

THE CHARLOTTE HUNGERFORD HOSPITAL

FINANCIAL STATEMENTS

September 30, 2015 and 2014

THE CHARLOTTE HUNGERFORD HOSPITAL

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CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
BALANCE SHEETS	3
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS	4
STATEMENTS OF CASH FLOWS.....	6
NOTES TO THE FINANCIAL STATEMENTS.....	7

INDEPENDENT AUDITOR'S 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 sheet as of September 30, 2015, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

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

(Continued)

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, 2015, and the results of its operations, changes in its net assets and its 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 The Charlotte Hungerford Hospital as of September 30, 2014, were audited by Saslow Lufkin & Buggy, LLP who combined with Crowe Horwath LLP as of July 1, 2015, and whose report dated December 11, 2014, expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, stylized font.

Simsbury, Connecticut
January 12, 2015

THE CHARLOTTE HUNGERFORD HOSPITAL
BALANCE SHEETS
For the years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,598,887	\$ 7,223,350
Accounts receivable (less allowance for doubtful accounts of \$2,065,788 in 2015 and \$2,333,698 in 2014)	13,732,468	13,152,579
Inventories	1,969,907	1,952,261
Other current assets	<u>1,624,373</u>	<u>2,171,770</u>
Total current assets	22,925,635	24,499,960
Assets whose use is limited:		
Investments held in trust for estimated self-insurance liabilities	3,554,247	4,696,499
Donor restricted assets	6,997,698	7,260,499
Beneficial interest in assets held in trust by others	<u>19,644,506</u>	<u>17,889,422</u>
Total assets whose use is limited	30,196,451	29,846,420
Long-term investments	39,204,252	39,735,759
Property, plant and equipment:		
Land	155,467	155,467
Land improvements	6,065,958	5,835,598
Buildings	85,337,412	82,924,326
Fixed equipment	17,320,195	17,488,505
Moveable equipment	<u>51,167,168</u>	<u>48,276,083</u>
	160,046,200	154,679,979
Less: accumulated depreciation	<u>(120,950,456)</u>	<u>(116,381,671)</u>
	39,095,744	38,298,308
Construction in progress	<u>737,026</u>	<u>941,793</u>
Total property, plant and equipment	39,832,770	39,240,101
Other assets	<u>1,088,648</u>	<u>1,077,802</u>
Total assets	<u>\$ 133,247,756</u>	<u>\$ 134,400,042</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 8,062,260	\$ 7,275,470
Estimated amounts due to third-party reimbursement agencies	2,797,659	1,877,375
Accrued salaries, wages and fees	4,471,292	4,456,310
Other current liabilities	<u>531,004</u>	<u>715,526</u>
Total current liabilities	15,862,215	14,324,681
Estimated self-insurance liabilities	3,763,019	3,971,340
Accrued pension liability	<u>42,419,641</u>	<u>31,585,188</u>
Total liabilities	62,044,875	49,881,209
Net assets:		
Unrestricted (\$37,206,909 in 2015 and \$37,406,338 in 2014 designated by the Board of Governors)	44,560,677	59,368,912
Temporarily restricted	3,245,317	3,508,118
Permanently restricted	<u>23,396,887</u>	<u>21,641,803</u>
Total net assets	<u>71,202,881</u>	<u>84,518,833</u>
Total liabilities and net assets	<u>\$ 133,247,756</u>	<u>\$ 134,400,042</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted revenues:		
Net patient service revenues	\$ 116,129,644	\$ 117,321,553
Provision for bad debts, net of recoveries	<u>(2,393,914)</u>	<u>(2,699,503)</u>
Net patient service revenues less provision for bad debts	113,735,730	114,622,050
Other revenues	<u>6,810,204</u>	<u>7,533,927</u>
Total revenues	120,545,934	122,155,977
Expenses:		
Salaries and wages	57,705,714	59,008,896
Services	18,746,264	18,216,921
Supplies	15,718,481	16,269,014
Employee benefits	14,254,317	14,032,091
Depreciation and amortization	5,917,387	5,899,420
Physician fees	5,055,157	4,330,528
Repairs and maintenance	2,174,074	2,228,556
Insurance	2,407,852	1,997,754
Interest and bond expenses	<u>-</u>	<u>15,651</u>
Total expenses	<u>121,979,246</u>	<u>121,998,831</u>
Operating income	(1,433,312)	157,146
Other income (expenses):		
Investment and other income, net	2,896,009	2,689,094
Non-operating expenses	(289,870)	-
Gifts and bequests	323,459	110,807
Gain from equity method investments	<u>31,113</u>	<u>65,999</u>
Total other income	<u>2,960,711</u>	<u>2,865,900</u>
Excess of revenues over expenses	<u>\$ 1,527,399</u>	<u>\$ 3,023,046</u>

