THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

SEPTEMBER 30, 2015 AND 2014

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONTENTS

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
The Waterbury Hospital

We have audited the accompanying consolidated financial statements of The Waterbury Hospital and Subsidiaries, which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting polices 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Waterbury Hospital and Subsidiaries as of September 30, 2015 and 2014, and the results of its operations and changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Hartford, CT
January 18, 2016

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2015 AND 2014

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	$ 19,596,473	$ 31,909,931
Restricted cash	1,350,000	675,000
Short-term investments	515,895	507,699
Patient accounts receivable, less allowance ($5,154,000 in 2015 and $9,207,000 in 2014)	31,343,967	30,793,644
Grants and other receivables	3,837,291	3,843,762
Inventories of supplies	3,450,432	3,913,945
Prepaid insurance and other expenses	2,026,256	1,923,352
Total Current Assets	62,120,314	73,567,333
Other Assets		
Funds held in trust by others	43,411,397	46,117,761
Long-term investments	10,619,780	11,118,017
Board-designated endowment funds	--	3,315,500
Other receivables	42,571	77,952
Goodwill	1,813,567	1,813,567
CHEFA obligations issue expense, less amortization	204,696	243,686
Total Other Assets	56,092,011	62,686,483
Property, plant and equipment:		
Land	287,549	287,549
Buildings and improvements	94,388,568	94,308,166
Equipment	193,718,575	188,064,397
Construction in progress	13,934	--
	288,408,626	282,660,112
Less accumulated depreciation	(254,197,440)	(246,745,886)
Total Property, Plant and Equipment	34,211,186	35,914,226
Total Assets	$ 152,423,511	$ 172,168,042

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

SEPTEMBER 30, 2015 AND 2014

	2015	2014
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 25,852,591	$ 23,322,768
Salaries, wages, payroll taxes and amounts withheld from employees	5,770,331	9,841,900
Due to third-party reimbursement agencies	7,348,352	4,171,981
Current portion of CHEFA obligations	516,408	493,776
Current portion of notes payable and capital lease obligations	1,455,894	461,705
Due to affiliates	61,370	600,116
Total Current Liabilities	41,004,946	38,892,246
Other Noncurrent Liabilities	26,049,588	25,354,977
CHEFA Obligations - less current portion	23,273,336	23,789,744
Notes Payable and Capital Lease Obligations - less current portion	3,647,977	438,984
Net Assets		
Unrestricted	1,355,351	23,336,473
Temporarily restricted	8,220,369	8,729,527
Permanently restricted	46,203,433	48,909,797
Total Net Assets Excluding Noncontrolling Interests	55,779,153	80,975,797
Noncontrolling Interests	2,668,511	2,716,294
Total Net Assets	58,447,664	83,692,091
Total Liabilities and Net Assets	$ 152,423,511	$ 172,168,042

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
Unrestricted Revenues		
Net patient service revenues	$ 233,136,332	$ 248,836,314
Provision for bad debts	(4,475,372)	(4,436,817)
Net patient service revenues less provision for bad debts	228,660,960	244,399,497
Other operating revenues	4,475,083	4,196,829
Net assets released from restrictions	5,014,429	5,542,491
	238,150,472	254,138,817
Operating Expenses		
Salaries	116,923,196	118,051,397
Employee benefits	32,501,463	29,379,803
Supplies and other	103,134,046	105,737,994
Depreciation	7,533,050	7,860,960
Interest and amortization	1,471,296	1,384,987
	261,563,051	262,415,141
Loss from Operations	(23,412,579)	(8,276,324)
Nonoperating Gains		
Unrestricted gifts and bequests	661,066	1,240,261
Investment income	1,798,705	1,840,688
	2,459,771	3,080,949
Deficiency of Revenues over Expenses Before Changes in Net Unrealized (Losses) Gains on Investments	(20,952,808)	(5,195,375)
Changes in Net Unrealized (Losses) Gains on Investments	(292,013)	92,827
Deficiency of Revenues over Expenses	(21,244,821)	(5,102,548)
Less Excess of Revenues over Expenses Attributable to Noncontrolling Interests	(750,533)	(926,677)
Deficiency of Revenues Over Expenses Attributable to Controlling Interest	(21,995,354)	(6,029,225)

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

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

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
Unrestricted Net Assets, Controlling Interest		
Deficiency of revenues over expenses	$ (21,995,354)	$ (6,029,225)
Net assets released from restrictions used for purchase of property and equipment	95,170	13,360
Interest rate swap adjustment	(338,948)	217,110
Pension liability adjustments	258,010	(841,605)
Decrease in Unrestricted Net Assets, Controlling Interest	(21,981,122)	(6,640,360)
Unrestricted Net Assets, Noncontrolling Interest		
Excess of revenues over expenses	750,533	926,677
Distributions	(798,316)	(924,889)
(Decrease) Increase in Unrestricted Net Assets Noncontrolling Interest	(47,783)	1,788
Temporarily Restricted Net Assets		
Gifts and bequests	447,582	453,516
Income from investments	704,133	447,776
Net realized and unrealized (losses) gains on investments	(561,598)	604,989
Grants	4,010,322	4,369,303
Net assets released from restrictions	(5,109,597)	(5,555,851)
(Decrease) Increase in Temporarily Restricted Net Assets	(509,158)	319,733
Permanently Restricted Net Assets		
(Decrease) increase in fair value of funds held in trust by others	(2,706,364)	1,157,722
(Decrease) Increase in Permanently Restricted Net Assets	(2,706,364)	1,157,722
Decrease in Net Assets	(25,244,427)	(5,161,117)
Net Assets - Beginning	83,692,091	88,853,208
Net Assets - End	$ 58,447,664	$ 83,692,091

