

The Charlotte Hungerford Hospital

Independent Auditors' Report and
Financial Statements

As of and for the Years Ended
September 30, 2013 and 2012



Saslow Lufkin & Buggy, LLP
Certified Public Accountants and Consultants

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Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Balance Sheets	2
Statements of Operations and Changes in Net Assets	3
Statements of Cash Flows	5
Notes to the Financial Statements	6



Independent Auditors' Report

To the Board of Governors of
The Charlotte Hungerford Hospital:

We have audited the accompanying financial statements of The Charlotte Hungerford Hospital (the Hospital) a Connecticut not-for-profit, non-stock corporation, which comprise the balance sheets as of September 30, 2013 and 2012, and the related statements of operations and changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Charlotte Hungerford Hospital as of September 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Saslow Lufkin & Buggy, LLP

December 12, 2013

The Charlotte Hungerford Hospital
Balance Sheets
September 30, 2013 and 2012

	Assets	2013	2012
Current assets:			
Cash and cash equivalents		\$ 8,948,706	\$ 9,871,014
Accounts receivable (less allowance for doubtful accounts of \$2,490,521 in 2013 and \$2,077,997 in 2012)		13,504,471	13,441,101
Inventories		2,092,246	2,025,113
Estimated amounts due from third-party reimbursement agencies		840,007	971,585
Other current assets		2,724,846	1,717,026
Total current assets		<u>28,110,276</u>	<u>28,025,839</u>
Assets whose use is limited:			
Investments held in trust for estimated self-insurance liabilities		4,175,772	4,248,076
Investments under bond indenture agreement - held by others		-	400,278
Donor restricted assets		7,067,123	6,989,321
Beneficial interest in assets held in trust by others		16,349,307	13,868,151
Total assets whose use is limited		<u>27,592,202</u>	<u>25,505,826</u>
Long-term investments		38,742,293	33,807,880
Property, plant and equipment:			
Land		155,467	155,467
Land improvements		5,780,697	4,800,017
Buildings		79,680,340	78,733,907
Fixed equipment		17,276,242	16,771,147
Moveable equipment		45,639,769	43,066,932
		<u>148,532,515</u>	<u>143,527,470</u>
Less: accumulated depreciation		<u>(112,631,179)</u>	<u>(106,694,984)</u>
		35,901,336	36,832,486
Construction in progress		968,443	1,020,301
Total property, plant and equipment		<u>36,869,779</u>	<u>37,852,787</u>
Other assets		<u>1,135,267</u>	<u>1,334,720</u>
Total assets		<u><u>\$ 132,449,817</u></u>	<u><u>\$ 126,527,052</u></u>
	Liabilities and Net Assets		
Current liabilities:			
Current portion of bonds payable		\$ -	\$ 1,200,000
Current portion of loans payable		3,219,468	198,100
Accounts payable		7,289,342	5,029,676
Estimated amounts due to third-party reimbursement agencies		2,468,522	1,917,192
Accrued salaries, wages and fees		4,177,672	4,027,215
Other current liabilities		4,078,798	7,726,163
Total current liabilities		<u>21,233,802</u>	<u>20,098,346</u>
Loans payable, less current portion		-	3,223,366
Estimated self-insurance liabilities		3,527,218	3,125,672
Accrued pension liability, less current portion		23,133,018	38,287,989
Total liabilities		<u>47,894,038</u>	<u>64,735,373</u>
Net assets:			
Unrestricted (\$36,744,347 in 2013 and \$32,307,573 in 2012 designated by the Board of Governors)		61,139,349	40,934,207
Temporarily restricted		3,314,742	3,236,940
Permanently restricted		20,101,688	17,620,532
Total net assets		<u>84,555,779</u>	<u>61,791,679</u>
Total liabilities and net assets		<u><u>\$ 132,449,817</u></u>	<u><u>\$ 126,527,052</u></u>

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

The Charlotte Hungerford Hospital
Statements of Operations and Changes in Net Assets
For the Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted revenues		
Net patient service revenues	\$ 120,055,608	\$ 116,313,832
Provision for bad debts	<u>(3,378,061)</u>	<u>(3,125,364)</u>
Net patient service revenues less provision for bad debts	116,677,547	113,188,468
Other revenues	<u>8,250,546</u>	<u>5,735,128</u>
Total revenues	124,928,093	118,923,596
Expenses		
Salaries and wages	59,350,363	56,036,921
Physician fees	4,669,548	3,306,463
Employee benefits	16,209,801	16,546,435
Services	16,440,138	15,744,038
Supplies	17,328,278	16,888,965
Repairs and maintenance	2,475,386	1,891,280
Depreciation and amortization	6,050,075	6,060,455
Interest and bond expenses	250,825	264,153
Insurance	<u>2,125,573</u>	<u>2,018,607</u>
Total expenses	<u>124,899,987</u>	<u>118,757,317</u>
Operating income	28,106	166,279
Other income		
Investment and other income, net	2,298,212	2,102,513
Gifts and bequests	273,527	27,952
Gain from equity method investments	<u>93,073</u>	<u>118,880</u>
Total other income	<u>2,664,812</u>	<u>2,249,345</u>
Excess of revenues over expenses	<u><u>\$ 2,692,918</u></u>	<u><u>\$ 2,415,624</u></u>

