CCMC Corporation and Subsidiaries

Consolidated Financial Statements and
Supplementary Information

September 30, 2015 and 2014

BAKER TILLY

Candor. Insight. Results.

CCMC Corporation and Subsidiaries

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September 30, 2015 and 2014

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Independent Auditors' Report

Board of Directors
CCMC Corporation and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of CCMC Corporation and Subsidiaries, which comprise the consolidated balance sheet as of September 30, 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the year 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 conformity 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 audit. We did not audit the financial statements of The Children's Fund of Connecticut, Inc., a wholly-owned subsidiary, which statements reflect total assets constituting 8 percent of consolidated total assets at September 30, 2015, and total revenues and other income constituting 1 percent of consolidated total revenues and other income for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Children's Fund of Connecticut, Inc., is based solely on the report of the other auditors. We conducted our audit in conformity 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 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 entity'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 entity'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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of CCMC Corporation and Subsidiaries as of September 30, 2015, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of CCMC Corporation and Subsidiaries for the year ended September 30, 2014, were audited by another auditor whose report, dated March 27, 2015, expressed an unmodified opinion on those statements.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual entities 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 audit 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 conformity 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 as a whole.

Baker Tilly Virchow Krause, LLP

New York, New York
December 4, 2015

CCMC Corporation and Subsidiaries

Consolidated Balance Sheet
September 30, 2015 and 2014

Assets	2015	2014
Current Assets		
Cash and cash equivalents	$ 11,576,841	$ 6,660,856
Short-term investments	2,402,355	11,232,933
Funds held by trustee under revenue bond agreement	435,186	5,021,620
Accounts receivable, less allowance for doubtful accounts of approximately $5,167,000 in 2015 and $7,432,000 in 2014	38,599,255	38,431,089
Inventories	1,443,429	1,389,353
Other current assets	11,643,910	13,864,350
Total current assets	66,100,976	76,600,201
Assets Whose Use is Limited		
Investments	109,844,911	115,153,581
Funds held in trust by others	75,285,353	82,885,871
Total assets whose use is limited	185,130,264	198,039,452
Property, Plant and Equipment		
Leasehold improvements	917,923	2,646,750
Buildings	144,535,354	136,902,649
Furniture and equipment	115,007,491	108,116,410
Construction in progress	13,845,701	16,921,791
	274,306,469	264,587,600
Less accumulated depreciation	(139,382,925)	(123,858,803)
Total property, plant and equipment	134,923,544	140,728,797
Other Assets		
Bond issuance costs	627,071	679,656
Ground lease	2,328,806	2,358,098
Pledges receivable, long term	3,679,656	4,324,574
Other	29,582,733	24,358,613
Total other assets	36,218,266	31,720,941
Total assets	$ 422,373,050	$ 447,089,391

Liabilities and Net Assets	2015	2014
Current Liabilities		
Current portion of bonds payable	$ 1,415,000	$ 1,350,000
Current portion of notes payable	5,918,464	6,189,100
Accounts payable and accrued liabilities	40,741,309	46,888,207
Accrued wages	22,370,710	19,785,007
Due to third parties	20,369,039	33,564,770
Accrued interest payable and other current liabilities	58,357	64,013
Total current liabilities	90,872,879	107,841,097
Bonds Payable, Less Current Portion	35,269,625	36,685,000
Notes Payable, Less Current Portion	16,920,593	22,855,716
Accrued Pension Liability	19,397,464	11,770,096
Other Long-Term Liabilities	36,301,435	35,250,131
Total liabilities	198,761,996	214,402,040
Net Assets		
Unrestricted	100,983,261	106,219,054
Temporarily restricted	29,505,870	26,244,572
Permanently restricted	93,121,923	100,223,725
Total net assets	223,611,054	232,687,351
Total liabilities and net assets	$ 422,373,050	$ 447,089,391

See notes to consolidated financial statements

CCMC Corporation and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets
Years Ended September 30, 2015 and 2014

	2015	2014
Revenues		
Patient service revenues	$ 343,770,471	$ 309,418,514
Provision for bad debts	(2,520,081)	(4,813,073)
Patient service revenues, less provision for bad debts	341,250,390	304,605,441
Other revenues	23,356,749	19,385,792
Contributions and donations, net	1,868,238	2,073,903
Investment return, net	9,627,781	15,468,829
Net assets released from restrictions for operations	15,762,598	13,856,995
Total revenues	391,865,756	355,390,960
Expenses		
Salaries and wages	179,096,342	176,241,523
Benefits	43,864,547	44,093,788
Supplies and miscellaneous	136,740,282	135,027,386
Interest	1,234,420	1,242,337
Depreciation and amortization	18,390,575	15,884,013
Total expenses	379,326,166	372,489,047
Operating income (loss)	12,539,590	(17,098,087)
Loss on Disposal of Property, Plant and Equipment	(1,119,641)	-
Excess (deficiency) of revenues over expenses	11,419,949	(17,098,087)

See notes to consolidated financial statements

CCMC Corporation and Subsidiaries

Consolidated Statement of Operations and Changes in Net Assets
Years Ended September 30, 2015 and 2014

	2015	2014
Unrestricted Net Assets (Continued)		
Excess (deficiency) of revenues over expenses (from previous page)	$ 11,419,949	$ (17,098,087)
Unrealized losses on investments	(10,453,297)	(2,257,309)
Change in funded status of pension and post-retirement plans	(6,921,768)	(3,807,134)
Net assets released from restrictions for capital	719,323	1,746,969
Change in unrestricted net assets	(5,235,793)	(21,415,561)
Temporarily Restricted Net Assets		
Unrealized (loss) gains on investments	(348,824)	(28,328)
Transfers from affiliated organizations	58,289	-
Income from investments	223,171	430,786
Net assets released from restrictions for operations	(15,762,598)	(13,856,995)
Net assets released from restrictions for capital	(719,323)	(1,746,969)
Bequests, gifts and grants	19,810,583	19,475,169
Change in temporarily restricted net assets	3,261,298	4,273,663
Permanently Restricted Net Assets		
Bequests, gifts and grants	498,716	431,168
Change in funds held in trust by others	(7,600,518)	3,685,543
Change in permanently restricted net assets	(7,101,802)	4,116,711
Change in net assets	(9,076,297)	(13,025,187)
Net Assets at Beginning of Year	232,687,351	245,712,538
Net Assets at End of Year	$ 223,611,054	$ 232,687,351

