

**Connecticut Children's Medical Center
and Subsidiaries**

Consolidated Financial Statements and
Supplementary Information

September 30, 2016 and 2015



BAKER TILLY

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Connecticut Children's Medical Center and Subsidiaries

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Independent Auditors' Report

Board of Directors
Connecticut Children's Medical Center and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Connecticut Children's Medical Center and Subsidiaries, which comprise the consolidated balance sheet as of September 30, 2016 and 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of The Children's Fund of Connecticut, Inc., a wholly-owned subsidiary, which statements reflect total assets constituting 8 percent of consolidating total assets at September 30, 2016 and 2015, and 1 percent of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Children's Fund of Connecticut, Inc., is based solely on the report of the other auditors. We conducted our audits in conformity with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Connecticut Children's Medical Center and Subsidiaries as of September 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis rather than to present the financial position, results of operations, and cash flows of the individual entities and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in conformity with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Baker Tilly Viechow Krause, LLP

New York, New York
January 23, 2017

Connecticut Children's Medical Center and Subsidiaries

Consolidated Balance Sheet
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>
Assets			Liabilities and Net Assets		
Current Assets			Current Liabilities		
Cash and cash equivalents	\$ 5,665,941	\$ 10,245,260	Current portion of bonds payable	\$ 1,500,000	\$ 1,415,000
Funds held by trustee under revenue bond agreement	-	435,186	Current portion of notes payable	6,048,195	5,918,464
Patient accounts receivable, less allowance for doubtful accounts of approximately \$3,225,000 in 2016 and \$4,727,000 in 2015	35,095,688	35,293,659	Accounts payable and accrued expenses	41,577,973	40,501,685
Due from affiliated entities	380,743	1,040,023	Accrued wages	17,502,917	21,616,615
Inventories	2,407,715	1,443,429	Due to third parties	4,501,119	3,784,662
Other current assets	13,222,668	11,485,755	Due to affiliated entities	15,090,804	17,465,304
			Accrued interest payable and other current liabilities	125,432	58,357
Total current assets	<u>56,772,755</u>	<u>59,943,312</u>	Total current liabilities	86,346,440	90,760,087
Assets Whose Use is Limited			Bonds Payable, Less Current Portion	33,769,625	35,269,625
Funds held in trust by others	80,740,462	75,285,353	Notes Payable, Less Current Portion	10,955,057	16,920,593
Investments	32,094,138	31,951,929	Accrued Pension Liability	24,478,050	19,397,464
Interest in net assets of Connecticut Children's Medical Center Foundation, Inc.	108,498,436	100,379,776	Due to Third Parties	13,193,518	16,584,377
Total assets whose use is limited	<u>221,333,036</u>	<u>207,617,058</u>	Other Long Term Liabilities	28,493,925	36,277,323
Property, Plant and Equipment			Total liabilities	<u>197,236,615</u>	<u>215,209,469</u>
Buildings	152,171,288	144,535,354	Net Assets		
Furniture and equipment	128,979,348	113,305,291	Unrestricted	110,365,058	96,011,925
Construction in progress	2,160,582	13,845,701	Temporarily restricted	27,079,719	29,432,838
	283,311,218	271,686,346	Permanently restricted	99,460,373	93,121,923
Less accumulated depreciation	<u>(155,521,667)</u>	<u>(138,009,171)</u>	Total net assets	236,905,150	218,566,686
Total property, plant and equipment	<u>127,789,551</u>	<u>133,677,175</u>			
Other Assets					
Bond issuance costs	615,889	627,071			
Ground lease	2,299,514	2,328,806			
Other	25,331,020	29,582,733			
Total other assets	<u>28,246,423</u>	<u>32,538,610</u>			
Total assets	<u>\$ 434,141,765</u>	<u>\$ 433,776,155</u>	Total liabilities and net assets	<u>\$ 434,141,765</u>	<u>\$ 433,776,155</u>

See notes to consolidated financial statements

Connecticut Children's Medical Center and SubsidiariesConsolidated Statement of Operations and Changes in Net Assets
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues		
Patient service revenue	\$ 361,410,913	\$ 343,770,471
Provision for bad debts	(3,189,687)	(2,520,081)
	<u>358,221,226</u>	<u>341,250,390</u>
Patient service revenue, less provision for bad debts		
	358,221,226	341,250,390
Other revenues	13,366,066	12,738,591
Net assets released from restrictions for operations	16,534,883	15,612,408
	<u>388,122,175</u>	<u>369,601,389</u>
Total revenues		
	388,122,175	369,601,389
Expenses		
Salaries	182,708,421	170,680,248
Benefits	39,253,841	41,717,189
Supplies and other	139,250,186	133,500,477
Depreciation and amortization	21,489,481	18,831,846
Interest	1,141,051	1,234,420
	<u>383,842,980</u>	<u>365,964,180</u>
Total expenses		
	383,842,980	365,964,180
Income from operations	4,279,195	3,637,209
Other Income		
Investment return, net	622,954	2,077,941
Income from trusts held by others	3,025,303	3,326,528
Change in interest in net assets of Connecticut Children's Medical Center Foundation, Inc.	4,708,191	2,197,421
	<u>8,356,448</u>	<u>7,601,890</u>
Total other income		
	8,356,448	7,601,890
Excess of revenues over expenses	12,635,643	11,239,099

