

The Charlotte Hungerford Hospital

Independent Auditors' Report and
Financial Statements

As of and for the Years Ended
September 30, 2014 and 2013



Saslow Lufkin & Buggy, LLP
Accounting · Tax · Advisory

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Independent Auditors' Report

To the Board of Governors of
The Charlotte Hungerford Hospital:

We have audited the accompanying financial statements of The Charlotte Hungerford Hospital (the Hospital), a Connecticut not-for-profit, non-stock corporation, which comprise the balance sheets as of September 30, 2014 and 2013, and the related statements of operations and changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital'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 Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Charlotte Hungerford Hospital as of September 30, 2014 and 2013, and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Saslow Lufkin & Buggy, LLP

December 11, 2014



The Charlotte Hungerford Hospital
Balance Sheets
September 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 7,223,350	\$ 8,948,706
Accounts receivable (less allowance for doubtful accounts of \$2,333,698 in 2014 and \$2,490,521 in 2013)	13,152,579	13,504,471
Inventories	1,952,261	2,092,246
Estimated amounts due from third-party reimbursement agencies	2,471,609	840,007
Other current assets	2,171,770	2,724,846
Total current assets	26,971,569	28,110,276
Assets whose use is limited:		
Investments held in trust for estimated self-insurance liabilities	4,696,499	4,175,772
Donor restricted assets	7,260,499	7,067,123
Beneficial interest in assets held in trust by others	17,889,422	16,349,307
Total assets whose use is limited	29,846,420	27,592,202
Long-term investments	39,735,759	38,742,293
Property, plant and equipment:		
Land	155,467	155,467
Land improvements	5,835,598	5,780,697
Buildings	82,924,326	79,680,340
Fixed equipment	17,488,505	17,276,242
Moveable equipment	48,276,083	45,639,769
	154,679,979	148,532,515
Less: accumulated depreciation	(116,381,671)	(112,631,179)
	38,298,308	35,901,336
Construction in progress	941,793	968,443
Total property, plant and equipment	39,240,101	36,869,779
Other assets	1,077,802	1,135,267
Total assets	\$ 136,871,651	\$ 132,449,817
Liabilities and Net Assets		
Current liabilities:		
Current portion of loans payable	\$ -	\$ 3,219,468
Accounts payable	7,275,470	7,289,342
Estimated amounts due to third-party reimbursement agencies	4,348,984	2,468,522
Accrued salaries, wages and fees	4,456,310	4,177,672
Other current liabilities	4,435,526	4,078,798
Total current liabilities	20,516,290	21,233,802
Estimated self-insurance liabilities	3,971,340	3,527,218
Accrued pension liability, less current portion	27,865,188	23,133,018
Total liabilities	52,352,818	47,894,038
Net assets:		
Unrestricted (\$37,406,338 in 2014 and \$36,744,347 in 2013 designated by the Board of Governors)	59,368,912	61,139,349
Temporarily restricted	3,508,118	3,314,742
Permanently restricted	21,641,803	20,101,688
Total net assets	84,518,833	84,555,779
Total liabilities and net assets	\$ 136,871,651	\$ 132,449,817

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

The Charlotte Hungerford Hospital
Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2014 and 2013

	2014	2013
Unrestricted revenues:		
Net patient service revenues	\$ 117,321,553	\$ 120,055,608
Provision for bad debts	(2,699,503)	(3,378,061)
Net patient service revenues less provision for bad debts	114,622,050	116,677,547
Other revenues	7,533,927	8,250,546
Total revenues	122,155,977	124,928,093
Expenses:		
Salaries and wages	59,008,896	59,350,363
Physician fees	4,330,528	4,669,548
Employee benefits	14,032,091	16,209,801
Services	18,216,921	16,440,138
Supplies	16,269,014	17,328,278
Repairs and maintenance	2,228,556	2,475,386
Depreciation and amortization	5,899,420	6,050,075
Interest and bond expenses	15,651	250,825
Insurance	1,997,754	2,125,573
Total expenses	121,998,831	124,899,987
Operating income	157,146	28,106
Other income:		
Investment and other income, net	2,689,094	2,298,212
Gifts and bequests	110,807	273,527
Gain from equity method investments	65,999	93,073
Total other income	2,865,900	2,664,812
Excess of revenues over expenses	\$ 3,023,046	\$ 2,692,918

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

The Charlotte Hungerford Hospital
Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 3,023,046	\$ 2,692,918
Change in unrealized gains on investments	2,991,314	3,057,435
Pension related changes other than net periodic pension costs	<u>(7,784,797)</u>	<u>14,454,789</u>
Change in unrestricted net assets	(1,770,437)	20,205,142
Temporarily restricted net assets:		
Investment income	82,523	65,246
Contributions	253,117	151,523
Change in unrealized gains on investments	126,779	215,939
Net assets released from restrictions	<u>(269,043)</u>	<u>(354,906)</u>
Change in temporarily restricted net assets	193,376	77,802
Permanently restricted net assets:		
Change in beneficial interest in assets held in trust by others	<u>1,540,115</u>	<u>2,481,156</u>
Change in permanently restricted net assets	<u>1,540,115</u>	<u>2,481,156</u>
Change in net assets	(36,946)	22,764,100
Net assets, beginning of year	<u>84,555,779</u>	<u>61,791,679</u>
Net assets, end of year	<u>\$ 84,518,833</u>	<u>\$ 84,555,779</u>

