949 |
| Increase in permanently restricted net assets | 9,397,671 | 354,949 |
| **Permanently restricted net assets** | | |
| Beginning of year | 5,891,807 | 5,536,858 |
| End of year | 15,289,478 | 5,891,807 |
| Increase in net assets | $ 32,866,192 | $ 12,577,179 |

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

# Lawrence + Memorial Corporation and Subsidiaries
## Consolidated Statements of Cash Flows
## Years Ended September 30, 2013 and 2012

| | 2013 | 2012 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Change in net assets | $ 32,866,192 | $ 12,577,179 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation and amortization | 23,023,433 | 19,255,553 |
| Net unrealized and realized gains on investments | (13,495,284) | (15,197,004) |
| Inherent contribution received from purchase of Westerly Hospital | (12,011,469) | - |
| Provision for bad debts | 14,555,970 | 12,408,255 |
| Increase in funds held in trust by others | (257,193) | (843,487) |
| Increase in contributions receivable | (794,898) | (270,627) |
| Restricted contributions | (1,174,484) | (1,237,793) |
| Changes in other operating accounts | | |
| Patient accounts receivable, net | (20,317,347) | (12,601,784) |
| Other receivables, net | (970,777) | (2,303,561) |
| Inventories | (1,447,315) | 48,902 |
| Prepaid expenses and other current assets | (137,568) | (753,883) |
| Deferred financing costs and other assets | 81,328 | 81,329 |
| Accounts payable | (2,523,188) | 4,658,535 |
| Accrued vacation and sick pay | (1,558,312) | 1,004,346 |
| Salaries, wages, payroll taxes and amounts withheld from employees | 3,652,618 | 1,812,014 |
| Due to affiliates | - | (98,310) |
| Due to third party payors | (1,632,875) | (2,394,117) |
| Pension, postretirement and other liabilities | (9,245,208) | 14,158,664 |
| Net cash provided by operating activities | 8,613,623 | 30,304,211 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment, net | (50,503,163) | (34,610,790) |
| Purchases of investments | (78,938,843) | (147,075,307) |
| Sales of investments | 107,257,276 | 125,359,995 |
| Purchase of Westerly Hospital | (14,535,558) | - |
| Decrease/(increase) in debt service fund | 855 | (197,218) |
| (Decrease)/increase in funds held in escrow | (130) | 245 |
| Net cash used in investing activities | (36,719,563) | (56,523,075) |
| **Cash flows from financing activities** | | |
| Restricted contributions | 1,174,484 | 1,237,793 |
| Principal payments of long term debt | (2,938,881) | (2,957,189) |
| Proceeds of long term debt | 25,446,569 | - |
| Net cash provided by/(used in) financing activities | 23,682,172 | (1,719,396) |
| Net decrease in cash and cash equivalents | (4,423,768) | (27,938,260) |
| **Cash and cash equivalents** | | |
| Beginning of year | 15,956,015 | 43,894,275 |
| End of year | $ 11,532,247 | $ 15,956,015 |
| **Supplemental disclosure of noncash activities** | | |
| Construction in process included in accounts payable | $ 2,105,176 | $ 3,126,751 |
| Contributed securities | $ 1,174,484 | $ 1,237,793 |

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

### 1. Significant Accounting Policies and Organization

**Organization**

Lawrence + Memorial Corporation (the “Corporation”) is a not-for-profit organization incorporated under the Nonstock Corporation Act of the State of Connecticut. The Corporation is organized exclusively for public welfare, charitable, scientific, literary and education purposes, including the furtherance of the welfare, programs and activities of Lawrence + Memorial Hospital (the “Hospital”), a nonprofit organization incorporated under the General Statutes of the State of Connecticut.

The following entities are subsidiaries of the Corporation: Lawrence + Memorial Hospital (“L+M”), L& M Physician Association Inc., L&M Systems, Inc., VNA of Southeastern Connecticut, L&M Healthcare, L&M Indemnity Ltd, VNA of Southeastern Connecticut Inc. and LMW Healthcare Inc (Westerly Hospital).

**Acquisition of Westerly Hospital**

On June 1, 2013, the Corporation and its subsidiary, LMW Healthcare, Inc. (“LMW”) completed the acquisition of certain assets and liabilities of Westerly Hospital, a 125-bed general acute care hospital located in Westerly, Rhode Island on a 10.6 acre campus. The acquisition was the culmination of a process that included the appointment of W. Mark Russo, Esq. as the special master (the “Special Master”) for Westerly Hospital and its affiliates by the Rhode Island Superior Court for the County of Washington (the “RI Court”) in December 2011, due to the deteriorating financial condition of Westerly Hospital. The Special Master was granted authority by the RI Court to negotiate the sale of the assets of Westerly Hospital and its affiliates.

The Corporation formed LMW as a Rhode Island nonprofit corporation, and in June 2012, LMW entered into an Asset Purchase Agreement (the “Purchase Agreement”) with the Special Master for Westerly Hospital and its affiliates, which was approved by the RI Court in September 2012. The Corporation guaranteed LMW’s commitments under the Purchase Agreement. Pursuant to the Purchase Agreement and upon the successful completion of regulatory review by various Rhode Island agencies, The Corporation acquired certain assets and liabilities of Westerly Hospital and its affiliates, in order to expand its care and operations to the Westerly, Rhode Island community. The acquisition of the Westerly Hospital furthers the Corporation and Lawrence + Memorial Hospital’s strategy of improving the depth and breadth of services available to all residents in the eastern Connecticut and western Rhode Island regions, without regard to ability to pay. Lawrence + Memorial Hospital expects to reduce unnecessary duplication of effort and costs with Westerly Hospital, while maintaining community access to essential services in the Westerly service area.

As part of the purchase agreement the Corporation agreed to fund $30 million in capital costs for Westerly Hospital over five years after the closing, and agreed to provide up to $6.5 million of working capital for Westerly Hospital over the first two years after the closing.

The fair value of assets and liabilities acquired under this transaction as of June 1, 2013 are as follows:

| | 2013 |
|---|---|
| Cash | $ 1,563,200 |
| Patient accounts receivable | 4,658,183 |
| Inventories | 1,550,130 |
| Pledges | 750,000 |
| Prepaid expenses | 325,650 |
| Investments | 6,870,933 |
| Assets held in trust | 4,247,816 |
| Intangible assets | 3,690,000 |
| Property, plant & equipment | 30,850,000 |
| Total assets | 54,505,912 |
| Accrued compensation | 2,488,190 |
| Accounts payable and accrued expenses | 15,052,105 |
| Due to third parties | 1,856,951 |
| Asset retirement obligation | 1,425,678 |
| Debt | 5,572,761 |
| Total liabilities | 26,395,685 |
| Net assets acquired | $ 28,110,227 |

The purchase price of $16,098,758 was paid in cash. The transaction resulted in an inherent contribution of $12,011,469 which has been appropriately allocated to the three net asset classes within the statement of changes in net assets. The inherent contribution is a result of the value of net assets being acquired exceeding the purchase price. The purchase price allocation is preliminary and may get adjusted as additional information is obtained.

Intangible assets acquired in conjunction with the Westerly acquisition include:

| | Fair value as of June 1, 2013 | Amortization period (in years) | |
|---|---|---|---|
| Patient relationships | $ 1,530,000 | 10.0 | |
| Medical records | 1,350,000 | 10.0 | |
| Trademark | 810,000 | 8.0 | |
| | $ 3,690,000 | 9.5 | (weighted average) |

L&M Healthcare has an affiliation agreement effective January 31, 1999 (the “Agreement”) with the Hospice of Southeastern Connecticut, Inc. (the “Hospice”). The Agreement gives L&M Healthcare a membership of the Hospice with one other not-for-profit healthcare organization. L&M Healthcare does not have an equity investment in the Hospice because the affiliation agreement does not require L&M Healthcare to provide capital to the Hospice and L&M Healthcare is not entitled to any of the net assets of the Hospice should the relationship terminate or the Hospice dissolve. The Corporation and its subsidiaries have never given capital to the Hospice and the Hospice has never made capital distributions to the Corporation or its subsidiaries.

L & M Physician Association, Inc. (“LMPA”) was formed exclusively for the charitable purpose of benefiting, supporting, and furthering the charitable activities of Lawrence + Memorial Hospital by engaging physicians to provide physician services to the Hospital, organizations affiliated with the Hospital and communities they serve for purpose of practicing medicine and health care services.

**Principles of Consolidation**
The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

**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 amounts reported in the consolidated financial statements and accompanying footnotes. Actual results could differ from those estimates and there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Corporation's significant estimates include the collectability of patient accounts receivable, useful lives of fixed assets, settlements due to third party payors, estimated reserves for self-insurance liabilities, and benefit plan assumptions.