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

THE CHARLOTTE HUNGERFORD HOSPITAL
 STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
 For the years ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 1,527,399	\$ 3,023,046
Change in unrealized (losses) gains on investments	(2,530,303)	2,991,314
Pension related changes other than net periodic pension costs	<u>(13,805,331)</u>	<u>(7,784,797)</u>
Change in unrestricted net assets	(14,808,235)	(1,770,437)
Temporarily restricted net assets:		
Investment income	145,921	82,523
Contributions	175,117	253,117
Change in unrealized (losses) gains on investments	(288,680)	126,779
Net assets released from restrictions	<u>(295,159)</u>	<u>(269,043)</u>
Change in temporarily restricted net assets	(262,801)	193,376
Permanently restricted net assets:		
Change in beneficial interest in assets held in trust by others	<u>1,755,084</u>	<u>1,540,115</u>
Change in permanently restricted net assets	<u>1,755,084</u>	<u>1,540,115</u>
Change in net assets	(13,315,952)	(36,946)
Net assets, beginning of year	<u>84,518,833</u>	<u>84,555,779</u>
Net assets, end of year	<u>\$ 71,202,881</u>	<u>\$ 84,518,833</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (13,315,952)	\$ (36,946)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	5,917,387	5,899,420
Realized gains on investments	(1,460,055)	(1,295,275)
Unrealized losses (gains) on investments	2,818,985	(3,118,093)
Increase in beneficial interest in assets held in trust by others	(1,755,084)	(1,540,115)
Unrealized losses on donor restricted assets	262,801	-
Provision for bad debts, net of recoveries	2,393,914	2,699,503
(Gain) loss on disposal of equipment	(2,304)	364,968
Periodic pension expense	(2,970,878)	(3,052,627)
Accrued pension liability	13,805,331	7,784,797
Changes in:		
Accounts receivable	(2,973,803)	(2,347,611)
Inventories	(17,646)	139,985
Other current assets	547,397	553,076
Other assets, net	(48,452)	19,859
Accounts payable	786,790	(13,872)
Estimated amounts due to third-party reimbursement agencies	920,284	248,860
Accrued salaries, wages and fees	14,982	278,638
Other current liabilities	(184,522)	356,728
Estimated self-insurance liabilities	(208,321)	444,122
	4,530,854	7,385,417
Net cash provided by operating activities	4,530,854	7,385,417
Cash flows from investing activities:		
Proceeds from sales of investments	5,347,812	7,755,404
Purchases of investments	(5,032,983)	(5,049,605)
Purchases of property, plant and equipment	(6,470,146)	(8,597,104)
	(6,155,317)	(5,891,305)
Net cash used in investing activities	(6,155,317)	(5,891,305)
Cash flows from financing activities:		
Payments on KDA long-term debt	-	(3,219,468)
	-	(3,219,468)
Net cash used in financing activities	-	(3,219,468)
Net change in cash and cash equivalents	(1,624,463)	(1,725,356)
Cash and cash equivalents, beginning of year	7,223,350	8,948,706
Cash and cash equivalents, end of year	\$ 5,598,887	\$ 7,223,350
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ -	\$ 15,651

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

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

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.