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

The Charlotte Hungerford Hospital
Statements of Cash Flows
For the Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ (36,946)	\$ 22,764,100
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,899,420	6,050,075
Net realized gains on investments	(1,295,275)	(846,137)
Net unrealized gains on investments	(3,118,093)	(3,273,374)
Increase in beneficial interest in assets held in trust by others	(1,540,115)	(2,481,156)
Provision for bad debts, net	2,699,503	3,378,061
Loss on disposal of equipment	364,968	-
Changes in:		
Accounts receivable	(2,347,611)	(3,441,431)
Inventories	139,985	(67,133)
Estimated amounts due from third-party reimbursement agencies	(1,631,602)	131,578
Other current assets	553,076	(1,007,820)
Other assets, net	19,859	125,280
Accounts payable	(13,872)	2,259,666
Estimated amounts due to third-party reimbursement agencies	1,880,462	551,330
Accrued salaries, wages and fees	278,638	150,457
Other current liabilities	356,728	(3,647,365)
Estimated self-insurance liabilities	444,122	401,546
Accrued pension liability	4,732,170	(15,154,971)
	7,385,417	5,892,706
Net cash provided by operating activities		
Cash flows from investing activities:		
Proceeds from sales of investments	7,755,404	5,159,460
Purchases of investments	(5,049,605)	(5,579,582)
Purchases of property, plant and equipment, net	(8,597,104)	(4,992,894)
	(5,891,305)	(5,413,016)
Net cash used in investing activities		
Cash flows from financing activities:		
Principal payments on Series C bonds	-	(1,200,000)
Payments on KDA long-term debt	(3,219,468)	(201,998)
	(3,219,468)	(1,401,998)
Net cash used in financing activities		
Net change in cash and cash equivalents	(1,725,356)	(922,308)
Cash and cash equivalents, beginning of year	8,948,706	9,871,014
Cash and cash equivalents, end of year	\$ 7,223,350	\$ 8,948,706
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 15,651	\$ 212,885

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

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 1 - General

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

Note 2 - Summary of Significant Accounting Policies

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

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

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

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

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

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

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

Recognition of Grant Revenue - Grants are generally considered to be exchange transactions in which the grantor requires the performance of specified activities. Entitlement to cost reimbursement grants is conditioned on the expenditure of funds in accordance with grant restrictions and, therefore, revenue is recognized to the extent of grant expenditures. Entitlement to performance based grants is conditioned on the attainment of specific performance goals and, therefore, revenue is recognized to the extent of performance achieved. The Hospital recognized \$2,331,914 and \$2,419,582 of grant revenue, included in other revenues, for the years ended September 30, 2014 and 2013, respectively. Grant receipts in excess of revenues recognized are presented as deferred grant support. Deferred grant support of \$495,090 and \$220,312 is included in other current liabilities in the accompanying balance sheets as of September 30, 2014 and 2013, respectively.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

Pledges Receivable - Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Amounts expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those contributions are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in other revenues. Conditional promises to give are not included as support until such time as the conditions are substantially met. Pledges receivable are included within other assets on the balance sheets.

The Hospital's policy is to present restricted contributions received during the year whose restrictions are also met during the current year as unrestricted net asset activity. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is actually received.

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

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

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

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

All of the Hospital's investments, as of September 30, 2014 and 2013, were classified as available for sale. Available for sale securities may be sold prior to maturity and are carried at fair value.

The amortized costs of fixed maturities are adjusted using the interest method for amortization of premiums and accretions of discounts. Such amortization and accretion are included in net investment income.

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

Other Than Temporary Impairments on Investments - The Hospital accounts for other than temporary impairments in accordance with certain provisions of FASB ASC 320 "*Investments - Debt and Equity Securities*" and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairments recorded in 2014 or 2013.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

The Hospital accounts for uncertain tax positions in accordance with provisions of FASB ASC 740, “Income Taxes” which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Hospital does not have any uncertain tax positions as of September 30, 2014 or 2013. As of September 30, 2014 or 2013, the Hospital did not record any penalties or interest associated with uncertain tax positions. The Hospital’s prior three tax years are open and subject to examination.

Property, Plant and Equipment - Property, plant and equipment purchased by the Hospital is recorded at cost, or if received as a donation, at fair value on the date received. The Hospital provides for depreciation of property, plant and equipment for financial reporting purposes using the straight-line method over the estimated useful lives of the various assets. American Hospital Association lives are generally used and provide for a 25-50 year life for buildings and a 3-20 year life for building fixtures and equipment. Leased equipment is amortized on a straight-line basis over the shorter of the life of the applicable lease or life of the leased asset.