See notes to consolidated financial statements

CCMC Corporation and Subsidiaries

Consolidated Statement of Cash Flows
Years Ended September 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	$ (9,076,297)	$ (13,025,187)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Noncash items:		
Provision for bad debts	2,520,081	4,813,073
Depreciation and amortization	18,390,575	15,884,013
Loss on disposal of property, plant and equipment	1,119,641	-
Change in funds held in trust by others and assets released from restrictions by trustees	7,600,518	(3,685,543)
Net realized and unrealized losses on investments	5,990,202	(8,657,410)
Change in funded status of pension and post-retirement plans	6,921,768	3,807,134
Transfers from affiliated organizations	(58,289)	-
Other changes in net assets:		
Restricted contributions and investment income	(20,532,470)	(20,337,123)
Changes in operating assets and liabilities:		
Accounts receivable	(2,688,247)	(10,353,427)
Inventories	(54,076)	(295,066)
Other current assets	2,220,440	2,644,583
Other long-term assets	(4,497,325)	(5,755,755)
Accounts payable and accrued liabilities	(6,146,898)	6,870,083
Accrued wages and interest payable	2,580,047	1,442,269
Due to third parties	(13,195,731)	20,169,966
Accrued pension liability	705,600	(394,320)
Other long-term liabilities	1,051,304	3,046,940
Net cash used in operating activities	(7,149,157)	(3,825,770)
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(13,704,963)	(27,469,196)
Net decrease in investments	8,149,046	4,897,973
Change in funds held by trustee under revenue bond	4,586,434	11,986,702
Net cash used in investing activities	(969,483)	(10,584,521)
Cash Flows from Financing Activities		
Restricted contributions and investment income	20,532,470	20,337,123
Transfers from affiliated organizations	58,289	-
Principal payment on bonds and notes payable	(7,866,634)	(6,988,038)
Proceeds from new debt and notes payable issued	310,500	4,078,877
Net cash provided by financing activities	13,034,625	17,427,962
Increase in cash and cash equivalents	4,915,985	3,017,671
Cash and Cash Equivalents, Beginning	6,660,856	3,643,185
Cash and Cash Equivalents, Ending	$ 11,576,841	$ 6,660,856

See notes to consolidated financial statements

1. Organization and Accounting Policies

CCMC Corporation (the "Corporation") was incorporated on June 1, 1985 as a not-for-profit organization under the Non-Stock Corporation Act of the State of Connecticut. The Corporation is organized for the purpose of benefiting, carrying out the purposes of, and upholding, promoting and furthering the welfare, programs and activities of its subsidiary Connecticut Children's Medical Center (the "Medical Center"). The Medical Center is the sole member of Connecticut Children's Specialty Group, Inc. ("CCSG") and The Children's Fund of Connecticut, Inc. (the "Children's Fund"). The Corporation is also the sole member of Connecticut Children's Medical Center Foundation, Inc. (the "Foundation") and CCMC Affiliates, Inc. CCMC Ventures, Inc. (presently inactive) will conduct the related for-profit activities of the Corporation, its sole shareholder.

Regulatory Matters

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets, such as estimated uncollectibles for accounts receivable for services to patients, and liabilities, such as third party settlements, professional insurance liabilities and pension and postretirement benefits liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses 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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include cash, money market funds and certificates of deposit. Restricted cash has been restricted by the donor to a specific time frame or purpose.

Investments

Investments consist of fixed income securities, equity securities (including readily tradeable stocks, exchange traded funds and mutual funds), interests in common collective/commingled trusts and funds of funds. All investments, including funds held by trustee under revenue bond agreements, are measured at fair value at the balance sheet dates (see Note 16). Investment income includes realized gains and losses on investments, interest and dividends and is included in the excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law. The cost of securities sold is based on the specific identification method. Unrealized gains and losses on investments are excluded from excess (deficiency) of revenues over expenses unless the loss is considered to be other-than-temporary. Other-than-temporary losses are included in investment income which is a component of excess (deficiency) of revenues over expenses. Based on current market conditions, as well as the Corporation's ability and intent to hold impaired assets to recovery, no other than temporary losses were recorded.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

Funds Held in Trust by Others

The Medical Center has an irrevocable right to receive income earned on certain trust assets established for its benefit. Distributions received by the Medical Center are unrestricted and are included in investment income. The Medical Center's interest in the fair value of the trust assets is included in assets whose use is limited. Changes in the market value of the trust assets are reported as increases or decreases to permanently restricted net assets.

Bond Issuance Costs

Bond issuance costs incurred to refinance outstanding debt are being amortized using the straight-line method. The difference between the straight-line method and the effective-interest method is immaterial.

Property, Plant and Equipment

Property, plant, and equipment are recorded on the basis of cost. The Corporation provides for depreciation of property, plant, and equipment using the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives.

Pension Plan

The Medical Center has a noncontributory defined benefit pension plan in effect covering all eligible employees. The Medical Center's funding policy is to contribute amounts to the plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974.

Contributions and Donor Restricted Gifts

For financial statement purposes, the Corporation distinguishes between contributions of unrestricted assets, temporarily restricted assets and permanently restricted assets.

Contributions for which donors have not stipulated restrictions are reported as unrestricted support. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions and donations in the accompanying consolidated financial statements.

Interest Rate Swap Agreements

The Medical Center utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. The Medical Center is exposed to credit loss in the event of non-performance by the counterparties to its interest rate swap agreements. The Medical Center is also exposed to the risk that the swap receipts may not offset its variable rate debt exposure.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time frame or purpose. Temporarily restricted net assets consist primarily of contributions restricted for certain health care and children's services, program support, medical education and research. Permanently restricted net assets, which are primarily assets held in trusts by others and endowment gifts, have been restricted by donors and are to be maintained in perpetuity.

Medical Malpractice Insurance

The Medical Center purchases malpractice coverage in which the primary level of coverage is $4,000,000 per claim and $12,000,000 in the aggregate. There is an additional $6,000,000 of professional liability purchased through an external insurance company. In addition, there are four layers of excess indemnity coverage with four different insurance companies at $10,000,000 per claim on the first three layers and $15,000,000 per claim on the fourth layer, totaling $45,000,000 in the aggregate. There are no deductibles. Additionally, the Medical Center purchased a loss capping policy to limit the exposure on existing claims as of September 30, 2012. Under this policy, any existing claim that settles for greater than the amount reserved for this claim is covered and paid by the insurance company, limiting the Medical Center’s liability for increases in claims up to $10,000,000 per claim and $20,000,000 in the aggregate. Should claims settle for greater than the amount already reserved and the $20,000,000 loss capping policy, the Medical Center is fully liable for the excess.

Insurance Recovery Receivable and Insurance Claims Liability

The Medical Center presents anticipated insurance recoveries separately from estimated insurance liabilities for medical malpractice claims and similar contingent liabilities on the consolidated balance sheets. The current portion of the insurance recovery receivable and related insurance claims liability totaled $6,460,657 and $7,579,924 at September 30, 2015 and 2014, respectively, and is included within other current assets and accounts payable and accrued expenses in the accompanying consolidated balance sheets. The non-current portion of the insurance recovery receivable and related insurance claims liability totaled $22,092,207 and $18,873,772 at September 30, 2015 and 2014, respectively, and is included within other assets and other long-term liabilities in the accompanying consolidated balance sheets.

Excess (Deficiency) of Revenues over Expenses

The consolidated statement of operations and changes in net assets includes excess (deficiency) of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from excess (deficiency) of revenues over expenses include unrealized gains and losses on investments, transfers from affiliated organizations, net assets released from restrictions for capital and changes in the funded status of the pension and postretirement plans.

Advertising

The Corporation's policy is to expense advertising costs as incurred. Total advertising expense was $911,134 and $899,439 for the years ended September 30, 2015 and 2014, respectively.

Income Taxes

The Corporation and its subsidiaries, with the exception of CCMC Ventures, Inc., are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. CCMC Ventures, Inc. has no federal tax liability because it has been inactive since its incorporation.

The Medical Center has net operating loss carryforwards from unrelated business activities of approximately $586,000 which begin expiring on September 30, 2029. These net operating loss carryforwards result in a potential deferred tax asset of approximately $234,400 which is offset by a valuation allowance of the same amount.