**Temporarily and Permanently Restricted Net Assets**
Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation and its subsidiaries in perpetuity or in funds held in trust by others whose purpose is for the funds to be maintained in perpetuity.

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

**Cash and Cash Equivalents**
The Corporation and its subsidiaries consider all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

**Investments**
Investments in equity and debt securities are recorded at fair value in the balance sheet. Fair value is generally determined based on quoted market prices where available or net asset values provided by investment managers. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in the change in net assets. Under accounting principles generally accepted in the United States of America, an "other than temporary impairment" is recognized if the Corporation does not expect the fair value of a security to recover above cost or amortized cost. Once an "other than temporary impairment" charge has been recorded, a new cost basis is established.

The Corporation continues to review its securities for appropriate valuation on an ongoing basis. The Corporation determined that none of their investments were impaired as of September 30, 2013 or 2012.

Realized and unrealized gains and losses on donor restricted endowment funds are included in temporarily restricted net assets under State law which allows the Board to appropriate as much of the net appreciation of investments as is prudent considering the Corporation’s long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions.

Investments in limited liability companies are accounted for using the equity method in instances where the limited partner’s interest is more than minor (3-5%).

**Fair Value Measurements**
Fair value guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Corporation for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 Quoted prices in active markets for identical assets.
- Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets in active markets, quoted prices in markets that are not active, or can be corroborated by observable market data for substantially the same term of the assets.
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

**Assets Held in Trust by Others**
The Hospital has been named sole or participating beneficiary in several perpetual and charitable remainder trusts. Under the terms of these trusts, the Hospital has the irrevocable right to receive the income earned on the trust assets in perpetuity from the perpetual trusts and to receive the remainder of the trust assets for the charitable remainder trusts. For perpetual trusts, the estimated present value of the future payments to the Hospital is recorded at the fair value of the assets held in the trust. The charitable remainder trusts are recorded at the present value of the estimated future distributions expected to be received over the expected term of the trust agreement. The Hospital uses appropriate credit adjusted rates to discount amounts.

**Assets Limited as to Use**
Assets limited as to use include assets set aside by the Board of Directors, contribution receivables and for the established purpose of providing for future improvement, expansion and replacement of plant and equipment. In addition, the Corporation’s interest in externally managed trusts,

unexpended bond proceeds for construction purposes, and assets held by trustees under indenture agreements relating to financing activities with the State of Connecticut Health and Education Facilities Authority (“CHEFA”) are also included therein.

**Property, Plant and Equipment**
Property, plant and equipment are recorded at cost, or if received as a donation, at the fair value on the date received. The Corporation provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to amortize the cost of its assets over their estimated useful lives. American Hospital Association lives are generally used and provide for a 2-25 year life for land improvements, 5-50 year life for buildings and a 2-25 year life for equipment. Lease improvements are amortized over the life of the lease.

**Nonoperating Gains and Losses**
Activities other than in connection with providing health care services are considered to be nonoperating.

**Excess of Revenues over Expenses**
The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods and services, 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), and pension-related charges other than periodic pension costs and other postretirement benefits liabilities.

**Fair Value of Financial Instruments**
Investments and other assets and liabilities are carried at amounts that approximate fair value based on current market conditions. The fair value of long term debt is estimated based on the quoted market prices for the same or similar issues or on current rates offered to the Corporation and its Subsidiaries for debt of the same remaining maturities.

**Medical Malpractice Self-Insurance**
The Corporation purchases claims made professional and general liability insurance to cover medical malpractice claims from L&M Indemnity Ltd. The Hospital, LMPA and VNA have adopted the policy of self-insuring the tail portion of its malpractice insurance coverage. Management accrues its best estimate of losses as incidents which give rise to potential losses occur.

**Income Taxes**
The Corporation and its subsidiaries are not-for-profit organizations and are exempt from federal income taxes on related income under Section 501(c)(3) of the Internal Revenue Code, except for L&M Systems. L&M Systems provides for taxes based on current taxable income and the future tax consequences of temporary differences between financial and income tax reporting. Such amounts are not material to the consolidated financial statements.

**Inventories**
Inventory consists of supplies, both medical and general, pharmaceuticals and food products needed to sustain daily operation of patient care. Inventories are carried at the lower of cost or market under the first-in-first-out (FIFO) method.

### Impairment of Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to dispose.

### Accrued Vacation and Sick Pay

Accrued vacation is recorded as a liability as time is earned. As the time is used, the time is relieved from the liability. Accrued sick time is recorded as a percent for employees who have a balance greater than or equal to 800 hours. The payout is only upon termination of employment.

### Subsequent Events

The Corporation has performed an evaluation of subsequent events through January 10, 2014, which is the date the financial statements were issued.

The Hospital's negotiations with two of its three unions, AFT Healthcare, AFT-CT, AFT, AFL-CIO, Local 5049 (registered nurses) and AFT Healthcare, AFT-CT, AFLCIO, Local 5051 (licensed practical nurses and technicians) for a new contract resulted in a 4-day strike that commenced on November 27, 2013. The Hospital brought in temporary replacement workers, and, in order to provide ongoing patient care given the threat of additional, intermittent strikes, had a lockout of employees through December 18, 2013. The lockout was lifted and employees returned to work without a contract being reached. Contract negotiations will be resumed in February 2014. In response to the strike, the Hospital initially curtailed services in its Intensive Care Unit and for elective surgeries, both of which are being gradually returned to full service. The Hospital is monitoring the negative impact of the strike and lockout on both revenues and expenses. Negotiations with the two unions are ongoing, however, no assurance can be given regarding the outcome of such negotiations.

## 2. Revenues From Services to Patients and Charity Care

The following summarizes net revenues from services to patients:

| | 2013 | 2012 |
|---|---|---|
| Gross charges from services to patients | $ 837,486,803 | $ 742,404,745 |
| Less: Charity care | 7,772,037 | 5,942,442 |
| Charges from services to patients, net of charity care | 829,714,766 | 736,462,303 |
| Deductions | | |
| Allowances | 455,921,391 | 384,999,411 |
| State of Connecticut uncompensated care system (receipts) | 1,047,636 | (2,579,127) |
| Total deductions | 456,969,027 | 382,420,284 |
| Net revenues from services to patients | $ 372,745,739 | $ 354,042,019 |

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from most payors are different from established billing rates of the Corporation, and these differences are accounted for as allowances. The State of Connecticut has reduced Uncompensated Care Payments to all hospitals beginning July 2013 for a three year period. The impact to L + M Hospital in Fiscal Year 2013 is a reduction of $3,000,000, with further reductions expected to occur in Fiscal Year 2014 and 2015. In 2013, the Corporation paid cash into the State of Connecticut Uncompensated Care Pool that exceeded the amount was received from the State.

Fiscal year 2013 resulted in a decrease in net revenue whereas fiscal year 2012 was an increase to net revenue.

Net patient service revenue is 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. Adjustments related to prior year settlements increased the Hospital's revenues by approximately $1,126,576 and $4,271,085 in 2013 and 2012, respectively.

During 2013 and 2012, approximately 33%, respectively, of net patient service revenue was received under the Medicare program, and 12% and 11%, respectively, under the state Medicaid program. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. Non compliance could result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and reductions of funding levels could have an adverse impact on the Hospital.

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 anticipated. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized federal poverty income guidelines, but also includes certain cases where incurred charges are significant when compared to income. These charges are not included in net patient service revenues for financial reporting purposes.

## 3. Investments

Investments included in current assets consist of the following:

| | 2013 | 2012 |
|---|---|---|
| **Endowment investments** | | |
| Cash and cash equivalents | $ 3,785,088 | $ 464,020 |
| Bonds | 4,823,170 | 4,338,010 |
| Mutual funds | 13,492,698 | 11,929,272 |
| Hedge funds | 5,961,109 | 5,272,803 |
| Private equities | 112,204 | 48,848 |
| Marketable equities | 5,981,527 | 2,521,535 |
| Total endowment investments | 34,155,796 | 24,574,488 |
| **Funds held in trust by others** | | |
| Investments held in trust by others | 10,956,429 | 6,451,420 |
| Total funds held in trust by others | 10,956,429 | 6,451,420 |
| **Investments** | | |
| Cash and cash equivalents | 3,618,554 | 13,176,141 |
| Bonds | 38,890,479 | 75,259,899 |
| Mutual funds | 2,172,231 | 2,951,720 |
| Hedge funds | 54,766,338 | 49,723,327 |
| Private equities | 1,884,631 | 438,410 |
| Marketable equities | 80,007,753 | 66,381,047 |
| Total investments | 181,339,986 | 207,930,544 |
| Total investments at fair value | $ 226,452,211 | $ 238,956,452 |

