

**Lawrence + Memorial  
Corporation and Subsidiaries**  
Consolidated Financial Statements and  
Supplemental Information  
September 30, 2014 and 2013

# Lawrence + Memorial Corporation and Subsidiaries

## Index

September 30, 2014 and 2013

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	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	1–2
<b>Consolidated Financial Statements</b>	
Consolidated Balance Sheets .....	3
Consolidated Statements of Operations .....	4
Consolidated Statements of Changes in Net Assets .....	5
Consolidated Statements of Cash Flows .....	6
Notes to Consolidated Financial Statements .....	7–26
<b>Consolidating Supplemental Information</b>	
Consolidating Balance Sheets .....	27–30
Consolidating Statements of Operations .....	31–32



## **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") and its subsidiaries, which comprise the consolidated balance sheets as of September 30, 2014 and 2013, 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 \$20,659,633 and \$18,372,801 as of September 30, 2014 and September 30, 2013, respectively, and total revenues of \$16,156,841 and \$14,990,091 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, 2014 and September 30, 2013, 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 has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual organizations and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations, and changes in net assets, of the individual organizations.

*PricewaterhouseCoopers LLP*

January 23, 2015

**Lawrence + Memorial Corporation and Subsidiaries**  
**Consolidated Balance Sheets**  
**September 30, 2014 and 2013**

	2014	2013
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 16,480,529	\$ 11,532,247
Investments	184,426,039	181,339,986
Patient accounts receivable, net of allowance for doubtful accounts of \$10,334,227 and \$6,158,515, respectively	47,482,954	44,410,454
Other receivables	5,792,415	5,321,417
Inventories	8,393,007	7,501,154
Prepaid expenses and other current assets	3,748,725	3,557,507
Debt service fund	1,304,562	1,306,255
Total current assets	<u>267,628,231</u>	<u>254,969,020</u>
Assets limited as to use		
Cash	182,862	182,366
Construction fund	561,676	9,541,685
Investments held in trust	925,227	985,034
Endowment investments	36,641,428	34,155,796
Funds held in trust by others	11,348,610	10,956,429
Contributions receivable	3,520,787	2,702,993
Funds held in escrow by agreement with State of Connecticut Health and Educational Facilities Authority and trustees	-	2,247,255
Total assets limited as to use	<u>53,180,590</u>	<u>60,771,558</u>
Intangible assets, net	2,978,625	3,352,875
Other receivables	2,580,786	2,547,462
Deferred financing costs and other assets, net	2,315,752	1,776,176
Property, plant and equipment, net	<u>206,850,299</u>	<u>208,182,039</u>
	<u>\$ 535,534,283</u>	<u>\$ 531,599,130</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 37,529,850	\$ 42,611,470
Accrued vacation and sick pay	14,223,728	12,580,707
Salaries, wages, payroll taxes and amounts withheld from employees	10,671,516	10,101,654
Due to third party payors	7,257,949	5,870,981
Other current liabilities	582,553	123,017
Current portion of long-term debt	5,476,980	9,347,876
Total current liabilities	<u>75,742,576</u>	<u>80,635,705</u>
Accrued pension and other postretirement benefits	43,216,010	42,309,345
Other liabilities	25,610,890	21,676,677
Long-term debt less current portion	<u>108,587,802</u>	<u>101,001,797</u>
Total liabilities	<u>253,157,278</u>	<u>245,623,524</u>
Net assets		
Unrestricted	241,902,500	246,531,146
Temporarily restricted	24,770,687	24,154,982
Permanently restricted	15,703,818	15,289,478
Total net assets	<u>282,377,005</u>	<u>285,975,606</u>
	<u>\$ 535,534,283</u>	<u>\$ 531,599,130</u>

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

**Lawrence + Memorial Corporation and Subsidiaries**  
**Consolidated Statements of Operations**  
**September 30, 2014 and 2013**

	2014	2013
<b>Unrestricted revenues, gains and other support</b>		
Net revenues from services to patients	\$ 453,529,100	\$ 372,745,739
Provision for bad debt	(20,298,386)	(14,555,970)
Net revenue less provision for bad debt	<u>433,230,714</u>	<u>358,189,769</u>
Other operating revenues	20,795,287	21,448,860
Net assets released from restriction used for operations	<u>876,203</u>	<u>748,784</u>
Total unrestricted revenues, gains and other support	<u>454,902,204</u>	<u>380,387,413</u>
<b>Expenses</b>		
Salaries and wages	213,467,507	193,780,844
Employee benefits	59,185,837	49,062,244
Supplies	71,998,110	49,529,083
Purchased services	54,475,011	32,278,640
Other	43,427,170	37,265,822
Interest	3,554,919	2,865,011
Depreciation and amortization	<u>27,479,122</u>	<u>23,023,433</u>
Total expenses	<u>473,587,676</u>	<u>387,805,077</u>
Loss from operations	<u>(18,685,472)</u>	<u>(7,417,664)</u>
Nonoperating gains		
Unrestricted investment income	180,488	122,109
Income from investments	9,832,164	7,752,127
Inherent contribution received from purchase of Westerly Hospital	<u>5,284,752</u>	<u>1,796,782</u>
Total nonoperating gains	<u>15,297,404</u>	<u>9,671,018</u>
(Deficit)/excess of revenues over expenses	(3,388,068)	2,253,354
Net unrealized gains on investments	2,028,088	12,046,855
Net assets released from restrictions used for purchase of property, plant and equipment	1,006,500	167,751
Donated equipment	6,350	-
Pension related changes other than periodic pension costs	<u>(4,281,516)</u>	<u>5,929,845</u>
(Decrease)/increase in unrestricted net assets	<u>\$ (4,628,646)</u>	<u>\$ 20,397,805</u>