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

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
Cash Flows from Operating Activities and Nonoperating Revenues		
Decrease in net assets	$ (25,244,427)	$ (5,161,117)
Adjustments to reconcile decrease in net assets to net cash (used in) provided by operating activities and nonoperating revenues:		
Provision for bad debts	4,475,372	4,436,817
Depreciation and amortization	7,572,040	7,899,950
Pension liability adjustments	(258,010)	841,605
Distributions to noncontrolling interests	798,316	924,889
Net realized and unrealized gains and change in fair value of funds held in trust by others	4,465,890	(1,855,538)
Restricted gifts, bequests and income from investments	(1,151,716)	(901,292)
Change in market value of interest rate swap	338,948	(217,110)
	(9,003,587)	5,968,204
Changes in operating working capital other than cash and cash equivalents:		
Patient accounts receivable, net	(5,025,695)	(5,789,335)
Grants and other receivables	6,471	(141,238)
Inventories of supplies	463,513	(332,350)
Prepaid insurance and other expenses	(102,904)	(351,887)
Accounts payable and accrued expenses	2,529,823	1,744,541
Salaries, wages, payroll taxes and amounts withheld from employees	(4,071,569)	2,446,889
Due to third-party reimbursement agencies	3,176,371	1,202,590
Increase in other noncurrent liabilities	613,673	2,916,975
	(2,410,317)	1,696,185
Net Cash (Used in) Provided by Operating Activities and Nonoperating Revenues	(11,413,904)	7,664,389

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

	2015	2014
Cash Flows from Investing Activities		
(Increase) decrease in restricted cash	$ (675,000)	$ 3,844,908
Purchases of investments	(34,385,260)	(23,946,145)
Sales of investments	36,431,275	24,183,741
Other assets	35,381	94,020
Additions to property, plant and equipment	(989,103)	(1,339,409)
Net Cash Provided by Investing Activities	417,293	2,837,115
Cash Flows from Financing Activities		
Restricted gifts, bequests and income from investments	1,151,716	901,292
Cash paid to affiliates	(538,746)	(1,442,835)
Distributions to noncontrolling interests	(798,316)	(924,889)
Proceeds from issuance of debt	--	55,580
Principal payments on debt obligations	(1,131,501)	(1,174,144)
Net Cash Used in Financing Activities	(1,316,847)	(2,584,996)
Net (Decrease) Increase in Cash and Cash Equivalents	(12,313,458)	7,916,508
Cash and Cash Equivalents - Beginning	31,909,931	23,993,423
Cash and Cash Equivalents - End	$ 19,596,473	$ 31,909,931

Supplemental Cash Flow Information

Cash paid during the year for interest on borrowings was $1,333,442 and $1,217,495 for the years ended September 30, 2015 and 2014, respectively.

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

ORGANIZATION

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

On April 30, 2015, GWHN entered into a letter of intent with Prospect Medical Holdings, Inc. (Prospect) pursuant to which Prospect will purchase substantially all of the assets of GWHN and its affiliates, other than HAIC, the Hospital's captive insurer and Children's Center of Greater Waterbury Health Network, Inc. The transaction is subject to the approval of the Connecticut Office of the Attorney General and the Connecticut Department of Public Health's Office of Health Care Access. Those applications have been filed and are pending.

During November 2010, the Hospital established a limited liability company by the name of Cardiology Associates of Greater Waterbury, LLC to operate a cardiology practice. CAGW acquired the assets of Cardiology Associates of Waterbury (CAW), an unaffiliated entity, that were used by CAW physicians in the performance of their professional services.

The Waterbury Hospital also acquired the assets of CAW that were used by CAW to perform diagnostic ancillary services. The Hospital converted these ancillary services to provider-based services, which are provided at a diagnostic center located near the Hospital. The goodwill recorded on the consolidated balance sheets relates to the purchase of CAW.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

ORGANIZATION (CONTINUED)

The Hospital entered into a members' agreement, making it an equal member with St. Mary's Hospital, located in Waterbury, Connecticut, in a joint venture to form The Harold Leever Regional Cancer Center, Inc. (the Cancer Center). The Cancer Center is a Connecticut non-stock corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The purpose of the joint venture is to develop, construct, own and operate the Cancer Center. Both member hospitals transferred the revenue and related expenses of their respective radiation oncology services to the Cancer Center in October 2002. Both member hospitals made working capital advances to the Cancer Center. The Cancer Center is not included in the Hospital's consolidated financial statements. During the years ended September 30, 2015 and 2014, the Cancer Center provided unrestricted grants of $500,000 and $1,000,000, respectively, to the Hospital that are included in unrestricted gifts and bequests in the consolidated statements of operations and changes in net assets.

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

PRINCIPLES OF CONSOLIDATION

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

USE OF ESTIMATES

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

RECLASSIFICATIONS

Certain 2014 amounts were reclassified to conform to the 2015 presentation.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

REGULATORY MATTERS

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

TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

DONOR RESTRICTED GIFTS

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

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

CASH AND CASH EQUIVALENTS

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

RESTRICTED CASH

At September 30, 2015 and 2014, the Hospital had a $4.5 million surety bond with an insurance company to support its self-insured workers' compensation program that was collateralized by a bank account, which is reflected within restricted cash on the consolidated balance sheet. As of September 30, 2015 and 2014, there were no borrowings on the surety bond.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

ACCOUNTS RECEIVABLE

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

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

INVENTORIES

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

INVESTMENTS

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT

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

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

Conditional asset retirement obligations of $2,898,529 and $2,801,923 as of September 30, 2015 and 2014, respectively, are recorded in other noncurrent liabilities related to future asbestos remediation. During 2015 and 2014, there were no retirement obligations incurred or settled.

GOODWILL

Goodwill, which has an indefinite life, is not amortized and is evaluated for impairment at least annually or whenever events or business conditions indicate that the carrying values of such assets may not be fully recoverable.

IMPAIRMENT OF LONG-LIVED ASSETS

The Hospital records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. There were no impairment losses recorded in 2015 and 2014.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

NONOPERATING GAINS

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

DEFICIENCY OF REVENUES OVER EXPENSES

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

NEW ACCOUNTING PRONOUNCEMENT

Accounting Standards Update (ASU) No. 2013-06, *Services Received from Personnel of an Affiliate (for which the affiliate does not seek compensation)*, addresses how a receiving nonprofit organization should recognize and measure the receipt of services from personnel of an affiliate when the affiliate does not charge for reimbursement of its costs for these services. A recipient nonprofit organization is required to measure services received from personnel of an affiliate at the cost recognized by the affiliate for the personnel providing those services and if the cost amount for the services received significantly differs from the value received, the recipient nonprofit organization can elect to measure those personnel services received at fair value.