New Accounting Pronouncement

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. Under the requirements of ASU No. 2014-09, the core principle is that entities should recognize revenue to depict the transfer of promised goods or services to customers (patients) in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Corporation will be required to retrospectively adopt the guidance in ASU No. 2014-09 for years beginning after December 15, 2017; early application is not permitted. The Corporation has not yet determined the impact of adoption of ASU No. 2014-09 on its consolidated financial statements.

Subsequent Events

The Corporation evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the consolidated financial statements are issued, for potential recognition in the consolidated financial statements as of the balance sheet date. For the year ended September 30, 2015, the Corporation evaluated subsequent events through December 4, 2015, which is the date the consolidated financial statements were issued.

Reclassifications

Certain reclassifications have been made to the 2014 balances previously reported to conform to the current year presentation.

2. Net Revenue from Services to Patients and Charity Care

The Medical Center provides health care services primarily to residents of the region. Revenues from the Medicaid program accounted for approximately 36% and 37% of the Medical Center's net patient service revenue for the years ended September 30, 2015 and 2014, respectively. Laws and regulations governing the Medicaid program are complex and subject to interpretation. The Medical Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, 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 Medicaid program. Changes in the Medicaid program and the reduction of funding levels could have an adverse affect on the Medical Center.

The following table summarizes net revenues from services to patients:

	2015	2014
Total gross revenues from patients	$ 779,425,997	$ 702,777,015
Less total contractual allowances	439,248,437	387,252,545
Less charity care	2,258,042	1,531,966
Less administrative and other allowances	4,149,047	4,573,990
Total allowances	445,655,526	393,358,501
DSH settlement with State of Connecticut	10,000,000	-
Patient service revenue	343,770,471	309,418,514
Less provision for bad debts	2,520,081	4,813,073
Patient service revenue, less provision for bad debts	$ 341,250,390	$ 304,605,441

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from certain payors are different from established billing rates of the Medical Center, and the difference is accounted for as allowances. The Medical Center records its provision for bad debt based upon a review of all of its outstanding receivables. Write-offs of receivable balances are related to its population of underinsured patients. An underinsured patient is one who has commercial insurance which leaves a significant portion of the Medical Center's reimbursement to be paid by the patient, either through large deductibles or co-pay requirements. Self-pay patients are rare in the pediatric environment, as Medicaid is readily available to children. Self-pay net revenue approximated $3,600,000 and $3,500,000 for the years ended September 30, 2015 and 2014, respectively.

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payor settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined. In 2015, the Medical Center received a $10,000,000 settlement related to prior years that increased net patient service revenue. There were no impacts to net patient service revenue for the year ended September 30, 2015, for net adjustments and settlements relating to prior years.

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

The Medical Center 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 Medical Center. Essentially, those policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Medical Center utilizes the generally recognized poverty income levels for the state of Connecticut, but also includes certain cases where incurred charges are significant when compared to incomes.

The costs of charity care incurred were $928,834 and $730,330 for the years ended September 30, 2015 and 2014, respectively. The cost of charity care is derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing the Corporation's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients.

3. Contributions Receivable

Contributions receivable, reported within accounts receivable and other assets in the consolidated balance sheets, include the following unconditional promises to give:

	2015	2014
Due within one year (not capital)	$ 1,588,914	$ 1,265,818
Due in one to five years	4,115,947	4,850,664
Less discount and provision for bad debts	(436,291)	(526,090)
Net pledges receivable	$ 5,268,570	$ 5,590,392

The discount rate used for pledges was 5%.

The discount recognizes the estimated uncollectible portion of the contributions receivable and the discount of contributions receivable to net present value.

4. Concentrations of Credit Risk

The Corporation's financial instruments that are exposed to concentrations of credit risk primarily consist of cash and cash equivalents, short-term investments and patient accounts receivable.

The Corporation's cash and cash equivalents are placed with high credit quality financial institutions. The Corporation's investment policy limits its exposure to concentrations of credit risk. In the normal course of business, the Corporation maintains cash balances in excess of the Federal Deposit Insurance Corporation's ("FDIC") insurance limit. Cash balances exceeded FDIC limits by approximately $10,418,000 and $5,300,000 at September 30, 2015 and 2014, respectively.

The Medical Center provides health care services and grants credit without collateral to its patients, most of whom are Connecticut residents and are insured under third-party payor agreements. An estimated allowance for doubtful accounts as well as contractual allowances is maintained at levels considered adequate to reduce the account balances to net realizable value. The mix of receivables from patients and third-party payors at September 30 was as follows:

	2015	2014
Medicaid	35 %	36 %
Medicaid managed care	2	1
Commercial/managed care - contracted	51	49
Commercial/managed - non-contracted	4	6
Patients and other	8	8
	100 %	100 %

5. Investments

The composition of investments as of September 30, carried at fair value, is set forth in the following table:

	2015		2014	
	Cost	Market	Cost	Market
Short-term investments	$ 2,438,007	$ 2,438,007	$ 11,322,233	$ 11,322,233
Marketable equity securities	543,174	536,981	485,570	696,734
Fixed income securities	26,363	27,377	28,363	30,012
Equity mutual funds	51,636,611	57,827,523	45,668,216	58,515,793
Fixed income mutual funds	16,535,722	16,421,431	28,335,727	28,546,453
Multi-strategy mutual funds	37,848,800	34,665,875	26,816,582	27,206,728
Other	356,020	330,072	65,131	68,561
	$ 109,384,697	$ 112,247,266	$ 112,721,822	$ 126,386,514

Investments consisted of mutual funds and individual securities that comprised approximately 82% equity securities and 18% fixed income investments at September 30, 2015, and 68% equity securities and 32% fixed income investments at September 30, 2014.

The following table summarizes the unrealized losses on investments held at September 30, 2015:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Marketable equity securities	$ 7,995,517	$ 1,312,313	$ 4,099,045	$ 1,608,196	$ 12,094,562	$ 2,920,509
Institutional managed equity funds	522,612	23,753	-	-	522,612	23,753
Mutual funds and other securities	29,025,289	1,364,152	8,872,306	280,840	37,897,595	1,644,992
Other	150,836	5,848	44,461	6,253	195,297	12,101
Total investments	$ 37,694,254	$ 2,706,066	$ 13,015,812	$ 1,895,289	$ 50,710,066	$ 4,601,355

The following table summarizes the unrealized losses on investments held at September 30, 2014:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Marketable equity securities	$ 14,327	$ 437	$ 17,172	$ 6,998	$ 31,499	$ 7,435
Institutional managed equity funds	39,636	462	64,956	44	104,592	506
Mutual funds and other securities	23,760,807	680,171	4,123,307	140,789	27,884,114	820,960
Other	128,083	14,640	-	-	128,083	14,640
Total investments	$ 23,942,853	$ 695,710	$ 4,205,435	$ 147,831	$ 28,148,288	$ 843,541

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors and the length of time and extent to which the market value has been less than cost along with the Corporation's intent and ability to hold the investments. During the years ended September 30, 2015 and 2014, the Corporation has not recorded any other-than-temporary declines in the fair value of investments, as the Corporation has the ability and intent to hold the securities to recovery.

