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**THE CONNECTICUT HOSPICE, INC., AND  
THE CONNECTICUT HOSPICE INSTITUTE  
(A/K/A THE JOHN D. THOMPSON HOSPICE INSTITUTE  
FOR EDUCATION, TRAINING AND RESEARCH, INC.)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2016 AND 2015**

**THE CONNECTICUT HOSPICE, INC., AND  
THE CONNECTICUT HOSPICE INSTITUTE  
(A/K/A THE JOHN D. THOMPSON HOSPICE INSTITUTE  
FOR EDUCATION, TRAINING AND RESEARCH, INC.)**

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## Independent Auditors' Report

To the Board of Directors  
The Connecticut Hospice, Inc., and The Connecticut Hospice Institute  
(a/k/a The John D. Thompson Hospice Institute for Education, Training and Research, Inc.)

We have audited the accompanying consolidated financial statements of The Connecticut Hospice, Inc., and The Connecticut Hospice Institute (a/k/a The John D. Thompson Hospice Institute for Education, Training and Research, Inc.), which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, and the related consolidated statements of activities and change in unrestricted net assets, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Connecticut Hospice, Inc., and The Connecticut Hospice Institute (a/k/a The John D. Thompson Hospice Institute for Education, Training and Research, Inc.) as of September 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Blum, Shapiro & Company, P.C.*

West Hartford, Connecticut  
August 15, 2017

**THE CONNECTICUT HOSPICE, INC., AND  
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(a/k/a The John D. Thompson Hospice Institute  
for Education, Training and Research, Inc.)**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 185,761	\$ 160,631
Short-term investments	-	219,675
Patient accounts receivable, less allowance for doubtful accounts of \$300,000 in 2016 and \$250,000 in 2015	1,658,893	1,860,146
Due from third party	1,901,017	1,430,624
Contribution receivable - short term	250,000	250,000
Inventories	213,530	198,753
Other current assets	209,908	211,984
Total current assets	<u>4,419,109</u>	<u>4,331,813</u>
<b>Property and Equipment, Net</b>	<u>20,216,523</u>	<u>20,912,302</u>
<b>Assets Held for Sale</b>	<u>332,200</u>	<u>332,200</u>
<b>Other Assets</b>		
Long-term investments	4,368,246	6,210,525
Contributions receivable - long term	250,000	250,000
Total other assets	<u>4,618,246</u>	<u>6,460,525</u>
<b>Total Assets</b>	<u>\$ 29,586,078</u>	<u>\$ 32,036,840</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable	\$ 3,566,454	\$ 4,088,601
Accrued liabilities	3,509,368	2,990,080
Due to related party	341,508	433,332
Due to third party	2,681,699	2,651,852
Liability under capital leases	20,215	41,408
Line of credit	2,421,442	2,286,887
Total current liabilities	<u>12,540,686</u>	<u>12,492,160</u>
<b>Net Assets</b>		
Unrestricted	14,211,326	16,915,543
Temporarily restricted	1,465,674	1,460,745
Permanently restricted	1,368,392	1,168,392
Total net assets	<u>17,045,392</u>	<u>19,544,680</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 29,586,078</u>	<u>\$ 32,036,840</u>

The accompanying notes are an integral part of the consolidated financial statements