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

The Charlotte Hungerford Hospital
Statements of Operations and Changes in Net Assets (continued)
For the Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted net assets		
Excess of revenues over expenses	\$ 2,692,918	\$ 2,415,624
Change in unrealized gains on investments	3,057,435	4,272,594
Pension related changes other than net periodic pension costs	<u>14,454,789</u>	<u>(12,816,176)</u>
Change in unrestricted net assets	20,205,142	(6,127,958)
Temporarily restricted net assets		
Investment income	65,246	54,565
Contributions	151,523	239,485
Change in unrealized gains on investments	215,939	240,388
Net assets released from restrictions	<u>(354,906)</u>	<u>(108,153)</u>
Change in temporarily restricted net assets	77,802	426,285
Permanently restricted net assets		
Change in beneficial interest in assets held in trust by others	<u>2,481,156</u>	<u>1,507,502</u>
Change in permanently restricted net assets	<u>2,481,156</u>	<u>1,507,502</u>
Change in net assets	22,764,100	(4,194,171)
Net assets, beginning of year	<u>61,791,679</u>	<u>65,985,850</u>
Net assets, end of year	<u><u>\$ 84,555,779</u></u>	<u><u>\$ 61,791,679</u></u>

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

The Charlotte Hungerford Hospital
Statements of Cash Flows
For the Years Ended September 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets	\$ 22,764,100	\$ (4,194,171)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	6,050,075	6,060,455
Net realized gains on investments	(846,137)	(754,615)
Net unrealized gains on investments	(3,273,374)	(4,512,982)
Increase in beneficial interest in assets held in trust by others	(2,481,156)	(1,507,502)
Provision for bad debts, net	3,378,061	3,125,364
Changes in:		
Accounts receivable	(3,441,431)	(5,421,925)
Inventories	(67,133)	(31,001)
Estimated amounts due from third-party reimbursement agencies	131,578	544,602
Other current assets	(1,007,820)	643,838
Other assets, net	125,280	273,428
Accounts payable	2,259,666	(480,133)
Estimated amounts due to third-party reimbursement agencies	551,330	223,374
Accrued salaries, wages and fees	150,457	593,943
Other current liabilities	(3,647,365)	542,594
Estimated self-insurance liabilities	401,546	493,979
Accrued pension liability	(15,154,971)	11,865,018
Net cash provided by operating activities	5,892,706	7,464,266
Cash flows from investing activities		
Proceeds from sales of investments	5,159,460	3,294,904
Purchases of investments	(5,579,582)	(4,132,077)
Purchases of property, plant and equipment, net	(4,992,894)	(3,867,593)
Net cash used in investing activities	(5,413,016)	(4,704,766)
Cash flows from financing activities		
Principal payments on Series C bonds	(1,200,000)	(1,155,000)
Payments on KDA long-term debt	(201,998)	(189,062)
Net cash used in financing activities	(1,401,998)	(1,344,062)
Net change in cash and cash equivalents	(922,308)	1,415,438
Cash and cash equivalents, beginning of year	9,871,014	8,455,576
Cash and cash equivalents, end of year	<u>\$ 8,948,706</u>	<u>\$ 9,871,014</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 212,885</u>	<u>\$ 229,453</u>

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

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 1 - General

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

Note 2 - Summary of Significant Accounting Policies

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

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

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

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

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

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

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

Recognition of Grant Revenue - Grants are generally considered to be exchange transactions in which the grantor requires the performance of specified activities. Entitlement to cost reimbursement grants is conditioned on the expenditure of funds in accordance with grant restrictions and, therefore, revenue is recognized to the extent of grant expenditures. Entitlement to performance based grants is conditioned on the attainment of specific performance goals and, therefore, revenue is recognized to the extent of performance achieved. The Hospital recognized \$2,419,582 and \$2,556,139 of grant revenue, included in other revenues, for the years ended September 30, 2013 and 2012, respectively. Grant receipts in excess of revenues recognized are presented as deferred grant support. Deferred grant support of \$220,312 and \$178,453 is included in other current liabilities in the accompanying balance sheets as of September 30, 2013 and 2012, respectively.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

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

Money market funds are not insured by the FDIC and are not a risk-free investment. Money market funds invest in a variety of instruments including mortgage-backed and asset-backed securities. Although a money market fund seeks to preserve its one dollar per share value, it is possible that a money market fund's value can decrease below one dollar per share.