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, 2014 and 2013**

	2014	2013
<b>Unrestricted net assets</b>		
Excess of revenues over expenses	\$ (3,388,068)	\$ 2,253,354
Net unrealized gains on investments	2,028,088	12,046,855
Net assets released from restrictions used for purchase of property, plant and equipment	1,006,500	167,751
Donated equipment	6,350	-
Pension related changes other than periodic pension costs	(4,281,516)	5,929,845
(Decrease)/increase in unrestricted net assets	(4,628,646)	20,397,805
Beginning of year unrestricted net assets	<u>246,531,146</u>	<u>226,133,341</u>
End of year unrestricted net assets	<u>\$ 241,902,500</u>	<u>\$ 246,531,146</u>
<b>Temporarily restricted net assets</b>		
Income from investments	\$ 677,343	\$ 668,022
Net assets released from restrictions	(1,882,704)	(916,535)
Inherent contribution received from purchase of Westerly Hospital	-	871,209
Contributions received	421,640	506,462
Change in value of funds held in trust by others	111,315	239,710
Net realized and unrealized gains on investments	<u>1,288,111</u>	<u>1,701,848</u>
Increase in temporarily restricted net assets	615,705	3,070,716
<b>Temporarily restricted net assets</b>		
Beginning of year	<u>24,154,982</u>	<u>21,084,266</u>
End of year	<u>\$ 24,770,687</u>	<u>\$ 24,154,982</u>
<b>Permanently restricted net assets</b>		
Income from investments	\$ 20,569	\$ 13,823
Inherent contribution received from purchase of Westerly Hospital	-	9,343,478
Contributions received	80,074	22,888
Change in value of funds held in trust by others	280,866	17,482
Net realized and unrealized gains on investments	<u>32,831</u>	<u>-</u>
Increase in permanently restricted net assets	414,340	9,397,671
<b>Permanently restricted net assets</b>		
Beginning of year	<u>15,289,478</u>	<u>5,891,807</u>
End of year	<u>15,703,818</u>	<u>15,289,478</u>
(Decrease)/increase in net assets	<u>\$ (3,598,601)</u>	<u>\$ 32,866,192</u>

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, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (3,598,601)	\$ 32,866,192
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	27,479,122	23,023,433
Net unrealized and realized gains on investments	(2,963,155)	(13,495,284)
Inherent contribution received from purchase of Westerly Hospital	(4,940,302)	(12,011,469)
Provision for bad debts	20,298,386	14,555,970
Increase in funds held in trust by others	(392,181)	(257,193)
Increase in contributions receivable	(817,794)	(794,898)
Restricted contributions	(1,164,969)	(1,174,484)
Changes in other operating accounts		
Patient accounts receivable, net	(20,461,592)	(20,317,347)
Other receivables, net	(504,322)	(970,777)
Inventories	(891,853)	(1,447,315)
Prepaid expenses and other current assets	(191,218)	(137,568)
Deferred financing costs and other assets	(539,576)	81,328
Accounts payable	(3,713,678)	(2,523,188)
Accrued vacation and sick pay	1,643,021	(1,558,312)
Salaries, wages, payroll taxes and amounts withheld from employees	569,862	3,652,618
Due to third party payors	1,386,968	(1,632,875)
Pension, postretirement and other liabilities	5,674,664	(9,245,208)
Net cash provided by operating activities	<u>16,872,782</u>	<u>8,613,623</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment, net	(25,715,324)	(50,503,163)
Purchases of investments	(70,459,536)	(78,938,843)
Sales of investments	77,121,334	107,257,276
Purchase of Westerly Hospital	-	(14,535,558)
Decrease in debt service fund	1,693	855
Increase/(decrease) in funds held in escrow	2,247,255	(130)
Net cash used in investing activities	<u>(16,804,578)</u>	<u>(36,719,563)</u>
<b>Cash flows from financing activities</b>		
Restricted contributions	1,164,969	1,174,484
Principal payments of long term debt	(28,364,994)	(2,938,881)
Proceeds of long term debt	32,080,103	25,446,569
Net cash provided by financing activities	<u>4,880,078</u>	<u>23,682,172</u>
Net decrease in cash and cash equivalents	4,948,282	(4,423,768)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>11,532,247</u>	<u>15,956,015</u>
End of year	<u>\$ 16,480,529</u>	<u>\$ 11,532,247</u>
<b>Supplemental disclosure of noncash activities</b>		
Construction in process included in accounts payable	<u>\$ 1,673,118</u>	<u>\$ 2,105,176</u>
Contributed securities	<u>\$ 1,164,969</u>	<u>\$ 1,174,484</u>

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

# Lawrence + Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2014 and 2013

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#### 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.

**Lawrence + Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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

	<b>2013</b>
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	<u>30,850,000</u>
<b>Total assets</b>	<u><b>54,505,912</b></u>
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	<u>5,572,761</u>
<b>Total liabilities</b>	<u><b>26,395,685</b></u>
<b>Net assets acquired</b>	<u><b>\$ 28,110,227</b></u>

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 in 2013. The inherent contribution is a result of the value of net assets being acquired exceeding the purchase price. The purchase price allocation was preliminary and has been adjusted as additional information was obtained in 2014. An additional \$5.3 million in inherent contribution was recorded in 2014, principally due to \$3.1 million better experience on accounts receivable and \$1.8 million in better experience on accounts payable.

Intangible assets acquired in conjunction with the Westerly acquisition include:

	<b>Fair value as of June 1, 2013</b>	<b>Amortization Period (in years)</b>	
Patient relationships	\$ 1,530,000	10.0	
Medical records	1,350,000	10.0	
Trademark	<u>810,000</u>	<u>8.0</u>	
	<u>\$ 3,690,000</u>	<u>9.5</u>	(weighted average)

# Lawrence + Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2014 and 2013

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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.

# Lawrence + Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2014 and 2013

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#### **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, 2014 or 2013.

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.

# Lawrence + Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2014 and 2013

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#### **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.