**THE CONNECTICUT HOSPICE, INC., AND  
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**CONSOLIDATED STATEMENTS OF ACTIVITIES AND  
CHANGE IN UNRESTRICTED NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Net patient service revenue	\$ 27,036,579	\$ 28,269,537
Net assets released from restrictions	571,512	561,847
Provision for bad debts	(387,190)	(294,714)
Other revenue	80,653	86,364
Total unrestricted revenues, gains and other support	<u>27,301,554</u>	<u>28,623,034</u>
<b>Expenses</b>		
Employee compensation	16,472,607	16,279,934
Fringe benefits	3,093,458	2,795,374
Purchased services and supplies	8,983,988	8,422,568
Nonmedical general	1,477,350	1,530,276
Depreciation	741,543	751,226
Plant and utilities	535,761	552,770
Dietary	206,599	203,257
Interest	67,939	72,378
Total expenses	<u>31,579,245</u>	<u>30,607,783</u>
<b>Loss from Operations</b>	<u>(4,277,691)</u>	<u>(1,984,749)</u>
<b>Other Income</b>		
Unrestricted contributions	1,229,039	1,759,910
Net realized investment income	155,065	196,320
Net unrealized gain (loss) on investments	137,208	(462,991)
Transfer of underwater endowment funds	52,162	(52,162)
Net other income	<u>1,573,474</u>	<u>1,441,077</u>
<b>Change in Unrestricted Net Assets</b>	(2,704,217)	(543,672)
<b>Unrestricted Net Assets - Beginning of Year</b>	<u>16,915,543</u>	<u>17,459,215</u>
<b>Unrestricted Net Assets - End of Year</b>	<u>\$ 14,211,326</u>	<u>\$ 16,915,543</u>

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**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS  
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Unrestricted Net Assets</b>		
Change in unrestricted net assets	\$ <u>(2,704,217)</u>	\$ <u>(543,672)</u>
<b>Temporarily Restricted Net Assets</b>		
Net realized investment income	47,109	30,716
Net unrealized gain (loss) on investments	62,459	(82,878)
Contributions	519,035	561,101
Transfer of underwater endowment funds	(52,162)	52,162
Net assets released from restrictions	<u>(571,512)</u>	<u>(561,847)</u>
Increase (decrease) in temporarily restricted net assets	<u>4,929</u>	<u>(746)</u>
<b>Permanently Restricted Net Assets</b>		
Contributions	<u>200,000</u>	<u>200,000</u>
<b>Decrease in Net Assets</b>	(2,499,288)	(344,418)
<b>Net Assets - Beginning of Year</b>	<u>19,544,680</u>	<u>19,889,098</u>
<b>Net Assets - End of Year</b>	<u>\$ <u>17,045,392</u></u>	<u>\$ <u>19,544,680</u></u>

The accompanying notes are an integral part of the consolidated financial statements

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**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Decrease in net assets	\$ (2,499,288)	\$ (344,418)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	741,543	751,226
Bad debt expense	387,190	294,714
Net realized and unrealized (gains) losses on investments	(401,841)	318,833
Contributions restricted for long-term investment	(200,000)	(200,000)
(Increase) decrease in operating assets:		
Patient accounts receivable	(185,937)	(1,191,693)
Due to/from third party	(440,546)	338,802
Inventories and other current assets	(12,701)	(12,475)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(94,683)	844,529
Net cash provided by (used in) operating activities	<u>(2,706,263)</u>	<u>799,518</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment, net	(45,764)	(206,718)
Purchase of investments	(305,425)	(3,376,875)
Sale of investments	2,769,220	1,702,019
Net cash provided by (used in) investing activities	<u>2,418,031</u>	<u>(1,881,574)</u>
<b>Cash Flows from Financing Activities</b>		
Payments on capital lease obligations	(21,193)	(20,634)
Proceeds from contributions restricted for long-term investment	200,000	200,000
Net proceeds from (payments on) line of credit	134,555	(34,891)
Net cash provided by financing activities	<u>313,362</u>	<u>144,475</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	25,130	(937,581)
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>160,631</u>	<u>1,098,212</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u>\$ 185,761</u>	<u>\$ 160,631</u>
<b>Cash Paid During the Year for Interest</b>	\$ 67,939	\$ 72,378

The accompanying notes are an integral part of the consolidated financial statements