Inventories - Inventories, used in general operations of the Hospital, are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

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

All of the Hospital's investments, as of September 30, 2013 and 2012, were classified as available for sale. Available for sale securities may be sold prior to maturity and are carried at fair value.

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

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

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

Other Than Temporary Impairments on Investments - The Hospital accounts for other than temporary impairments in accordance with certain provisions of FASB ASC 320 "*Investments - Debt and Equity Securities*" and continually reviews its securities for impairment conditions, which could indicate that an other than temporary decline in market value has occurred. In conducting this review, numerous factors are considered, which include specific information pertaining to an individual company or a particular industry, general market conditions that reflect prospects for the economy as a whole, and the ability and intent to hold securities until recovery. The carrying value of investments is reduced to its estimated realizable value if a decline in fair value is considered to be other than temporary. There were no impairments recorded in 2013 or 2012.

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

The Hospital accounts for uncertain tax positions with provisions of FASB ASC 740, "*Income Taxes*" which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Hospital does not have any uncertain tax positions as of September 30, 2013 or 2012. As of September 30, 2013 or 2012, the Hospital did not record any penalties or interest associated with uncertain tax positions. The Hospital's prior three tax years are open and subject to examination.

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

Depreciation expense was \$5,975,902 and \$5,991,225 for the years ended September 30, 2013 and 2012, respectively.

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

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

The Hospital has recorded its share of AMI's net income of \$514,988 and \$559,857 within other revenues as of September 30, 2013 and 2012, respectively, as these services are a component of the Hospital operations. In addition, the 62.5% investment in Urology is presented under the equity method of accounting as it is immaterial to present in a consolidated presentation.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

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

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

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

Accounting Pronouncements Adopted - In May 2011, FASB issued Accounting Standards Update (ASU) 2011-04, "*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS*," which amends ASC 820, "*Fair Value Measurements and Disclosures*." ASU 2011-04 amends the fair value disclosure requirements regarding transfers between Level 1 and Level 2 of the fair value hierarchy and the categorization by level of the fair value hierarchy for items that are not measured at fair value in the financial statements, but for which the fair value is required to be disclosed. This guidance became effective for the Hospital beginning on October 1, 2012. The adoption of this guidance had no impact on the Hospital's financial statements.

In July 2011, the FASB issued ASU 2011-07, "*Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision of Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*." This guidance establishes accounting and disclosure requirements for health care entities that recognize significant amounts of patient service revenues at the time services are rendered even though the entity does not assess a patient's ability to pay. Specifically, the guidance requires that health care entities present bad debt expense associated with net patient service revenues as an offset to net patient service revenues within the statements of operations and changes in net assets. Additionally, the guidance requires enhanced disclosure of the policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The guidance requires retrospective application to all prior periods presented. This guidance became effective for the Hospital beginning on October 1, 2012. The adoption of this guidance had no impact on the Hospital's operating income in the statements of operations and changes in net assets, but resulted in additional disclosures in Note 3. All periods included have been presented in accordance with the provisions of ASU 2011-07.

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

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 2 - Summary of Significant Accounting Policies (continued)

In October 2012, the FASB issued ASU 2012-05, "*Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows.*" This guidance provides clarification on how entities classify cash receipts arising from the sale of certain donated financial assets in the statement of cash flows. This guidance is effective for the Hospital beginning October 1, 2013, with early adoption permitted. The Hospital does not expect this guidance to have a material impact on its statements of cash flows.

In January 2013, the FASB issued ASU 2013-01, "*Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities.*" This guidance provides clarification on the scope of the offsetting disclosure requirements in ASU 2011-11. This guidance is effective for the Hospital beginning October 1, 2013, with early adoption permitted. The Hospital does not expect this guidance to have a material impact on its balance sheets.

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

Reclassifications - Certain reclassifications to the 2012 financial statements have been made in order to conform to the 2013 presentation. Such reclassifications did not have a material effect on the financial statements.

Subsequent Events - Subsequent events have been evaluated through December 12, 2013, the date through which procedures were performed to prepare the financial statements for issuance. Management believes there are no subsequent events having a material impact on the financial statements other than the repayment of the debt discussed in Note 10.

Note 3 - Revenues from Services to Patients and Charity Care

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

	<u>2013</u>	<u>2012</u>
Gross revenues from services to patients	\$ 256,724,054	\$ 235,302,435
Deductions and allowances	<u>(136,668,446)</u>	<u>(118,988,603)</u>
Net revenues from services to patients	<u>\$ 120,055,608</u>	<u>\$ 116,313,832</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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

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

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

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

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

For uninsured patients that do not qualify for financial assistance, the Hospital offers a discount off its standard rates for services provided. The difference between the discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts in the period they are determined uncollectible. The Hospital's allowance for doubtful accounts covers all accounts greater than six months for both self-pay accounts receivable and third party payors as of September 30, 2013 and 2012. The Hospital's self-pay and third-party payors write-offs totaled \$4,404,175 and \$3,776,434 for 2013 and 2012, respectively. The Hospital did not change its charity care or financial assistance policy during 2013 or 2012.