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$2,080,269 and \$2,331,914 of grant revenue, included in other revenues, for the years ended September 30, 2015 and 2014, respectively. Grant receipts in excess of revenues recognized are presented as deferred grant support. Deferred grant support of \$300,778 and \$495,090 is included in other current liabilities in the accompanying balance sheets as of September 30, 2015 and 2014, respectively.

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. Pledges receivable are included within other assets on the balance sheets.

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

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

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

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

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

All of the Hospital's investments, as of September 30, 2015 and 2014, were classified as available for sale. Available for sale securities may be sold prior to maturity and are carried at fair value.

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Fair Value Measurements - The Hospital classifies its investments in accordance with FASB ASC 820, "Fair Value Measurements and Disclosures", which defines fair value, establishes a framework for measuring fair value under GAAP and requires certain disclosures about fair value measurements (see Note 5). The definition of fair value under FASB ASC 820 focuses on the price that would be received to sell the asset, which is referred to as the exit price.

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 2015 or 2014.

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

The Hospital accounts for uncertain tax positions in accordance with provisions of FASB ASC 740, "Income Taxes" which provides a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. The Hospital may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The Hospital does not have any uncertain tax positions as of September 30, 2015 or 2014. As of September 30, 2015 or 2014, the Hospital did not record any penalties or interest associated with uncertain tax positions. The Hospital would recognize interest and/or penalties related to income tax matters in income tax expense. 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 \$5,879,781 and \$5,861,814 for the years ended September 30, 2015 and 2014, respectively.

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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:

	<u>Ownership Percentage</u>
Advanced Medical Imaging of Northwest CT, LLC (AMI)	50%
MedConn Collection Agency, LLC (MedConn)	25%
Urology Center of Northwest CT, LLC (Urology)	62.5%

The Hospital has recorded its share of AMI's net income of \$506,231 and \$479,142 within other revenues as of September 30, 2015 and 2014, 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 Hospital has recorded an asset of \$42,886 and \$29,058 related to the ownership of Urology as of September 30, 2015 and 2014, respectively. The Hospital has recorded its share of MedConn and Urology's net income of \$31,113 and \$65,999 in gain from equity method investments as of September 30, 2015 and 2014.

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

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).

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net assets or the change in net assets.

Subsequent Events: Subsequent events have been evaluated through January 12, 2015, 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.

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 3 - REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE

The following tables reconcile gross revenues to net revenues from services to patients:

	2015				
	<u>Medicare</u>	Medicaid and Medicaid <u>HMOs</u>	<u>Blue Cross</u>	<u>Other</u>	<u>Total</u>
Gross revenues from services to patients	\$ 137,901,587	\$ 61,199,842	\$ 27,818,056	\$ 56,786,623	\$ 283,706,108
Deductions and allowances	<u>(81,418,666)</u>	<u>(43,357,625)</u>	<u>(12,626,338)</u>	<u>(30,173,835)</u>	<u>(167,576,464)</u>
Net revenues from services to patients	<u>\$ 56,482,921</u>	<u>\$ 17,842,217</u>	<u>\$ 15,191,718</u>	<u>\$ 26,612,788</u>	<u>\$ 116,129,644</u>

	2014				
	<u>Medicare</u>	Medicaid and Medicaid <u>HMOs</u>	<u>Blue Cross</u>	<u>Other</u>	<u>Total</u>
Gross revenues from services to patients	\$ 125,904,349	\$ 54,105,512	\$ 29,851,789	\$ 55,241,123	\$ 265,102,773
Deductions and allowances	<u>(69,363,958)</u>	<u>(38,751,936)</u>	<u>(13,114,968)</u>	<u>(26,550,358)</u>	<u>(147,781,220)</u>
Net revenues from services to patients	<u>\$ 56,540,391</u>	<u>\$ 15,353,576</u>	<u>\$ 16,736,821</u>	<u>\$ 28,690,765</u>	<u>\$ 117,321,553</u>

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.