Depreciation expense was \$5,861,814 and \$5,975,902 for the years ended September 30, 2014 and 2013, respectively.

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

	Ownership Percentage
Advanced Medical Imaging of Northwest CT, LLC (AMI)	
(Except for the Fixed MRI segment, in which the ownership is 67%)	50%
MedConn Collection Agency, LLC	25%
Urology Center of Northwest CT, LLC (Urology)	62.5%

The Hospital has recorded its share of AMI’s net income of \$479,142 and \$514,988 within other revenues as of September 30, 2014 and 2013, respectively, as these services are a component of the Hospital operations. In addition, the 62.5% investment in Urology is presented under the equity method of accounting as it is immaterial to present in a consolidated presentation.

Deferred Financing Costs - Deferred financing costs are amortized over the period the obligation is outstanding using the effective interest method. The unamortized portion is included within other assets on the balance sheets.

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

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 2 - Summary of Significant Accounting Policies (continued)

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

Accounting Pronouncements Adopted - In December 2011, the FASB issued ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities." This guidance contains new disclosure requirements regarding the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. This guidance was effective for the Hospital beginning October 1, 2013, and retrospective application is required. The adoption of this guidance did not have an impact on the Hospital's financial statements.

In October 2012, the FASB issued ASU 2012-05, "Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows." This guidance provides clarification on how entities classify cash receipts arising from the sale of certain donated financial assets in the statement of cash flows. This guidance was effective for the Hospital beginning October 1, 2013. The adoption of this guidance did not have an impact on the Hospital's financial statements.

In January 2013, the FASB issued ASU 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." This guidance provides clarification on the scope of the offsetting disclosure requirements in ASU 2011-11. This guidance was effective for the Hospital beginning October 1, 2013. The adoption of this guidance did not have an impact on the Hospital's financial statements.

Accounting Pronouncements Pending Adoption - In February 2013, the FASB issued ASU 2013-04, "Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date." This guidance requires entities to measure obligations resulting from the joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date. This guidance is effective for the Hospital beginning October 1, 2014, with early adoption permitted. The Hospital does not expect this guidance to have a material impact on its financial statements.

Subsequent Events - Subsequent events have been evaluated through December 11, 2014, the date through which procedures were performed to prepare the financial statements for issuance. Management believes there are no subsequent events having a material impact on the financial statements.

Note 3 - Revenues from Services to Patients and Charity Care

The following table reconciles gross revenues to net revenues from services to patients:

	<u>2014</u>	<u>2013</u>
Gross revenues from services to patients	\$ 265,102,773	\$ 256,724,054
Deductions and allowances	<u>(147,781,220)</u>	<u>(136,668,446)</u>
Net revenues from services to patients	<u>\$ 117,321,553</u>	<u>\$ 120,055,608</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 3 - Revenues from Services to Patients and Charity Care (continued)

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

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

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

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

For uninsured patients that do not qualify for financial assistance, the Hospital offers a discount off its standard rates for services provided. The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible. The Hospital's allowance for doubtful accounts covers all accounts greater than six months for both self-pay accounts receivable and third party payors as of September 30, 2014 and 2013. The Hospital's self-pay and third-party payors write-offs totaled \$4,196,343 and \$4,405,175 for 2014 and 2013, respectively. The Hospital did not change its charity care or financial assistance policy during 2014 or 2013.

At September 30, 2014 and 2013, 55% and 51% of net patient accounts receivable were from governmental payors (Medicare and Medicaid) and 45% and 49% were from nongovernmental payors, respectively. Nongovernmental payors are primarily insurance companies and self-pay payors. Management has recorded an allowance for doubtful accounts, as noted above, which, in its opinion, is sufficient to provide for risk of nonpayment.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 3 - Revenues from Services to Patients and Charity Care (continued)

Charity Care - It is an inherent part of the Hospital's mission to provide necessary medical care free of charge, or at a discount, to individuals without insurance or other means of paying for such care. As the amounts determined to qualify for charity care are not pursued for collection, they are not reported as net patient service revenue. Patients who would otherwise qualify for charity care but who do not provide adequate information would be characterized as bad debt and included in the provision for bad debts. The amount of traditional charity care provided, determined on the basis of cost, was \$1,349,407 and \$1,616,162 for the years ended September 30, 2014 and 2013, respectively. The Hospital released assets whose use was restricted to fund free-care of \$28,687 and \$21,527, for the years ending September 30, 2014 and 2013, respectively.