At September 30, 2013 and 2012, 51% and 50% of net patient accounts receivable were from governmental payors (Medicare and Medicaid) and 49% and 50% were from nongovernmental payors, respectively. Nongovernmental payors are primarily insurance companies and self-pay payors. Management has recorded an allowance for doubtful accounts, as noted above, which, in its opinion, is sufficient to provide for risk of nonpayment.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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

Charity Care - It is an inherent part of the Hospital's mission to provide necessary medical care free of charge, or at a discount, to individuals without insurance or other means of paying for such care. As the amounts determined to qualify for charity care are not pursued for collection, they are not reported as net patient service revenue. Patients who would otherwise qualify for charity care but who do not provide adequate information would be characterized as bad debt and included in the provision for bad debts. The amount of traditional charity care provided, determined on the basis of cost, was \$1,616,162 and \$912,385 for the years ended September 30, 2013 and 2012, respectively. The Hospital released assets whose use was restricted to fund free-care of \$21,527 and \$24,896, for the years ending September 30, 2013 and 2012, respectively.

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

Note 4 - Investments

Cost and fair values of investments, as of September 30, 2013 and 2012, are summarized as follows:

	2013		2012	
	Cost	Fair Value	Cost	Fair Value
Long-term investments:				
(including Board and donor restricted)				
Money market funds	\$ 3,301,456	\$ 3,393,665	\$ 3,537,269	\$ 3,537,269
Certificates of deposit	1,195,251	1,203,833	880,211	887,457
Equity securities	19,493,683	28,487,679	18,966,510	24,807,803
Corporate bonds	3,824,473	3,947,089	3,999,144	4,263,382
Municipal bonds	263,318	278,958	261,302	287,065
Mutual and exchange traded funds	8,207,753	8,280,414	6,661,740	6,432,588
U.S. treasury and government agencies	211,601	217,778	564,133	581,637
Total	<u>\$ 36,497,535</u>	<u>\$ 45,809,416</u>	<u>\$ 34,870,309</u>	<u>\$ 40,797,201</u>
Investments held in trust for estimated self-insurance liabilities:				
Money market funds	\$ 1,541,616	\$ 1,541,616	\$ 1,852,555	\$ 1,852,555
Mutual funds	2,588,339	2,634,156	2,237,883	2,395,521
Total	<u>\$ 4,129,955</u>	<u>\$ 4,175,772</u>	<u>\$ 4,090,438</u>	<u>\$ 4,248,076</u>
Under bond indenture agreement - held by others:				
Money market funds	\$ -	\$ -	\$ 100,552	\$ 100,552
U.S. treasury and government agencies	-	-	299,932	299,726
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 400,484</u>	<u>\$ 400,278</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 4 - Investments (continued)

Beneficial interest in assets held in trust of \$16,349,307 and \$13,868,151, as of September 30, 2013 and 2012, respectively, are held by bank trustees and are not under the Hospital's investment control. These assets are invested within diversified portfolios.

The following table shows fair values and gross unrealized losses for all investment categories that are in an unrealized loss position as of September 30, 2013 and 2012, and the length of time that the securities have been in an unrealized loss position as of September 30, 2013 and 2012:

	Less than 12 months		12 months and greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2013						
Equity securities	\$ 1,043,346	\$ (86,294)	\$ 1,721,995	\$ (408,863)	\$ 2,765,341	\$ (495,157)
Certificates of deposit	168,136	(1,904)	-	-	168,136	(1,904)
Corporate bonds	5,801,411	(146,127)	99,718	(282)	5,901,129	(146,409)
Mutual and exchange traded funds	1,025,772	(31,872)	240,033	(9,186)	1,265,805	(41,058)
Total	\$ 8,038,665	\$ (266,197)	\$ 2,061,746	\$ (418,331)	\$ 10,100,411	\$ (684,528)
2012						
Equity securities	\$ 2,770,513	\$ (181,013)	\$ 2,354,118	\$ (725,686)	\$ 5,124,631	\$ (906,699)
Certificates of deposit	199,454	(586)	-	-	199,454	(586)
Corporate bonds	184,398	(1,485)	289,110	(16,169)	473,508	(17,654)
Mutual and exchange traded funds	67,695	(2,165)	266,395	(22,953)	334,090	(25,118)
Total	\$ 3,222,060	\$ (185,249)	\$ 2,909,623	\$ (764,808)	\$ 6,131,683	\$ (950,057)

The unrealized losses for securities in a position of loss for less than 12 months relate to 91 and 69 individual holdings of debt and equity securities as of September 30, 2013 and 2012, respectively. The unrealized losses for securities in a position of loss for 12 months and greater relate to 15 and 35 individual holdings of debt and equity securities as of September 30, 2013 and 2012, respectively. These unrealized losses were determined not to be other than temporary impaired based on the guidance provided in FASB ASC 320 and consultation with various investment advisors.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 4 - Investments (continued)