Investment return, net for the years ended September 30 consists of the following:

	2015	2014
Interest and dividend income	$ 2,017,224	$ 2,054,701
Realized gain	4,811,919	10,943,047
Net swap activity	(367,708)	(499,834)
Trust income	3,326,528	3,135,171
Investment fees and other	(160,182)	(164,256)
	9,627,781	15,468,829
Unrealized losses on investments	(10,453,297)	(2,257,309)
Total	$ (825,516)	$ 13,211,520

6. Restricted Net Assets

Endowments

The Corporation's endowment consists of seven individual donor-restricted funds established for a variety of purposes which are held and controlled by the Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. At September 30, 2015 and 2014, the Corporation had $22,267,000 and $21,942,979 in endowments held at the Foundation, respectively.

Interpretation of Relevant Law

The Corporation's Board and senior management have interpreted the 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 Corporation classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard for expenditure prescribed by UPMIFA. In accordance with UPMIFA, the Corporation 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 organization 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 organization.

(7) The investment policies of the organization.

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 UPMIFA requires the Corporation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies at September 30, 2015 and 2014.

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets that attempt 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 include those assets of donor-restricted funds that the Corporation must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that equal or exceed relevant benchmarks. The Corporation expects its endowment funds, over time, to provide an average rate of return of at least 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 Corporation 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 Corporation targets a diversified asset allocation strategy that places a greater emphasis on equity-based investments to achieve its long-term return objectives within the guidelines of its investment policy and prudent risk constraints.

Endowment Net Asset Composition by Type of Fund

All endowment net assets are donor-restricted endowment funds.

Changes in endowment net assets for the years ended September 30 consisted of the following:

	2015		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	$ 4,605,125	$ 17,337,854	$ 21,942,979
Contributions	-	498,716	498,716
Investment return	417,438	-	417,438
Net appreciation (realized and unrealized)	794,207	-	794,207
Appropriation of endowment assets for expenditure	(1,386,340)	-	(1,386,340)
Endowment net assets, ending balance	$ 4,430,430	$ 17,836,570	$ 22,267,000

	2014		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	$ 2,738,483	$ 16,906,686	$ 19,645,169
Contributions	-	431,168	431,168
Investment return	411,618	-	411,618
Net appreciation (realized and unrealized)	2,055,469	-	2,055,469
Appropriation of endowment assets for expenditure	(600,445)	-	(600,445)
Endowment net assets, ending balance	$ 4,605,125	$ 17,337,854	$ 21,942,979

Income from endowment funds is considered temporarily restricted until it meets the original donor's time or purpose restriction of the donation. These funds are commingled with other temporarily restricted contributions for the same purposes (see tables below for discussion of the purpose of restrictions) and invested until such time that the funds are utilized. The Foundation's spending policy, which applies to the Corporation, is that any expenditure associated with the endowment is appropriated based on the donor's intention.

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes as of September 30:

	2015	2014
Equipment purchases	2 %	2 %
Education	7	8
Other health care services	91	90
	100 %	100 %

Permanently Restricted

Permanently restricted net assets at September 30 are restricted to:

	2015	2014
Health care and children's services	81 %	83 %
Other health care services	14	13
Education	5	4
	100 %	100 %

7. Pension Plan

Effective January 1, 1993, the State of Connecticut mandated that individuals hired by the Medical Center were no longer eligible to participate in the State of Connecticut pension plan ("State Plan"). Employees who were participants in the State Plan as of December 31, 1992, can remain participants in the State Plan so long as they continue to remain employed by the Medical Center.

Effective January 1, 1994, the Medical Center adopted a defined benefit pension plan covering substantially all of its employees. Benefits for employees who are participants in the State Plan are reduced to reflect vested benefits provided under the State Plan.

Effective January 1, 1999, the Medical Center converted its pension plan to a Cash Balance Retirement Plan (the "Plan"). Plan benefits are based on years of service and the employee's compensation. Contributions to the Plan are intended to provide for benefits attributed to services rendered to date and benefits expected to be earned in the future. Future benefits are earned and credited by participants based on a percentage of compensation (ranging from 2.5% to 12.5%) associated with years of service. Plan participants earn a return based on an interest rate established annually at the beginning of the pay year. Plan participants vest in their benefits after three years of service.

On February 26, 2009, the Board of Directors of the Medical Center adopted a resolution to freeze the Plan effective May 1, 2009.

Included in unrestricted net assets at September 30, 2015 and 2014 are unrecognized actuarial losses of $27,031,839 and $19,507,126, respectively. The actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2016 is $1,387,641.

The following table presents a reconciliation of the beginning and ending balances of the Plan's projected benefit obligation and the fair value of Plan assets, as well as the funded status of the Plan and accrued pension liability included in the consolidated balance sheets at year ended September 30:

	2015	2014
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 88,747,942	$ 79,974,687
Interest cost	3,431,884	3,384,986
Actuarial loss, including the effects of any assumption changes	2,780,248	7,632,859
Benefits paid	(4,216,712)	(2,244,590)
Benefit obligation at end of year	$ 90,743,362	$ 88,747,942
Change in Plan assets:		
Fair value of Plan assets at beginning of year	$ 76,977,846	$ 71,617,405
Contributions	-	100,000
Actual return on Plan assets	(1,415,236)	7,505,031
Benefits paid	(4,216,712)	(2,244,590)
Fair value of Plan assets at end of year	$ 71,345,898	$ 76,977,846
Funded status of the Plan	$ (19,397,464)	$ (11,770,096)

The weighted-average assumptions used to develop the projected benefit obligation as of September 30 are as follows:

	2015	2014
Discount rate	4.00 %	4.00 %
Rate of compensation	N/A	N/A
Cash balance interest credit	5.50	5.50
Return on Plan assets	6.75	6.75

Net periodic pension costs for the years ended September 30 consist of the following:

	2015	2014
Interest cost	$ 3,431,884	$ 3,384,986
Expected return on Plan assets	(4,717,144)	(4,226,469)
Net amortization,		
Net actuarial loss	1,387,915	1,078,430
Net periodic pension costs	$ 102,655	$ 236,947

The weighted-average assumptions used to determine net periodic benefit costs as of September 30 are as follows:

	2015	2014
Discount rate	4.00 %	4.45 %
Cash balance interest credit	5.50	5.50
Expected long-term rate of return on Plan assets	6.75	6.75
Rate of compensation	N/A	N/A

The expected long-term rate of return on Plan assets was developed through analysis of historical market returns, current market conditions and the Plan's past experience. Estimates of future market returns by asset category are lower than actual long-term historical returns in order to reflect current market conditions.

The accumulated benefit obligation at September 30, 2015 and 2014 was $90,743,362 and $88,747,942, respectively.

Plan Assets

The Plan assets are managed by outside investment managers. The investment strategy with respect to pension assets is to maximize return while protecting principal. The investment manager has the flexibility to adjust the asset allocation and move funds to the asset class that offers the most opportunity. The investment objective for Plan assets over a full market cycle time period is to generate a return in excess of the passive portfolio benchmark for each asset class.