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

Note 4 - Investments

Cost and fair values of investments, as of September 30, 2014 and 2013, are summarized as follows:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Long-term investments:				
(including Board and donor restricted)				
Money market funds	\$ 3,306,155	\$ 3,481,493	\$ 3,301,456	\$ 3,393,665
Certificates of deposit	1,150,043	1,146,557	1,195,251	1,203,833
Equity securities	19,984,997	31,849,301	19,493,683	28,487,679
Corporate bonds	3,133,356	3,280,676	3,824,473	3,947,089
Municipal bonds	100,815	113,801	263,318	278,958
Mutual and exchange traded funds	6,878,442	7,123,695	8,207,753	8,280,414
U.S. treasury and government agencies	618	735	211,601	217,778
Total	<u>\$ 34,554,426</u>	<u>\$ 46,996,258</u>	<u>\$ 36,497,535</u>	<u>\$ 45,809,416</u>
Investments held in trust for estimated self-insurance liabilities:				
Money market funds	\$ 1,362,487	\$ 1,362,487	\$ 1,541,616	\$ 1,541,616
Mutual funds	3,300,053	3,334,012	2,588,339	2,634,156
Total	<u>\$ 4,662,540</u>	<u>\$ 4,696,499</u>	<u>\$ 4,129,955</u>	<u>\$ 4,175,772</u>

Beneficial interest in assets held in trust of \$17,889,422 and \$16,349,307, as of September 30, 2014 and 2013, respectively, are held by bank trustees and are not under the Hospital's investment control. These assets are invested within diversified portfolios.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 4 - Investments (continued)

The following table shows fair values and gross unrealized losses for all investment categories that are in an unrealized loss position and the length of time that the securities have been in an unrealized loss position, as of September 30, 2014 and 2013:

	<u>Less than 12 months</u>		<u>12 months and greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
2014						
Certificates of deposit	\$ 119,182	\$ (838)	\$ -	\$ -	\$ 119,182	\$ (838)
Equity securities	492,559	(27,760)	569,626	(179,420)	1,062,185	(207,180)
Corporate bonds	2,092,076	(41,475)	50,005	(1,308)	2,142,081	(42,783)
Mutual and exchange traded funds	217,065	(3,057)	2,533,852	(155,409)	2,750,917	(158,466)
Total	<u>\$ 2,920,882</u>	<u>\$ (73,130)</u>	<u>\$ 3,153,483</u>	<u>\$ (336,137)</u>	<u>\$ 6,074,365</u>	<u>\$ (409,267)</u>
2013						
Certificates of deposit	\$ 168,136	\$ (1,904)	\$ -	\$ -	\$ 168,136	\$ (1,904)
Equity securities	1,043,346	(86,294)	1,721,995	(408,863)	2,765,341	(495,157)
Corporate bonds	5,801,411	(146,127)	99,718	(282)	5,901,129	(146,409)
Mutual and exchange traded funds	1,025,772	(31,872)	240,033	(9,186)	1,265,805	(41,058)
Total	<u>\$ 8,038,665</u>	<u>\$ (266,197)</u>	<u>\$ 2,061,746</u>	<u>\$ (418,331)</u>	<u>\$ 10,100,411</u>	<u>\$ (684,528)</u>

The unrealized losses for securities in a position of loss for less than 12 months relates to 104 and 91 individual holdings of securities as of September 30, 2014 and 2013, respectively. The unrealized losses for securities in a position of loss for 12 months and greater relates to 18 and 15 individual holdings of securities as of September 30, 2014 and 2013, respectively. These unrealized losses were determined not to be other than temporary impaired based on the guidance provided in FASB ASC 320 and consultation with various investment advisors.

Investment and other income net, which is unrestricted, is comprised of the following for the years ended September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Income, gains and (expenses):		
Interest and dividend income	\$ 1,623,745	\$ 1,668,931
Net realized gains on securities	1,295,275	846,137
Expenses	<u>(229,926)</u>	<u>(216,856)</u>
Total	<u>\$ 2,689,094</u>	<u>\$ 2,298,212</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
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Note 5 - Fair Value Measurements

FASB ASC 820-10, "*Fair Value Measurements and Disclosures*," provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

Level 2 - Inputs to the valuation methodology include:

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

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

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 5 - Fair Value Measurements (continued)

The following table presents the financial instruments, carried at fair value as of September 30, 2014, by the valuation hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 7,223,350	\$ -	\$ -	\$ 7,223,350
Money market funds	3,481,493	-	-	3,481,493
Certificates of deposit	1,146,557	-	-	1,146,557
Equity securities:				
Industrials	7,815,814	-	-	7,815,814
Consumer staples	3,315,607	-	-	3,315,607
Consumer discretionary	3,413,657	-	-	3,413,657
Health care	4,188,777	-	-	4,188,777
Energy	2,785,878	-	-	2,785,878
Financials	3,773,075	-	-	3,773,075
Technology	5,495,417	-	-	5,495,417
Utilities	341,438	-	-	341,438
Real estate	719,638	-	-	719,638
Corporate bonds	-	3,280,676	-	3,280,676
Municipal bonds	-	113,801	-	113,801
Mutual and exchange traded funds:				
Materials	231,378	-	-	231,378
Index funds	1,166,805	-	-	1,166,805
Industry funds	69,510	-	-	69,510
International	1,604,262	-	-	1,604,262
U.S. large cap	95,448	-	-	95,448
U.S. mid and small cap	56,401	-	-	56,401
Fixed income	3,899,891	-	-	3,899,891
U.S. treasury and government agencies	-	735	-	735
Self-insurance trust	-	4,696,499	-	4,696,499
Funds held in trust by others	-	-	17,889,422	17,889,422
Total	\$ 50,824,396	\$ 8,091,711	\$ 17,889,422	\$ 76,805,529