Investment and other income net, which is unrestricted, is comprised of the following for the years ended September 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Income, gains and (expenses):		
Interest and dividend income	\$ 1,668,931	\$ 1,547,027
Net realized gains on securities	846,137	754,615
Expenses	<u>(216,856)</u>	<u>(199,129)</u>
Total	<u>\$ 2,298,212</u>	<u>\$ 2,102,513</u>

Note 5 - Fair Value Measurements

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

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

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

Level 2 - Inputs to the valuation methodology include:

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

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

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

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

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 5 - Fair Value Measurements (continued)

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

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

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 5 - Fair Value Measurements (continued)

The following table presents the financial instruments, carried at fair value as of September 30, 2012, by the valuation hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 9,871,014	\$ -	\$ -	\$ 9,871,014
Money market funds	3,537,269	-	-	3,537,269
Certificates of deposit	887,457	-	-	887,457
Equity securities:				
Industrials	5,987,338	-	-	5,987,338
Consumer staples	2,351,383	-	-	2,351,383
Consumer discretionary	2,232,155	-	-	2,232,155
Health care	3,182,150	-	-	3,182,150
Energy	2,855,303	-	-	2,855,303
Financials	2,268,479	-	-	2,268,479
Technology	5,072,830	-	-	5,072,830
Utilities	214,714	-	-	214,714
Real estate	643,451	-	-	643,451
Corporate bonds	-	4,263,382	-	4,263,382
Municipal bonds	-	287,065	-	287,065
Mutual and				
exchange traded funds:				
Materials	216,995	-	-	216,995
Index funds	1,151,849	-	-	1,151,849
Industry funds	141,863	-	-	141,863
International	2,197,038	-	-	2,197,038
U.S. large cap	82,130	-	-	82,130
U.S. mid and small cap	46,782	-	-	46,782
Fixed income	2,595,931	-	-	2,595,931
U.S. treasury and				
government agencies	-	581,637	-	581,637
Funds held under				
bond indenture	-	400,278	-	400,278
Self-insurance trust	-	4,248,076	-	4,248,076
Funds held in trust by others	-	-	13,868,151	13,868,151
Total	<u>\$ 45,536,131</u>	<u>\$ 9,780,438</u>	<u>\$ 13,868,151</u>	<u>\$ 69,184,720</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 5 - Fair Value Measurements (continued)

A rollforward as of September 30, 2013 and 2012, of the amounts classified as Level 3 investments, within the fair value hierarchy is as follows:

Balance as of October 1, 2011	\$ 12,360,649
Interest and dividends	349,019
Transfers out	(482,214)
Net realized gains	71,276
Fees	(70,066)
Net unrealized gains	<u>1,639,487</u>
Balance as of September 30, 2012	13,868,151
Interest and dividends	350,320
Transfers out	(496,298)
Withdrawals	(9,073)
Net realized gains	636,976
Fees	(90,172)
Net unrealized gains	<u>2,089,403</u>
Balance as of September 30, 2013	<u><u>\$ 16,349,307</u></u>

There were no transfers between fair value hierarchy Level 1, Level 2 and Level 3 for any invested assets recorded at fair value during 2013 and 2012. The valuation techniques used by the Hospital maximize the use of observable inputs and minimize the use of unobservable inputs.

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

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

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

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

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

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

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 5 - Fair Value Measurements (continued)

As of September 30, 2013 and 2012, the Hospital's other financial instruments include cash and cash equivalents, accounts payable, accrued expenses, estimated settlements due to and from third-party payors and long-term debt. The carrying amounts reported in the balance sheets for these financial instruments approximate their fair value.

Note 6 - Endowment and Other Restricted Assets

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

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

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

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

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

The net asset composition of the Hospital's endowment and other restricted assets as of September 30, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board restricted	\$ 32,307,573	\$ -	\$ -	\$ 32,307,573
Beneficial trusts	-	-	13,868,151	13,868,151
Donor restricted	-	3,236,940	3,752,381	6,989,321
Total	<u>\$ 32,307,573</u>	<u>\$ 3,236,940</u>	<u>\$ 17,620,532</u>	<u>\$ 53,165,045</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 6 - Endowment and Other Restricted Assets (continued)