See notes to consolidated financial statements

Connecticut Children's Medical Center and SubsidiariesConsolidated Statement of Operations and Changes in Net Assets
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Unrestricted Net Assets (continued)		
Excess of revenues over expenses (from previous page)	\$ 12,635,643	\$ 11,239,099
Transfer to affiliated organizations, net	(880,000)	(909,390)
Unrealized gains (losses) on investments	1,419,888	(3,852,126)
Net assets released from restrictions for capital	3,905,113	719,323
Change in funded status of pension and post-retirement plans	(4,937,060)	(6,921,768)
Change in interest in net assets of Connecticut Children's Medical Center Foundation, Inc.	<u>2,209,549</u>	<u>(6,601,171)</u>
Change in unrestricted net assets	<u>14,353,133</u>	<u>(6,326,033)</u>
Temporarily Restricted Net Assets		
Transfer from affiliated organization	7,661,054	7,849,025
Net assets released from restrictions for operations	(16,534,883)	(15,612,408)
Net assets released from restrictions for capital	(3,905,113)	(719,323)
Bequests, gifts and grants	10,108,244	11,849,856
Change in interest in net assets of Connecticut Children's Medical Center Foundation, Inc.	<u>317,579</u>	<u>(125,653)</u>
Change in temporarily restricted net assets	<u>(2,353,119)</u>	<u>3,241,497</u>
Permanently Restricted Net Assets		
Change in funds held in trust by others	5,455,109	(7,600,518)
Change in interest in net assets of Connecticut Children's Medical Center Foundation, Inc.	<u>883,341</u>	<u>498,716</u>
Change in permanently restricted net assets	<u>6,338,450</u>	<u>(7,101,802)</u>
Change in net assets	18,338,464	(10,186,338)
Net Assets at Beginning of Year	<u>218,566,686</u>	<u>228,753,024</u>
Net Assets at End of Year	<u>\$ 236,905,150</u>	<u>\$ 218,566,686</u>

See notes to consolidated financial statements

Connecticut Children's Medical Center and SubsidiariesConsolidated Statement of Cash Flows
Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 18,338,464	\$ (10,186,338)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Noncash items:		
Provision for bad debts	3,189,687	2,520,081
Depreciation and amortization	21,489,481	18,831,846
Realized and unrealized (gains) losses on investments	(1,637,820)	2,029,246
Change in value of funds held in trust by others	(5,455,109)	7,600,518
Change in funded status of pension and post-retirement plans	4,937,060	6,921,768
Change in interest in net assets of Connecticut Children's Medical Center Foundation, Inc.	(8,118,660)	4,030,687
Other changes in net assets:		
Bequests, gifts and grants	(10,108,244)	(11,849,856)
Transfer from affiliated organizations	(7,661,054)	(7,849,025)
Changes in operating assets and liabilities:		
Patient accounts receivable	(2,991,716)	(2,590,468)
Due to/from affiliated entities, net	(1,715,220)	9,386,788
Inventories	(964,286)	(54,076)
Other current assets	(1,736,913)	2,055,431
Other long-term assets	4,292,187	(5,142,243)
Accounts payable and accrued expenses	1,076,288	(6,278,820)
Accrued wages	(4,113,698)	2,568,918
Accrued interest payable and other current liabilities	67,075	(5,656)
Due to third parties	(2,674,402)	(13,195,731)
Pension liability	143,526	705,600
Other long-term liabilities	(7,783,398)	1,056,790
Net cash (used in) provided by operating activities	<u>(1,426,752)</u>	<u>555,460</u>
Cash Flows from Investing Activities		
Purchase of property, plant and equipment, net	(15,766,649)	(13,692,247)
Proceeds from sale of property and equipment	250,000	-
Change in funds held by trustee under revenue bond agreement	435,186	4,586,434
Change in investments, net	1,495,611	892,623
Net cash used in investing activities	<u>(13,585,852)</u>	<u>(8,213,190)</u>
Cash Flows from Financing Activities		
Bequests, gifts and grants	10,108,244	11,849,856
Transfer from affiliates	7,661,054	7,849,025
Principal payments on bonds and notes payable	(7,336,013)	(7,866,634)
Proceeds from debt issued	-	310,500
Net cash provided by financing activities	<u>10,433,285</u>	<u>12,142,747</u>
(Decrease) increase in cash and cash equivalents	(4,579,319)	4,485,017
Cash and Cash Equivalents, Beginning	<u>10,245,260</u>	<u>5,760,243</u>
Cash and Cash Equivalents, Ending	<u>\$ 5,665,941</u>	<u>\$ 10,245,260</u>
Supplemental Schedule of Noncash Investing and Financing Activities		
Equipment acquired through capital lease agreement	<u>\$ 85,208</u>	<u>\$ -</u>