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 3 - REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE (Continued)

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, 2015 and 2014. The Hospital's provision for bad debts before recoveries totaled \$3,985,617 and \$4,039,520 for 2015 and 2014, respectively. The Hospital's bad debt recoveries totaled \$1,591,703 and \$1,340,017 for 2015 and 2014, respectively. The Hospital did not change its charity care or financial assistance policy during 2015 or 2014.

At September 30, 2015 and 2014, 64% and 55% of net patient accounts receivable were from governmental payors (Medicare and Medicaid) and 36% and 45% 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.

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 \$695,328 and \$1,349,407 for the years ended September 30, 2015 and 2014, respectively. The Hospital released assets whose use was restricted to fund free-care of \$37,174 and \$28,687, for the years ending September 30, 2015 and 2014, respectively.

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 3 - REVENUES FROM SERVICES TO PATIENTS AND CHARITY CARE (Continued)

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

Market values of investments, as of September 30, 2015 and 2014, are summarized as follows:

	<u>2015</u>	<u>2014</u>
Long-term investments: (including Board and donor restricted)		
Equity securities	\$ 28,652,281	\$ 31,849,301
Corporate bonds	7,343,599	3,280,676
Mutual and exchange traded funds	5,601,435	7,123,695
Money market funds	3,269,362	3,481,493
Certificates of deposit	1,222,102	1,146,557
Municipal bonds	112,545	113,801
U.S. treasury and government agencies	<u>626</u>	<u>735</u>
Total	<u>\$ 46,201,950</u>	<u>\$ 46,996,258</u>
Investments held in trust for estimated self-insurance liabilities:		
Mutual funds	\$ 2,249,107	\$ 3,334,012
Money market funds	<u>1,305,140</u>	<u>1,362,487</u>
	<u>\$ 3,554,247</u>	<u>\$ 4,696,499</u>

Beneficial interest in assets held in trust of \$19,644,506 and \$17,889,422, as of September 30, 2015 and 2014, respectively, are held by bank trustees and are not under the Hospital's investment control. These assets are invested within diversified portfolios.

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 4 - INVESTMENTS (Continued)

Investment and other income net is comprised of the following for the years ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Income, gains and (expenses):		
Interest and dividend income	\$ 1,814,779	\$ 1,706,268
Realized and unrealized (losses) gains on securities	(1,358,928)	4,413,368
Expenses	<u>(232,904)</u>	<u>(229,926)</u>
Total	<u>\$ 222,947</u>	<u>\$ 5,889,710</u>

NOTE 5 - FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

U.S. GAAP defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Hospital's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Hospital has the ability to access as of the measurement date. The fair values of money market funds, exchange traded funds, mutual funds, the self insurance trust and equity securities that are readily marketable are determined by obtaining quoted prices from nationally recognized securities exchanges. The unit investment trust is valued at the closing price reported on the active market on which the individual trust is traded.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. The fair values of the Hospital's Level 2 corporate, foreign, U.S. treasury and government agency and municipal bonds were determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. The fair value of certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability. Funds held in trust by others represents 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.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The following table presents the financial instruments, carried at fair value as of September 30, 2015, by the valuation hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 3,269,362	\$ -	\$ -	\$ 3,269,362
Certificates of deposit	-	1,222,102	-	1,222,102
Equity securities:				
Industrials	4,842,500	-	-	4,842,500
Consumer discretionary	4,383,341	-	-	4,383,341
Financials	3,984,093	-	-	3,984,093
Technology	3,513,023	-	-	3,513,023
Consumer staples	3,512,054	-	-	3,512,054
Health care	3,230,447	-	-	3,230,447
Energy	2,680,096	-	-	2,680,096
Real estate	1,968,485	-	-	1,968,485
Utilities	538,242	-	-	538,242
Corporate bonds	-	7,343,599	-	7,343,599
Municipal bonds	-	112,545	-	112,545
Mutual and exchange traded funds:				
International	2,460,530	-	-	2,460,530
Index funds	1,585,824	-	-	1,585,824
Fixed income	800,557	-	-	800,557
Industry funds	472,803	-	-	472,803
Materials	139,728	-	-	139,728
U.S. large cap	88,016	-	-	88,016
U.S. mid and small cap	53,977	-	-	53,977
U.S. treasury and government agencies	-	626	-	626
Self-insurance trust	3,554,247	-	-	3,554,247
Funds held in trust by others	-	-	19,644,506	19,644,506
Total	<u>\$ 41,077,325</u>	<u>\$ 8,678,872</u>	<u>\$ 19,644,506</u>	<u>\$ 69,400,703</u>