Changes in endowment and other restricted assets for the year ended September 30, 2013 and 2012, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance, October 1, 2011	\$ 28,006,131	\$ 2,810,655	\$ 16,113,030	\$ 46,929,816
Investment return:				
Investment gains	459,347	54,565	-	513,912
Net change in market value	3,842,095	240,388	1,507,502	5,589,985
Contributions	-	239,485	-	239,485
Assets released from restrictions	-	(108,153)	-	(108,153)
Balance, September 30, 2012	32,307,573	3,236,940	17,620,532	53,165,045
Investment return:				
Investment gains	1,466,219	65,246	-	1,531,465
Net change in market value	2,970,555	123,730	2,481,156	5,575,441
Contributions	-	243,732	-	243,732
Assets released from restrictions	-	(354,906)	-	(354,906)
Balance, September 30, 2013	<u>\$ 36,744,347</u>	<u>\$ 3,314,742</u>	<u>\$ 20,101,688</u>	<u>\$ 60,160,777</u>

The expenditures that were released for operations of \$354,906 and \$108,153 for the years ended September 30, 2013 and 2012, respectively, are included within investment and other income, net within the statements of operations and changes in net assets.

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

	<u>2013</u>	<u>2012</u>
Healthcare related services	\$ 458,697	\$ 366,488
Facility improvement	942,104	1,051,865
Purchases of equipment	513,000	513,000
Clinical educator	1,400,941	1,305,587
Total	<u>\$ 3,314,742</u>	<u>\$ 3,236,940</u>

Endowment and other funds permanently restricted as of September 30, 2013 and 2012, consist of the following:

	<u>2013</u>	<u>2012</u>
Beneficial trusts	\$ 16,349,307	\$ 13,868,151
Held in perpetuity, income restricted for operations	3,752,381	3,752,381
Total	<u>\$ 20,101,688</u>	<u>\$ 17,620,532</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 6 - Endowment Other Restricted Assets (continued)

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or relevant law requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2013 and 2012, there were no funds that were below the level required by donor or law.

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

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

Spending Policy - During its annual budgeting process, the Hospital appropriates donor restricted endowment funds for expenditure in accordance with donor purpose and time restrictions. The Hospital has not appropriated funds for expenditure from its board restricted endowment funds for the years ending September 30, 2013 and 2012. The Hospital has appropriated \$354,906 and \$108,153 from its temporary restricted funds for the years ended September 30, 2013 and 2012, respectively. The Board restricted endowment funds are being held for long-term growth and to maintain capital reserves for the Hospital.

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

The Hospital's insurance limits are as follows:

Policy Year	Deductible Amounts Per Claim/ Aggregate	Excess Coverage Limits	Type of Coverage
Fiscal 1982-1984	\$100,00/500,000	\$ 10,000,000	Occurrence
Fiscal 1985	\$250,000/750,000	\$ 15,000,000	Occurrence
Fiscal 1986	\$500,000/1,500,000	\$ 15,000,000	Occurrence
Fiscal 1987-1988	\$1,000,000/3,000,000	\$ 20,000,000	Claims-made
Fiscal 1989-1990	\$1,000,000/3,000,000	\$ 25,000,000	Claims-made
Fiscal 1991-2002	\$1,000,000/3,000,000	\$ 30,000,000	Claims-made
Fiscal 2003-2013	\$1,000,000/3,000,000	\$ 20,000,000	Claims-made

The Hospital self-insures the deductible amounts of the above coverages and all excess limits are covered by insurance policies purchased from commercial carriers.

Professional and general liability claims that fall within the Hospital's self-insurance levels have been asserted against the Hospital by various claimants. The claims are in various stages of activity and resolution. There are also known incidents that have occurred through September 30, 2013, that may result in the assertion of additional claims. Other claims may be asserted arising from services provided to patients or for other matters, for which no estimate of exposure can be determined at this time. The Hospital utilizes an independent actuary to estimate its self-insurance liability that reflects management's accrual of its best estimate of these self-insured losses under the policies described above, for occurrences through September 30, 2013.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

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

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

The Hospital self-insures for workers' compensation. Estimated self-insurance liabilities include estimates for claim obligations related to professional liability, general liability and workers' compensation claims. As of September 30, 2013 and 2012, the Hospital maintains a commercial policy for its employees medical coverage. In fiscal year 2013 and 2012, management discounted accrued medical malpractice and workers compensation losses at 3.00% and it is management's opinion that this provides for adequate loss contingencies.

Note 8 - Leases

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

The following is a schedule of future minimum lease payments under non-cancellable operating leases and building rentals as of September 30, 2013:

	Operating Leases	Building Rentals
For the year ended September 30:		
2014	\$ 1,170,255	\$ 1,179,931
2015	504,445	403,383
2016	242,590	136,993
2017	-	101,960
2018	-	89,798
Thereafter	-	12,936
	<u>\$ 1,917,290</u>	<u>\$ 1,925,001</u>
Total minimum lease payments		

Rental expense was \$2,388,607 and \$2,281,477 for the years ended September 30, 2013 and 2012, respectively.

Note 9 - Pension Plan

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

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 9 - Pension Plan (continued)

The Hospital's funding policy for the Plan is to contribute each year the amount as required by the Employee Retirement Income Security Act of 1974, as determined by actuarial valuations developed by the Plan's actuary. Such funding requirements have been met for fiscal years 2013 and 2012.