The Hospital adopted the provisions of ASU 2013-06 during the year ended September 30, 2015. The adoption of this guidance did not have a material impact on the Hospital's consolidated financial statements for the year ended September 30, 2015.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

INCOME TAXES

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

Management has analyzed the tax positions taken and has concluded that as of September 30, 2015, there are no uncertain tax positions taken or expected to be taken in that would require recognition of a liability (or asset) or disclosure in the financial statements. The Hospital is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Hospital is no longer subject to income tax examinations prior to 2012.

MEDICAL MALPRACTICE AND WORKERS' COMPENSATION INSURANCE

The Hospital has a policy of self-insuring the deductible portion of its workers' compensation claims. The deductible limit is $750,000 per claim for the years ended September 30, 2015 and 2014. Management records its best estimate of losses as they occur. The accrued workers' compensation self-insurance liabilities of $10,250,333 and $10,670,607 at September 30, 2015 and 2014, respectively, have been discounted at 2.25%.

Effective October 1, 2006, the Hospital obtained "claims-made" medical malpractice insurance coverage, through the Network, from Healthcare Alliance Insurance Company, Ltd. (HAIC) under retrospectively-rated policies whose ultimate premium is based primarily on the Hospital's experience. HAIC is a multi-provider captive insurance company domiciled in the Cayman Islands. The Network is a one half owner of HAIC with one other local hospital that also holds a 50% ownership. The Hospital's insurance coverage is $1,500,000 per occurrence and $5,000,000 in the aggregate. In addition to the coverage from HAIC, the Hospital recorded reserves of approximately $1,647,702 and $1,747,604, which is reflected within other noncurrent liabilities on the consolidated balance sheet at September 30, 2015 and 2014, respectively, related to claims that were incurred subsequent to October 1, 2006, but not yet reported. These reserves were discounted at 2.25% at September 30, 2015 and 2014.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

MEDICAL MALPRACTICE AND WORKERS' COMPENSATION INSURANCE (CONTINUED)

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

RETIREMENT BENEFIT PLANS

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

OTHER NONCURRENT LIABILITIES

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

RISKS AND UNCERTAINTIES

The Hospital invests in a variety of investment securities which are exposed to various risks, such as interest rate risk, financial market risk, currency risk and credit risk. Due to the level of risk associated with investment securities, coupled with economic events, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Hospital's September 30, 2015 financial statements, in addition to the funded status of its defined benefit pension plan.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION (CONTINUED)

BAD DEBTS

ASU 2011-07, *Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts*, requires certain health care entities to present the provision for bad debts associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) rather than as an operating expense with enhanced footnote disclosures on the policies for recognizing revenue and assessing bad debts, in addition to qualitative and quantitative information about changes in the allowance for doubtful accounts. Refer to Note 2 for the additional disclosures required by ASU 2011-07.

NOTE 2 - NET PATIENT SERVICE REVENUES AND CHARITY CARE

The following table summarizes net patient service revenues:

	2015	2014
Gross patient service revenues	$ 996,544,955	$ 985,407,726
Deductions		
Allowances	756,297,793	734,714,169
Regulatory	7,110,830	1,857,243
	763,408,623	736,571,412
Net patient service revenues, before provision for bad debts	233,136,332	248,836,314
Provision for bad debts	4,475,372	4,436,817
Net patient service revenues less provision for bad debts	$ 228,660,960	$ 244,399,497

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

Amounts received from most payors are different from the established billing rates of the Hospital, and these differences are accounted for as allowances. Net revenues have been affected by State of Connecticut Disproportionate Share program in 2015 and 2014 which is reflected in the regulatory amounts in the table above.

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

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. For the years ended September 30, 2015 and 2014, the Hospital recorded approximately $3,000,000 and $2,500,000, respectively, as a decrease to net patient service revenues as changes in estimates related to third-party payor settlements and adjustments to accruals recorded in prior years.

During 2015 and 2014, approximately 40% and 44%, respectively, of net patient service revenues were received under the Medicare program, 17% and 10%, respectively, under the state Medicaid program, and 43% and 46%, respectively, from contracts with other third-parties.

Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. The State of Connecticut has implemented reductions in the State's Disproportionate Share Reimbursement Program for the period from July 1, 2012 through June 30, 2015.

The current Connecticut Medicaid inpatient hospital reimbursement model of interim per diem rates and case rate settlements transitioned effective January 1, 2015 to an All Patient Refined Diagnosis Related Group System (APR-DRG) where hospital payments are established prospectively. Connecticut Medicaid outpatient hospital reimbursement will move from the current system of reimbursement based on Revenue Center Codes to a prospective payment system based on the complexity of services performed. The specific outpatient plan has not been finalized by the State of Connecticut, but the new outpatient reimbursement methodology will not be implemented until at least the second half of fiscal year 2016.

The significant concentrations of net accounts receivable for services to patients include 41% from Medicare, 16% from Medicaid, 28% from commercial insurance carriers and 15% from others at September 30, 2014 (44%, 15%, 28% and 13%, respectively, in 2014).

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

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

Cost reports for the Hospital, which serve as a basis for final settlement with government payors, have been settled by final settlement through 2012 for Medicare and 1995 for Medicaid. Other years remain open for settlement.

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Hospital's estimation of the allowance for doubtful accounts is based primarily upon the type and age of the patient accounts receivable and the effectiveness of the Hospital's collection efforts. The Hospital's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as the charges are recorded. On a monthly basis, the Hospital reviews its accounts receivable balances, the effectiveness of the Hospital's reserve policies and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

- Revenue and volume trends by payor, particularly the self-pay components;
- Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients;
- Various allowance coverage statistics.

The Hospital regularly performs hindsight procedures to evaluate historical write-off and collection experience throughout the year to assist in determining the reasonableness of its process for estimating the allowance for doubtful accounts.

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS (CONTINUED)

A summary of the Hospital's allowance for doubtful accounts activity for the years ended September 30, 2015 and 2014 is as follows:

	Balance at Beginning of Period	Additions Recorded in the Provision for Bad Debts	Accounts Written off, Net of Recoveries and Other	Balance at End of Period
Allowance for doubtful accounts:				
Year ended September 30, 2014	$ (15,022,000)	$ (4,436,817)	$ 10,251,817	$ (9,207,000)
Year ended September 30, 2015	(9,207,000)	(4,475,372)	8,528,372	(5,154,000)

MEASURING CHARITY CARE

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

The Hospital implemented effective October 1, 2013 a change to its charity care policy to discount all self-pay receivables by 50 percent upon final billing. These self-pay discounts amounted to approximately $5.3 million and $5.2 million for the years ended September 30, 2015 and 2014, respectively.