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 3,481,493	\$ -	\$ -	\$ 3,481,493
Certificates of deposit	-	1,146,557	-	1,146,557
Equity securities:				
Industrials	7,815,814	-	-	7,815,814
Consumer staples	3,315,607	-	-	3,315,607
Consumer discretionary	3,413,657	-	-	3,413,657
Health care	4,188,777	-	-	4,188,777
Energy	2,785,878	-	-	2,785,878
Financials	3,773,075	-	-	3,773,075
Technology	5,495,417	-	-	5,495,417
Utilities	341,438	-	-	341,438
Real estate	719,638	-	-	719,638
Corporate bonds	-	3,280,676	-	3,280,676
Municipal bonds	-	113,801	-	113,801
Mutual and exchange traded funds:				
Materials	231,378	-	-	231,378
Index funds	1,166,805	-	-	1,166,805
Industry funds	69,510	-	-	69,510
International	1,604,262	-	-	1,604,262
U.S. large cap	95,448	-	-	95,448
U.S. mid and small cap	56,401	-	-	56,401
Fixed income	3,899,891	-	-	3,899,891
U.S. treasury and government agencies	-	735	-	735
Self-insurance trust	4,696,499	-	-	4,696,499
Funds held in trust by others	-	-	17,889,422	17,889,422
Total	<u>\$ 47,150,988</u>	<u>\$ 4,541,769</u>	<u>\$ 17,889,422</u>	<u>\$ 69,582,179</u>

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

A rollforward as of September 30, 2015 and 2014, of the amounts classified as Level 3 investments, within the fair value hierarchy is as follows:

	<u>Funds Held in Trust by Others</u>
Balance as of October 1, 2013	\$ 16,349,307
Interest and dividends	338,851
Distributions	(557,455)
Net realized gains	286,021
Fees	(99,751)
Net unrealized gains	<u>1,572,449</u>
Balance as of September 30, 2014	17,889,422
Interest and dividends	414,231
Distributions	(547,525)
Net realized gains	173,157
Fees	(97,595)
Net unrealized gains	<u>1,812,816</u>
Balance as of September 30, 2015	\$ <u>19,644,506</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 2015 and 2014. 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.

As of September 30, 2015 and 2014, 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 - 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 and funds held in trust by others. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor restrictions.

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 6 - RESTRICTED ASSETS (Continued)

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 Hospital's endowment as of September 30, 2015 and 2014, was made up of investments restricted by donors of \$23,396,887 and \$21,641,803.