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 5 - Fair Value Measurements (continued)

The following table presents the financial instruments, carried at fair value as of September 30, 2013, by the valuation hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 8,948,706	\$ -	\$ -	\$ 8,948,706
Money market funds	3,393,665	-	-	3,393,665
Certificates of deposit	1,203,833	-	-	1,203,833
Equity securities:				
Industrials	6,407,463	-	-	6,407,463
Consumer staples	2,980,787	-	-	2,980,787
Consumer discretionary	2,942,319	-	-	2,942,319
Health care	3,561,015	-	-	3,561,015
Energy	2,547,547	-	-	2,547,547
Financials	3,270,274	-	-	3,270,274
Technology	5,877,075	-	-	5,877,075
Utilities	249,439	-	-	249,439
Real estate	651,760	-	-	651,760
Corporate bonds	-	3,947,089	-	3,947,089
Municipal bonds	-	278,958	-	278,958
Mutual and exchange traded funds:				
Materials	237,913	-	-	237,913
Index funds	1,241,505	-	-	1,241,505
Industry funds	290,796	-	-	290,796
International	1,842,198	-	-	1,842,198
U.S. large cap	86,613	-	-	86,613
U.S. mid and small cap	59,539	-	-	59,539
Fixed income	4,521,850	-	-	4,521,850
U.S. treasury and government agencies	-	217,778	-	217,778
Self-insurance trust	-	4,175,772	-	4,175,772
Funds held in trust by others	-	-	16,349,307	16,349,307
Total	\$ 50,314,297	\$ 8,619,597	\$ 16,349,307	\$ 75,283,201

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 5 - Fair Value Measurements (continued)

A rollforward as of September 30, 2014 and 2013, of the amounts classified as Level 3 investments, within the fair value hierarchy is as follows:

Balance as of October 1, 2012	\$	13,868,151
Interest and dividends		350,320
Transfers out		(496,298)
Withdrawals		(9,073)
Net realized gains		636,976
Fees		(90,172)
Net unrealized gains		<u>2,089,403</u>
 Balance as of September 30, 2013		 16,349,307
Interest and dividends		338,851
Transfers out		(548,382)
Withdrawals		(9,073)
Net realized gains		286,021
Fees		(99,751)
Net unrealized gains		<u>1,572,449</u>
 Balance as of September 30, 2014	 \$	 <u><u>17,889,422</u></u>

There were no transfers between fair value hierarchy Level 1, Level 2 and Level 3 for any invested assets recorded at fair value during 2014 and 2013. The valuation techniques used by the Hospital maximize the use of observable inputs and minimize the use of unobservable inputs.

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

A description of certain inputs used in the Hospital's Level 2 and Level 3 measurements are listed below:

United States treasury and government agencies: Primary inputs include observations of credit default swap curves related to the issuer and political events.

Corporate bonds: Primary inputs include observations of credit default swap curves related to the issuer.

Municipal bonds: Primary inputs include Municipal Securities Rulemaking Board reported trades and material event notices, and issuer financial statements.

Funds held in trust by others: Represent beneficial interest in certain assets held by third parties. These interests are classified as Level 3 investments as the reported fair values are based on a combination of Level 1 and Level 2 inputs and significant unobservable inputs as determined by the trustees who exercise control over the investments.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 5 - Fair Value Measurements (continued)

As of September 30, 2014 and 2013, the Hospital's other financial instruments include cash and cash equivalents, accounts payable, accrued expenses, estimated settlements due to and from third-party payors and long-term debt. The carrying amounts reported in the balance sheets for these financial instruments approximate their fair value.

Note 6 - Endowment and Other Restricted Assets

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

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

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

The net asset composition of the Hospital's endowment and other restricted assets as of September 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board restricted	\$ 37,406,338	\$ -	\$ -	\$ 37,406,338
Beneficial trusts	-	-	17,889,422	17,889,422
Donor restricted	-	3,508,118	3,752,381	7,260,499
Total	<u>\$ 37,406,338</u>	<u>\$ 3,508,118</u>	<u>\$ 21,641,803</u>	<u>\$ 62,556,259</u>

The net asset composition of the Hospital's endowment and other restricted assets as of September 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board restricted	\$ 36,744,347	\$ -	\$ -	\$ 36,744,347
Beneficial trusts	-	-	16,349,307	16,349,307
Donor restricted	-	3,314,742	3,752,381	7,067,123
Total	<u>\$ 36,744,347</u>	<u>\$ 3,314,742</u>	<u>\$ 20,101,688</u>	<u>\$ 60,160,777</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 6 - Endowment and Other Restricted Assets (continued)