The Corporation’s financial instrument categorization is based upon the lowest level of input that is significant to the fair value measurement within the valuation hierarchy. The following table presents the financial instruments carried at fair value using the by the fair value guidance valuation hierarchy defined above:

| | 2013 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** |
| **Endowment investments** | | | | |
| Cash and cash equivalents | $ 3,785,088 | $ - | $ - | $ 3,785,088 |
| Bonds | 3,185,997 | 1,425,678 | 211,495 | 4,823,170 |
| Mutual funds | 12,044,760 | - | 1,447,938 | 13,492,698 |
| Hedge funds | - | - | 5,961,109 | 5,961,109 |
| Private equities | - | - | 112,204 | 112,204 |
| Marketable equities | 5,981,527 | - | - | 5,981,527 |
| Total pooled endowment funds | 24,997,372 | 1,425,678 | 7,732,746 | 34,155,796 |
| **Funds held in trust by others** | | | | |
| Investments held in trust by others | - | - | 10,956,429 | 10,956,429 |
| Total held in trust by others | - | - | 10,956,429 | 10,956,429 |
| **Other investments** | | | | |
| Cash and cash equivalents | 3,618,554 | - | - | 3,618,554 |
| Bonds | 32,082,552 | 6,807,927 | - | 38,890,479 |
| Mutual funds | 2,172,231 | - | - | 2,172,231 |
| Hedge funds | - | - | 54,766,338 | 54,766,338 |
| Private equities | - | - | 1,884,631 | 1,884,631 |
| Marketable equities | 80,007,753 | - | - | 80,007,753 |
| Total other investments | 117,881,090 | 6,807,927 | 56,650,969 | 181,339,986 |
| Total Investments at fair value | $ 142,878,462 | $ 8,233,605 | $ 75,340,144 | $ 226,452,211 |

| | 2012 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** |
| **Endowment Investments** | | | | |
| Cash and cash equivalents | $ 464,020 | $ - | $ - | $ 464,020 |
| Bonds | 3,995,977 | | 342,033 | 4,338,010 |
| Mutual funds | 11,143,120 | - | 786,152 | 11,929,272 |
| Hedge funds | - | - | 5,272,803 | 5,272,803 |
| Private equities | - | - | 48,848 | 48,848 |
| Marketable equities | 2,521,535 | - | - | 2,521,535 |
| Total pooled endowment funds | 18,124,652 | - | 6,449,836 | 24,574,488 |
| **Funds held in trust by others** | | | | |
| Investments held in trust by others | - | - | 6,451,420 | 6,451,420 |
| Total held in trust by others | - | - | 6,451,420 | 6,451,420 |
| **Other investments** | | | | |
| Cash and cash equivalents | 13,176,141 | - | - | 13,176,141 |
| Bonds | 75,259,899 | - | - | 75,259,899 |
| Mutual funds | 2,951,720 | - | - | 2,951,720 |
| Hedge funds | - | - | 49,723,327 | 49,723,327 |
| Private equities | - | - | 438,410 | 438,410 |
| Marketable equities | 66,381,047 | - | - | 66,381,047 |
| Total other investments | 157,768,807 | - | 50,161,737 | 207,930,544 |
| | $ 175,893,459 | $ - | $ 63,062,993 | $ 238,956,452 |

Fair value for Level 1 is based upon quoted prices in active markets that the Corporation has the ability to access at the measurement date. Market price data is generally obtained from exchange or dealer markets. The Corporation does not adjust the quoted price for such assets.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all and reflect assumptions based on the best information available in the circumstances.

Investments included in Level 3 primarily consist of the Corporations ownership in alternative investments (principally limited partnership interests in hedge funds). The value of these alternative investments represents the ownership interest in the net asset value ("NAV") of the respective partnership. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. Also included in Level 3 investments are charitable remainder trusts held by third parties which are recorded at the present value of the future distributions expected to be received over the term of the agreement and investments in for-profit companies.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table is a roll forward of the amounts by investment type for financial instruments classified by the Corporation within Level 3 of the fair value hierarchy defined above:

| | Beginning October 1, 2012 | Investment Income | Realized Gains | Unrealized Gains | Investment Fees | Purchases | Sales | Ending September 30, 2013 |
|---|---|---|---|---|---|---|---|---|
| **Investment pool** | | | | | | | | |
| Hedge funds | $ 56,124,316 | $ 354,977 | $ 1,118,631 | $ 5,509,944 | $ (131,712) | $ 1,037,785 | $ (1,627,061) | $ 62,386,880 |
| Private equities | 487,257 | - | 67,055 | 122,281 | (63,590) | 1,398,832 | (15,000) | 1,996,835 |
| Funds held in trust | 6,451,420 | - | - | 322,158 | (64,965) | 4,247,816 | - | 10,956,429 |
| Total | $ 63,062,993 | $ 354,977 | $ 1,185,686 | $ 5,954,383 | $ (260,267) | $ 6,684,433 | $ (1,642,061) | $ 75,340,144 |

| | Beginning October 1, 2011 | Investment Income | Realized Gains | Unrealized Gains | Investment Fees | Purchases | Sales | Ending September 30, 2012 |
|---|---|---|---|---|---|---|---|---|
| **Investment pool** | | | | | | | | |
| Hedge funds | $ 52,597,785 | $ 373,856 | $ 2,177,075 | $ 1,533,011 | $ (110,436) | $ 13,343,878 | $ (13,790,853) | $ 56,124,316 |
| Private equities | 94,306 | - | 128 | 3,359 | (53,624) | 443,088 | - | 487,257 |
| Funds held in trust | 5,607,933 | - | - | 843,487 | - | - | - | 6,451,420 |
| Total | $ 58,300,024 | $ 373,856 | $ 2,177,203 | $ 2,379,857 | $ (164,060) | $ 13,786,966 | $ (13,790,853) | $ 63,062,993 |

There were no significant transfers of assets between levels for the year ended September 30, 2013.

A summary of the endowment investment return is presented below:

| | 2013 | 2012 |
|---|---|---|
| Investment income | $ 649,876 | $ 610,571 |
| Realized and unrealized gains | 2,225,435 | 2,657,538 |
| Management fees and other costs | (47,805) | (31,626) |
| Total return on endowment investments | $ 2,827,506 | $ 3,236,483 |

Following is additional information related to funds whose fair value is not readily determinable as of September 30, 2013.

| | Strategy | Fair Value | # of Investments | Remaining Life | $ Amount of Unfunded Commitments | Timing to Draw Down Commitments | Redemption Terms | Redemption Restrictions | Restrictions in Place at Year End |
|---|---|---|---|---|---|---|---|---|---|
| Equity securities | Global developed and emerging market equity | $ 14,809,395 | 1 | N/A | $ - | No remaining commitments | Monthly with 10 day's notice | None | None |
| Absolute return | Long/short and long-biased equity and credit hedge funds | 18,451,073 | 7 | N/A | | No remaining commitments | Annual with 90 day's notice | lock up provision of 12 months from the purchase date | None |
| Directional hedge | Long/short and long-biased equity and credit hedge funds | 23,640,230 | 1 | N/A | | No remaining commitments | Quarterly with 60 day's notice | lock up provision of 25 months from the purchase date | None |
| Commodities | Commodity index | 5,486,182 | 1 | N/A | | No remaining commitments | Monthly with 5 day's notice | None | None |
| Private equity | Private equity | 1,981,731 | 2 | N/A | | Illiquid long term 5 years | None | None | None |
| | | $ 64,368,611 | | | | | | | |

## 4. Endowments

The Corporation's endowments consist of donor restricted endowment funds for a variety of purposes. The net assets associated with endowment funds including funds designated by the Board of Directors to function as endowments are classified and reported based on the existence or absence of donor imposed restrictions.