Changes in endowment for the year ended September 30, 2015, are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at beginning of year	\$ -	\$ 21,641,803	\$ 21,641,803
Investment return:			
Investment income, net	799,877	-	799,877
Net change in market value	-	1,755,084	1,755,084
Appropriations	<u>(799,877)</u>	<u>-</u>	<u>(799,877)</u>
Balance at end of year	<u>\$ -</u>	<u>\$ 23,396,887</u>	<u>\$ 23,396,887</u>

Changes in endowment for the year ended September 30, 2014, are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at beginning of year	\$ -	\$ 20,101,688	\$ 20,101,688
Investment return:			
Investment income, net	2,068,079	-	2,068,079
Net change in market value	-	1,540,115	1,540,115
Appropriations	<u>(2,068,079)</u>	<u>-</u>	<u>(2,068,079)</u>
Balance at end of year	<u>\$ -</u>	<u>\$ 21,641,803</u>	<u>\$ 21,641,803</u>

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 6 - 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, 2015 and 2014, 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. During the years ended September 30, 2015 and 2014 the Hospital appropriated \$799,877 and \$2,068,079, respectively, of temporary restricted funds for expenditure as donor restrictions on those funds were met.

Temporarily restricted net assets are available for the following purposes as of September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Healthcare related services	\$ 335,364	\$ 491,826
Facility improvement	965,264	1,014,917
Purchases of equipment	513,000	513,000
Clinical educator	<u>1,431,689</u>	<u>1,488,375</u>
 Total	 <u>\$ 3,245,317</u>	 <u>\$ 3,508,118</u>

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events by donors as follows:

	<u>2015</u>	<u>2014</u>
Facility improvement	\$ 239,226	\$ 196,323
Clinical educator	<u>55,933</u>	<u>72,720</u>
 Total	 <u>\$ 295,159</u>	 <u>\$ 269,043</u>

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 6 - RESTRICTED ASSETS (Continued)

Endowment and other funds permanently restricted as of September 30, 2015 and 2014, consist of the following:

	<u>2015</u>	<u>2014</u>
Beneficial trusts	\$ 19,644,506	\$ 17,889,422
Held in perpetuity, income restricted for operations	<u>3,752,381</u>	<u>3,752,381</u>
Total	<u>\$ 23,396,887</u>	<u>\$ 21,641,803</u>

NOTE 7 - PROFESSIONAL AND GENERAL LIABILITY AND WORKERS' COMPENSATION INSURANCE

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

<u>Policy Year</u>	<u>Deductible Amounts Per Claim/ Aggregate</u>	<u>Excess Coverage Limits</u>	<u>Type of Coverage</u>
Fiscal 1982-1984	\$100,00/500,000	\$ 10,000,000	Occurrence
Fiscal 1985	\$250,000/750,000	\$ 15,000,000	Occurrence
Fiscal 1986	\$500,000/1,500,000	\$ 15,000,000	Occurrence
Fiscal 1987-1988	\$1,000,000/3,000,000	\$ 20,000,000	GL Occurrence / PL Claims-made
Fiscal 1989-1990	\$1,000,000/3,000,000	\$ 25,000,000	GL Occurrence / PL Claims-made
Fiscal 1991-2001	\$1,000,000/3,000,000	\$ 30,000,000	GL Occurrence / PL Claims-made
Fiscal 2002	\$1,000,000/3,000,000	\$ 25,000,000	GL Occurrence / PL Claims-made
Fiscal 2003-2009	\$1,000,000/3,000,000	\$ 20,000,000	GL Occurrence / PL Claims-made
Fiscal 2010-2015	\$1,000,000/4,000,000	\$ 20,000,000	GL Occurrence / PL Claims-made

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

<u>Policy Year</u>	<u>Self-Insured Retention /Aggregate</u>	<u>Excess Coverage Limits</u>	<u>Type of Coverage</u>
Fiscal 1993-2002	\$300,000/1,000,000	Statutory	Occurrence
Fiscal 2003	\$350,000/1,000,000	Statutory	Occurrence
Fiscal 2004-2012	\$325,000/1,000,000	Statutory	Occurrence
Fiscal 2013-2015	\$400,000/1,000,000	Statutory	Occurrence

THE CHARLOTTE HUNGERFORD HOSPITAL
 NOTES TO THE FINANCIAL STATEMENTS
 For the years ended September 30, 2015 and 2014

NOTE 7 - PROFESSIONAL AND GENERAL LIABILITY AND WORKERS' COMPENSATION INSURANCE (Continued)

Professional, general liability and workers' compensation claims that fall within the Hospital's self-insurance levels have been asserted against the Hospital by various claimants. The claims are in various stages of activity and resolution. There are also known incidents that have occurred through September 30, 2015, 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, 2015.