Changes in endowment and other restricted assets for the years ended September 30, 2014 and 2013, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, October 1, 2012	\$ 32,307,573	\$ 3,236,940	\$ 17,620,532	\$ 53,165,045
Investment return:				
Investment gains	1,466,219	65,246	-	1,531,465
Net change in market value	2,970,555	215,939	2,481,156	5,667,650
Contributions	-	151,523	-	151,523
Assets released from restrictions	-	(354,906)	-	(354,906)
Balance, September 30, 2013	36,744,347	3,314,742	20,101,688	60,160,777
Investment return:				
Investment gains	858,852	82,523	-	941,375
Net change in market value	2,803,139	126,779	1,540,115	4,470,033
Contributions	-	253,117	-	253,117
Released from board restriction	(3,000,000)	-	-	(3,000,000)
Assets released from restrictions	-	(269,043)	-	(269,043)
Balance, September 30, 2014	<u>\$ 37,406,338</u>	<u>\$ 3,508,118</u>	<u>\$ 21,641,803</u>	<u>\$ 62,556,259</u>

The expenditures that were released for operations of \$269,043 and \$354,906 for the years ended September 30, 2014 and 2013, respectively, are included within investment and other income, net within the statements of operations and changes in net assets.

Temporarily restricted net assets available for the following purposes as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Healthcare related services	\$ 491,826	\$ 458,697
Facility improvement	1,014,917	942,104
Purchases of equipment	513,000	513,000
Clinical educator	1,488,375	1,400,941
Total	<u>\$ 3,508,118</u>	<u>\$ 3,314,742</u>

Endowment and other funds permanently restricted as of September 30, 2014 and 2013, consist of the following:

	<u>2014</u>	<u>2013</u>
Beneficial trusts	\$ 17,889,422	\$ 16,349,307
Held in perpetuity, income restricted for operations	3,752,381	3,752,381
Total	<u>\$ 21,641,803</u>	<u>\$ 20,101,688</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 6 - Endowment Other Restricted Assets (continued)

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2014 and 2013, there were no funds that were below the level required by donor or law.

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

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

Spending Policy - During its annual budgeting process, the Hospital appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The Hospital has not appropriated funds for expenditure from its board restricted endowment funds for the years ending September 30, 2014 and 2013. The Board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Hospital. The Hospital has appropriated \$269,043 and \$354,906 from its temporary restricted funds for the years ended September 30, 2014 and 2013, respectively.

Note 7 - Professional and General Liability and Workers' Compensation Insurance

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

<u>Policy Year</u>	<u>Deductible Amounts Per Claim/ Aggregate</u>	<u>Excess Coverage Limits</u>	<u>Type of Coverage</u>
Fiscal 1982-1984	\$100,00/500,000	\$ 10,000,000	Occurrence
Fiscal 1985	\$250,000/750,000	\$ 15,000,000	Occurrence
Fiscal 1986	\$500,000/1,500,000	\$ 15,000,000	Occurrence
Fiscal 1987-1988	\$1,000,000/3,000,000	\$ 20,000,000	Claims-made
Fiscal 1989-1990	\$1,000,000/3,000,000	\$ 25,000,000	Claims-made
Fiscal 1991-2002	\$1,000,000/3,000,000	\$ 30,000,000	Claims-made
Fiscal 2003-2009	\$1,000,000/3,000,000	\$ 20,000,000	Claims-made
Fiscal 2010-2014	\$1,000,000/4,000,000	\$ 20,000,000	Claims-made

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

<u>Policy Year</u>	<u>Self-Insured Retention /Aggregate</u>	<u>Excess Coverage Limits</u>	<u>Type of Coverage</u>
Fiscal 1993-2002	\$300,000/1,000,000	Statutory	Occurrence
Fiscal 2003	\$350,000/1,000,000	Statutory	Occurrence
Fiscal 2004-2012	\$325,000/1,000,000	Statutory	Occurrence
Fiscal 2013-2014	\$400,000/1,000,000	Statutory	Occurrence

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 7 - Professional and General Liability and Workers' Compensation Insurance (continued)

Professional, general liability and workers' compensation claims that fall within the Hospital's self-insurance levels have been asserted against the Hospital by various claimants. The claims are in various stages of activity and resolution. There are also known incidents that have occurred through September 30, 2014, that may result in the assertion of additional claims. Other claims may be asserted arising from services provided to patients or for other matters, for which no estimate of exposure can be determined at this time. The Hospital utilizes an independent actuary to estimate its self-insurance liability that reflects management's accrual of its best estimate of these self-insured losses under the policies described above, for occurrences through September 30, 2014.

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

Estimated self-insurance liabilities include estimates for claim obligations related to professional liability, general liability and workers' compensation claims. As of September 30, 2014 and 2013, the Hospital maintains a commercial policy for its employees' medical coverage. In fiscal years 2014 and 2013, management discounted accrued medical malpractice and workers' compensation losses at 3.00% and it is management's opinion that this provides for adequate loss contingencies.

Note 8 - Leases

The Hospital has entered into non-cancellable operating and building rentals that expire in various years through fiscal year 2019. Certain leases may be renewed at the end of their term.