The asset allocations for the Plan at September 30, by asset category, are as follows:

	Percentage of Plan Assets at Year-End 2015	Percentage of Plan Assets at Year-End 2014
Asset Category:		
Domestic equities	35 %	37 %
International equities	19	19
Debt securities	40	38
Other	6	6
Total	100 %	100 %

The fair values of the Plan assets at September 30 by asset category (see Note 16), are as follows:

	2015 Level 1	Level 2	Level 3	Total
Assets				
Money market mutual funds	$ 229,131	$ -	$ -	$ 229,131
Fixed income securities:				
U.S. government bonds	2,029,206	-	-	2,029,206
Municipal bonds	739,088	-	-	739,088
Corporate bonds	5,366,920	-	-	5,366,920
Foreign bonds	767,014	-	-	767,014
Fixed income mutual funds	3,715,799	11,693,762	-	15,409,561
Equity mutual funds	29,414,668	-	-	29,414,668
Multi-asset balanced mutual funds	-	14,836,238	-	14,836,238
Foreign multi-asset balanced mutual funds	-	2,554,072	-	2,554,072
Total	$ 42,261,826	$ 29,084,072	$ -	$ 71,345,898

	2014			
	Level 1	Level 2	Level 3	Total
Assets				
Money market mutual funds	$ 357,228	$ -	$ -	$ 357,228
Fixed income securities:				
U.S. government bonds	2,273,832	-	-	2,273,832
Municipal bonds	693,600	-	-	693,600
Corporate bonds	4,982,567	-	-	4,982,567
Foreign bonds	865,871	-	-	865,871
Fixed income mutual funds	3,584,208	11,507,036	-	15,091,244
Equity mutual funds	34,389,192	-	-	34,389,192
Multi-asset balanced mutual funds	-	15,521,959	-	15,521,959
Foreign multi-asset balanced mutual funds	-	2,802,353	-	2,802,353
Total	$ 47,146,498	$ 29,831,348	$ -	$ 76,977,846

The Medical Center does not expect to contribute to its pension plan in fiscal 2016.

The Medical Center expects to pay the following benefit payments which reflect expected future service as appropriate:

	Pension Benefits
Fiscal year:	
2016	$ 7,675,000
2017	5,580,000
2018	6,057,000
2019	5,757,000
2020	5,841,000
Years 2021 - 2025	27,587,000

8. Post-retirement Benefit Plan

The Medical Center sponsors the Connecticut Children's Medical Center Postretirement Welfare Plan (the "PRW Plan"), an unfunded plan which provides post-retirement medical benefits to retired employees who meet the specific criteria identified in the PRW Plan document. The Medical Center's contribution toward cost of medical coverage varies by years of pension credited service at retirement, ranging from 25% for employees with ten years of credited service to 100% for those employees with 25 plus years of credited service. The Medical Center's maximum fixed dollar commitment is $2,280 per year per retiree.

Included in unrestricted net assets at September 30, 2015 and 2014 are $2,993,289 and $2,468,074, respectively, of net unrecognized actuarial gains that have not yet been recognized in net periodic benefit cost. There is $214,966 of actuarial gain included in unrestricted net assets that is expected to be recognized in net periodic pension cost during the year ending September 30, 2016.

The following table presents a reconciliation of the beginning and ending balances of the PRW Plan's projected benefit obligation and the fair value of PRW Plan assets, as well as the funded status of the PRW Plan and accrued post-retirement obligation included in the consolidated balance sheets as of September 30:

	2015	2014
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 6,340,898	$ 5,658,107
Service cost	228,789	219,274
Interest cost	263,408	268,206
Actuarial (gains) losses, including the effects of any assumption changes	(683,727)	330,315
Benefits paid	(77,730)	(135,004)
Benefit obligation at end of year	$ 6,071,638	$ 6,340,898
Change in PRW Plan assets:		
Fair value of PRW Plan assets at beginning of year	$ -	$ -
Contributions	77,730	135,004
Benefits paid	(77,730)	(135,004)
Fair value of PRW Plan assets at end of year	$ -	$ -
Accrued post-retirement obligation included in other long-term liabilities	$ (6,071,638)	$ (6,340,898)

The weighted-average assumptions used to develop the post-retirement benefit obligation as of September 30 are as follows:

	2015	2014
Discount rate	4.30 %	4.20 %
Healthcare cost trend rate:		
Current year	8.00	8.50
Ultimate	5.00	5.00
Number of years to reach ultimate	6	7

Net periodic benefit costs for the years ended September 30 consist of the following:

	2015	2014
Service cost	$ 228,789	$ 219,274
Interest cost	263,408	268,206
Net amortization,		
Net actuarial gain	(158,512)	(200,952)
Net periodic benefit cost	$ 333,685	$ 286,528

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

	2015	2014
Discount rate	4.20 %	4.80 %
Health care cost trend rate:		
Initial rate	8.50	9.00
Ultimate rate	5.00	5.00
Years to ultimate	6	7

A one-percentage point change in assumed health care cost trend rates would have the following effect on the post-retirement benefit plan:

	One-percentage Point	
	Increase	Decrease
Effect on postretirement benefit obligation	$ 95,451	$ 105,951
Effect on total of service and interest cost	10,384	14,123

The Medical Center expects to contribute $175,000 to its post-retirement benefit plan in fiscal 2016.

The Medical Center expects to pay the following benefit payments, which reflect expected future service as appropriate:

Fiscal year:	
2016	$ 175,000
2017	200,000
2018	230,000
2019	262,000
2020	282,000
Years 2021 - 2025	1,856,000

9. Bonds Payable

A summary of long-term debt is as follows:

	2015	2014
Hospital revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA)		
Series D (4.19% effective interest rate)	$ 36,684,625	$ 38,035,000
Less current portion	1,415,000	1,350,000
	$ 35,269,625	$ 36,685,000

In June 2011, the Medical Center and the Foundation (the Obligated Group) refinanced their existing State of Connecticut Health and Educational Facilities Authority ("CHEFA") hospital revenue bonds with variable rate revenue bonds ("Series D bonds") with a principal amount of $41,580,000. The Series D Bonds were issued at par and directly placed with one investor. The investor has committed to holding the bonds for a ten year period, at the end of which, the investor may put the bonds back to the Medical Center or extend their holding period at their discretion. The Series D bonds mature in varying amounts through 2032, with interest rates based on 65% of LIBOR plus a spread of 1.52%, ranging from 1.63% to 1.65% in the current year.

The agreements and related documents provide, among other things, that the Series D Bonds and any additional bonds will be payable from payments to be made by the Obligated Group and that it will be obligated to make such payments so long as the Series D Bonds and any additional bonds are outstanding. The Series D Bonds are collateralized by an interest in revenues of the Medical Center and a mortgage on the facilities, ground lease, easements and other certain leases that comprise the overall hospital premises owned by the Medical Center.

Pursuant to the mortgage agreement and related documents, the Obligated Group is required to meet certain covenants, including a day's cash on hand, debt to capitalization and a debt service coverage ratio requirement.

The carrying value of the bonds payable approximates fair value. The Corporation classifies bonds payable in Level 2 (see Note 16) of the valuation hierarchy.

The Medical Center is required to make monthly interest and semi-annual principal repayments for the Series D Bonds. A principal payment for the Series D bonds was paid on January 1, 2015. Interest paid for 2015 and 2014 was $618,683 and $636,884, respectively.

Principal payments for the next five years under the CHEFA obligations are as follows:

2016	$ 1,415,000
2017	1,500,000
2018	1,580,000
2019	1,665,000
2020	1,740,000
Aggregate thereafter	28,784,625
	$ 36,684,625

In November 2005, the Medical Center entered into an interest rate swap agreement (the 2005 swap) effectively converting $23,700,000 of its then existing variable-rate debt ("Series C debt") to a fixed-rate basis of 3.704% through June 2018. The fair value of the swap (a liability of $549,134 and $879,859 at September 30, 2015 and 2014, respectively) is reported in other long-term liabilities. The change in value of $326,043 and $479,506 is reported as a component of income from investments for the years ended September 30, 2015 and 2014, respectively. The swap, while serving as an economic hedge, does not qualify for hedge accounting.