Self-pay revenues are derived primarily from patients who do not have any form of health care coverage. The Hospital evaluates these patients, after the patient's medical condition is determined to be stable, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid or other governmental assistance programs, as well as the Hospital's policy for charity care. The Hospital provides care without charge to certain patients that qualify under its charity care policy. For the years ended September 30, 2015 and 2014, the Hospital estimates that its costs of care provided under its charity care programs approximated $1,212,000 and $1,383,000, respectively.

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

MEASURING CHARITY CARE (CONTINUED)

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

ELECTRONIC HEALTH RECORD INCENTIVE PAYMENTS

The American Recovery and Reinvestment Act of 2009 (ARRA) included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are also available to providers that adopt, implement or upgrade certified EHR technology. Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments.

Income from Medicare incentive payments is recognized as revenue after the Hospital has demonstrated that it complied with the meaningful use criteria over the entire applicable compliance period. The Hospital recognized revenue from Medicaid and Medicare for incentive payments after it adopted certified EHR technology. There were no payments received during 2015 from this incentive program. Medicaid incentive payments were $322,653 for the year ended September 30, 2014. Medicare incentive payments were $1,184,857 for the year ended September 30, 2014. The Hospital has not recognized estimated incentive payments of $646,000 for 2015 as the Hospital has not yet attested to meeting the necessary requirements. Incentive payments are included in other operating revenues in the accompanying consolidated statements of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, the Hospital's compliance with the meaningful use criteria is subject to audit by the federal government.

NOTE 3 - INVESTMENTS

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

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Short-term investments:				
Certificates of deposit and mutual funds	$ 435,568	$ 515,895	$ 424,925	$ 507,699
Investments of funds held in trust by others	$ 42,606,849	$ 43,411,397	$ 42,013,991	$ 46,117,761
Long-term investments and Board - designated endowment funds:				
Certificates of deposit and money market funds	$ 941,149	$ 941,149	$ 873,669	$ 873,669
Marketable equity securities	197,835	363,882	197,835	351,238
U.S. Government obligations	108,451	148,198	108,451	149,445
Corporate bonds	2,659,057	2,632,832	3,680,469	3,686,721
Mutual funds	5,826,773	6,206,686	7,799,302	9,013,644
	$ 9,733,265	$ 10,292,747	$ 12,659,726	$ 14,074,717

The Hospital had long-term investments in partnerships and joint ventures that were recorded at cost of $327,033 and $358,800 as of September 30, 2015 and 2014, respectively, as it was not practicable to estimate fair value. These investments are not included in the tables above. Unrestricted investment income, including income on funds held in trust by others and gains are comprised of the following for the years ended September 30, 2015 and 2014:

	2015	2014
Income		
Interest and dividends	$ 1,801,313	$ 1,832,085
Realized (losses) gains on sales of investments	(2,608)	8,603
Changes in net unrealized (losses) gains on investments	(292,013)	92,827
	$ 1,506,692	$ 1,933,515

NOTE 4 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

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

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

NOTE 4 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes fair value measurements, by level, at September 30, 2014, for all assets and liabilities which are measured at fair value on a recurring basis in the consolidated financial statements:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 35,728,709	$ --	$ --	$ 35,728,709
Common stock-insurance	133,496	--	--	133,496
Mutual funds:				
U.S. large cap	21,147,966	--	--	21,147,966
U.S. mid cap	3,399,506	--	--	3,399,506
U.S. small cap	2,786,261	--	--	2,786,261
International developed	4,979,700	--	--	4,979,700
Emerging markets	3,076,127	--	--	3,076,127
Fixed income securities:				
Investment grade taxable	1,978,762	12,122,021	--	14,100,783
International developed bonds	--	695,404	--	695,404
Global high yield taxable	5,296	2,420,636	--	2,425,932
Real estate investment trusts	2,506,598	--	--	2,506,598
Other	1,758,038	546,588	--	2,304,626
Total investments at fair value	$ 77,500,459	$ 15,784,649	$ --	$ 93,285,108
Liabilities:				
Interest rate swap	$ --	$ 1,512,596	$ --	$ 1,512,596

NOTE 5 - RESTRICTED ENDOWMENTS

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

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

NOTE 5 - RESTRICTED ENDOWMENTS (CONTINUED)

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

(1) The duration and preservation of the fund
(2) The purposes of the Hospital and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Hospital
(7) The investment policies of the Hospital

RETURN OBJECTIVES AND RISK PARAMETERS

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

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

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

NOTE 5 - RESTRICTED ENDOWMENTS (CONTINUED)

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

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

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

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

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

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

NOTE 5 - RESTRICTED ENDOWMENTS (CONTINUED)

ENDOWMENT NET ASSET COMPOSITION BY TYPE OF FUND AS OF SEPTEMBER 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ --	$ 7,607,185	$ 48,909,797	$ 56,516,982
Board-designated endowment funds	3,315,500	--	--	3,315,500
Total funds	$ 3,315,500	$ 7,607,185	$ 48,909,797	$ 59,832,482

CHANGES IN ENDOWMENT NET ASSETS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	$ 3,193,664	$ 7,446,152	$ 47,752,075	$ 58,391,891
Investment return:				
Investment income	56,642	184,580	--	241,222
Net appreciation (realized and unrealized)	203,276	612,338	1,157,722	1,973,336
Total investment return	259,918	796,918	1,157,722	2,214,558
Appropriation of endowment assets for expenditure	(138,082)	(635,885)	--	(773,967)
Endowment net assets, ending balance	$ 3,315,500	$ 7,607,185	$ 48,909,797	$ 59,832,482

NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at September 30, 2015 and 2014 are restricted amounts which are to be held in perpetuity, the income from which is expendable to provide free care, scholarships for the children of the Hospital's employees, and for the operations of the Hospital. Also included in permanently restricted net assets are funds held in trust by others. The Hospital is the restricted income beneficiary of funds held in trust by others. The total trust assets, as reported by the trustees, had an aggregate fair value at September 30, 2015 and 2014 of $43,411,397 and $46,117,761, respectively. Distributions of $1,996,055 and $2,023,580 from these assets for the years ended September 30, 2015 and 2014, respectively, are included in investment income.