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**NOTE 1 - ORGANIZATION**

The Connecticut Hospice, Inc. (the Hospital) and The Connecticut Hospice Institute (a/k/a The John D. Thompson Hospice Institute for Education, Training and Research, Inc.) (the Institute) (collectively, the Organization) are both not-for-profit corporations located in Branford, Connecticut. The Institute is engaged principally in offering education, training, research, clerkships, internships and residencies to physicians, nurses, social workers and others pertaining to the care of patients with progressive and irreversible illnesses and their families. The Institute's mission is to extend the principles of palliative care and hospice services into the mainstream of medical practice and education regionally, nationally and internationally. The Institute is accredited by the Accreditation Council for Continuing Medical Education (ACCME) and has developed relationships with academic institutions throughout the Northeast, including Yale University and the University of Connecticut. The Hospital is engaged principally in providing inpatient and homecare services for patients with progressive and irreversible illnesses. The Hospital is accredited with commendation by The Joint Commission (TJC) with the first certification in the United States of America for a hospital in Advanced Palliative Care with no requirements for improvement identified. TJC also accredits the home care agency. The State of Connecticut Department of Public Health licenses and Medicare certifies the hospital, hospice and home care agency. The Hospital and Institute are financially interrelated and are under common management.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP).

The accompanying consolidated financial statements include the accounts of both the Hospital and the Institute. All intercompany accounts have been eliminated.

**Net Asset Categories**

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

**Unrestricted**

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

**Temporarily Restricted**

Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure. Temporarily restricted net assets as of September 30, 2016 and 2015, are available to support operations, capital expenditures and repayment of long-term debt.

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**Permanently Restricted**

Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity and that only the income earned thereon be available for operations. Permanently restricted net assets of \$1,368,392 and \$1,168,392 as of September 30, 2016 and 2015, respectively, are to be held in perpetuity, the income from which is expendable to support health care services and is included in investment income.

**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. Actual results could differ from those estimates. Significant estimates are made in the areas of patient accounts receivable and the estimated useful lives of property, plant and equipment.

**Federal Income Taxes**

The Hospital and Institute are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes pursuant to Section 501(a) of the Code.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash and investments in highly liquid securities. The Organization's deposits in financial institutions may, at times, exceed federal depository insurance limits. Management believes that its deposits are not subject to significant credit risk.

**Inventories**

Inventories, consisting principally of medical and pharmaceutical supplies, are stated at the lower of cost or market.

**Property and Equipment**

Property and equipment acquisitions and improvements thereon that individually exceed \$600 are capitalized at cost. The Organization provides for depreciation using the straight-line method over the estimated useful lives of the various assets, which range from 3 to 40 years. Repairs and maintenance are charged to expense as incurred.

**Investment Valuation and Income Recognition**

Investments are reported at fair value. Fair value is 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. See Note 4 for a discussion of fair value measurements.

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Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Investment income includes the Organization's gains and losses on investments bought and sold as well as held during the year.

**Operating Measure**

The Organization has defined an operating measure in the consolidated statements of activities whereby all support, revenue and expenses are considered operating except for contributions, investment income, and gains and losses from the Organization's endowment and other investments.

**Contributions**

Contributions are defined as voluntary, nonreciprocal transfers. Unrestricted and unconditional contributions are recognized as support when received or pledged, if applicable. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of such assets. When a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and change in unrestricted net assets as net assets released from restrictions. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

The Organization'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 are placed in service.

**Net Patient Service Revenue and Patient Accounts Receivable**

Net patient service revenue is reported at the established net realizable amounts from patients, third-party agencies and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party agencies. Net patient service revenue and patient accounts receivable are recorded when patient services are performed. Adjustments and settlements under reimbursement agreements with third-party agencies are accrued on an estimated basis in the period the related services are provided and adjusted in future periods, if necessary, as final settlements are determined and estimates are refined.

As of September 30, 2016 and 2015, 78% and 87%, respectively, of patient accounts receivable were due from federal and state governmental payors and 22% and 13%, respectively, were due from nongovernmental payors. Nongovernmental payors are primarily managed-care companies. As of September 30, 2016, the Hospital had approximately ten managed-care contracts. Risk of nonpayment from federal and state governmental payors and managed-care companies is considered minimal. Management has recorded an allowance for doubtful accounts that, in its opinion, is sufficient to provide for any risks related to nonpayment.

**Charity Care**

The Hospital's policy is to provide care to all patients and their families, regardless of their ability to pay for services.

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All care provided to patients that do not have the means to pay for services and that are not covered by Medicaid is considered to be charity care. Additionally, a significant amount of care is provided to patients covered by Medicare, Medicaid or other third parties, for which payment is substantially less than the cost of providing the care.