# Lawrence + Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2014 and 2013

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#### **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.

#### **Labor action update**

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. A contract was reached and ratified and the workforce had a three year contract that was signed in February 2014. The Hospital monitored the negative impact of the strike and lockout on both revenues and expenses. The financial negative impact included in these financials is approximately \$14,200,000. This consisted of a reduction in net revenue of approximately \$1,900,000 and \$12,300,000 of replacement workers, security and reduced salary costs during the strike and lock out period.

#### **Subsequent Events**

The Corporation has performed an evaluation of subsequent events through January 23, 2015, which is the date the financial statements were issued.

**Lawrence + Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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

The following summarizes net revenues from services to patients:

	<b>2014</b>	<b>2013</b>
Gross charges from services to patients	\$ 1,078,626,933	\$ 837,486,803
Less: Charity care	<u>6,782,933</u>	<u>7,772,037</u>
Charges from services to patients, net of charity care	<u>1,071,844,000</u>	<u>829,714,766</u>
Deductions		
Allowances	615,856,880	455,921,391
State of Connecticut uncompensated care system	<u>2,458,020</u>	<u>1,047,636</u>
Total deductions	<u>618,314,900</u>	<u>456,969,027</u>
Net revenues from services to patients	<u>\$ 453,529,100</u>	<u>\$ 372,745,739</u>

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. In 2014, the Corporation paid cash into the State of Connecticut Uncompensated Care Pool that exceeded the amount was received from the State.

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 decreased the Hospital's revenues by approximately \$1,584,575 in 2014 and increased the Hospital's revenue by approximately \$1,126,576 in 2013.

During 2014 and 2013, approximately 35% and 33%, respectively, of net patient service revenue was received under the Medicare program, and 11% and 12%, 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.

**Lawrence + Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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**3. Investments**

Investments included in current assets consist of the following:

	<b>2014</b>	<b>2013</b>
<b>Other investments</b>		
Cash and cash equivalents	6,293,794	3,618,554
Bonds	40,097,819	38,890,479
Mutual funds	72,596,528	79,030,543
Hedge funds	57,360,354	54,766,338
Private equities	4,535,516	1,884,631
Marketable equities	<u>3,542,028</u>	<u>3,149,441</u>
Total other investments	<u>184,426,039</u>	<u>181,339,986</u>
<b>Funds held in trust by others</b>		
Investments held in trust by others	<u>11,348,610</u>	<u>10,956,429</u>
Total funds held in trust by others	<u>11,348,610</u>	<u>10,956,429</u>
<b>Endowment investments</b>		
Cash and cash equivalents	\$ 4,307,512	\$ 3,785,088
Bonds	5,061,901	4,823,170
Mutual funds	14,191,010	13,492,698
Hedge funds	6,263,387	5,961,109
Private equities	209,627	112,204
Marketable equities	<u>6,607,991</u>	<u>5,981,527</u>
Total endowment investments	<u>36,641,428</u>	<u>34,155,796</u>
Total investments at fair value	<u>\$ 232,416,077</u>	<u>\$ 226,452,211</u>

**Lawrence + Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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:

	<b>2014</b>			<b>Total Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Other investments</b>				
Cash and cash equivalents	6,293,794	-	-	6,293,794
Bonds	33,184,269	6,913,550	-	40,097,819
Mutual funds	72,596,528	-	-	72,596,528
Hedge funds	-	-	57,360,354	57,360,354
Private equities	-	-	4,535,516	4,535,516
Marketable equities	3,542,028	-	-	3,542,028
Total other investments	<u>115,616,619</u>	<u>6,913,550</u>	<u>61,895,870</u>	<u>184,426,039</u>
<b>Funds held in trust by others</b>				
Investments held in trust by others	-	-	11,348,610	11,348,610
Total held in trust by others	<u>-</u>	<u>-</u>	<u>11,348,610</u>	<u>11,348,610</u>
<b>Endowment investments</b>				
Cash and cash equivalents	\$ 4,307,512	\$ -	\$ -	\$ 4,307,512
Bonds	3,300,408	1,449,067	312,427	5,061,902
Mutual funds	12,613,287	-	1,577,722	14,191,009
Hedge funds	-	-	6,263,387	6,263,387
Private equities	-	-	209,627	209,627
Marketable equities	6,607,991	-	-	6,607,991
Total endowment investments	<u>26,829,198</u>	<u>1,449,067</u>	<u>8,363,163</u>	<u>36,641,428</u>
Total Investments at fair value	<u>\$ 142,445,817</u>	<u>\$ 8,362,617</u>	<u>\$ 81,607,643</u>	<u>\$ 232,416,077</u>

	<b>2013</b>			<b>Total Fair Value</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Other investments</b>				
Cash and cash equivalents	3,618,554	-	-	3,618,554
Bonds	32,082,552	6,807,927	-	38,890,479
Mutual funds	79,030,543	-	-	79,030,543
Hedge funds	-	-	54,766,338	54,766,338
Private equities	-	-	1,884,631	1,884,631
Marketable equities	3,149,441	-	-	3,149,441
Total other investments	<u>117,881,090</u>	<u>6,807,927</u>	<u>56,650,969</u>	<u>181,339,986</u>
<b>Funds held in trust by others</b>				
Investments held in trust by others	-	-	10,956,429	10,956,429
Total held in trust by others	<u>-</u>	<u>-</u>	<u>10,956,429</u>	<u>10,956,429</u>
<b>Endowment investments</b>				
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 endowment investments	<u>24,997,372</u>	<u>1,425,678</u>	<u>7,732,746</u>	<u>34,155,796</u>
Total Investments at fair value	<u>\$ 142,878,462</u>	<u>\$ 8,233,605</u>	<u>\$ 75,340,144</u>	<u>\$ 226,452,211</u>