The following is a schedule of future minimum lease payments under non-cancellable operating leases and building rentals as of September 30, 2014:

	Operating Leases	Building Rentals
For the year ended September 30:		
2015	\$ 295,109	\$ 1,066,672
2016	-	575,497
2017	-	501,144
2018	-	465,342
2019	-	364,840
Thereafter	-	1,169,520
Total minimum lease payments	\$ 295,109	\$ 4,143,015

Rental expense was \$2,190,561 and \$2,388,607 for the years ended September 30, 2014 and 2013, respectively and is included in "Services" on the statements of operations and changes in net assets..

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 9 - Pension Plan

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

The Hospital's funding policy for the Plan is to contribute each year the amount as required by the Employee Retirement Income Security Act of 1974, as determined by actuarial valuations developed by the Plan's actuary. Such funding requirements have been met for fiscal years 2014 and 2013.

Significant disclosures relating to the Plan as of September 30, 2014 and 2013 are as follows:

	2014	2013
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 103,281,570	\$ 111,220,926
Service cost	-	904,041
Interest cost	5,168,632	4,809,432
Amendments	-	5,057,000
Actuarial loss (gain)	11,825,906	(8,057,007)
Benefits paid	(3,676,057)	(3,448,374)
Curtailments, settlements, and special termination benefits	-	(7,204,448)
	\$ 116,600,051	\$ 103,281,570
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 76,548,552	\$ 65,523,118
Actual return on plan assets	8,648,346	7,561,984
Employer contributions	3,850,000	7,684,638
Expenses paid	(355,978)	(772,814)
Benefits paid	(3,676,057)	(3,448,374)
	\$ 85,014,863	\$ 76,548,552
Accrued pension liability:		
Unfunded status and accrued pension liability (\$3,720,000 and \$3,600,000 is included in other current liabilities for 2014 and 2013, respectively)	\$ (31,585,188)	\$ (26,733,018)

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 9 - Pension Plan (continued)

	<u>2014</u>	<u>2013</u>
Components of net periodic benefit cost:		
Service cost	\$ 400,000	\$ 1,304,041
Interest cost	5,168,632	4,809,432
Expected return on plan assets	(5,525,847)	(4,895,629)
Net amortization and deferral	173,007	175,691
Recognized net loss	<u>703,673</u>	<u>1,781,102</u>
 Net periodic benefit cost	 <u>\$ 919,465</u>	 <u>\$ 3,174,637</u>
 Weighted-average assumptions used to determine benefit obligations:		
Discount rate	4.42%	5.10%
Rate of compensation increase	N/A	N/A
 Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	5.10%	4.40%
Rate of compensation increase	N/A	2.00%
Expected long-term return on plan assets	7.50%	7.50%

The accumulated benefit obligation at September 30, 2014 and 2013, under the Hospital's Plan was \$116,600,051 and \$103,281,570, respectively.

The Hospital expects to contribute \$3,720,000 to its pension plan for the fiscal year beginning October 1, 2014.

Amounts recorded in unrestricted net assets as of September 30, 2014 and 2013 not yet amortized as a component of net periodic benefit cost are as follows:

	<u>2014</u>	<u>2013</u>
Unamortized prior service costs	\$ 4,710,986	\$ 4,883,993
Unamortized actuarial loss	<u>34,679,246</u>	<u>26,721,442</u>
 Total	 <u>\$ 39,390,232</u>	 <u>\$ 31,605,435</u>

The amortization of the above items expected to be recognized in net periodic benefit costs for the year ended September 30, 2015 is \$876,680.

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

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 9 - Pension Plan (continued)

The Hospital's target and actual pension plan weighted average asset allocations at September 30, 2014 by asset category was as follows:

<u>Asset Category</u>	<u>Target Allocations</u>	<u>Actual Allocations</u>
Equity securities	62%	65%
Debt securities	31%	29%
Short-term investments and other	7%	6%
 Total	 <u>100%</u>	 <u>100%</u>

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

The fair values of the Hospital's pension plan assets by asset category, are as follows, as of September 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. treasury and government agencies	\$ -	\$ 409,861	\$ -	\$ 409,861
Municipal bonds	-	360,562	-	360,562
Corporate and foreign bonds	-	11,241,712	-	11,241,712
Asset-backed and mortgage-backed securities	-	847,389	-	847,389
Equity securities:				
Consumer discretionary	4,284,809	-	-	4,284,809
Consumer staples	4,556,129	-	-	4,556,129
Energy	3,856,711	-	-	3,856,711
Financials	4,796,536	-	-	4,796,536
Health care	5,655,101	-	-	5,655,101
Industrials	4,735,852	-	-	4,735,852
Information technology	5,873,340	-	-	5,873,340
Other	2,811,092	-	-	2,811,092
Exchange traded funds	13,619,360	-	-	13,619,360
Mutual funds	6,417,477	-	-	6,417,477
Certificates of deposit	9,824,174	-	-	9,824,174
Money market funds	5,595,588	-	-	5,595,588
Other	-	129,170	-	129,170
 Total	 <u>\$ 72,026,169</u>	 <u>\$ 12,988,694</u>	 <u>\$ -</u>	 <u>\$ 85,014,863</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2014 and 2013