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

Estimated self-insurance liabilities include estimates for claim obligations related to professional liability, general liability and workers' compensation claims. As of September 30, 2015 and 2014, the Hospital maintains a commercial policy for its employees' medical coverage. In fiscal years 2015 and 2014, 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 2020 and beyond. 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, 2015:

	<u>Operating Leases</u>	<u>Building Rentals</u>
For the year ended September 30:		
2016	\$ 275,076	\$ 925,370
2017	-	429,480
2018	-	389,897
2019	-	267,395
2020	-	134,460
Thereafter	-	<u>537,838</u>
Total minimum lease payments	<u>\$ 275,076</u>	<u>\$ 2,684,440</u>

Rental expense was \$1,707,428 and \$2,190,561 for the years ended September 30, 2015 and 2014, respectively and is included in "Services" on the statements of operations and changes in net assets..

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 9 - PENSION PLAN

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

The Hospital's funding policy for the Plan is to contribute each year the amount as required by the Employee Retirement Income Security Act of 1974, as determined by actuarial valuations developed by the Plan's actuary. Such funding requirements have been met for fiscal years 2015 and 2014.

Significant disclosures relating to the Plan as of September 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Change in benefit obligations:		
Benefit obligations at beginning of year	\$ 116,600,051	\$ 103,281,570
Interest cost	5,068,072	5,168,632
Actuarial loss	7,907,890	11,825,906
Benefits paid	<u>(3,972,650)</u>	<u>(3,676,057)</u>
 Benefit obligations at end of year	 <u>\$ 125,603,363</u>	 <u>\$ 116,600,051</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 85,014,863	\$ 76,548,552
Actual return on plan assets	(81,465)	8,648,346
Employer contributions	3,720,000	3,850,000
Expenses paid	(1,497,026)	(355,978)
Benefits paid	<u>(3,972,650)</u>	<u>(3,676,057)</u>
 Fair value of plan assets at end of year	 <u>\$ 83,183,722</u>	 <u>\$ 85,014,863</u>
Accrued pension liability:		
Unfunded status and accrued pension liability	<u>\$ (42,419,641)</u>	<u>\$ (31,585,188)</u>

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 9 - PENSION PLAN (Continued)

	<u>2015</u>	<u>2014</u>
Components of net periodic benefit cost:		
Service cost	\$ 850,000	\$ 400,000
Interest cost	5,068,072	5,168,632
Expected return on plan assets	(6,286,593)	(5,525,847)
Net amortization and deferral	173,007	173,007
Recognized net loss	<u>944,635</u>	<u>703,673</u>
Net periodic benefit cost	<u>\$ 749,121</u>	<u>\$ 919,465</u>

Assumptions:

	<u>2015</u>	<u>2014</u>
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	4.58%	4.42%
Rate of compensation increase	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost:		
Discount rate	4.42%	5.10%
Rate of compensation increase	N/A	N/A
Expected long-term return on plan assets	7.75%	7.50%

The accumulated benefit obligation at September 30, 2015 and 2014, under the Hospital's Plan was \$125,603,363 and \$116,600,051, respectively.

The Hospital expects to contribute \$3,480,000 to its pension plan for the fiscal year beginning October 1, 2015.

Amounts recorded in unrestricted net assets as of September 30, 2015 and 2014 not yet amortized as a component of net periodic benefit cost are as follows:

	<u>2015</u>	<u>2014</u>
Unamortized prior service costs	\$ 4,537,979	\$ 4,710,986
Unamortized actuarial loss	<u>48,655,493</u>	<u>34,679,246</u>
Total	<u>\$ 53,193,472</u>	<u>\$ 39,390,232</u>

The amortization of prior service costs expected to be recognized in net periodic benefit costs for the year ended September 30, 2016 is \$173,007. The amortization of actuarial loss expected to be recognized in net periodic benefit costs for the year ended September 30, 2016 is \$1,132,596.