**Lawrence + Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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 Corporation's 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, 2013	Investment Income	Realized Gains/(losses)	Unrealized Gains	Investment Fees	Purchases	Sales	Ending September 30, 2014
<b>Investment pool</b>								
Hedge funds	\$ 62,386,880	\$ 624,650	\$ 270,868	\$ 2,318,323	\$ (158,389)	\$ 381,586	\$ (268,029)	\$ 65,555,889
Private equities	1,996,835	-	387,382	311,627	(86,266)	2,169,982	(76,416)	4,703,144
Funds held in trust	10,956,429	141,409	(38,835)	344,380	(51,515)	-	(3,258)	11,348,610
Total	\$ 75,340,144	\$ 766,059	\$ 619,415	\$ 2,974,330	\$ (296,170)	\$ 2,551,568	\$ (347,703)	\$ 81,607,643
	Beginning October 1, 2012	Investment Income	Realized Gains	Unrealized Gains	Investment Fees	Purchases	Sales	Ending September 30, 2013
<b>Investment pool</b>								
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

**Lawrence + Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

There were no significant transfers of assets between levels for the year ended September 30, 2014.

A summary of the endowment investment return is presented below:

	2014	2013
Investment income	\$ 752,014	\$ 649,876
Realized and unrealized gains	1,714,027	2,225,435
Management fees and other costs	(55,806)	(47,805)
Total return on endowment investments	<u>\$ 2,410,235</u>	<u>\$ 2,827,506</u>

Following is additional information related to funds whose fair value is not readily determinable as of September 30, 2014.

	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	\$ 15,362,932	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	19,653,964	2	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	25,350,100	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	5,146,893	1	N/A		No remaining commitments	Monthly with 5 day's notice	None	None
Private equity	Private equity	4,745,144	8	N/A		Illiquid long term 5 years	None	None	None
		<u>\$ 70,259,033</u>							

#### 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.

**Lawrence + Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

- The investment policies of the Corporation.

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

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Endowment net assets at beginning of year</b>	\$ 9,257,584	\$ 16,178,222	\$ 7,249,055	\$ 32,684,861
Addition of Westerly Hospital Endowment Net Assets	18,975	-	-	18,975
Investment return				
Investment income	304,778	170,106	20,569	495,453
Net realized and unrealized gain	715,724	1,288,111	32,832	2,036,667
Contributions	183,147	-	80,073	263,220
Total investment return	1,203,649	1,458,217	133,474	2,795,340
Income distribution	-	(139,360)	-	(139,360)
<b>Endowment net assets at end of year</b>	<b>\$ 10,480,208</b>	<b>\$ 17,497,079</b>	<b>\$ 7,382,529</b>	<b>\$ 35,359,816</b>

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Endowment net assets at beginning of year</b>	\$ 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)
<b>Endowment net assets at end of year</b>	<b>\$ 9,257,584</b>	<b>\$ 16,178,222</b>	<b>\$ 7,249,055</b>	<b>\$ 32,684,861</b>

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:

	2014	2013
<b>Temporarily restricted net assets</b>		
Unspent income and appreciation on permanently restricted endowments for purchase of equipment and healthcare services	\$ 17,497,079	\$ 16,178,222
Total endowment funds classified as temporarily restricted net assets	<u>\$ 17,497,079</u>	<u>\$ 16,178,222</u>
<b>Permanently restricted net assets</b>		
Corpus of permanently restricted contributions for which income is to be used for purchase of equipment and healthcare services	\$ 7,382,529	\$ 7,249,055
Total endowment funds classified as permanently restricted net assets	<u>\$ 7,382,529</u>	<u>\$ 7,249,055</u>

**Lawrence + Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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**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, 2014 and 2013.

**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, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
<b>Temporarily restricted net assets</b>		
Funds held in trust by others	\$ 3,799,127	\$ 3,687,812
Contributions receivable	20,366	20,366
Free beds and plant replacement and expansion	16,369,376	15,304,434
Specific purpose reserves	7,321,842	5,412,960
	<u>\$ 27,510,711</u>	<u>\$ 24,425,572</u>

**Lawrence + Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

Permanently restricted net assets at September 30, 2014 and 2013 are restricted to:

	2014	2013
<b>Permanently restricted net assets</b>		
Funds held in trust by others	\$ 7,571,288	\$ 7,290,422
Donor restricted endowment funds	8,132,530	7,999,056
	<u>\$ 15,703,818</u>	<u>\$ 15,289,478</u>

**6. Property, Plant and Equipment**

Property, plant and equipment consists of the following:

	2014	2013
Land and land improvements	\$ 23,323,273	\$ 21,524,487
Buildings	171,045,151	138,297,388
Equipment	284,414,885	252,682,233
	<u>478,783,309</u>	<u>412,504,108</u>
Less: Accumulated depreciation	<u>(274,060,791)</u>	<u>(250,099,034)</u>
	204,722,518	162,405,074
Construction in progress	2,127,781	45,776,965
	<u>\$ 206,850,299</u>	<u>\$ 208,182,039</u>

**7. Long-Term Debt**

	2014	2013
CHEFA Series F Revenue Bonds		
Various rate bonds, due 2014 to 2026	\$ 30,900,000	\$ 33,625,000
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
CHEFA Series G revenue bonds		
3.2% Term Bonds, due 2023, option to extend 2038	29,200,000	-
CHEFA Series H revenue bonds		
Variable rate bonds, due 2023-2034	21,405,000	-
Line of credit	-	18,663,400
Tax exempt lease	9,963,984	11,596,368
Capital lease obligation	246,684	1,010,148
Total debt outstanding	<u>111,520,668</u>	<u>107,689,916</u>
Less: Amounts classified as current	5,476,980	9,347,876
Add: Bond premium	2,544,115	2,659,757
Total long-term portion of long-term debt	<u>\$ 108,587,803</u>	<u>\$ 101,001,797</u>

## Lawrence + Memorial Corporation and Subsidiaries

### Notes to Consolidated Financial Statements

#### September 30, 2014 and 2013

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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 Lawrence + Memorial 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 1<sup>st</sup>. Interest on the Series F Bonds is payable semiannually on the first business day of January 1 and July 1 which began on January 1, 2012.