The Hospital estimates the amount of charity care approximated \$188,000 and \$336,000 for the years ended September 30, 2016 and 2015, respectively, and the total amount of free and unreimbursed patient care approximated \$2,266,000 and \$2,045,000 for the years ended September 30, 2016 and 2015, respectively. The Hospital depends on the success of its philanthropic programs to offset the costs of providing this charity care.

**Contributed Services**

Under GAAP, contributed services are recognized in the financial statements if they enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. General volunteer services do not meet these criteria for recognition. However, many volunteers have donated significant amounts of time in supporting the Organization's mission.

Volunteers assist the employees of the Organization in carrying out a wide array of services including art, bereavement, pastoral care, nursing, social work, groundskeeping, maintenance, development and clerical assistance. These volunteers are essential to the operations of the Organization. They enhance the quality of care provided to the patients and their families. Although they do not qualify for inclusion in the consolidated financial statements under GAAP, the estimated value of contributed services was \$2,063,000 and \$2,052,000 for the years ended September 30, 2016 and 2015, respectively.

**Subsequent Events**

In preparing these consolidated financial statements, management has evaluated subsequent events through August 15, 2017, which represents the date the consolidated financial statements were available to be issued.

**Reclassifications**

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

**NOTE 3 - TRANSACTIONS BETWEEN THE HOSPITAL AND THE INSTITUTE**

The Hospital and the Institute are related through common management and financial interrelation. The accounting records are separately maintained, and separate financial statements are prepared. The management and Board of Directors of the Institute, through a strategic alliance with the management and Board of Directors of the Hospital, enhance the Institute's programs in palliative care research, training and education.

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As strategically allied entities, the Hospital and the Institute periodically pay expenses and advance cash to each other in order to pay for operating expenses and capital additions.

The Hospital leases the facility used for clinical and administrative activities from the Institute under an operating lease that expires in 2021. Under this lease, effective May 6, 2001, the Hospital leases 23,489 square feet of the facility located at 100 Double Beach Road, Branford, Connecticut. Under this lease, the Hospital will pay \$284,160 per year through May 6, 2016. The succeeding five-year term was negotiated at the same rate, through 2021. Included in the lease are electricity, heat and hot water. Rental income and expenses under this lease have been eliminated in the accompanying consolidated financial statements.

The Hospital also purchased certain administrative, management, dietary, housekeeping and system technology services from the Institute for a fee of \$375,000 and \$416,667 per month for the years ended September 30, 2016 and 2015, respectively. This amount is determined annually.

**NOTE 4 - INVESTMENTS**

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

**Level 1**

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

**Level 2**

Inputs to the valuation methodology include:

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

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

**Level 3**

Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The Organization has no Level 3 investments at September 30, 2016 and 2015.

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The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

**Common Stocks**

Common stocks are valued at the closing price reported in the active market in which the individual securities are traded.

**Mutual Funds**

Mutual funds are valued at the quoted net asset value of shares held by the Hospital at year end.

**Structured Products**

Structured products are valued based on estimated values obtained from third parties or issuers based on underlying securities of the structured product that are traded on inactive markets.

**Corporate and Municipal Bonds**

Corporate and municipal bonds are valued based on yields currently available on comparable securities of issuers with similar durations and credit ratings.

**U.S. Government and Agency Securities**

U.S. Government and agency securities are valued at the closing price reported in the active market in which the individual securities are traded.

There have been no changes in the methodologies used at September 30, 2016 and 2015.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization 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 fair value measurement at the reporting date.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following tables set forth by level, within the fair value hierarchy, the Hospital's assets at fair value as of September 30, 2016 and 2015:

Description	September 30, 2016	Fair Value Measurements Using	
		Level 1	Level 2
Equities:			
Common stock	\$ 517,908	\$ 517,908	\$ -
Mutual funds:			
Equities	453,108	453,108	-
Other	769,866	769,866	-
Fixed income:			
Corporate bonds and notes	1,424,731	-	1,424,731
Municipal securities	487,470	-	487,470
Mutual funds	167,530	-	167,530
Total Investments at Fair Value	3,820,613	\$ 1,740,882	\$ 2,079,731