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

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

During 2015 and 2014, net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes in providing grant related services, free care, and various miscellaneous services in the amounts of $4,010,322, $692,333 and $311,774, respectively in 2015, and $4,369,303, $688,243 and $484,945, respectively in 2014. In addition, $95,170 and $13,360 were released for the purchase of property and equipment in 2015 and 2014, respectively.

NOTE 7 - DEBT

SERIES D BOND FINANCING

In December 2010, the Hospital refinanced its Series C bond financing and financed an additional $8,000,000 for various capital projects that were completed over a two-year period. The par amount of the Series D debt was $25,918,000 and interest is variable at the interest rate that is equal to the product of (i) sixty-eight percent (68%) and (ii) the sum of the LIBOR Rate and three hundred basis points (2.18% and 2.15% at September 30, 2015 and 2014, respectively). The bonds require monthly principal and interest payments, based upon a 10-year amortization schedule, from 2011 through 2020 with the remaining principal balance due in 2020.

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

In connection with this refinancing, the Hospital entered into an interest rate swap with a bank, which allowed it to convert its variable interest rate liability to a fixed interest rate liability of 4.475% without changing the structure of the underlying debt.

The Hospital uses the interest rate swap agreement to manage interest rate risk associated with its outstanding debt. At September 30, 2015 and 2014, the notional value of outstanding interest rate swap was $23,789,744 and $24,283,520, respectively.

The Hospital recognizes the fair value of its interest rate swap in the consolidated balance sheet as a liability, recorded in other noncurrent liabilities. At September 30, 2014 and 2013, the fair value of interest rate swap was in a liability position of $1,851,544 and $1,512,596, respectively.

NOTE 7 - DEBT (CONTINUED)

SERIES D BOND FINANCING (CONTINUED)

The Hospital designated its interest rate swap as a cash flow hedge for accounting purposes, and accordingly defers gains or losses associated with the swap in net assets.

During fiscal year 2015, GWHN failed to meet certain of the financial covenants with respect to the Series D Bonds. On December 14, 2015, GWHN entered into a forbearance agreement with the holder of the Series D Bonds, which provided for the payment of a forbearance fee and a default rate of interest, the engagement of a chief restructuring officer, the modification of certain financial and reporting covenants, a mortgage on certain additional real property of the Hospital and a security interest in certain of the Hospital's personal property. The forbearance period concludes at the earlier of October 1, 2016 or the closing of the sale of the Hospital. The forbearance fee and the amount of the increase in the interest rate over pre-forbearance rate of interest are deferred until the end of the forbearance period.

Future minimum payments by year and in the aggregate under the Series D bond financing are as follows at September 30, 2015:

2016	$ 516,408
2017	540,080
2018	564,832
2019	590,716
2020	617,792
Aggregate thereafter	20,959,916
	$ 23,789,744

If the proposed transaction (further described in Note 1) were to close, future minimum payments related to the CHEFA bonds would be settled at closing.

OTHER DEBT

Access has a $250,000 line of credit with a bank. There were no borrowings under this line of credit at September 30, 2015 and 2014.

AMG entered into an equipment lease during 2010. The lease calls for monthly payments of $353 through March 2015 and is secured by the equipment. The balance of the capital lease liability was zero at September 30, 2015 and $1,993 at September 30, 2014.

NOTE 7 - DEBT (CONTINUED)

OTHER DEBT (CONTINUED)

AMG entered into an equipment lease during 2010. The lease calls for monthly payments of $447 through May 2015 and is secured by the equipment. The balance of the capital lease liability was zero at September 30, 2015 and $3,883 at September 30, 2014.

AMG entered into a term note during 2010 at an interest rate of 9.8%. The note calls for monthly payments of $13,216 through November 2014 and is secured by the assets of AMG. The balance of the term note liability was zero at September 30, 2015 and $26,101 at September 30, 2014.

AMG entered into a capital lease for equipment during 2014. The balance of the capital lease liability was $34,840 at September 30, 2015 and $48,121 at September 30, 2014.

AMG entered into a capital lease for equipment during 2015. The lease calls for monthly payments of $100 through December 2019. The balance of the capital lease liability was $4,757 as of September 2015.

The Hospital entered into a capital lease for equipment during 2011. The lease calls for equal monthly payments of $20,450 through May 2016 and is secured by the equipment. The balance of the capital lease liability was $161,789 at September 30, 2015 and $379,070 at September 30, 2014.

The Hospital entered into a capital lease for equipment during 2012. The lease calls for equal monthly payments of $11,469 through August 2017 and is secured by the equipment. The balance of the capital lease liability was $252,912 at September 30, 2015 and $376,940 at September 30, 2014.

The Hospital entered into a capital lease for equipment during 2013. The lease calls for equal monthly payments of $4,779 through November 2015. The balance of capital lease liability was $9,491 at September 30, 2015 and $64,581 at September 30, 2014.

The Hospital entered into a capital lease for equipment during 2015. The lease calls for monthly payments of $44,942 through August 2018 and is secured by the equipment. The balance of the capital lease liability was $1,379,212 at September 30, 2015.

The Hospital entered into a capital lease for equipment during 2015. The lease calls for monthly payments of $19,220 through September 2020 and is secured by the equipment. The balance of the capital lease liability was $1,065,919 at September 30, 2015.

The Hospital entered into a capital lease for equipment during 2015. The lease calls for monthly payments of $9,138 through September 2020 and is secured by the equipment. The balance of the capital lease liability was $506,794 at September 30, 2015.

NOTE 7 - DEBT (CONTINUED)

OTHER DEBT (CONTINUED)

The Hospital entered into a capital lease for equipment during 2015. The lease calls for monthly payments of $34,928 through September 2020 and is secured by the equipment. The balance of the capital lease liability was $1,688,157 at September 30, 2015.

The carrying value of assets subject to capital leases were $5,401,906 and $1,204,971 at September 30, 2015 and 2014, respectively.

Future minimum payments by year and in the aggregate for all obligations other than the CHEFA Series D bonds were as follows at September 30, 2015:

2016	$ 1,455,894
2017	1,268,566
2018	1,186,628
2019	753,759
2020	439,024
	$ 5,103,871

The fair value of the debt, using the discounted cash flow analyses, was approximately $30,745,000 at September 30, 2015 and $26,697,000 at September 30, 2014.