The Series E bonds were paid early with the issuance of CHEFA series H.

The tax exempt lease 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 lease will be amortized monthly through June 27, 2020 at a nominal annual interest rate of 1.759%.

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 \$29,200,000 with an interest rate 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. Interest on the Series H Bonds accrues at the weekly rate and is payable on the first business day of each month commencing January 1, 2014.

Under the terms of the trust indenture for the Series H 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 H 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.

The Series H Bonds are considered variable rate demand bonds and are remarketed on a weekly basis. The Hospital maintains a letter of credit in the amount of \$21,405,000 which expires on November 5, 2016. 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 monthly installments. The Series H Bonds have been successfully remarketed in the past and there have been no draws on the letter of credit.

The Corporation had 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 had a line of credit with Washington Trust for \$4,860,642. This line was reissued at time of closing but was paid off in November 2013.

# Lawrence + Memorial Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

### September 30, 2014 and 2013

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The fair value of the outstanding bonds is \$106,215,296 and \$78,820,117 at September 30, 2014 and September 30, 2013, respectively.

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

<b>Years</b>	<b>Annual Principal Repayment</b>
2015	\$ 3,660,000
2016	3,825,000
2017	4,010,000
2018	4,165,000
2019 and thereafter	<u>85,650,000</u>
	<u>\$ 101,310,000</u>

Cash interest payments of \$3,566,051 and \$2,682,472 were made in fiscal year 2014 and 2013, respectively. No interest was capitalized during 2014 and 2013.

#### **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.

**Lawrence + Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

The following table sets forth the Hospital's plans' funded status and amounts recognized in the consolidated balance sheet at September 30, 2014 and 2013 (measurement date of ), the significant change in the actuarial loss is predominantly related to the decrease in the discount rate used to determine the benefit obligation at the end of the year:

September 30):

	<b>Pension Benefits</b>		<b>Other Postretirement Benefits</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 145,789,789	\$ 147,201,452	\$ 1,000,744	\$ 1,289,208
Service cost	2,402,724	1,536,115	-	-
Interest cost	6,417,121	5,685,930	29,884	31,620
Employee contributions	69,839	90,611	-	-
Benefits paid	(7,015,362)	(6,590,842)	(95,403)	(107,793)
Actuarial (gain)/loss	9,010,698	(2,133,477)	(97,788)	(212,291)
Benefit obligation at end of year	<u>156,674,809</u>	<u>145,789,789</u>	<u>837,437</u>	<u>1,000,744</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	105,860,348	98,298,309	-	-
Actual return on plan assets	9,861,899	7,662,270	-	-
Employee contributions	69,839	90,611	-	-
Employer contributions	6,400,000	6,400,000	95,403	107,793
Benefits paid	(7,015,362)	(6,590,842)	(95,403)	(107,793)
Fair value of plan assets at end of year	<u>115,176,724</u>	<u>105,860,348</u>	<u>-</u>	<u>-</u>
Funded status of the plan	(41,498,085)	(39,929,441)	(837,437)	(1,000,744)
Unrecognized net loss/(gain) from past experience different from that assumed and effects of changes in assumptions	41,399,294	37,006,625	(488,085)	(456,751)
Unrecognized prior service cost	79,157	190,310	-	-
Accrued benefit costs recognized in the statements of operations	<u>\$ (19,634)</u>	<u>\$ (2,732,506)</u>	<u>\$ (1,325,522)</u>	<u>\$ (1,457,495)</u>
<b>Components of net periodic benefit costs</b>				
Service cost	\$ 2,402,724	\$ 1,536,115	\$ -	\$ -
Interest cost	6,417,121	5,685,930	29,884	31,620
Expected return on plan assets	(7,920,200)	(7,182,524)	-	-
Amortization of net loss/(gain)	2,676,330	3,175,983	(66,454)	(45,046)
Net amortization and deferral	111,153	140,639	-	-
Benefit cost	<u>\$ 3,687,128</u>	<u>\$ 3,356,143</u>	<u>\$ (36,570)</u>	<u>\$ (13,426)</u>

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

	<b>2014</b>	<b>2013</b>
Discount rate	4.51 %	3.95 %
Average rate of compensation increases	2.50 %	2.50 %
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:

**Lawrence + Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

	2014	2013
Discount rate	4.05 %	4.51 %
Average rate of compensation increases	2.50 %	2.50 %

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

<b>Asset Category</b>	<b>2014</b>	<b>2013</b>
Cash	2 %	3 %
Bonds	24	23
Mutual funds	45	44
Hedge funds	29	30
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:

<b>Fiscal Years Beginning October 1,</b>	<b>Expected Benefits</b>
2014	\$ 7,399,905
2015	7,694,336
2016	8,101,708
2017	8,234,873
2018	8,658,711
Expected aggregate for 5 fiscal years beginning 2019	47,809,642

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	94,776

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 2014 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 \$56,000 and \$71,000, respectively, at September 30, 2014 and 2013. 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 \$51,000 and \$65,000, respectively, at September 30, 2014 and 2013.