The Corporation understands net asset classification guidance to require that donor restricted endowment gifts be maintained in perpetuity. Consistent with net asset classification guidance, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. The Corporation considers the following factors in making a determination to appropriate or accumulate endowment funds:

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

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

| | 2013 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| **Endowment net assets at beginning of year** | $ 6,676,924 | $ 13,633,436 | $ 2,866,683 | $ 23,177,043 |
| Addition of Westerly Hospital Endowment Net Assets | 1,714,560 | 810,769 | 4,345,662 | 6,870,991 |
| Investment return | | | | |
| Investment income | 287,500 | 161,761 | (748) | 448,513 |
| Net realized and unrealized gain | 451,980 | 1,701,848 | 14,570 | 2,168,398 |
| Contributions | 126,620 | - | 22,888 | 149,508 |
| Total investment return | 866,100 | 1,863,609 | 36,710 | 2,766,419 |
| Income distribution | - | (129,592) | - | (129,592) |
| **Endowment net assets at end of year** | $ 9,257,584 | $ 16,178,222 | $ 7,249,055 | $ 32,684,861 |

| | 2012 | | | |
|---|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** | **Total** |
| **Endowment net assets at beginning of year** | $ 5,952,776 | $ 11,788,979 | $ 2,866,683 | $ 20,608,438 |
| Investment return | | | | |
| Investment income | 436,096 | 91,840 | - | 527,936 |
| Net realized and unrealized (loss)/gain | 288,052 | 1,877,872 | - | 2,165,924 |
| Total investment return | 724,148 | 1,969,712 | - | 2,693,860 |
| Income distribution | - | (125,255) | - | (125,255) |
| **Endowment net assets at end of year** | $ 6,676,924 | $ 13,633,436 | $ 2,866,683 | $ 23,177,043 |

Endowment funds classified as permanently and temporarily restricted net assets:

The portion of perpetual endowment funds retained permanently either by explicit donor stipulation or by net asset classification guidance is summarized as follows:

| | **2013** | **2012** |
|---|---|---|
| **Temporarily restricted net assets** | | |
| Unspent income and appreciation on permanently restricted endowments for purchase of equipment and healthcare services | $ 16,178,222 | $ 13,633,436 |
| Total endowment funds classified as temporarily restricted net assets | $ 16,178,222 | $ 13,633,436 |
| **Permanently restricted net assets** | | |
| Corpus of permanently restricted contributions for purchase of equipment and healthcare services | $ 7,249,055 | $ 2,866,683 |
| Total endowment funds classified as permanently restricted net assets | $ 7,249,055 | $ 2,866,683 |

**Endowment Funds With Deficits**
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist they are classified as a reduction of unrestricted net assets. The Corporation analyzed the endowments and notes there are no deficits as of September 30, 2013 and 2012.

**Endowment Investment Return Objectives and Risk Parameters**
The Corporation has adopted endowment investment and spending policies that attempt to provide predictable stream of funding to programs supported by the endowment while seeking to maintain the permanent nature of endowment funds. Under this policy, the return objective for the endowment assets measured over a full market cycle shall be to maximize the return against a blended index, based on the endowment's target asset allocation applied to the appropriate individual benchmarks.

**Strategies Employed for Achieving Endowment Investment Objectives**
To achieve its long-term rate of return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Corporation targets a diversified asset allocation to achieve its long-term objectives within prudent Corporation risk constraints.

**Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives**
Spending is guided by several factors most important is the value of the portfolio. Generally, the Board will approve a spending policy limiting annual expenditures for grants and operating expenses up to 4.5% of the value of the Funds' assets based on a 12 quarter rolling average for the endowment, and operating funds.

Investment managers are given ample notice of the required withdrawal schedule. Appropriate liquidity is maintained to fund these withdrawals without impairing the investment process.

## 5. Temporary and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2013 and 2012:

| | 2013 | 2012 |
|---|---|---|
| **Temporarily restricted net assets** | | |
| Funds held in trust by others | $ 3,687,812 | $ 3,448,102 |
| Contributions receivable | 20,366 | 20,366 |
| Free beds and plant replacement and expansion | 15,304,434 | 13,633,436 |
| Specific purpose reserves | 5,142,370 | 3,982,362 |
| | $ 24,154,982 | $ 21,084,266 |

Permanently restricted net assets at September 30, 2013 and 2012 are restricted to:

| | 2013 | 2012 |
|---|---|---|
| **Permanently restricted net assets** | | |
| Funds held in trust by others | $ 7,290,422 | $ 3,025,124 |
| Donor restricted endowment funds | 7,999,056 | 2,866,683 |
| | $ 15,289,478 | $ 5,891,807 |

## 6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

| | 2013 | 2012 |
|---|---|---|
| Land and land improvements | $ 21,524,487 | $ 18,000,459 |
| Buildings | 138,297,388 | 118,209,994 |
| Equipment | 252,682,233 | 217,351,555 |
| | 412,504,108 | 353,562,008 |
| Less: Accumulated depreciation | (250,099,034) | (227,405,684) |
| | 162,405,074 | 126,156,324 |
| Construction in progress (estimated cost to complete at September 30, 2013 is $17,612,963 unaudited) | 45,776,965 | 22,337,285 |
| | $ 208,182,039 | $ 148,493,609 |

## 7. Long-Term Debt

| | 2013 | 2012 |
|---|---|---|
| CHEFA Series F Revenue Bonds | | |
| Various rate bonds, due 2014 to 2026 | $ 33,625,000 | $ 36,250,000 |
| 5.0% Term Bonds, due 2027 to 2031 | 8,705,000 | 8,705,000 |
| 5.0% Term Bonds, due 2032 to 2036 | 11,100,000 | 11,100,000 |
| CHEFA Series E revenue bonds | | |
| Variable rate bonds, due 2023-2034 | 22,990,000 | 22,990,000 |
| Line of credit | 18,663,400 | - |
| Tax exempt lease | 11,596,368 | - |
| Capital lease obligation | 1,010,148 | 448,826 |
| Total debt outstanding | 107,689,916 | 79,493,826 |
| Less: Amounts classified as current | 9,347,876 | 2,762,007 |
| Add: Bond premium | 2,659,757 | 2,775,398 |
| Total long-term portion of long-term debt | $ 101,001,797 | $ 79,507,217 |

On September 15, 2011 the Connecticut Health and Education Facilities Authority (CHEFA) issued $58,940,000 of Series F Bonds (the "Series F Bonds") on behalf of the Hospital and the Corporation (collectively referred to as the "Obligated Group" under the Series F Bond agreements). The Series F Bonds are structured with a term bond due July 1, 2036, with annual sinking fund payments due each July 1st commencing July 1, 2013. Interest on the Series F Bonds is payable semiannually on the first business day of January 1 and July 1 beginning January 1, 2012.

On June 24, 2004 CHEFA issued $22,990,000 of Series E Bonds (the "Series E Bonds") on behalf of the Hospital and the Corporation (collectively referred to as the "Obligated Group" under the Series E Bond agreements). The Series E Bonds are structured with a term bond due July 1, 2034, with annual sinking fund payments due each July 1st commencing July 1, 2003. Interest on the Series E Bonds accrues at the weekly rate and is payable on the first business day of each month commencing July 1, 2004.

Under the terms of the trust indenture for the Series E Bonds, the Obligated Group is required to meet certain financial covenants including a debt service coverage ratio and days cash on hand ratio. Members of the Obligated Group are jointly and severally obligated to provide amounts sufficient to enable the Authority to pay principal and interest on the Series E bonds. The bonds and bond proceeds have been allocated to the Hospital and as such, the Hospital will make future debt service payments as required under the terms of the bonds.

The bonds may be retired at an earlier date pursuant to terms of the master indenture. Payment of the bonds is collateralized by a pledge of the gross receipts (as defined) and certain real property of the Hospital and Corporation.

The Series E Bonds are considered variable rate demand bonds and are remarketed on a weekly basis. The Corporation maintains a letter of credit in the amount of $22,900,000 which expires on December 31, 2014. If the bonds are unable to be remarketed, the letter of credit could be utilized to purchase the bonds. The Obligated Group would then be subject to the payment terms of the letter of credit, which are equal quarterly installments beginning in the first quarter that is at least 367 days after the initial draw down on the letter of credit. The Series E Bonds have been successfully remarketed in the past and there have been no draws on the letter of credit.

In accordance with the long-term loan agreement with CHEFA, certain trustee funds are required to be maintained. These funds provide for debt service and other related payments. The income derived from these funds is required to be reinvested in the trustee funds and is not available for current operating purposes.

The fair value of the Series E Bonds, using discounted cash flow analyses, approximates carrying value. The fair value of the Series F Bonds using discounted cash flows was $55,830,117.25 and $62,036,108.50 for years ending September 30, 2013 and September 30, 2012 respectively.

The tax exempt lease (the "Easy Loan") was obtained on June 27, 2013 in the principal amount of $12,000,000. This is a seven year equipment lease on specific capital purchases that is administered through CHEFA and Bank of America-Merrill Lynch. This loan will be amortized monthly through June 27, 2020 at a nominal annual interest rate of 1.759%.

The Corporation has a line of credit with Bank of America-Merrill Lynch for $13,802,758. This was taken as a bridge loan prior to issuance of Series G private Placement. The proceeds of Series G were used to pay off this line of credit on October 10, 2013. LMW Healthcare has a line of credit with Washington Trust for $4,860,642. This line was reissued at time of closing but has been paid off as a subsequent event in November 2013.

On October 10, 2013 Series G was issued in a private placement offering with Bank of America-Merrill Lynch and CHEFA in the amount of $30,000,000 with an interest of 3.20% until October 1, 2023 with an option to extend at a negotiated rate with a maturity date of July 1, 2038. On November 5, 2013, Series H was issued by CHEFA to refinance Series E. Series H was issued in the amount of $21,405,000 with a variable rate and a maturity date of July 1, 2034. This bond has a letter of credit guaranteed by T.D. Bank.