NOTE 8 - RENTAL EXPENSE AND LEASE COMMITMENTS

The Hospital has entered into operating leases for office space and office equipment. Rental expense is recorded on a straight-line basis over the terms of the leases. Rental expense for the years ended September 30, 2015 and 2014 was $4,595,375 and $4,441,474, respectively. The minimum rental commitments under all noncancellable operating leases with initial or remaining terms of more than one year are as follows:

2016	$ 3,744,755
2017	2,646,353
2018	1,367,811
2019	1,099,785
2020	87,708
Thereafter	147,201
	$ 9,093,613

NOTE 9 - EMPLOYEE BENEFIT PLANS

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

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

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

Following is a summary of the Plan's funded status using the measurement dates of September 30, 2015 and 2014 and amounts recognized in the Hospital's consolidated financial statements.

	2015	2014
Change in Benefit Obligation		
Benefit obligation beginning of year	$ (36,236,973)	$ (35,562,211)
Service cost	(1,210,019)	(1,466,890)
Interest cost	(1,218,771)	(1,324,043)
Actuarial loss	(318,307)	(1,095,038)
Benefits paid	2,506,357	3,211,209
Administrative expenses paid	280,850	--
Curtailments, settlements and special termination benefits	889,881	--
Benefit obligation, end of year	$ (35,306,982)	$ (36,236,973)
Change in Plan Assets		
Fair value of plan assets, beginning of year	$ 25,988,705	$ 27,201,671
Actual return on plan assets	(454,219)	696,625
Employer contributions	1,203,796	1,301,618
Benefits paid	(2,506,357)	(3,211,209)
Administrative expenses paid	(280,850)	--
Fair value of plan assets, end of year	$ 23,951,075	$ 25,988,705
Funded status	$ (11,355,907)	$ (10,248,268)
Accrued pension liability	$ (11,355,907)	$ (10,248,268)
Components of Net Periodic Pension Cost		
Service cost	$ 1,210,019	$ 1,466,890
Interest cost	1,218,771	1,324,043
Expected return on plan assets	(1,126,585)	(1,294,305)
Amortization of actuarial loss	1,155,130	816,016
Amortization of prior service cost	27,271	35,097
Additional amount recognized from curtailment	84,839	--
Net periodic pension cost	$ 2,569,445	$ 2,347,741
Accumulated benefit obligation	$ 35,213,276	$ 35,271,477

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

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

	2015	2014
Unrecognized prior service cost	$ (9,324)	$ (121,434)
Unrecognized actuarial losses	(15,503,601)	(15,649,501)
	$ (15,512,925)	$ (15,770,935)

Changes in benefit obligations recognized in unrestricted net assets include:

	2015	2014
Prior service cost	$ 84,839	$ --
Current year actuarial losses	(1,009,230)	(1,692,718)
Amortization of prior service cost	27,271	35,097
Amortization of net loss	1,155,130	816,016
	$ 258,010	$ (841,605)

The prior service cost and actuarial losses included in unrestricted net assets and expected to be recognized in net periodic cost during the year ending September 30, 2016 are $27,271 and $1,322,221, respectively.

ASSUMPTIONS

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

	2015	2014
Discount rate	3.58%	3.55%
Expected return on plan assets	4.50%	4.50%
Rate of compensation increase	2.00% for 2 year select period, 3.00% ultimate	2.00% for 2 year select period, 3.00% ultimate

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

ASSUMPTIONS (CONTINUED)

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

	2015	2014
Discount rate	3.55%	3.99%
Expected return on plan assets	4.50%	4.50%
Rate of compensation increase	2.00% for 2 year select period, 3.00% ultimate	2.00% for 3 year select period, 3.00% ultimate

Effective September 30, 2015, the Hospital updated the mortality assumptions to align with the mortality tables and improvement scales released by the Society of Actuaries in the fall of 2015. This update resulted in an increase to the Hospital's projected benefit obligation of approximately $7,830,229 which is included in the accrued pension liability in the consolidated balance sheet as of September 30, 2015.

EXPECTED LONG-TERM RETURN ON PLAN ASSETS

To develop the expected long-term rate of return on assets assumptions, the Hospital considered the historical returns and the future expectations of returns for each asset class, as well as target asset allocations of the pension portfolio. This resulted in the selection of the 4.5% long-term rate of return at September 30, 2015 and 2014.

INVESTMENT POLICY

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

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

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

INVESTMENT POLICY (CONTINUED)

The Plan's weighted-average asset allocations at September 30, 2014, by asset category are as follows:

		Asset Allocation Policy	
Asset Category	Plan Assets	Target	Range
U.S. Equity	5%	5%	3% - 7%
Non-U.S. Equity	5%	5%	3% - 7%
Core fixed income	90%	90%	86% - 94%

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

CONTRIBUTIONS

The Hospital expects to make $1,276,854 in contributions to the Plan in 2016.

ESTIMATED FUTURE BENEFIT PAYMENTS

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

2016	$ 3,867,000
2017	3,184,000
2018	3,192,000
2019	2,993,000
2020	2,805,000
2021-2025	12,034,000
	$ 28,075,000

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

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

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

	Level 1	Level 2	Level 3	Total
Commingled funds and private equity	$ --	$ --	$23,951,075	$23,951,075

The following table sets forth by level within the fair value hierarchy the investment assets and investment liabilities at fair value, as of September 30, 2014.

	Level 1	Level 2	Level 3	Total
Commingled funds and private equity	$ --	$ --	$25,988,705	$25,988,705

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

	2015	2014
Balance as of beginning of fiscal year	$ 25,988,705	$ 27,201,671
Change in unrealized (depreciation) appreciation	(565,059)	570,424
Purchases	11,621,663	5,571,007
Sales	(13,094,234)	(7,354,397)
Balance as of September 30,	$ 23,951,075	$ 25,988,705

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

OTHER BENEFIT PLANS

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

- Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of another participating employer.

- If a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers.

- If the Hospital chose to stop participating in the multi-employer plans, it would be required to pay those plans an amount based on the underfunded status of the plans, referred to as a withdrawal liability.

The following table presents the Hospital's participation in these plans as of and for the years ended September 30, 2015 and 2014.