**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.

**Lawrence + Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

The following table summarizes the fair values of investments by major type held by the pension plan at September 30, 2014:

	Level 1	Level 2	Level 3	2014
<b>Investments, at fair value</b>				
Cash	\$ 2,417,830	\$ -	\$ -	\$ 2,417,830
Bonds	27,571,791	-	-	27,571,791
Mutual funds	46,557,396	5,171,869	-	51,729,265
Hedge funds	-	-	33,457,838	33,457,838
Total investments, at fair value	<u>\$ 76,547,017</u>	<u>\$ 5,171,869</u>	<u>\$ 33,457,838</u>	<u>\$ 115,176,724</u>

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

	Level 1	Level 2	Level 3	2013
<b>Investments, at fair value</b>				
Cash	\$ 3,043,961	\$ -	\$ -	\$ 3,043,961
Bonds	24,488,654	-	-	24,488,654
Mutual funds	41,880,187	4,553,588	-	46,433,775
Hedge funds	-	-	31,893,958	31,893,958
Total investments, at fair value	<u>\$ 69,412,802</u>	<u>\$ 4,553,588</u>	<u>\$ 31,893,958</u>	<u>\$ 105,860,348</u>

There were no transfers between levels during 2014 or 2013.

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

	2014	2013
<b>Beginning balances</b>	\$ 31,893,958	\$ 28,795,536
Realized gains	4,588,368	33,459
Fees	(79,614)	(65,081)
Unrealized gains	(2,944,874)	3,130,044
Purchases	-	-
Sales	-	-
<b>Ending balances</b>	<u>\$ 33,457,838</u>	<u>\$ 31,893,958</u>

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.

**Lawrence + Memorial Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**September 30, 2014 and 2013**

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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 \$4,584,389 and \$4,618,626 for 2014 and 2013, 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 \$463,475 and \$446,631 for the years ended September 30, 2014 and 2013, 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:

	<b>2014</b>	<b>2013</b>
Health care services	\$ 348,719,365	\$ 293,416,325
General and administrative	124,868,311	94,388,752
	<u>\$ 473,587,676</u>	<u>\$ 387,805,077</u>

**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, 2014**

	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
<b>Assets</b>											
<b>Current assets</b>											
Cash and cash equivalents	\$ 6,917,676	\$ 334,893	\$ -	\$ 7,252,569	\$ -	\$ 1,901,701	\$ 950,345	\$ 1,675,245	\$ 4,700,669	\$ -	\$ 16,480,529
Investments	128,450,331	31,541,423	-	159,991,754	-	-	16,769,765	7,523,944	140,576	-	184,426,039
Patient accounts receivable, net	36,373,069	-	-	36,373,069	-	2,378,629	-	2,740,706	5,990,550	-	47,482,954
Other receivables	4,156,260	-	-	4,156,260	24,500	289,393	1,322,262	-	-	-	5,792,415
Inventories	6,580,753	-	-	6,580,753	-	-	-	-	1,812,254	-	8,393,007
Due from affiliates	1,954,838	24,500	(1,954,838)	24,500	2,215,430	-	-	-	-	(2,239,930)	-
Prepaid expenses and other current assets	2,689,506	-	-	2,689,506	-	545,698	16,143	438,951	58,427	-	3,748,725
Debt service fund	1,304,562	-	-	1,304,562	-	-	-	-	-	-	1,304,562
<b>Total current assets</b>	<b>188,426,995</b>	<b>31,900,816</b>	<b>(1,954,838)</b>	<b>218,372,973</b>	<b>2,239,930</b>	<b>5,115,421</b>	<b>19,058,515</b>	<b>12,378,846</b>	<b>12,702,476</b>	<b>(2,239,930)</b>	<b>267,628,231</b>
<b>Assets limited as to use</b>											
Cash	182,862	-	-	182,862	-	-	-	-	-	-	182,862
Construction funds	561,676	-	-	561,676	-	-	-	-	-	-	561,676
Investments held in trust	925,227	-	-	925,227	-	-	-	-	-	-	925,227
Endowment investments	18,987,367	3,565,739	-	22,553,106	-	-	-	6,654,619	7,433,703	-	36,641,428
Investment in subsidiaries	-	19,281,447	-	19,281,447	-	-	-	-	-	(19,281,447)	-
Funds held in trust by others	6,985,614	-	-	6,985,614	-	-	-	-	4,362,996	-	11,348,610
Contributions receivable	20,366	2,750,421	-	2,770,787	-	-	-	-	750,000	-	3,520,787
Funds held in escrow by agreement with State of Connecticut Health and Educational Facilities Authority and trustees	-	-	-	-	-	-	-	-	-	-	-
<b>Total assets limited as to use</b>	<b>27,663,112</b>	<b>25,597,607</b>	<b>-</b>	<b>53,260,719</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,654,619</b>	<b>12,546,699</b>	<b>(19,281,447)</b>	<b>53,180,590</b>
<b>Other assets</b>											
Intangible assets, net	-	-	-	-	-	-	-	-	2,978,625	-	2,978,625
Other receivables	16,536,719	-	-	16,536,719	-	2,137,101	287,916	-	-	(16,380,950)	2,580,786
Deferred financing costs and other assets, net	2,315,752	-	-	2,315,752	-	-	-	-	-	-	2,315,752
<b>Property, plant and equipment</b>											
Land improvements	8,846,232	12,330,635	-	21,176,867	-	-	-	330,275	1,816,131	-	23,323,273
Buildings/leasehold improvements	150,910,346	-	-	150,910,346	-	1,046,733	-	2,238,496	16,849,576	-	171,045,151
Equipment/furniture	265,024,485	17,010	-	265,041,495	-	976,188	-	994,431	17,402,771	-	284,414,885
Accumulated depreciation	(265,615,130)	(104,684)	-	(265,719,814)	-	(973,022)	-	(1,937,034)	(5,430,921)	-	(274,060,791)
Construction in progress	1,691,863	-	-	1,691,863	-	-	-	-	435,918	-	2,127,781
<b>Property, plant and equipment, net</b>	<b>160,857,796</b>	<b>12,242,961</b>	<b>-</b>	<b>173,100,757</b>	<b>-</b>	<b>1,049,899</b>	<b>-</b>	<b>1,626,168</b>	<b>31,073,475</b>	<b>-</b>	<b>206,850,299</b>
<b>Total Assets</b>	<b>\$ 395,800,374</b>	<b>\$ 69,741,384</b>	<b>\$ (1,954,838)</b>	<b>\$ 463,586,920</b>	<b>\$ 2,239,930</b>	<b>\$ 8,302,421</b>	<b>\$ 19,346,431</b>	<b>\$ 20,659,633</b>	<b>\$ 59,301,275</b>	<b>\$ (37,902,327)</b>	<b>\$ 535,534,283</b>