Upon the refunding of the Series C debt in June 2011, the Medical Center applied the 2005 swap against the newly issued Series D debt and entered into a new swap agreement (the 2011 swap), which along with the 2005 swap, effectively converts all of its outstanding Series D debt to a fixed-rate basis. The interest rate on the new swap is 4.6138%. The fair value of the 2011 swap (a liability of $553,115 and $1,012,213 as of September 30, 2015 and 2014, respectively) is reported in other long-term liabilities. The change in value of $463,780 and $181,416 is reported as a component of income from investments for the years ended September 30, 2015 and 2014, respectively. The swap, while serving as an economic hedge, does not qualify for hedge accounting.

The 2011 swap has an embedded option that gives the Medical Center the right to terminate the swap beginning July 1, 2016, and on the first business day of each month thereafter. If the option is exercised by the Medical Center, the transaction will terminate and neither party will owe a termination payment amount. There is no exercise premium.

The following table summarizes the Medical Center's interest rate swap agreements:

Swap Type	Expiration Date	Medical Center Receives	Medical Center Pays	Notional Amount at September 30 2015	Notional Amount at September 30 2014
Series C - Fixed to Floating (2005 Swap)	July 1, 2018	70% of LIBOR	3.70%	$ 9,675,000	$ 12,725,000
Series D - Fixed to Floating (2011 Swap)	July 1, 2032	65% LIBOR + 1.52%	4.61%	26,408,498	24,518,878
				$ 36,083,498	$ 37,243,878

The total notional amount differs from the amount outstanding on the debt as a result of the different amounts that the Medical Center receives. The notional amount of the 2011 swap is modified to adjust for the differing percentage of LIBOR received under the 2005 swap.

10. Notes Payable

Notes payable at September 30 consists of the following:

	2015	2014
Notes payable to an independent financing company payable in semi-annual installments of $199,606 through October 2015, interest free.	$ -	$ 399,211
Notes payable to a health care equipment manufacturing company in monthly installments of $18,392 through December 2015, at 4.15% interest. Secured by certain equipment.	51,544	265,880
Notes payable to a bank in monthly installments of $147,233 through October 2018 at 2.85% interest. Secured by certain equipment.	5,209,211	6,802,836
Notes payable to a bank in monthly installments of $128,417 through October 2018 at 1.455% interest. Secured by certain equipment.	7,068,428	8,495,319
Notes payable to a bank in monthly installments of $55,978 through June 2018 at 1.302% interest. Secured by certain equipment.	1,813,638	2,457,216
Notes payable to a bank in monthly installments of $114,385 through September 2019 at 2.52% interest. Secured by certain equipment.	5,217,573	6,441,905
Notes payable to a bank in monthly installments of $59,782 through August 2019 at 3.94% interest. Secured by certain equipment.	2,592,756	3,191,082
Notes payable to a bank in monthly installments of $9,845 through January 2021, interest free. Secured by certain equipment.	630,104	827,012
Note payable to landlord for leasehold improvements payable in monthly installments of $1,431 through August 2019 at 6%, unsecured.	59,799	72,949
Note payable to a hospital association payable in monthly installments of $6,529, interest free.	13,058	91,406
Note payable to a software company in quarterly installments of $25,875 through September 2017.	182,876	-
	22,838,987	29,044,816
Less current portion	5,918,464	6,189,100
	$ 16,920,523	$ 22,855,716

The carrying value of the notes payable approximates fair value. The Corporation classifies notes payable in Level 2 of the valuation hierarchy.

Interest paid on the notes was $615,737 and $605,312 for the years ended September 30, 2015 and 2014, respectively.

Principal payments on the notes for the next five years are as follows:

2016	$ 5,918,394
2017	5,965,534
2018	5,857,646
2019	3,791,106
2020	1,266,924
Aggregate thereafter	39,383
	$ 22,838,987

11. Line of Credit

The Corporation has a line of credit agreement with Bank of America, N.A. for $15,000,000. Amounts advanced under this line of credit are due on demand and interest is charged at the LIBOR rate plus 1.25%. There were no borrowings at September 30, 2015, and this line of credit expires on March 31, 2017.

12. Contingencies

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on the Medical Center, if any, are not presently determinable.

There have been malpractice claims that fall within the Medical Center's malpractice insurance which have been asserted against the Medical Center. In addition, there are known incidents that have occurred through September 30, 2015 that may result in the assertion of claims. Refer to Note 1.

The Medical Center is a party to various lawsuits incidental to its business. Management believes that the lawsuits will not have a material adverse effect on the Medical Center's consolidated financial position.

The Medical Center and CCSG record as a liability the estimate for claims-made malpractice liabilities and the estimate for incurred but not reported claims. The estimate for incurred but not reported claims, discounted at 4.00%, totaled $4,312,042 and $5,576,736 at September 30, 2015 and 2014, respectively. The Medical Center has recorded related insurance recoveries receivable of $28,552,864 and $26,453,696 at September 30, 2015 and 2014, respectively, in consideration for the expected insurance recoveries for the total claims-made insurance.

The Medical Center records as a liability an estimate of workers' compensation claims. Such liability, undiscounted, totaled approximately $2,201,000 and $2,055,125 at September 30, 2015 and 2014, respectively.

13. Commitments

Ground Lease

The Medical Center has a ground lease with Hartford Hospital to lease the site on which the Medical Center stands. The lease term is 99 years beginning November 1, 1993, with an optional extension for an additional 99-year term.

The Ground Lease was recorded as a prepaid asset in the original amount of $2,900,000 and is amortized over the term of the lease. The net asset is recorded at $2,328,806 and $2,358,098 as of September 30, 2015 and 2014, respectively, and is included in other assets in the accompanying consolidated balance sheets. The lease includes certain covenants which restrict, among other things, the Medical Center's ability to be a party to mergers.

Parking Agreement

The Medical Center has a Parking Agreement with the Hartford Hospital ("HH") for the use of 450 parking spaces on the Hartford Hospital campus. The agreement continues in full force and effect until the earlier of a written termination of the agreement by the Medical Center and HH or the termination of the ground lease.

14. Operating Leases

Rental and lease expense amounted to $14,066,271 and $12,985,729 for the years ended September 30, 2015 and 2014, respectively.

The minimum lease commitments under all noncancelable operating leases with initial or remaining terms of more than one year are as follows:

Fiscal years ending September 30:	
2016	$ 10,592,640
2017	9,482,912
2018	7,883,711
2019	7,810,014
2020	6,449,180
Thereafter	35,725,716
	$ 77,944,173

15. Functional Expenses

The Medical Center provides health care services to residents within its geographic location including pediatric care and outpatient surgery. The Foundation performs fundraising services to provide support to the Medical Center and its other related 501(c)(3) companies. Expenses related to providing these services are as follows:

	2015	2014
Health care services	$ 296,684,702	$ 297,377,642
Fundraising	3,208,252	2,466,171
General and administrative	79,433,212	72,645,234
	$ 379,326,166	$ 372,489,047

16. Fair Value of Financial Instruments

The Corporation calculates fair value of its financial assets and liabilities, when applicable, based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on a unit of account from the Corporation's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated). In order to increase consistency and comparability in fair value measurements, the Corporation utilizes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described as follows:

Level 1 - Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 - Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3 - Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Corporation also considers counterparty credit risk in its assessment of fair value.