Principal repayments, excluding capital leases and the line of credit, are as follows:

| **Years** | **Annual Principal Repayment** |
|---|---|
| 2014 | $ 2,725,000 |
| 2015 | 2,835,000 |
| 2016 | 2,975,000 |
| 2017 | 3,130,000 |
| 2018 and thereafter | 64,755,000 |
| | $ 76,420,000 |

Cash interest payments of $2,682,472 and $2,118,293 were made in fiscal year 2013 and 2012, respectively. No interest was capitalized during 2013 and 2012.

### 8. Pension and Other Postretirement Benefits

The Hospital has a defined benefit plan covering all employees who elected to stay in the Plan. The Plan is frozen to new participants as of June 30, 1999. The benefits are based on years of service and the employee's compensation during the last five years of employment.

The Hospital provides health care and life insurance benefits to its retired employees who meet certain eligibility requirements. The Hospital's policy is to fund the cost of postretirement benefits other than pensions as incurred. This plan was frozen to include only those employees who retired prior to May 1, 1994.

The following table sets forth the Hospital's plans' funded status and amounts recognized in the consolidated balance sheet at September 30, 2013 and 2012 (measurement date of September 30):

| | Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| **Change in benefit obligation** | | | | |
| Benefit obligation at beginning of year | $ 147,201,452 | $ 126,663,537 | $ 1,289,208 | $ 1,167,001 |
| Service cost | 1,536,115 | 1,555,388 | - | - |
| Interest cost | 5,685,930 | 6,610,881 | 31,620 | 59,302 |
| Employee contributions | 90,611 | 118,336 | - | - |
| Benefits paid | (6,590,842) | (6,214,539) | (107,793) | (124,024) |
| Actuarial (gain)/loss | (2,133,477) | 18,467,849 | (212,291) | 186,929 |
| Benefit obligation at end of year | 145,789,789 | 147,201,452 | 1,000,744 | 1,289,208 |
| **Change in plan assets** | | | | |
| Fair value of plan assets at beginning of year | 98,298,309 | 85,487,585 | - | - |
| Actual return on plan assets | 7,662,270 | 11,886,927 | - | - |
| Employee contributions | 90,611 | 118,336 | - | - |
| Employer contributions | 6,400,000 | 7,020,000 | 107,793 | 124,024 |
| Benefits paid | (6,590,842) | (6,214,539) | (107,793) | (124,024) |
| Fair value of plan assets at end of year | 105,860,348 | 98,298,309 | - | - |
| Funded status of the plan | (39,929,441) | (48,903,143) | (1,000,744) | (1,289,208) |
| Unrecognized net loss/(gain) from past experience different from that assumed and effects of changes in assumptions | 37,006,625 | 42,795,831 | (456,751) | (289,506) |
| Unrecognized prior service cost | 190,310 | 330,949 | - | - |
| Accrued benefit costs recognized in the statements of operations | $ (2,732,506) | $ (5,776,363) | $ (1,457,495) | $ (1,578,714) |
| **Components of net periodic benefit costs** | | | | |
| Service cost | $ 1,536,115 | $ 1,555,388 | $ - | $ - |
| Interest cost | 5,685,930 | 6,610,881 | 31,620 | 59,302 |
| Expected return on plan assets | (7,182,524) | (6,465,227) | - | - |
| Amortization of net loss/(gain) | 3,175,983 | 2,154,266 | (45,046) | (49,599) |
| Net amortization and deferral | 140,639 | 140,639 | - | - |
| Benefit cost | $ 3,356,143 | $ 3,995,947 | $ (13,426) | $ 9,703 |

The weighted average assumptions used to determine the net benefit cost at the beginning of the year are as follows:

| | **2013** | **2012** |
|---|---|---|
| Discount rate | 3.95 % | 5.34 % |
| Average rate of compensation increases | 2.50 % | 3.50 % |
| Expected return on assets | 7.50 % | 7.50 % |

The weighted average assumptions used to determine the benefit obligation at the end of the year are as follows:

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 4.51 % | 3.95 % |
| Average rate of compensation increases | 2.50 % | 2.50 % |

The Plan's asset allocations as of September 30 are as follows:

| Asset Category | 2013 | 2012 |
|---|---|---|
| Cash | 3 % | 5 % |
| Bonds | 23 | 29 |
| Hedge funds | 30 | 29 |
| Marketable equities | 44 | 37 |
| Total | 100 % | 100 % |

The expected rate of return on plan assets is calculated based on past experience.

Expected benefits to be paid under the Hospital's plans are as follows:

| Fiscal Years Beginning October 1, | Expected Benefits |
|---|---|
| 2013 | $ 6,998,164 |
| 2014 | 7,263,769 |
| 2015 | 7,511,189 |
| 2016 | 7,928,299 |
| 2017 | 8,074,614 |
| Expected aggregate for 5 fiscal years beginning 2018 | 44,653,466 |

Annual contributions are determined by the Hospital based upon calculations prepared by the plan's actuary. Expected contributions to the plans for 2014 are approximately (unaudited):

| | |
|---|---|
| Pension | $ 6,400,000 |
| Retiree health | 108,195 |

The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) for participants is assumed to be 9.0% in 2013 reducing to 5.0% by the year 2021 and remaining at that level thereafter. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation and service cost plus interest cost by approximately $71,000 and $97,000, respectively, at September 30, 2013 and 2012. A one percentage point decrease in the assumed health care cost trend rate would decrease the accumulated postretirement benefit obligation and service cost plus interest cost by approximately $65,000 and $88,000, respectively, at September 30, 2013 and 2012.

**Plan Assets**

The defined benefit plan assets are valued utilizing the same fair value hierarchy as the Hospital's investments as described in Note 1.

The following table summarizes the fair values of investments by major type held by the pension plan at September 30, 2013:

| | Level 1 | Level 2 | Level 3 | 2013 |
|---|---|---|---|---|
| **Investments, at fair value** | | | | |
| Cash | $ 3,043,961 | $ - | $ - | $ 3,043,961 |
| Bonds | 24,488,654 | - | - | 24,488,654 |
| Hedge funds | - | - | 31,893,958 | 31,893,958 |
| Marketable equities | 41,880,187 | 4,553,588 | - | 46,433,775 |
| Total investments, at fair value | $ 69,412,802 | $ 4,553,588 | $ 31,893,958 | $ 105,860,348 |

The following table summarizes the fair values of investments by major type held by the staff pension health plan at September 30, 2012:

| | Level 1 | Level 2 | Level 3 | 2012 |
|---|---|---|---|---|
| **Investments, at fair value** | | | | |
| Cash | $ 4,711,241 | $ - | $ - | $ 4,711,241 |
| Bonds | 28,278,732 | - | - | 28,278,732 |
| Hedge funds | - | - | 28,795,536 | 28,795,536 |
| Marketable equities | 32,342,939 | 4,169,861 | - | 36,512,800 |
| Total investments, at fair value | $ 65,332,912 | $ 4,169,861 | $ 28,795,536 | $ 98,298,309 |

There were no transfers between levels during 2013 or 2012.

The table below represents the change in fair value measurements for Level 3 investments held by the plans for the years ended September 30.

| | 2013 | 2012 |
|---|---|---|
| **Beginning balances** | $ 28,795,536 | $ 26,524,387 |
| Realized gains | 33,459 | 144,819 |
| Fees | (65,081) | (54,861) |
| Unrealized gains | 3,130,044 | 2,181,191 |
| Purchases | - | 5,475,369 |
| Sales | - | (5,475,369) |
| **Ending balances** | $ 31,893,958 | $ 28,795,536 |

The investment objective for the pension and post retirement plans seeks a positive long-term total return after inflation to meet the Hospital's current and future plan obligations.

Asset allocations combine tested theory and informed market judgment to balance investment risks with the need for high returns.

The Hospital's 401(k) plan covers eligible employees who elected to participate. Eligible employees may contribute a percentage of their salary. The Hospital matches 100% of the first 4% of gross pay deferred by employees for those employees who do not participate in the defined benefit plan. Plan contributions charged to operations were approximately $4,618,626 and $4,270,327 for 2013 and 2012, respectively.

The VNA has a defined contribution pension plan which covers substantially all of its employees who have met specified age and length of service requirements. Contributions to the Plan are based on 5% of eligible salaries and totaled approximately $446,631 and $437,911 for the years ended September 30, 2013 and 2012, respectively.

## 9. Functional Expenses

The Corporation and its subsidiaries provide general health care services to residents within its geographic location including pediatric care, cardiac catheterization, and outpatient surgery. Expenses by function are as follows:

| | 2013 | 2012 |
|---|---|---|
| Health care services | $ 293,416,325 | $ 270,348,417 |
| General and administrative | 94,388,752 | 86,658,819 |
| | $ 387,805,077 | $ 357,007,236 |

## 10. Commitments and Contingencies

The Corporation and its subsidiaries are parties to various lawsuits incidental to their business. Management believes that the lawsuits will not have a material adverse effect on their financial position, results of operations, and changes in net assets or cash flows.