Note 9 - Pension Plan (continued)

The fair values of the Hospital's pension plan assets by asset category, are as follows, as of September 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. treasury and government agencies	\$ -	\$ 812,389	\$ -	\$ 812,389
Municipal bonds	-	262,373	-	262,373
Common collective trusts	-	-	-	-
Corporate and foreign bonds	-	9,181,463	-	9,181,463
Asset-backed and mortgage-backed securities	-	987,738	-	987,738
Equity securities:				
Consumer discretionary	4,000,115	-	-	4,000,115
Consumer staples	3,963,604	-	-	3,963,604
Energy	3,329,160	-	-	3,329,160
Financials	3,922,865	-	-	3,922,865
Heath care	4,631,446	-	-	4,631,446
Industrials	3,954,472	-	-	3,954,472
Information technology	5,644,884	-	-	5,644,884
Other	2,240,139	-	-	2,240,139
Exchange traded funds	12,833,937	-	-	12,833,937
Mutual funds	5,618,674	-	-	5,618,674
Certificates of deposit	9,255,847	-	-	9,255,847
Money market funds	5,322,059	-	-	5,322,059
Other	-	587,387	-	587,387
Total	\$ 64,717,202	\$ 11,831,350	\$ -	\$ 76,548,552

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

2015	\$ 3,875,559
2016	\$ 4,121,681
2017	\$ 4,321,992
2018	\$ 4,671,302
2019	\$ 5,088,942
Years 2020-2024	\$ 30,535,284

The Hospital also has established a 403(b) plan covering all full-time and part-time employees of the Hospital. Participants may elect to contribute a specific percentage of their compensation in pre-tax deferrals subject to established Internal Revenue Code limitations. For the years ended September 30, 2014 and 2013, the Hospital contributed \$898,297 and \$650,192, respectively, to the 403(b) plan.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
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Note 10 - Long-Term Debt

As of September 30, 2014, the Hospital no longer had outstanding debt. As of September 30, 2013, the Hospital's long-term debt consisted of:

	2013
Kennedy Drive Mortgages:	
Mortgage (a)	1,418,924
Construction loan (a)	1,800,544
	3,219,468
Less: current portion	(3,219,468)
Total	\$ -

- (a) In December 1997, the now dissolved Kennedy Drive Associates, LLC (KDA) obtained a \$2,300,000 construction loan. Under the term of this loan, which was assumed by the Hospital, principal payments of \$25,865 were due quarterly. The loan bore interest at a fixed rate of 8.17%.

On October 2003, KDA refinanced the outstanding construction loan into a mortgage loan for \$2,210,000. The amount outstanding on the refinanced debt was \$1,418,924 as of September 30, 2013. This loan bore interest at a fixed rate of 6.01%. The loan matured on October 29, 2013 and was secured by the Hospital's assets. With the dissolution of KDA in 2006, the Hospital assumed this loan.

KDA also obtained a construction loan in the amount of \$2,080,000 during the year ended September 30, 2004. During 2005, KDA made additional drawdowns on the construction loan in the amount of \$1,750,000. With the dissolution of KDA in 2006, the Hospital assumed this loan. The amount outstanding on the debt was \$1,800,544 as of September 30, 2013. This loan bore interest at a fixed rate of 6.44%. The loan matured on October 29, 2013.

- (b) The Hospital has a \$3,000,000 operating line of credit agreement with Sovereign Bank, which bears interest at a rate of 2.2% as of September 30, 2014 and 2013. There were no outstanding borrowings against the line of credit as of September 30, 2014 and 2013.

The debt agreements discussed above have certain financial covenants. As of September 30, 2013, the Hospital was in compliance with those financial covenants. As of September 30, 2013, all outstanding debt was current.

Note 11 - Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2014 and 2013, are as follows:

	2014	2013
Patient care services	\$ 107,094,263	\$ 109,270,791
General and administrative	14,904,568	15,629,196
Total	\$ 121,998,831	\$ 124,899,987

The Charlotte Hungerford Hospital
Notes to the Financial Statements
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Note 12 - Commitments and Contingencies

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

FASB ASC 410 "*Asset Retirement and Environmental Obligations*" addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as asbestos-containing facilities, when the amount of the liability can be reasonably estimated. Management currently believes that two facilities under their control could require a fair market value assessment of their Asset Retirement Obligation (ARO). As of September 30, 2014 and 2013, no ARO has been established, as no plans to renovate or sell any facility, or area within, with significant asbestos material have been identified and therefore no settlement date has been determined. Management will continue to monitor its exposure for asbestos removal and establish an ARO for the fair market value of the associated costs once sufficient information has been obtained or a settlement date has been determined.

Note 13 - Risks and Uncertainties

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

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