Financial assets and liabilities carried at fair value as of September 30, 2015 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 13,979,195	$ -	$ -	$ 13,979,195
Fixed income securities (a)	63,030	-	-	63,030
Domestic fixed	27,491,190	-	-	27,491,190
International fixed	35,050	-	-	35,050
Domestic equity (b)	13,853,097	-	-	13,853,097
International equity	108,084	-	-	108,084
Mutual funds:				
Domestic	39,390,432	-	-	39,390,432
International	3,304,104	-	-	3,304,104
Multi-strategy	54,950	25,815,782	-	25,870,732
Equity:				
Domestic growth (c)	4,675,896	-	-	4,675,896
Domestic value (c)	4,620,275	-	-	4,620,275
International (c)	7,478,722	-	-	7,478,722
International equity common trust fund	-	5,990,498	-	5,990,498
Domestic equity common trust fund	-	8,262,493	-	8,262,493
Fixed income:				
International	561,998	-	-	561,998
Domestic	11,787,042	-	-	11,787,042
Intermediate term (c)	7,284,582	-	-	7,284,582
Global (c)	2,520,778	-	-	2,520,778
Short-term (c)	153,999	8,850,093	-	9,004,092
Inflation protected (c)	815,210	-	-	815,210
Common trust fund (d)	-	2,093,716	-	2,093,716
Domestic fixed common trust fund	-	6,430,985	-	6,430,985
Fund of funds		192,734	-	192,734
Real estate investments		719,813	-	719,813
Foundation held funds and miscellaneous other investments (f)	330,342	2,245,370	-	2,575,712
Total	$ 138,507,976	$ 60,601,484	$ -	$ 199,109,460
Liabilities,				
Interest rate swap agreements (g)	$ -	$ 1,102,249	$ -	$ 1,102,249

Financial assets and liabilities carried at fair value as of September 30, 2014, are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 6,660,856	$ -	$ -	$ 6,660,856
Money market mutual funds	11,232,933	-	-	11,232,933
Fixed income securities (a)	117,482	-	-	117,482
Domestic fixed	6,535,302	-	-	6,535,302
International fixed	345,854	-	-	345,854
Marketable equity securities (b)	494,722	-	-	494,722
Domestic equity	17,454,812	-	-	17,454,812
International equity	1,599,252	-	-	1,599,252
Mutual funds:				
Domestic	12,362,690	-	-	12,362,690
International	3,331,872	-	-	3,331,872
Multi-strategy	3,024,061	27,206,728	-	30,230,789
Equity:				
Domestic growth (c)	17,495,099	-	-	17,495,099
Domestic value (c)	17,478,832	-	-	17,478,832
International (c)	19,514,905	-	-	19,514,905
International equity common trust fund	-	5,913,593	-	5,913,593
Domestic equity common trust fund	-	11,728,000	-	11,728,000
Fixed income:				
International	618,442	-	-	618,442
Domestic	15,215,847	-	-	15,215,847
Intermediate term (c)	7,123,169	-		7,123,169
Global (c)	2,730,651	-	-	2,730,651
Short-term (c)	186,627	8,771,422	-	8,958,049
Inflation protected (c)	825,258	-	-	825,258
Common trust fund (d)	-	1,983,537	-	1,983,537
Domestic fixed common trust fund	-	7,155,394	-	7,155,394

	Level 1	Level 2	Level 3	Total
Funds held by trustee under revenue bond agreement (e)	$ 5,021,620	$ -	$ -	$ 5,021,620
Fund of funds	-	2,247,593	-	2,247,593
Real estate investments	-	3,159,391	-	3,159,391
Foundation held funds and miscellaneous other investments (f)	423,285	2,995,633	-	3,418,918
Total	$ 149,793,571	$ 71,161,291	$ -	$ 220,954,862
Liabilities,				
Interest rate swap agreements (g)	$ -	$ 1,892,072	$ -	$ 1,892,072

(a) Includes investments in publicly traded fixed income investments, which may include government, municipal or corporate bonds of varied duration.

(b) Includes investments in publicly traded stock of domestic corporations.

(c) Includes investments in domestic and international equity mutual funds and exchange traded funds. Investments are broken out into the underlying funds' asset type and investment goals.

(d) The common trust fund seeks to gain exposure to large cap U.S. companies by replicating the S&P 500 Tobacco Free Index, which excludes any company for which tobacco is one of its top five revenue producing industries. There are no liquidity restrictions as the redemption frequency and notice period is daily.

(e) These funds reflect proceeds from borrowings that are held in trust for the Medical Center's use. Funds are generally invested in money market mutual funds and may be drawn on by the Medical Center to purchase capital assets.

(f) These funds reflect the value of the Medical Center's interest in funds held in trust for the Medical Center's benefit. The Medical Center received statements and records its portion of the trusts' statement value.

(g) The value of the Medical Center's swaps is determined by examining the present value of the future cash flows among other factors. The Medical Center utilizes an independent third party to calculate the value of the swaps based on all of the relevant factors.

The following is a description of the Medical Center's valuation methodologies for assets measured at fair value. The fair value methodologies are not necessarily indications of liquidity, but are description of the measures used to arrive at fair value pricing. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based upon quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers and brokers. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The amounts reported in the tables above exclude assets invested in the Medical Center's defined benefit pension plan (Note 7).

CCMC Corporation and Subsidiaries

Consolidating Balance Sheet
September 30, 2015

	Hospital and Subsidiaries	Foundation	Affiliates	Corporation	Ventures	Eliminations	Consolidated
Assets							
Current Assets							
Cash and cash equivalents	$ 10,245,260	$ 1,164,868	$ 154,046	$ 12,667	$ -	$ -	$ 11,576,841
Short-term investments		2,402,355	-	-	-	-	2,402,355
Funds held by trustee under revenue bond agreement	435,186	-	-	-	-	-	435,186
Accounts receivable, less allowance of approximately $5,167,000	35,293,659	1,588,914	1,716,682	-	-	-	38,599,255
Due from affiliated entities	1,040,023	13,506,326	4,616,275	1,292,096	-	(20,454,720)	-
Inventories	1,443,429	-	-	-	-	-	1,443,429
Other current assets	11,485,755	155,955	2,200	-	-	-	11,643,910
Total current assets	59,943,312	18,818,418	6,489,203	1,304,763	-	(20,454,720)	66,100,976
Assets Whose Use is Limited							
Investments	31,951,929	77,892,982	-	-	-	-	109,844,911
Funds held in trust by others	75,285,353	-	-	-	-	-	75,285,353
Investment in Foundation	100,379,776	-	-	-	-	(100,379,776)	-
Total assets whose use is limited	207,617,058	77,892,982	-	-	-	(100,379,776)	185,130,264
Property, Plant and Equipment							
Leasehold improvements	-	-	917,923	-	-	-	917,923
Buildings	144,535,354	-	-	-	-	-	144,535,354
Furniture and equipment	113,305,291	824,022	878,178	-	-	-	115,007,491
Construction in progress	13,845,701	-	-	-	-	-	13,845,701
	271,686,346	824,022	1,796,101	-	-	-	274,306,469
Less accumulated depreciation	(138,009,171)	(543,525)	(830,229)	-	-	-	(139,382,925)
Total property, plant and equipment	133,677,175	280,497	965,872	-	-	-	134,923,544
Other Assets							
Bond issuance costs	627,071	-	-	-	-	-	627,071
Ground lease	2,328,806	-	-	-	-	-	2,328,806
Pledges receivable, long term	-	3,679,656	-	-	-	-	3,679,656
Other	29,582,733	-	-	1,000	-	(1,000)	29,582,733
Total other assets	32,538,610	3,679,656	-	1,000	-	(1,000)	36,218,266
Total assets	$ 433,776,155	$ 100,671,553	$ 7,455,075	$ 1,305,763	$ -	$ (120,835,496)	$ 422,373,050