Certificates of deposit	547,633
Total Investments	\$ 4,368,246

Description	September 30, 2015	Fair Value Measurements Using	
		Level 1	Level 2
Equities:			
Common stock	\$ 386,237	\$ 386,237	\$ -
Structured products	110,560	-	110,560
Mutual funds:			
Equities	304,005	304,005	-
Fixed income	1,349,481	1,349,481	-
Other	985,755	985,755	-
Fixed income:			
Corporate bonds and notes	1,462,503	-	1,462,503
Municipal securities	915,302	-	915,302
Structured products	257,100	-	257,100
Total Investments at Fair Value	5,770,943	\$ 3,025,478	\$ 2,745,465

Certificates of deposit	659,257
Total Investments	\$ 6,430,200

There were no transfers between levels of investments during the years ended September 30, 2016 and 2015.

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Investment income for the years ended September 30, 2016 and 2015, consists of the following:

	<u>2016</u>	<u>2015</u>
Realized gains	\$ 29,401	\$ 39,286
Unrealized gains (losses)	199,667	(545,869)
Interest and dividends	<u>172,773</u>	<u>187,750</u>
Net Investment Income (Loss)	<u>\$ 401,841</u>	<u>\$ (318,833)</u>

At September 30, 2016, investments with a market value below cost for 12 months or more included certain investments with a market value of \$1,629,474 and an unrealized loss of \$293,426. At September 30, 2016, investments with a market value below cost for less than 12 months included certain investments with a market value of \$395,546 and an unrealized loss of \$20,968.

At September 30, 2015, investments with a market value below cost for 12 months or more included certain investments with a market value of \$160,238 and an unrealized loss of \$56,505. At September 30, 2015, investments with a market value below cost for less than 12 months included certain investments with a market value of \$3,164,251 and an unrealized loss of \$384,119.

**NOTE 5 - CONTRIBUTIONS RECEIVABLE**

Contributions receivable are defined as unconditional promises to contribute cash or other assets. As part of Special Act Number 05-01, the State of Connecticut authorized payments to the Institute of \$2,500,000 from the Authorized State Bond Fund. These contributions must be used for repayment of the Hospital's and the Institute's debt and capital expenditures. These funds are shown in the Institute's consolidated statements of financial position as temporarily restricted net assets.

As of September 30, 2014, the State had paid \$2,000,000 to the Institute, leaving a remaining balance of \$500,000. In fiscal 2014, an additional \$250,000 was appropriated but had not been received as of September 30, 2016. Although the date of transfer from authorization to appropriation for the remaining \$250,000 is unknown at this time, the Bond Authorization is valid, and management expects to collect the balance.

**NOTE 6 - RETIREMENT PLAN**

The Hospital has a defined contribution retirement plan (the Plan) covering all eligible employees. The provision for pension costs charged against operations each year is sufficient to match a portion of employee contributions as specified under the terms of the plan agreement. The Hospital makes contributions to the Plan equal to amounts accrued for pension expense. Effective January, 1, 2016, the Hospital amended the Plan and changed the matching contribution from 1% of participants' eligible compensation to 3%. The total employer pension expense was approximately \$293,000 and \$112,000 for the years ended September 30, 2016 and 2015, respectively.



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**NOTE 7 - PROPERTY AND EQUIPMENT**

The components of property and equipment as of September 30, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 21,364,826	\$ 21,358,506
Land	6,433,345	6,433,345
Furniture and equipment	3,851,054	3,812,792
Property held for future use	323,000	323,000
	<u>31,972,225</u>	<u>31,927,643</u>
Less accumulated depreciation	<u>11,755,702</u>	<u>11,015,341</u>
Net Property and Equipment	<u>\$ 20,216,523</u>	<u>\$ 20,912,302</u>

Included in building and improvements was \$16,226 and \$14,227 of construction in process costs as of September 30, 2016 and 2015, respectively.

Depreciation expense for the years ended September 30, 2016 and 2015, was \$741,543 and \$751,226, respectively.

Assets held for sale were \$332,200 as of September 30, 2016 and 2015.