Pension Trust Fund	Pension Plan Employer Identification Number	Pension Protection Act ("PPA") Certified Zone Status[1]		FIP / RP Status Pending / Implemented[2]	Contributions		Surcharge Imposed	Expiration Date of Collection Bargaining Agreement[3]
		2015	2014		2015	2014		
Connecticut Health Care Associates Pension Fund	06-1313462	Green	Green	N/A	$ 1,966,612	$ 2,074,142	No	September 30, 2017
New England Health Care Employees Pension Fund	22-3071963	Green	Green	N/A	647,943	688,949	No	February 29, 2016
				Total Contributions:	$ 2,614,555	$ 2,763,091		

1 The most recent PPA zone status available in 2015 and 2014 is for the plan's year-ending during 2014 and 2013, respectively. The zone status is based on information received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the orange zone are less than 80 percent funded and have an accumulated funding deficiency in the current year or projected in the next six years, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

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

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

During the years ended September 30, 2015 and 2014, the Hospital's contributions to the Connecticut Health Care Associates Pension Plan represented 98.7% and 98.6% of the total contributions made to the plan by all participating employers, respectively.

During the years ended September 30, 2015 and 2014, the Hospital's contributions to the New England Health Care Employees Pension Plan represented 2.8% of the total contributions made to the plan by all participating employers.

NOTE 9 - EMPLOYEE BENEFIT PLANS (CONTINUED)

OTHER BENEFIT PLANS (CONTINUED)

Governmental regulations impose certain requirements relative to union-sponsored pension plans. In the event of plan termination or employer withdrawal, an employer may be liable for a portion of the plan's unfunded vested benefits. The Hospital has explored the costs to withdraw from the Connecticut Health Care Associates (CHCA) Pension Plan in the event that the Hospital enters into a transaction. If the Hospital was to withdraw, it is expected that CHCA will likewise withdraw from the pension plan making a total withdrawal liability for the Hospital of approximately $27,700,000.

In addition, the Hospital has a supplemental employee retirement plan for certain executives. The plan provides for a total benefit and is partially funded. As of September 30, 2015 and 2014, liabilities of $424,337 and $330,148, respectively, have been reflected in the consolidated balance sheets.

As noted above, the Hospital also has a noncontributory defined benefit cash balance plan covering substantially all non-union employees age 21 and older with one year of service. Total pension expense, relating to this plan, charged to operations during the years ended September 30, 2015 and 2014 was $2,569,445 and $2,347,741, respectively.

NOTE 10 - SELF-INSURANCE CLAIMS

There have been medical malpractice and workers' compensation claims that fall within the Hospital's partially self-insured program which have been asserted against the Hospital. In addition, there are known incidents that have occurred through September 30, 2015 or 2014 that may result in the assertion of claims. Hospital management has accrued its best estimate of these contingent losses. Other claims may be asserted arising from services provided to patients or workers' compensation incidents in the past. Hospital management has provided reserves for these contingent liabilities.

NOTE 11 - CONTINGENCIES

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

NOTE 12 - DUE TO AFFILIATES

The amounts due to affiliates of $61,370 and $600,116 at September 30, 2015 and 2014, respectively, represent receivables from and (payables) to affiliates that do not eliminate in consolidation. These balances are comprised of the following:

	2015	2014
Greater Waterbury Health Network, Inc.	$ 18,858	$ (430,440)
Alliance Medical Group of Greater Waterbury, P.C.	(9,983)	(9,983)
Greater Waterbury Management Resources, Inc.	(71,745)	(162,693)
GI Co-Management Company	1,500	3,000
	$ (61,370)	$ (600,116)

NOTE 13 - FUNCTIONAL EXPENSES

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

	2015	2014
Health care services	$ 198,311,075	$ 194,695,917
General and administrative	62,925,062	67,341,789
Fundraising	326,914	377,435
	$ 261,563,051	$ 262,415,141

NOTE 14 - SUBSEQUENT EVENTS

The Hospital evaluates the impact of subsequent events, events that occur after the balance sheet date but before the financial statements are issued, for potential recognition in the financial statements as of the balance sheet date or for disclosure in the notes to the financial statements. The Hospital evaluated events occurring subsequent to September 30, 2015 through January 18, 2016, the date on which the accompanying consolidated financial statements were available to be issued. During this period, there were no subsequent events that required recognition in the consolidated financial statements.

INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

Board of Trustees
The Waterbury Hospital

We have audited the consolidated financial statements of The Waterbury Hospital as of and for the years ended September 30, 2015 and 2014, and our report thereon dated January 18, 2016, which contained an unmodified opinion on those consolidated financial statements, appears on pages 1-2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Marcum LLP

Hartford, CT
January 18, 2016

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2015

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

See independent auditors' report on other financial information.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2015

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

See independent auditors' report on other financial information.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

SEPTEMBER 30, 2014

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Assets								
Current Assets								
Cash and cash equivalents	$ 26,817,453	$ 1,246,774	$ 2,192,258	$ 421,661	$ 1,048,604	$ 183,181	$ --	$ 31,909,931
Restricted cash	675,000	--	--	--	--	--	--	675,000
Short-term investments	--	--	507,699	--	--	--	--	507,699
Patient accounts receivable, net	26,853,209	874,082	1,610,880	--	1,428,376	479,375	(452,278)	30,793,644
Grants and other receivables	3,603,082	--	--	338	92,192	172,024	(23,874)	3,843,762
Inventories of supplies	3,694,606	--	30,346	--	185,876	3,117	--	3,913,945
Prepaid insurance and other expenses	1,493,653	--	54,850	4,814	235,813	134,222	--	1,923,352
Total Current Assets	63,137,003	2,120,856	4,396,033	426,813	2,990,861	971,919	(476,152)	73,567,333
Other Assets								
Funds held in trust by others	46,117,761	--	--	--	--	--	--	46,117,761
Long-term investments	11,017,660	38,776	61,581	--	--	--	--	11,118,017
Board-designated endowment funds	3,315,500	--	--	--	--	--	--	3,315,500
Other receivables	77,952	--	--	--	--	--	--	77,952
Goodwill	200,500	--	--	--	--	1,613,067	--	1,813,567
CHEFA obligations issue expense, less amortization	243,686	--	--	--	--	--	--	243,686
Total Other Assets	60,973,059	38,776	61,581	--	--	1,613,067	--	62,686,483
Property, plant and equipment:								
Land	287,549	--	--	--	--	--	--	287,549
Buildings and improvements	89,842,088	1,150,645	557,686	1,670	2,634,456	121,621	--	94,308,166
Equipment	177,709,110	5,970,379	840,854	1,058,109	2,147,088	338,857	--	188,064,397
Less accumulated depreciation	(236,509,671)	(5,489,858)	(928,604)	(1,051,748)	(2,529,839)	(236,166)	--	(246,745,886)
Total Property, Plant and Equipment	31,329,076	1,631,166	469,936	8,031	2,251,705	224,312	--	35,914,226
Total Assets	$ 155,439,138	$ 3,790,798	$ 4,927,550	$ 434,844	$ 5,242,566	$ 2,809,298	$ (476,152)	$ 172,168,042