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

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

NOTE 9 - PENSION PLAN (Continued)

The Hospital's target and actual pension plan weighted average asset allocations at September 30, 2015 by asset category was as follows:

<u>Asset Category</u>	<u>Target Allocations</u>	<u>Actual Allocations</u>
Equity securities	62%	65%
Debt securities	31%	30%
Short-term investments and other	<u>7%</u>	<u>5%</u>
Total	<u>100%</u>	<u>100%</u>

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

The fair values of the Hospital's pension plan assets by asset category, are as follows, as of September 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common and preferred stocks	\$ 40,652,066	\$ -	\$ -	\$ 40,652,066
Exchange traded funds	18,675,024	-	-	18,675,024
Money market funds	4,244,356	-	-	4,244,356
Mutual funds	2,690,104	-	-	2,690,104
Unit investment trust	615,690	-	-	615,690
Corporate and foreign bonds	-	12,948,982	-	12,948,982
Certificates of deposit	-	1,628,614	-	1,628,614
U.S. treasury and government agencies	-	1,173,896	-	1,173,896
Municipal bonds	-	359,240	-	359,240
Other	-	195,750	-	195,750
Total	<u>\$ 66,877,240</u>	<u>\$ 16,306,482</u>	<u>\$ -</u>	<u>\$ 83,183,722</u>

THE CHARLOTTE HUNGERFORD HOSPITAL
NOTES TO THE FINANCIAL STATEMENTS
For the years ended September 30, 2015 and 2014

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, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common and preferred stocks	\$ 36,569,570	\$ -	\$ -	\$ 36,569,570
Exchange traded funds	22,239,146	-	-	22,239,146
Mutual funds	6,417,477	-	-	6,417,477
Money market funds	5,595,588	-	-	5,595,588
Unit investment trust	798,099	-	-	798,099
Corporate and foreign bonds	-	11,241,712	-	11,241,712
Certificates of deposit	-	1,204,388	-	1,204,388
U.S. treasury and government agencies	-	459,151	-	459,151
Municipal bonds	-	360,562	-	360,562
Other	-	129,170	-	129,170
Total	<u>\$ 71,619,880</u>	<u>\$ 13,394,983</u>	<u>\$ -</u>	<u>\$ 85,014,863</u>

The valuation methods used to value these assets are described in Note 5.

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

2016	\$ 4,224,906
2017	4,431,393
2018	4,784,020
2019	5,160,335
2020	5,615,972
Years 2021-2025	32,994,185

The Hospital also has established a 403(b) plan covering all full-time and part-time employees of the Hospital. Participants may elect to contribute a specific percentage of their compensation in pre-tax deferrals subject to established Internal Revenue Code limitations. For the years ended September 30, 2015 and 2014, the Hospital contributed \$966,910 and \$898,297, respectively, to the 403(b) plan.

NOTE 10 - 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, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Patient care services	\$ 106,933,527	\$ 107,094,263
General and administrative	<u>15,045,719</u>	<u>14,904,568</u>
Total	<u>\$ 121,979,246</u>	<u>\$ 121,998,831</u>

NOTE 11 - COMMITMENTS AND CONTINGENCIES

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

FASB ASC 410 "*Asset Retirement and Environmental Obligations*" addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets such as asbestos-containing facilities, when the amount of the liability can be reasonably estimated. Management currently believes that two facilities under their control could require a fair market value assessment of their Asset Retirement Obligation (ARO). As of September 30, 2015 and 2014, 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 an estimate of the removal cannot be determined 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 reasonable estimate can be made.

NOTE 12 - 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.