Significant disclosures relating to the Plan as of September 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 111,220,926	\$ 85,626,857
Service cost	904,041	2,947,753
Interest cost	4,809,432	5,008,917
Amendments	5,057,000	-
Actuarial (gain) loss	(8,057,007)	20,560,209
Benefits paid	(3,448,374)	(2,922,810)
Curtailments, settlements, and special termination benefits	<u>(7,204,448)</u>	<u>-</u>
Benefit obligations at end of year	<u>\$ 103,281,570</u>	<u>\$ 111,220,926</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 65,523,118	\$ 52,240,610
Actual return on plan assets	7,561,984	9,795,008
Employer contributions	7,684,638	6,963,276
Expenses paid	(772,814)	(552,966)
Benefits paid	<u>(3,448,374)</u>	<u>(2,922,810)</u>
Fair value of plan assets at end of year	<u>\$ 76,548,552</u>	<u>\$ 65,523,118</u>
Accrued pension liability:		
Unfunded status and accrued pension liability (\$3,600,000 and \$7,409,819 is included in other current liabilities for 2013 and 2012, respectively)	<u>\$ (26,733,018)</u>	<u>\$ (45,697,808)</u>
Components of net periodic benefit cost:		
Service cost	\$ 1,304,041	\$ 3,347,753
Interest cost	4,809,432	5,008,917
Expected return on plan assets	(4,895,629)	(4,519,272)
Net amortization and deferral	175,691	4,400
Recognized net loss	<u>1,781,102</u>	<u>2,616,863</u>
Net periodic benefit cost	<u>\$ 3,174,637</u>	<u>\$ 6,458,661</u>

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 9 - Pension Plan (continued)

The accumulated benefit obligation at September 30, 2013 and 2012, under the Hospital's Plan was \$103,281,570 and \$102,908,287, respectively.

The Hospital expects to contribute \$3,600,000 to its pension plan for the fiscal year beginning October 1, 2013.

Weighted-average assumptions used to determine benefit obligations:	2013	2012
Discount rate	5.10%	4.40%
Rate of compensation increase	N/A	2.00%
 Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	4.40%	5.95%
Rate of compensation increase	2.00%	3.00%
Expected long-term return on plan assets	7.50%	8.00%

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

	2013	2012
Unamortized prior service costs	\$ 4,883,993	\$ 4,776
Unamortized actuarial loss	26,721,442	46,055,448
Total	\$ 31,605,435	\$ 46,060,224

The amortization of the above items expected to be recognized in net periodic benefit costs for the year ended September 30, 2014 is \$876,680.

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

The Hospital's target and actual pension plan weighted average asset allocations at September 30, 2013 by asset category was as follows:

Asset Category	Target Allocations	Actual Allocations
Equity securities	62%	65%
Debt securities	31%	28%
Short-term investments and other	7%	7%
Total	100%	100%

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 9 - Pension Plan (continued)

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

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

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

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 9 - Pension Plan (continued)

The fair values of the Hospital's pension plan assets by asset category, are as follows, as of September 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. treasury and government agencies	\$ -	\$ 741,335	\$ -	\$ 741,335
Municipal bonds	-	270,947	-	270,947
Common collective trusts	-	5,440,720	-	5,440,720
Corporate and foreign bonds	-	7,466,747	-	7,466,747
Asset-backed and mortgage-backed securities	-	952,542	-	952,542
Equity securities:				
Consumer discretionary	2,984,273	-	-	2,984,273
Consumer staples	3,160,372	-	-	3,160,372
Energy	3,270,630	-	-	3,270,630
Financials	2,688,364	-	-	2,688,364
Health care	3,719,168	-	-	3,719,168
Industrials	3,507,891	-	-	3,507,891
Information technology	5,165,029	-	-	5,165,029
Other	1,920,384	-	-	1,920,384
Exchange traded funds	11,890,085	-	-	11,890,085
Mutual funds	3,392,154	-	-	3,392,154
Certificates of deposit	2,285,578	-	-	2,285,578
Money market funds	6,449,664	-	-	6,449,664
Other	-	217,235	-	217,235
Total	<u>\$ 50,433,592</u>	<u>\$ 15,089,526</u>	<u>\$ -</u>	<u>\$ 65,523,118</u>

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

2014	\$ 3,871,687
2015	\$ 4,241,694
2016	\$ 4,510,569
2017	\$ 4,792,388
2018	\$ 5,142,876
Years 2019-2023	\$ 30,296,170

The Hospital also has established a 403(b) plan covering all full-time and part-time employees of the Hospital. Participants may elect to contribute a specific percentage of their compensation in pre-tax deferrals subject to established Internal Revenue Code limitations. For the years ending September 30, 2013 and 2012, the Hospital contributed \$650,192 and \$308,256, respectively, to the 403(b) plan.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 10 - Long-Term Debt