# Lawrence + Memorial Corporation and Subsidiaries
## Consolidating Balance Sheet
## September 30, 2013

| | Lawrence & Memorial Hospital | Lawrence & Memorial Corporation | Eliminating Entries | Obligated Group | L&M Systems, Inc. | LMPA | L&M Indemnity | VNA of Southeastern Connecticut, Inc. | Westerly Hospital | Eliminating Entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | |
| Current assets | | | | | | | | | | | |
| Cash and cash equivalents | $ 418,968 | $ 129,669 | $ - | $ 548,637 | $ - | $ 2,024,446 | $ 82,453 | $ 783,154 | $ 8,093,557 | $ - | $ 11,532,247 |
| Investments | 130,950,162 | 29,022,418 | - | 159,972,580 | - | - | 14,317,990 | 7,049,416 | - | - | 181,339,986 |
| Patient accounts receivable,net | 33,903,908 | - | - | 33,903,908 | - | 2,259,926 | - | 2,471,162 | 4,097,039 | - | 42,732,035 |
| Other receivables | 17,671,453 | - | - | 17,671,453 | 559,500 | 1,399,994 | 922,696 | - | - | (12,684,764) | 7,868,879 |
| Inventories | 5,845,470 | - | - | 5,845,470 | - | 13,280 | - | - | 1,642,404 | - | 7,501,154 |
| Due from affiliates | 1,316,775 | 24,500 | (1,316,775) | 24,500 | 1,867,732 | - | - | - | - | (1,892,232) | - |
| Prepaid expenses and other current assets | 2,256,097 | - | - | 2,256,097 | - | 586,555 | 2,893 | 420,324 | 291,638 | - | 3,557,507 |
| Debt service fund | 1,306,255 | - | - | 1,306,255 | - | - | - | - | - | - | 1,306,255 |
| Total current assets | 193,669,088 | 29,176,587 | (1,316,775) | 221,528,900 | 2,427,232 | 6,284,201 | 15,326,032 | 10,724,056 | 14,124,638 | (14,576,996) | 255,838,063 |
| Assets limited as to use | | | | | | | | | | | |
| Cash | 182,366 | - | - | 182,366 | - | - | - | - | - | - | 182,366 |
| Construction funds | 9,541,685 | - | - | 9,541,685 | - | - | - | - | - | - | 9,541,685 |
| Investments held in trust | 985,034 | - | - | 985,034 | - | - | - | - | - | - | 985,034 |
| Endowment investments | 17,922,954 | 3,300,079 | - | 21,223,033 | - | - | - | 5,961,912 | 6,970,851 | - | 34,155,796 |
| Investment in subsidiaries | - | 19,281,447 | - | 19,281,447 | - | - | - | - | - | (19,281,447) | - |
| Funds held in trust by others | 6,773,578 | - | - | 6,773,578 | - | - | - | - | 4,182,851 | - | 10,956,429 |
| Contributions receivable | 20,366 | 1,932,627 | - | 1,952,993 | - | - | - | - | 750,000 | - | 2,702,993 |
| Funds held in escrow by agreement with | - | - | - | - | - | - | - | - | - | - | - |
| State of Connecticut Health and | - | - | - | - | - | - | - | - | - | - | - |
| Educational Facilities Authority and trustees | 2,247,255 | - | - | 2,247,255 | - | - | - | - | - | - | 2,247,255 |
| Total assets limited as to use | 37,673,238 | 24,514,153 | - | 62,187,391 | - | - | - | 5,961,912 | 11,903,702 | (19,281,447) | 60,771,558 |
| Other assets | | | | | | | | | | | |
| Intangible assets, net | - | - | - | - | - | - | - | - | 3,352,875 | - | 3,352,875 |
| Deferred financing costs and other assets, net | 1,776,176 | - | - | 1,776,176 | - | - | - | - | - | - | 1,776,176 |
| Property, plant and equipment | | | | | | | | | | | |
| Land improvements | 7,343,577 | 12,330,635 | - | 19,674,212 | - | - | - | 330,275 | 1,520,000 | - | 21,524,487 |
| Buildings/leasehold improvements | 120,101,634 | - | - | 120,101,634 | - | 1,339,331 | - | 2,238,496 | 14,617,927 | - | 138,297,388 |
| Equipment/furniture | 234,099,872 | 21,774 | - | 234,121,646 | - | 902,509 | - | 947,778 | 16,710,300 | - | 252,682,233 |
| Accumulated depreciation | (245,331,839) | (47,756) | - | (245,379,595) | - | (1,153,698) | - | (1,829,716) | (1,736,025) | - | (250,099,034) |
| Construction in progress | 45,776,965 | - | - | 45,776,965 | - | - | - | - | - | - | 45,776,965 |
| Property, plant and equipment, net | 161,990,209 | 12,304,653 | - | 174,294,862 | - | 1,088,142 | - | 1,686,833 | 31,112,202 | - | 208,182,039 |
| | $ 395,108,711 | $ 65,995,393 | $ (1,316,775) | $ 459,787,329 | $ 2,427,232 | $ 7,372,343 | $ 15,326,032 | $ 18,372,801 | $ 60,493,417 | $ (33,858,443) | $ 529,920,711 |

# Lawrence + Memorial Corporation and Subsidiaries
## Consolidating Balance Sheet
## September 30, 2013

| | Lawrence & Memorial Hospital | Lawrence & Memorial Corporation | Eliminating Entries | Obligated Group | L&M Systems, Inc. | LMPA | L&M Indemnity | VNA of Southeastern Connecticut, Inc. | Westerly Hospital | Eliminating Entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Liabilities and Net Assets** | | | | | | | | | | | |
| Current liabilities | | | | | | | | | | | |
| Accounts payable | $ 24,079,687 | $ 148,360 | $ - | $ 24,228,047 | $ - | $ 204,726 | $ 75,246 | $ 1,470,128 | $ 14,954,904 | $ - | $ 40,933,051 |
| Accrued vacation and sick pay | 11,523,272 | - | - | 11,523,272 | - | 1,057,435 | - | - | - | - | 12,580,707 |
| Salaries, wages, payroll taxes and amounts | 4,495,457 | - | - | 4,495,457 | - | 2,351,953 | - | - | 3,254,244 | - | 10,101,654 |
| withheld from employees | | - | - | - | - | - | - | - | - | - | - |
| Due to affiliates | 1,867,732 | 758,960 | (1,316,775) | 1,309,917 | 582,315 | - | - | - | - | (1,892,232) | - |
| Due to third party payors | 3,826,094 | - | - | 3,826,094 | - | - | - | 251,000 | 1,793,887 | - | 5,870,981 |
| Other current liabilities | | - | - | - | - | - | 13,606 | 109,411 | - | - | 123,017 |
| Current portion of long-term debt | 4,487,234 | - | - | 4,487,234 | - | - | - | - | 4,860,642 | - | 9,347,876 |
| Total current liabilities | 50,279,476 | 907,320 | (1,316,775) | 49,870,021 | 582,315 | 3,614,114 | 88,852 | 1,830,539 | 24,863,677 | (1,892,232) | 78,957,286 |
| Accrued pension and other postretirement benefits | 42,309,345 | - | - | 42,309,345 | - | - | - | - | - | | 42,309,345 |
| Other liabilities | 17,774,823 | - | - | 17,774,823 | - | 2,407,115 | 13,906,589 | - | 1,425,678 | (13,837,528) | 21,676,677 |
| Long-term debt less current portion | 86,439,477 | 13,802,758 | - | 100,242,235 | - | - | - | - | 759,562 | - | 101,001,797 |
| Total liabilities | 196,803,121 | 14,710,078 | (1,316,775) | 210,196,424 | 582,315 | 6,021,229 | 13,995,441 | 1,830,539 | 27,048,917 | (15,729,760) | 243,945,105 |
| Net assets | | | | | | | | | | | |
| Unrestricted | 170,160,088 | 50,262,836 | - | 220,422,924 | 1,844,917 | 1,351,114 | 1,330,591 | 16,515,262 | 23,195,021 | (18,128,683) | 246,531,146 |
| Temporarily restricted | 22,198,248 | 1,022,479 | - | 23,220,727 | - | - | - | - | 934,255 | - | 24,154,982 |
| Permanently restricted | 5,947,254 | - | - | 5,947,254 | - | - | - | 27,000 | 9,315,224 | - | 15,289,478 |
| Total net assets | 198,305,590 | 51,285,315 | - | 249,590,905 | 1,844,917 | 1,351,114 | 1,330,591 | 16,542,262 | 33,444,500 | (18,128,683) | 285,975,606 |
| | $ 395,108,711 | $ 65,995,393 | $ (1,316,775) | $ 459,787,329 | $ 2,427,232 | $ 7,372,343 | $ 15,326,032 | $ 18,372,801 | $ 60,493,417 | $ (33,858,443) | $ 529,920,711 |