See independent auditors' report on other financial information.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET (CONTINUED)

SEPTEMBER 30, 2014

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Liabilities and Net Assets								
Current Liabilities								
Accounts payable and accrued expenses	$ 21,414,080	$ 523,448	$ 519,922	$ 12,854	$ 1,240,758	$ 87,858	$ (476,152)	$ 23,322,768
Salaries, wages, payroll taxes and amounts withheld from employees	7,138,794	--	215,139	--	1,051,000	1,436,967	--	9,841,900
Due to third-party reimbursement agencies	4,171,981	--	--	--	--	--	--	4,171,981
Current portion of CHEFA obligations	493,776	--	--	--	--	--	--	493,776
Current portion of notes payable and capital lease obligations	416,447	--	--	--	45,258	--	--	461,705
Due to (from) affiliates	2,916,986	--	--	(62,523)	(1,723,479)	(530,868)	--	600,116
Total Current Liabilities	36,552,064	523,448	735,061	(49,669)	613,537	993,957	(476,152)	38,892,246
Other Noncurrent Liabilities	25,163,807	--	--	--	191,170	--	--	25,354,977
CHEFA Obligations - less current portion	23,789,744	--	--	--	--	--	--	23,789,744
Notes Payable and Capital Lease Obligations - less current portion	404,144	--	--	--	34,840	--	--	438,984
Net Assets								
Unrestricted	11,890,055	2,091,104	2,725,118	411,836	4,403,019	1,815,341	--	23,336,473
Temporarily restricted	8,729,527	--	--	--	--	--	--	8,729,527
Permanently restricted	48,909,797	--	--	--	--	--	--	48,909,797
Total Net Assets Excluding Noncontrolling Interests	69,529,379	2,091,104	2,725,118	411,836	4,403,019	1,815,341	--	80,975,797
Noncontrolling Interests	--	1,176,246	1,467,371	72,677	--	--	--	2,716,294
Total Net Assets	69,529,379	3,267,350	4,192,489	484,513	4,403,019	1,815,341	--	83,692,091
Total Liabilities and Net Assets	$ 155,439,138	$ 3,790,798	$ 4,927,550	$ 434,844	$ 5,242,566	$ 2,809,298	$ (476,152)	$ 172,168,042

See independent auditors' report on other financial information.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2015

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

See independent auditors' report on other financial information.

THE WATERBURY HOSPITAL AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS

FOR THE YEAR ENDED SEPTEMBER 30, 2014

	The Waterbury Hospital	Greater Waterbury Imaging Center Limited Partnership	Access Rehab Centers, LLC	Imaging Partners, LLC	Alliance Medical Group, Inc.	Cardiology Associates of Greater Waterbury, LLC	Eliminations	Consolidated
Unrestricted Revenues								
Net patient service revenues	$ 212,319,638	$ 4,424,791	$ 11,147,032	$ --	$ 16,873,540	$ 6,530,662	$ (2,459,349)	$ 248,836,314
Provision for (bad debts) recoveries	(3,692,986)	14,875	(108,185)	1,691	(518,641)	(133,571)	--	(4,436,817)
Net patient service revenues less provision for bad debts	208,626,652	4,439,666	11,038,847	1,691	16,354,899	6,397,091	(2,459,349)	244,399,497
Other operating revenues	2,671,751	--	1,039	163,293	4,595,487	1,762,014	(4,996,755)	4,196,829
Net assets released from restrictions	5,542,491	--	--	--	--	--	--	5,542,491
	216,840,894	4,439,666	11,039,886	164,984	20,950,386	8,159,105	(7,456,104)	254,138,817
Operating Expenses								
Salaries	83,908,937	727,282	6,832,163	--	17,793,489	8,789,526	--	118,051,397
Employee benefits	23,614,397	60,000	1,345,857	--	3,210,651	1,148,898	--	29,379,803
Supplies and other	100,656,298	1,916,231	1,756,019	44,660	7,534,825	1,286,065	(7,456,104)	105,737,994
Depreciation	6,921,086	213,716	110,717	6,034	531,675	77,732	--	7,860,960
Interest and amortization	1,352,572	--	--	--	32,415	--	--	1,384,987
	216,453,290	2,917,229	10,044,756	50,694	29,103,055	11,302,221	(7,456,104)	262,415,141
Income (Loss) from Operations	387,604	1,522,437	995,130	114,290	(8,152,669)	(3,143,116)	--	(8,276,324)
Nonoperating Gains								
Unrestricted gifts and bequests	1,240,261	--	--	--	--	--	--	1,240,261
Investment income	1,819,310	--	21,378	--	--	--	--	1,840,688
	3,059,571	--	21,378	--	--	--	--	3,080,949
Excess (Deficiency) of Revenues Over Expenses Before Changes in Net Unrealized (Losses) Gains on Investments	3,447,175	1,522,437	1,016,508	114,290	(8,152,669)	(3,143,116)	--	(5,195,375)
Changes in Net Unrealized (Losses) Gains on Investments	76,602	--	16,225	--	--	--	--	92,827
Excess (Deficiency) of Revenues Over Expenses	3,523,777	1,522,437	1,032,733	114,290	(8,152,669)	(3,143,116)	--	(5,102,548)
Less Excess of Revenue over Expenses Attributable to Noncontrolling Interests	--	--	--	--	--	--	(926,677)	(926,677)
Excess (Deficiency) of Revenues Over Expenses Attributable to Controlling Interest	$ 3,523,777	$ 1,522,437	$ 1,032,733	$ 114,290	$ (8,152,669)	$ (3,143,116)	$ (926,677)	$ (6,029,225)

See independent auditors' report on other financial information.