As of September 30, 2013 and 2012, the Hospital's long-term debt consists of:

	<u>2013</u>	<u>2012</u>
The Charlotte Hungerford Hospital:		
Series C variable rate revenue bonds (a)	\$ -	\$ 1,200,000
	-	1,200,000
Kennedy Drive Mortgages:		
Mortgage (b)	1,418,924	1,518,218
Construction loan (b)	1,800,544	1,903,248
	3,219,468	4,621,466
Less: current portion	(3,219,468)	(1,398,100)
Total	\$ -	\$ 3,223,366

- (a) In August 1998, the Hospital, in conjunction with the State of Connecticut Health and Educational Facilities Authority (the Authority), issued \$14,340,000 of Charlotte Hungerford Hospital Series C variable rate demand revenue bonds (the Bonds). The Series C bonds bore interest at a variable rate as determined by a re-marketing agent (approximately 0.23% as of September 30, 2012), which is adjusted weekly. The Bonds matured and were paid in full on July 1, 2013.

For as long as the Bonds were in a variable rate mode, the bond holders had the option to tender their bonds for repayment. The Hospital had a letter of credit from Sovereign Bank, which was available to support its obligations under the Bonds during this period. Tenders made by bond holders would be remarketed or, if necessary, paid by the drawdowns on the letter of credit. Any tender drawings made under the letter of credit would be repaid by the Hospital on the expiration date of the letter of credit. The letter of credit, which was subject to extension or earlier termination upon the occurrence of certain events set forth in the letter of credit agreement, expired on July 13, 2013, in connection with final repayment of the remaining outstanding debt. There were no drawdowns on the letter of credit during the year ended September 30, 2012.

Various funds were established and maintained by the Trustee for debt service which were utilized during final repayment of the Bonds in 2013. The bond indenture, letter of credit and related agreements contained certain restrictive covenants, the most restrictive of which were the limitation of additional indebtedness the Hospital may incur and the maintenance of certain financial ratios. As of September 30 2012, the Hospital was in compliance with its debt covenants.

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 10 - Long-Term Debt (continued)

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

On October 2003, KDA refinanced the outstanding construction loan into a mortgage loan for \$2,210,000. The amount outstanding on the refinanced debt is \$1,418,924 and \$1,518,218 as of September 30, 2013 and 2012, respectively. This loan bears interest at a fixed rate of 6.01%. The loan matures on October 29, 2013 and is secured by the Hospital's assets. With the dissolution of KDA in 2006, the Hospital assumed this loan.

KDA also obtained a construction loan in the amount of \$2,080,000 during the year ended September 30, 2004. During 2005, KDA made additional drawdowns on the construction loan in the amount of \$1,750,000. The amount outstanding on the debt is \$1,800,544 and \$1,903,248, as of September 30, 2013 and 2012, respectively. This loan bears interest at a fixed rate of 6.44% as of September 30, 2013 and 2012. The loan matures on October 29, 2013 and is secured by the Hospital's assets. With the dissolution of KDA in 2006, the Hospital assumed this loan.

- (c) The Hospital has a \$3,000,000 operating line of credit agreement with Sovereign Bank, which bears interest at a rate of 4% as of September 30, 2013 and 2012. There were no outstanding borrowings against the line of credit as of September 30, 2013 and 2012.

The debt agreements discussed above have certain financial covenants. As of September 30, 2013 and 2012, the Hospital was in compliance with those financial covenants. As of September 30, 2013, all outstanding debt is current.

Subsequent to year end, the Hospital paid off both KDA loans in the amount of \$1,418,924 and \$1,800,544.

Note 11 - Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2013 and 2012, are as follows:

	<u>2013</u>	<u>2012</u>
Patient care services	\$ 109,270,791	\$ 103,955,411
General and administrative	<u>15,629,196</u>	<u>14,801,906</u>
Total	<u><u>\$ 124,899,987</u></u>	<u><u>\$ 118,757,317</u></u>

Note 12 - Commitments and Contingencies

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

The Charlotte Hungerford Hospital
Notes to the Financial Statements
As of and for the Years Ended September 30, 2013 and 2012

Note 12 - Commitments and Contingencies (continued)

FASB ASC 410 "*Asset Retirement and Environmental Obligations*" addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as asbestos-containing facilities, when the amount of the liability can be reasonably estimated. Management currently believes that two facilities under their control could require a fair market value assessment of their Asset Retirement Obligation (ARO). As of September 30, 2013 and 2012, no ARO has been established, as no plans to renovate or sell any facility, or area within, with significant asbestos material have been identified and therefore no settlement date has been determined. Management will continue to monitor its exposure for asbestos removal and establish an ARO for the fair market value of the associated costs once sufficient information has been obtained or a settlement date has been determined.

Note 13 - Risks and Uncertainties

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

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