**Lawrence + Memorial Corporation and Subsidiaries**  
**Consolidating Balance Sheet**  
**September 30, 2014**

	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
<b>Liabilities and Net Assets</b>											
<b>Current liabilities</b>											
Accounts payable	\$ 25,786,034	\$ 115,809	\$ -	\$ 25,901,843	\$ -	\$ 343,515	\$ 197,453	\$ 1,615,548	\$ 9,471,491	\$ -	\$ 37,529,850
Accrued vacation and sick pay	11,281,701	-	-	11,281,701	-	1,595,316	-	-	1,346,711	-	14,223,728
Salaries, wages, payroll taxes and amounts withheld from employees	5,950,567	-	-	5,950,567	-	3,536,119	-	-	1,184,830	-	10,671,516
Due to affiliates	2,215,430	1,912,595	(1,954,838)	2,173,187	66,743	-	-	234,000	-	(2,239,930)	-
Due to third party payors	5,165,225	-	-	5,165,225	-	-	-	-	1,858,724	-	7,257,949
Other current liabilities	-	-	-	-	-	-	428,096	154,457	-	-	582,553
Current portion of long-term debt	5,342,305	-	-	5,342,305	-	-	-	-	134,675	-	5,476,980
Total current liabilities	55,741,262	2,028,404	(1,954,838)	55,814,828	66,743	5,474,950	625,549	2,004,005	13,996,431	(2,239,930)	75,742,576
Accrued pension and other postretirement benefits	43,216,010	-	-	43,216,010	-	-	-	-	-	-	43,216,010
Other liabilities	20,601,530	-	-	20,601,530	-	3,744,380	17,719,560	-	1,335,389	(17,789,969)	25,610,890
Long-term debt less current portion	108,587,802	-	-	108,587,802	-	-	-	-	-	-	108,587,802
Total liabilities	228,146,604	2,028,404	(1,954,838)	228,220,170	66,743	9,219,330	18,345,109	2,004,005	15,331,820	(20,029,899)	253,157,278
<b>Net assets</b>											
Unrestricted	138,173,767	67,562,541	-	205,736,308	2,173,187	(916,909)	1,001,322	18,628,628	33,152,392	(17,872,428)	241,902,500
Temporarily restricted	23,432,028	150,439	-	23,582,467	-	-	-	-	1,188,220	-	24,770,687
Permanently restricted	6,047,975	-	-	6,047,975	-	-	-	27,000	9,628,843	-	15,703,818
Total net assets	167,653,770	67,712,980	-	235,366,750	2,173,187	(916,909)	1,001,322	18,655,628	43,969,455	(17,872,428)	282,377,005
	<u>\$ 395,800,374</u>	<u>\$ 69,741,384</u>	<u>\$ (1,954,838)</u>	<u>\$ 463,586,920</u>	<u>\$ 2,239,930</u>	<u>\$ 8,302,421</u>	<u>\$ 19,346,431</u>	<u>\$ 20,659,633</u>	<u>\$ 59,301,275</u>	<u>\$ (37,902,327)</u>	<u>\$ 535,534,283</u>

**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
<b>Assets</b>											
<b>Current assets</b>											
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	5,775,458	-	44,410,454
Other receivables	3,977,343	-	-	3,977,343	559,500	-	504,021	-	-	-	5,321,417
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	179,974,978	29,176,587	(1,316,775)	207,834,790	2,427,232	5,164,760	14,907,357	10,724,056	15,803,057	(1,892,232)	254,969,020
<b>Assets limited as to use</b>											
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
<b>Other assets</b>											
Intangible assets, net	-	-	-	-	-	-	-	-	3,352,875	-	3,352,875
Other receivables	13,694,110	-	-	13,694,110	-	1,119,441	418,675	-	-	(12,684,764)	2,547,462
Deferred financing costs and other assets, net	1,776,176	-	-	1,776,176	-	-	-	-	-	-	1,776,176
<b>Property, plant and equipment</b>											
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)	-	(250,089,034)
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	\$ 62,171,836	\$ (33,858,443)	\$ 531,599,130

**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
<b>Liabilities and Net Assets</b>											
<b>Current liabilities</b>											
Accounts payable	\$ 24,079,687	\$ 148,360	\$ -	\$ 24,228,047	\$ -	\$ 204,726	\$ 75,246	\$ 1,470,128	\$ 16,633,323	\$ -	\$ 42,611,470
Accrued vacation and sick pay	11,523,272	-	-	11,523,272	-	1,057,435	-	-	-	-	12,580,707
Salaries, wages, payroll taxes and amounts withheld from employees	4,495,457	-	-	4,495,457	-	2,351,953	-	-	3,254,244	-	10,101,654
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	26,542,096	(1,892,232)	80,635,705
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	28,727,336	(15,729,760)	245,623,524
<b>Net assets</b>											
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	\$ 62,171,836	\$ (33,858,443)	\$ 531,599,130

**Lawrence + Memorial Corporation and Subsidiaries**  
**Consolidating Statement of Operations**  
**Year Ended September 30, 2014**