**NOTE 8 - OPERATING LEASES**

The Hospital is obligated under leases for office space, equipment and vehicles through 2020. Total rent expense under the operating leases totaled approximately \$324,000 in 2016 and 2015.

Future minimum lease payments are as follows:

**Year Ending September 30**

2017	\$	258,664
2018		248,867
2019		92,042
2020		<u>2,049</u>
Total Future Minimum Lease Payments	<u>\$</u>	<u>601,622</u>

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**NOTE 9 - CAPITAL LEASES**

The Hospital has leases for certain equipment that are classified as capital leases. The Company records the present value of the future minimum lease payments related to these leases as a liability on the consolidated statements of financial position with a corresponding asset within its property and equipment balance on the consolidated statements of financial position. Capital assets are depreciated over their useful lives on a straight-line basis, while the obligation is reduced upon each payment by the amount of the payment that represents the principal balance. The Company is obligated under capital leases for equipment with a net book value totaling \$61,028 and \$71,192 as of September 30, 2016 and 2015, respectively.

Future obligations on the equipment capital lease together with the present value of the net minimum lease payments as of September 30, 2016 are as follows:

**Year Ending September 30**

2017	\$	20,450
Less amount representing interest		<u>235</u>
Present Value of Minimum Capital Lease Payments	\$	<u><u>20,215</u></u>

Interest expense for the years ended September 30, 2016 and 2015, was \$807 and \$1,367, respectively.

**NOTE 10 - DUE TO RELATED PARTY**

During 2009, a board member advanced \$800,000 to the Organization. This amount is recorded as due to related party on the consolidated statements of financial position. This note bears interest at 2.0% per year, and there currently is no formal repayment plan. During 2016, a portion of the balance was forgiven by the board member. During 2016 and 2015, the Hospital did not make principal payments. Outstanding principal and interest on the note as of September 30, 2016 and 2015, was \$341,508 and \$433,332, respectively.

**NOTE 11 - LINE OF CREDIT**

The Hospital has a line of credit with a bank. The amount available to borrow is equal to the value of the Hospital's short- and long-term investments, with a maximum of \$2,500,000. Borrowings are subject to the discretion of the bank. The Hospital has drawn down \$2,421,442 as of September 30, 2016. Interest, at a rate of 2% over LIBOR (2.781% at September 30, 2016), is payable monthly. The Hospital's investments are pledged as security on the line of credit. The Hospital also has letter of credit in the amount of \$613,000. The letter expires on May 9, 2018 with provisions for annual extensions and includes a due on demand feature. There were no draws on the letter as of September 30, 2016. The Hospital's investments are pledged as security on the letter of credit.

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**NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at September 30, 2016 and 2015, are comprised of the following:

	<u>2016</u>	<u>2015</u>
Operations	\$ 4,838	\$ 631
Debt	250,000	250,000
Capital expenditures	<u>1,210,836</u>	<u>1,210,114</u>
	<u>\$ 1,465,674</u>	<u>\$ 1,460,745</u>

During the years ended September 30, 2016 and 2015, temporarily restricted net assets were released from restrictions to support the Organization's activities as follows:

	<u>2016</u>	<u>2015</u>
Operations	\$ 568,234	\$ 511,847
Capital expenditures	<u>3,278</u>	<u>50,000</u>
	<u>\$ 571,512</u>	<u>\$ 561,847</u>

**NOTE 13 - ENDOWMENT**

The Hospital's endowment consists of approximately three individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The Board of Directors of the Hospital has interpreted the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by CTPMIFA. In accordance with CTPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund

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- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the Hospital