# Lawrence + Memorial Corporation and Subsidiaries
## Consolidating Balance Sheet
## September 30, 2012

| | Lawrence & Memorial Hospital | Lawrence & Memorial Corporation | Eliminating Entries | Obligated Group | L&M Systems, Inc. | LMPA | L&M Indemnity | VNA of Southeastern Connecticut, Inc. | Eliminating Entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Current assets | | | | | | | | | | |
| Cash and cash equivalents | $ 13,709,499 | $ 907,448 | $ - | $ 14,616,947 | $ - | $ 502,009 | $ 226,549 | $ 610,510 | $ - | $ 15,956,015 |
| Investments | 138,433,638 | 49,793,622 | - | 188,227,260 | - | - | 13,137,635 | 6,565,649 | - | 207,930,544 |
| Patient accounts receivable,net | 28,946,593 | - | - | 28,946,593 | - | 1,246,803 | - | 2,119,079 | - | 32,312,475 |
| Other receivables | 17,488,730 | - | - | 17,488,730 | 509,500 | 953,156 | 483,133 | | (12,536,417) | 6,898,102 |
| Inventories | 4,469,470 | - | - | 4,469,470 | - | 34,239 | - | - | - | 4,503,709 |
| Due from affiliates | 639,799 | 812,417 | (639,799) | 812,417 | 1,633,327 | - | - | - | (2,445,744) | - |
| Prepaid expenses and other current assets | 2,004,576 | 210,000 | - | 2,214,576 | - | 531,732 | 2,862 | 345,119 | | 3,094,289 |
| Debt service fund | 1,307,110 | - | - | 1,307,110 | - | - | - | - | - | 1,307,110 |
| Total current assets | 206,999,415 | 51,723,487 | (639,799) | 258,083,103 | 2,142,827 | 3,267,939 | 13,850,179 | 9,640,357 | (14,982,161) | 272,002,244 |
| Assets limited as to use | | | | | | | | | | |
| Cash | 180,789 | - | - | 180,789 | - | - | - | - | - | 180,789 |
| Investments held in trust | 971,261 | 500,000 | - | 1,471,261 | - | - | - | - | - | 1,471,261 |
| Endowment investments | 16,251,376 | 2,946,028 | - | 19,197,404 | - | - | - | 5,377,084 | - | 24,574,488 |
| Investment in subsidiaries | - | 3,182,689 | - | 3,182,689 | - | - | - | - | (3,182,689) | - |
| Funds held in trust by others | 6,451,420 | - | - | 6,451,420 | - | - | - | - | - | 6,451,420 |
| Contributions receivable | 20,366 | 1,137,729 | - | 1,158,095 | - | - | - | - | - | 1,158,095 |
| Funds held in escrow by agreement with State of Connecticut Health and Educational Facilities Authority and trustees | 2,247,125 | - | - | 2,247,125 | - | - | - | - | - | 2,247,125 |
| Total assets limited as to use | 26,122,337 | 7,766,446 | - | 33,888,783 | - | - | - | 5,377,084 | (3,182,689) | 36,083,178 |
| Other assets | | | | | | | | | | |
| Deferred financing costs and other assets, net | 1,857,504 | - | - | 1,857,504 | - | - | - | - | - | 1,857,504 |
| Property, plant and equipment | | | | | | | | | | |
| Land improvements | 6,573,393 | 11,096,791 | - | 17,670,184 | - | - | - | 330,275 | - | 18,000,459 |
| Buildings/leasehold improvements | 114,978,768 | 148,821 | - | 115,127,589 | - | 869,622 | - | 2,212,783 | - | 118,209,994 |
| Equipment/furniture | 215,747,098 | 21,774 | - | 215,768,872 | - | 656,294 | - | 926,389 | - | 217,351,555 |
| Accumulated depreciation | (224,709,996) | (82,371) | - | (224,792,367) | - | (910,368) | - | (1,702,949) | - | (227,405,684) |
| Construction in progress | 22,337,285 | - | - | 22,337,285 | - | - | - | - | - | 22,337,285 |
| Property, plant and equipment, net | 134,926,548 | 11,185,015 | - | 146,111,563 | - | 615,548 | - | 1,766,498 | - | 148,493,609 |
| | $ 369,905,804 | $ 70,674,948 | $ (639,799) | $ 439,940,953 | $ 2,142,827 | $ 3,883,487 | $ 13,850,179 | $ 16,783,939 | $ (18,164,850) | $ 458,436,535 |

# Lawrence + Memorial Corporation and Subsidiaries
## Consolidating Balance Sheet
## September 30, 2012

| | Lawrence & Memorial Hospital | Lawrence & Memorial Corporation | Eliminating Entries | Obligated Group | L&M Systems, Inc. | LMPA | L&M Indemnity | VNA of Southeastern Connecticut, Inc. | Eliminating Entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Liabilities and Net Assets** | | | | | | | | | | |
| Current liabilities | | | | | | | | | | |
| Accounts payable | $ 25,447,380 | $ 221,394 | $ - | $ 25,668,774 | $ - | $ 322,235 | $ 63,701 | $ 1,327,848 | $ - | $ 27,382,558 |
| Accrued vacation and sick pay | 12,283,930 | - | - | 12,283,930 | - | 426,227 | - | - | - | 12,710,157 |
| Salaries, wages, payroll taxes and amounts | 3,887,888 | - | - | 3,887,888 | - | 1,501,820 | - | - | - | 5,389,708 |
| withheld from employees | - | - | - | - | - | - | - | - | - | - |
| Due to affiliates | 2,421,244 | - | (639,799) | 1,781,445 | 664,299 | - | - | - | (2,445,744) | - |
| Due to third party payors | 5,409,556 | - | - | 5,409,556 | - | - | - | 237,349 | - | 5,646,905 |
| Other current liabilities | - | - | - | - | - | - | 188,267 | 169,855 | - | 358,122 |
| Current portion of long-term debt | 2,762,007 | - | - | 2,762,007 | - | - | - | - | - | 2,762,007 |
| Total current liabilities | 52,212,005 | 221,394 | (639,799) | 51,793,600 | 664,299 | 2,250,282 | 251,968 | 1,735,052 | (2,445,744) | 54,249,457 |
| Accrued pension and other postretirement benefits | 51,185,800 | - | - | 51,185,800 | - | - | - | - | - | 51,185,800 |
| Other liabilities | 17,998,408 | - | - | 17,998,408 | - | 1,963,633 | 13,697,549 | - | (13,274,943) | 20,384,647 |
| Long-term debt less current portion | 79,507,217 | - | - | 79,507,217 | - | - | - | - | - | 79,507,217 |
| Total liabilities | 200,903,430 | 221,394 | (639,799) | 200,485,025 | 664,299 | 4,213,915 | 13,949,517 | 1,735,052 | (15,720,687) | 205,327,121 |
| Net assets | | | | | | | | | | |
| Unrestricted | 143,045,328 | 69,461,527 | - | 212,506,855 | 1,478,528 | (330,428) | (99,338) | 15,021,887 | (2,444,163) | 226,133,341 |
| Temporarily restricted | 20,092,239 | 992,027 | - | 21,084,266 | - | - | - | - | - | 21,084,266 |
| Permanently restricted | 5,864,807 | - | - | 5,864,807 | - | - | - | 27,000 | - | 5,891,807 |
| Total net assets | 169,002,374 | 70,453,554 | - | 239,455,928 | 1,478,528 | (330,428) | (99,338) | 15,048,887 | (2,444,163) | 253,109,414 |
| | $ 369,905,804 | $ 70,674,948 | $ (639,799) | $ 439,940,953 | $ 2,142,827 | $ 3,883,487 | $ 13,850,179 | $ 16,783,939 | $ (18,164,850) | $ 458,436,535 |