CCMC Corporation and Subsidiaries

Consolidating Balance Sheet
September 30, 2015

	Hospital and Subsidiaries	Foundation	Affiliates	Corporation	Ventures	Eliminations	Consolidated
Liabilities and Net Assets (Deficiency)							
Current Liabilities							
Current portion of bonds payable	$ 1,415,000	$ -	$ -	$ -	$ -	$ -	$ 1,415,000
Current portion of notes payable	5,918,464	-	-	-	-	-	5,918,464
Accounts payable and accrued liabilities	40,501,685	57,673	181,951	-	-	-	40,741,309
Accrued wages	21,616,615	209,992	544,103	-	-	-	22,370,710
Due to third parties	20,369,039	-	-	-	-	-	20,369,039
Accrued interest payable and other current liabilities	58,357	-	-	-	-	-	58,357
Due to affiliated entities	17,465,304	-	2,112,543	857,770	19,103	(20,454,720)	-
Total current liabilities	107,344,464	267,665	2,838,597	857,770	19,103	(20,454,720)	90,872,879
Bonds Payable, Less Current Portion	35,269,625	-	-	-	-	-	35,269,625
Notes Payable, Less Current Portion	16,920,593	-	-	-	-	-	16,920,593
Accrued Pension Liability	19,397,464	-	-	-	-	-	19,397,464
Other Long-Term Liabilities	36,277,323	24,112	-	-	-	-	36,301,435
Total liabilities	215,209,469	291,777	2,838,597	857,770	19,103	(20,454,720)	198,761,996
Net Assets (Deficiency)							
Unrestricted	96,011,925	-	4,543,446	447,993	(19,103)	(1,000)	100,983,261
Temporarily restricted	29,432,838	82,543,206	73,032	-	-	(82,543,206)	29,505,870
Permanently restricted	93,121,923	17,836,570	-	-	-	(17,836,570)	93,121,923
Total net assets (deficiency)	218,566,686	100,379,776	4,616,478	447,993	(19,103)	(100,380,776)	223,611,054
Total liabilities and net assets (deficiency)	$ 433,776,155	$ 100,671,553	$ 7,455,075	$ 1,305,763	$ -	$ (120,835,496)	$ 422,373,050

CCMC Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets
Year Ended September 30, 2015

	Hospital and Subsidiaries	Foundation	Affiliates	Corporation	Ventures	Eliminations	Consolidated
Revenues							
Net patient service revenues	$ 343,770,471	$ -	$ -	$ -	$ -	$ -	$ 343,770,471
Provision for bad debts	(2,520,081)	-	-	-	-	-	(2,520,081)
Net patient service revenues, less provision for bad debts	341,250,390	-	-	-	-	-	341,250,390
Other revenues	12,738,591	8,400	10,609,758	-	-	-	23,356,749
Contributions and donations, net	-	1,868,238	-	-	-	-	1,868,238
Investment income	5,404,469	4,223,312	-	-	-	-	9,627,781
Net assets released from restrictions for operations	15,612,408	-	150,190	-	-	-	15,762,598
Total revenues	375,005,858	6,099,950	10,759,948	-	-	-	391,865,756
Expenses							
Salaries and wages	170,680,248	2,131,453	6,227,551	57,090	-	-	179,096,342
Benefits	41,717,189	542,741	1,590,017	14,600	-	-	43,864,547
Supplies and miscellaneous	133,500,477	1,200,504	2,039,051	-	250	-	136,740,282
Interest	1,234,420	-	-	-	-	-	1,234,420
Depreciation and amortization	18,176,443	27,831	186,301	-	-	-	18,390,575
Total expenses	365,308,777	3,902,529	10,042,920	71,690	250	-	379,326,166
Operating income (loss)	9,697,081	2,197,421	717,028	(71,690)	(250)	-	12,539,590
Loss on Disposal of Property, Plant and Equipment	(655,403)	-	(464,238)	-	-	-	(1,119,641)
Change in Equity Interest in Net Assets of the Foundation	2,197,421	-	-	-	-	(2,197,421)	-
Excess (deficiency) of revenues over expenses	11,239,099	2,197,421	252,790	(71,690)	(250)	(2,197,421)	11,419,949

CCMC Corporation and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets
Year Ended September 30, 2015

	Hospital and Subsidiaries	Foundation	Affiliates	Corporation	Ventures	Eliminations	Consolidated
Unrestricted Net Assets (Continued)							
Excess (deficiency) of revenues over expenses (from previous page)	$ 11,239,099	$ 2,197,421	$ 252,790	$ (71,690)	$ (250)	$ (2,197,421)	$ 11,419,949
Transfer from affiliated organizations, net	(909,390)	-	-	909,390	-	-	-
Unrealized gain on investments	(3,852,126)	(6,601,171)	-	-	-	-	(10,453,297)
Change in funded status of pension and post-retirement plans	(6,921,768)	-	-	-	-	-	(6,921,768)
Net assets released from restrictions for capital	719,323	-	-	-	-	-	719,323
Assets restricted for Medical Center use	-	4,403,750	-	-	-	(4,403,750)	-
Change in equity interest in the net assets of the Foundation	(6,601,171)	-	-	-	-	6,601,171	-
Increase (decrease) in unrestricted net assets	(6,326,033)	-	252,790	837,700	(250)	-	(5,235,793)
Temporarily Restricted Net Assets							
Unrealized gains on investments	-	(348,824)	-	-	-	-	(348,824)
Income from investments	-	223,171	-	-	-	-	223,171
Transfer from affiliated organizations, net	7,849,025	(7,960,727)	169,991	-	-	-	58,289
Net assets released from restrictions for operations	(15,612,408)	-	(150,190)	-	-	-	(15,762,598)
Net assets released from restrictions for capital	(719,323)	-	-	-	-	-	(719,323)
Change in equity interest in the net assets of the Foundation	(125,653)	-	-	-	-	125,653	-
Assets restricted for Medical Center use	-	(4,403,750)	-	-	-	4,403,750	-
Bequests, gifts and grants	11,849,856	7,960,727	-	-	-	-	19,810,583
Increase (decrease) in temporarily restricted net assets	3,241,497	(4,529,403)	19,801	-	-	4,529,403	3,261,298
Permanently Restricted Net Assets							
Bequests, gifts and grants	-	498,716	-	-	-	-	498,716
Change in equity interest in the net assets of the Foundation	498,716	-	-	-	-	(498,716)	-
Change in funds held by others	(7,600,518)	-	-	-	-	-	(7,600,518)
Increase in permanently restricted net assets	(7,101,802)	498,716	-	-	-	(498,716)	(7,101,802)
Net Assets (Deficiency) at Beginning of Year	228,753,024	104,410,463	4,343,887	(389,707)	(18,853)	(104,411,463)	232,687,351
Net Assets (Deficiency) at End of Year	$ 218,566,686	$ 100,379,776	$ 4,616,478	$ 447,993	$ (19,103)	$ (100,380,776)	$ 223,611,054