Changes in endowment net assets for the years ended September 30, 2016 and 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - September 30, 2014	\$ -	\$ -	\$ 968,392	\$ 968,392
Investment return:				
Investment income	-	30,716	-	30,716
Investment losses	-	(82,878)	-	(82,878)
Total investment return	-	(52,162)	-	(52,162)
Contributions	-	-	200,000	200,000
Reallocation for under- water endowment funds	-	52,162	-	52,162
Endowment net assets - September 30, 2015	-	-	1,168,392	1,168,392
Investment return:				
Investment income	-	48,098	-	48,098
Investment gain	-	63,770	-	63,770
Total investment return	-	111,868	-	111,868
Contributions	-	-	200,000	200,000
Reallocation for under- water endowment funds	-	(52,162)	-	(52,162)
Appropriation of endowment assets for expenditure	-	(59,706)	-	(59,706)
Endowment Net Assets - September 30, 2016	\$ -	\$ -	\$ 1,368,392	\$ 1,368,392

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**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 CTPMIFA requires the Hospital to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$52,162 as of September 30, 2015. The deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no such deficiencies as of September 30, 2016.

**Return Objectives and Risk Parameters**

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is broadly diversified among asset classes determined appropriate by the Board of Directors. The overall objective is the highest possible long-term rate of return consistent with accepting a low level of risk as it relates to the investment of total assets. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives**

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

**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The Hospital has a policy of appropriating for distribution the income earned on its endowment each year, subject to prudent spending consideration to offset operating expenses. All funds appropriated for distribution are done with approval from the Board of Directors.

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**NOTE 14 - FUNCTIONAL EXPENSES**

Functional expenses for the Organization for the years ended September 30, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Health care services	\$ 27,352,499	\$ 26,292,093
General and administrative	3,982,792	4,093,723
Fundraising	<u>243,954</u>	<u>221,967</u>
Total Functional Expenses	<u>\$ 31,579,245</u>	<u>\$ 30,607,783</u>

**NOTE 15 - MEDICAL AND SOCIETAL PROGRAMS**

Over the years, the Institute has developed relationships with academic institutions throughout the Northeast, including the Yale University School of Medicine, School of Public Health and School of Nursing, and the University of Connecticut School of Medicine, School of Social Work and School of Pharmacy. Various opportunities for first-, second-, third- and fourth-year medical students, nursing, social work, public health, arts, music and pharmacy students, as well as candidates for postdoctoral studies, are offered, including fellowships, clerkships and internships through the Institute. These programs are offered in the respective schools' catalogs as degreed courses.

Additionally, the Institute provides a comprehensive fellowship program for its hospital and home care nurses in both hospice and palliative care that will lead to certification in both "Hospice" and "Palliative Care."

The Institute awards Continuing Medical Education (CME) credits for physicians participating in the Institute's educational programs. These CME credits carry the nationally recognized designation by the ACCME. The Institute has been credentialed since 1980 but must reapply every 3-4 years in order to maintain CME award designation in palliative and hospice medicine.

A large body of work has been published by various investigators doing clinical research relating to pain and symptom management on seriously ill patients and their families. During the past several years, the Yale School of Public Health and Institute researchers have published over 30 articles in such journals as *The Journal of Palliative Care*, *Academic Medicine*, *American Journal of Medical Psychiatry*, *Journal of Palliative Medicine*, etc.

The Institutional Review Board, a special board of the Medical Board of The Connecticut Hospice, reviews and approves any research protocols before they are implemented.

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**NOTE 16 - HEALTHCARE INDUSTRY**

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 has increased 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 Organization is in compliance with fraud and abuse regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation.

**NOTE 17 - LIQUIDITY CONSIDERATIONS**

As of September 30, 2016, the Organization had a substantial working capital deficit and generated losses from operations in both 2016 and 2015. In addition, the Organization owes approximately \$2,700,000 to CMS based on overpayments received dating back to 2014. These losses are primarily the result of census related matters that have resulted in census figures below the historical average. The decrease in census is a result of an evolving competitive landscape.

Management believes that the Organization's tradition of delivering the highest quality of compassionate care in both its inpatient and outpatient programs provides the foundation for its sustainability into the future. The Organization has undertaken several initiatives including philanthropic outreach and the development of innovative treatment programs and outreach programs designed to educate referral sources including physicians, hospital groups, homecare agencies and long-term care facilities about the quality of care available at The Connecticut Hospice. Management has also submitted an application for extended repayment terms for the amount owed to CMS.

The Organization's sustainability will continue to depend on the success of innovative initiatives as described above.