# Lawrence + Memorial Corporation and Subsidiaries
## Consolidating Statement of Operations
## Year Ended September 30, 2013

| | Lawrence & Memorial Hospital | Lawrence & Memorial Corporation | Eliminating Entries | Obligated Group | L&M Systems, Inc. | LMPA | L&M Indemnity | VNA of Southeastern Connecticut, Inc. | Westerly Hospital | Eliminating Entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net revenues from services to patients | $ 315,384,106 | $ - | $ - | $ 315,384,106 | $ - | $ 21,002,422 | $ - | $ 10,960,237 | $ 25,398,974 | $ - | $ 372,745,739 |
| Provision for bad debt | (12,127,746) | - | - | (12,127,746) | - | (315,036) | - | (75,000) | (2,038,188) | - | (14,555,970) |
| Net revenue less provision for bad debt | 303,256,360 | - | - | 303,256,360 | - | 20,687,386 | - | 10,885,237 | 23,360,786 | - | 358,189,769 |
| Other operating revenues | 19,592,810 | 2,685,385 | - | 22,278,195 | 552,925 | 5,172,964 | 6,080,077 | 4,104,854 | 700,630 | (17,440,785) | 21,448,860 |
| Net assets released from restriction | 508,227 | 240,557 | - | 748,784 | - | - | - | - | - | - | 748,784 |
| | 323,357,397 | 2,925,942 | - | 326,283,339 | 552,925 | 25,860,350 | 6,080,077 | 14,990,091 | 24,061,416 | (17,440,785) | 380,387,413 |
| Operating expenses | | | | | | | | | | | |
| Salaries and wages | 149,825,846 | - | - | 149,825,846 | - | 26,540,185 | - | 10,239,995 | 9,459,006 | (2,284,188) | 193,780,844 |
| Employee benefits | 43,535,428 | - | - | 43,535,428 | - | 4,434,983 | - | 2,693,125 | 2,642,707 | (4,243,999) | 49,062,244 |
| Supplies | 45,171,409 | 241,132 | - | 45,412,541 | - | 870,017 | - | 268,625 | 2,977,900 | - | 49,529,083 |
| Purchased services | 23,622,138 | 3,294,240 | - | 26,916,378 | 19,305 | 1,859,333 | 196,254 | 97,756 | 5,341,642 | (2,152,028) | 32,278,640 |
| Other | 33,252,775 | 146,028 | - | 33,398,803 | 306,857 | 5,955,316 | 4,510,614 | 1,184,934 | 1,084,106 | (9,174,808) | 37,265,822 |
| Interest | 2,705,025 | 39,577 | - | 2,744,602 | - | - | - | - | 120,409 | - | 2,865,011 |
| Depreciation and amortization | 20,641,159 | 38,526 | - | 20,679,685 | - | 243,331 | - | 126,767 | 1,973,650 | - | 23,023,433 |
| | 318,753,780 | 3,759,503 | - | 322,513,283 | 326,162 | 39,903,165 | 4,706,868 | 14,611,202 | 23,599,420 | (17,855,023) | 387,805,077 |
| Income from operations | 4,603,617 | (833,561) | - | 3,770,056 | 226,763 | (14,042,815) | 1,373,209 | 378,889 | 461,996 | 414,238 | (7,417,664) |
| Nonoperating gains | | | | | | | | | | | |
| Unrestricted investment income | 122,109 | - | - | 122,109 | - | - | - | - | - | - | 122,109 |
| Income/(loss) from investments | 6,041,461 | 881,712 | - | 6,923,173 | - | - | 198,569 | 630,012 | 373 | - | 7,752,127 |
| Inherent contribution received from purchase of Westerly Hospital | - | - | - | | - | - | - | - | 17,895,540 | (16,098,758) | 1,796,782 |
| | 6,163,570 | 881,712 | - | 7,045,282 | - | - | 198,569 | 630,012 | 17,895,913 | (16,098,758) | 9,671,018 |
| Excess of revenues over expenses | 10,767,187 | 48,151 | - | 10,815,338 | 226,763 | (14,042,815) | 1,571,778 | 1,008,901 | 18,357,909 | (15,684,520) | 2,253,354 |
| Net unrealized (losses)/gains on investments | 9,113,432 | 2,590,798 | - | 11,704,230 | - | - | (141,849) | 484,474 | - | - | 12,046,855 |
| Transfer to L & M Affiliate | 1,136,545 | (21,837,640) | - | (20,701,095) | 139,626 | 15,724,357 | - | - | 4,837,112 | - | - |
| Net assets released from restrictions used for purchases of property and equipment | 167,751 | - | - | 167,751 | - | - | - | - | - | - | 167,751 |
| Pension related changes other than periodic pension costs | 5,929,845 | - | - | 5,929,845 | - | - | - | - | - | - | 5,929,845 |
| Decrease in unrestricted net assets | $ 27,114,760 | $ (19,198,691) | $ - | $ 7,916,069 | $ 366,389 | $ 1,681,542 | $ 1,429,929 | $ 1,493,375 | $ 23,195,021 | $ (15,684,520) | $ 20,397,805 |

# Lawrence + Memorial Corporation and Subsidiaries
## Consolidating Statement of Operations
## Year Ended September 30, 2012

| | Lawrence & Memorial Hospital | Lawrence & Memorial Corporation | Eliminating Entries | Obligated Group | L&M Systems, Inc. | LMPA | L&M Indemnity | VNA of Southeastern Connecticut, Inc. | Eliminating Entries | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| Net revenues from services to patients | $ 329,278,379 | $ - | $ - | $ 329,278,379 | $ - | $ 13,740,606 | $ - | $ 11,023,034 | $ - | $ 354,042,019 |
| Provision for bad debt | (12,114,319) | - | - | (12,114,319) | - | (205,324) | - | (88,612) | - | (12,408,255) |
| Net revenue less provision for bad debt | 317,164,060 | - | - | 317,164,060 | - | 13,535,282 | - | 10,934,422 | - | 341,633,764 |
| Other operating revenues | 11,277,917 | 2,850,055 | - | 14,127,972 | 584,822 | 2,464,499 | 4,758,259 | 3,792,379 | (10,955,509) | 14,772,422 |
| Net assets released from restriction | 449,575 | 858,946 | - | 1,308,521 | - | - | - | - | - | 1,308,521 |
| | 328,891,552 | 3,709,001 | - | 332,600,553 | 584,822 | 15,999,781 | 4,758,259 | 14,726,801 | (10,955,509) | 357,714,707 |
| Operating expenses | | | | | | | | | | |
| Salaries and wages | 152,912,737 | - | - | 152,912,737 | - | 19,234,424 | - | 9,996,589 | (1,355,807) | 180,787,943 |
| Employee benefits | 42,122,837 | - | - | 42,122,837 | 109,556 | 3,410,611 | - | 2,607,582 | (2,330,144) | 45,920,442 |
| Supplies | 46,248,498 | 858,934 | - | 47,107,432 | - | 763,510 | - | 1,247,370 | (5,755) | 49,112,557 |
| Purchased services | 24,623,743 | 2,933,053 | - | 27,556,796 | 30,391 | 1,125,676 | 198,181 | 371,566 | (1,353,932) | 27,928,678 |
| Other | 28,877,147 | 50,749 | - | 28,927,896 | - | 4,517,628 | 4,888,595 | - | (6,648,397) | 31,685,722 |
| Interest | 2,315,992 | - | - | 2,315,992 | 156 | 193 | - | - | - | 2,316,341 |
| Depreciation and amortization | 18,825,589 | 7,680 | - | 18,833,269 | - | 243,914 | - | 178,370 | - | 19,255,553 |
| | 315,926,543 | 3,850,416 | - | 319,776,959 | 140,103 | 29,295,956 | 5,086,776 | 14,401,477 | (11,694,035) | 357,007,236 |
| Income from operations | 12,965,009 | (141,415) | - | 12,823,594 | 444,719 | (13,296,175) | (328,517) | 325,324 | 738,526 | 707,471 |
| Nonoperating gains | | | | | | | | | | |
| Unrestricted investment income | 160,370 | - | - | 160,370 | - | - | - | - | - | 160,370 |
| Income/(loss) from investments | 4,424,194 | 1,680,143 | - | 6,104,337 | - | - | 88,493 | 660,660 | - | 6,853,490 |
| | 4,584,564 | 1,680,143 | - | 6,264,707 | - | - | 88,493 | 660,660 | - | 7,013,860 |
| Excess of revenues over expenses | 17,549,573 | 1,538,728 | - | 19,088,301 | 444,719 | (13,296,175) | (240,024) | 985,984 | 738,526 | 7,721,331 |
| Net unrealized (losses)/gains on investments | 11,303,455 | 2,235,559 | - | 13,539,014 | - | - | 20,686 | 1,070,456 | - | 14,630,156 |
| Transfer to L & M Affiliate | (16,931,534) | 3,184,351 | - | (13,747,183) | 3,504 | 12,069,947 | - | - | 1,673,732 | - |
| Net assets released from restrictions used for purchases of property and equipment | 136,178 | - | - | 136,178 | - | - | - | - | - | 136,178 |
| Transfer of net assets to L & M Indemnity | - | - | - | - | - | - | - | - | (1,673,732) | (1,673,732) |
| Pension related changes other than periodic pension cost | (10,751,244) | - | - | (10,751,244) | - | - | - | - | - | (10,751,244) |
| Decrease in unrestricted net assets | $ 1,306,428 | $ 6,958,638 | $ - | $ 8,265,066 | $ 448,223 | $ (1,226,228) | $ (219,338) | $ 2,056,440 | $ 738,526 | $ 10,062,689 |