	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	\$ 337,129,192	\$ -	\$ -	\$ 337,129,192	\$ -	\$ 29,333,784	\$ -	\$ 12,091,733	\$ 74,974,391	\$ -	\$ 453,529,100
Provision for bad debt	(14,930,302)	-	-	(14,930,302)	-	(534,484)	-	(75,000)	(4,758,600)	-	(20,298,386)
Net revenue less provision for bad debt	322,198,890	-	-	322,198,890	-	28,799,300	-	12,016,733	70,215,791	-	433,230,714
Other operating revenues	28,151,061	2,958,303	-	31,109,364	486,265	4,787,661	5,376,504	4,140,108	2,963,560	(28,068,175)	20,795,287
Net assets released from restriction	671,797	204,406	-	876,203	-	-	-	-	-	-	876,203
	351,021,748	3,162,709	-	354,184,457	486,265	33,586,961	5,376,504	16,156,841	73,179,351	(28,068,175)	454,902,204
Operating expenses											
Salaries and wages	143,838,674	-	-	143,838,674	-	37,356,344	-	10,811,798	28,074,499	(6,613,808)	213,467,507
Employee benefits	51,044,718	-	-	51,044,718	-	6,483,081	-	2,598,219	6,454,031	(7,394,212)	59,185,837
Supplies	59,538,141	206,897	-	59,745,038	-	1,334,391	-	330,396	10,588,285	-	71,998,110
Purchased services	38,647,767	518,743	-	39,166,510	19,330	3,462,524	334,538	480,267	15,344,077	(4,332,235)	54,475,011
Other	34,490,156	42,546	-	34,532,702	122,200	7,849,748	5,486,160	937,952	4,066,583	(9,568,175)	43,427,170
Interest	3,542,721	8,500	-	3,551,221	-	-	-	-	419,698	(416,000)	3,554,919
Depreciation and amortization	22,728,484	61,692	-	22,790,176	-	234,268	-	107,318	4,347,360	-	27,479,122
	353,830,661	838,378	-	354,669,039	141,530	56,720,356	5,820,698	15,265,950	69,294,533	(28,324,430)	473,587,676
(Loss) from operations	(2,808,913)	2,324,331	-	(484,582)	344,735	(23,133,395)	(444,194)	890,891	3,884,818	256,255	(18,685,472)
Nonoperating gains											
Unrestricted investment income	180,488	-	-	180,488	-	-	-	-	-	-	180,488
Income from investments	8,608,113	355,103	-	8,963,216	-	-	203,572	652,017	13,359	-	9,832,164
Inherent contribution received from purchase of Westerly Hospital	-	-	-	-	-	-	-	-	5,284,752	-	5,284,752
	8,788,601	355,103	-	9,143,704	-	-	203,572	652,017	5,298,111	-	15,297,404
(Deficit)/excess of revenues over expenses	5,979,688	2,679,434	-	8,659,122	344,735	(23,133,395)	(240,622)	1,542,908	9,182,929	256,255	(3,388,068)
Net unrealized gains/(losses) on investments	31,059	1,515,218	-	1,546,277	-	-	(88,647)	570,458	-	-	2,028,088
Transfer to L & M Affiliate	(33,861,262)	12,237,912	-	(21,623,350)	(16,465)	20,865,372	-	-	774,443	-	-
Net assets released from restrictions used for purchases of property and equipment	139,360	867,140	-	1,006,500	-	-	-	-	-	-	1,006,500
Donated equipment	6,350	-	-	6,350	-	-	-	-	-	-	6,350
Pension related changes other than periodic pension costs	(4,281,516)	-	-	(4,281,516)	-	-	-	-	-	-	(4,281,516)
Decrease in unrestricted net assets	\$ (31,986,321)	\$ 17,299,704	\$ -	\$ (14,686,617)	\$ 328,270	\$ (2,268,023)	\$ (329,269)	\$ 2,113,366	\$ 9,957,372	\$ 256,255	\$ (4,628,646)

**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
	<u>323,357,397</u>	<u>2,925,942</u>	<u>-</u>	<u>326,283,339</u>	<u>552,925</u>	<u>25,860,350</u>	<u>6,080,077</u>	<u>14,990,091</u>	<u>24,061,416</u>	<u>(17,440,785)</u>	<u>380,387,413</u>
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
	<u>318,753,780</u>	<u>3,759,503</u>	<u>-</u>	<u>322,513,283</u>	<u>326,162</u>	<u>39,903,165</u>	<u>4,706,868</u>	<u>14,611,202</u>	<u>23,599,420</u>	<u>(17,855,023)</u>	<u>387,805,077</u>
Income from operations	<u>4,603,617</u>	<u>(833,561)</u>	<u>-</u>	<u>3,770,056</u>	<u>226,763</u>	<u>(14,042,815)</u>	<u>1,373,209</u>	<u>378,889</u>	<u>461,996</u>	<u>414,238</u>	<u>(7,417,664)</u>
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
	<u>6,163,570</u>	<u>881,712</u>	<u>-</u>	<u>7,045,282</u>	<u>-</u>	<u>-</u>	<u>198,569</u>	<u>630,012</u>	<u>17,895,913</u>	<u>(16,098,758)</u>	<u>9,671,018</u>
Excess of revenues over expenses	<u>10,767,187</u>	<u>48,151</u>	<u>-</u>	<u>10,815,338</u>	<u>226,763</u>	<u>(14,042,815)</u>	<u>1,571,778</u>	<u>1,008,901</u>	<u>18,357,909</u>	<u>(15,684,520)</u>	<u>2,253,354</u>
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
Donated equipment	-	-	-	-	-	-	-	-	-	-	-
Pension related changes other than periodic pension costs	5,929,845	-	-	5,929,845	-	-	-	-	-	-	5,929,845
Decrease in unrestricted net assets	<u>\$ 27,114,760</u>	<u>\$ (19,198,691)</u>	<u>\$ -</u>	<u>\$ 7,916,069</u>	<u>\$ 366,389</u>	<u>\$ 1,681,542</u>	<u>\$ 1,429,929</u>	<u>\$ 1,493,375</u>	<u>\$ 23,195,021</u>	<u>\$ (15,684,520)</u>	<u>\$ 20,397,805</u>