See notes to consolidated financial statements

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements
September 30, 2016 and 2015

1. Organization and Accounting Policies

The Connecticut Children's Medical Center (the "Medical Center") is a wholly-owned, tax-exempt subsidiary of CCMC Corporation. The Board of the Medical Center, appointed by CCMC Corporation, controls the operations of the Medical Center.

The Medical Center is the sole member of Connecticut Children's Specialty Group, Inc. ("CCSG") and The Children's Fund of Connecticut, Inc. (the "Children's Fund"). CCSG was formed to provide and promote children's health care and to support the Medical Center. The Children's Fund was formed to further the charitable mission of the Medical Center and to improve pediatric care in the Hartford Region.

Regulatory Matters

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, such as estimated uncollectibles for patient accounts receivable, and liabilities, such as third party settlements, medical malpractice insurance liabilities and pension and postretirement liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Principles of Consolidation

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

Cash and Cash Equivalents

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

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Investments

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

Short-term investments represent those securities that are available for the Medical Center's operations, and can be converted to cash within one year.

Inventories

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

Funds Held in Trust by Others

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

Interest in Net Assets of Connecticut Children's Medical Center Foundation, Inc.

The interest in net assets of the Connecticut Children's Medical Center Foundation, Inc. (the "Foundation"), represents the Medical Center's interest in the net assets of the Foundation. This investment is accounted for in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-20, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. In 2016 and 2015, the Medical Center did not require and did not receive any unrestricted financial support from the Foundation. The Foundation will provide support in future fiscal years as necessary.

Bond Issuance Costs

Bond issuance costs incurred to obtain financing for construction and renovation programs are being amortized using the straight-line method. The difference between the straight-line method and the effective-interest method is immaterial.

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Property, Plant, and Equipment

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

In 2016, the Medical Center incurred a loss on disposal of property, plant and equipment of approximately \$1,800,000 related to a sale of one of its practices. The loss is reported as depreciation and amortization in the consolidated statement of operations and changes in net assets.

Pension Plan

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

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Interest Rate Swap Agreements

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

Temporarily and Permanently Restricted Net Assets

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

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements
September 30, 2016 and 2015

Medical Malpractice Insurance

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

In 2016, CCMC Corporation created New England Pediatrics Indemnity, Ltd. ("NEPI"), a freestanding corporation through which the Medical Center and its affiliates will insure its professional liability and potentially its general liability risk. The Medical Center plans to novate outstanding and unreported claims to NEPI in fiscal 2017.

Insurance Recovery Receivable and Insurance Claims Liability

The Medical Center presents anticipated insurance recoveries separately from estimated insurance liabilities for medical malpractice claims and similar contingent liabilities on the consolidated balance sheet. The current portion of the insurance recovery receivable and related insurance claims liability totaled \$7,359,806 and \$6,460,657 at September 30, 2016 and 2015, respectively, and is included within other current assets and accounts payable and accrued expenses in the accompanying consolidated balance sheet. The non-current portion of the insurance recovery receivable and related insurance claims liability totaled \$16,147,306 and \$22,092,207 at September 30, 2016 and 2015, respectively, and is included within other assets and other long-term liabilities in the accompanying consolidated balance sheet.

Excess of Revenues over Expenses

The consolidated statement of operations and changes in net assets include excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over expenses include transfers to affiliated organizations, unrealized gains and losses on investments, net assets released from restrictions for capital, change in the equity interest in the net assets of the Foundation and changes in the funded status of the pension and post-retirement plans.

Other Income

Activities, other than in connection with providing health care services, are considered to be nonoperating and are included in other income. Other income consists primarily of income on invested funds, unrestricted gifts and bequests, realized gains and losses on sales of securities, income from funds held in trust by others, and loss on disposal of property, plant and equipment.

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements
September 30, 2016 and 2015

Advertising

The Medical Center's policy is to expense advertising costs as incurred. Total advertising expense was \$1,271,598 and \$911,134 for the years ended September 30, 2016 and 2015, respectively.

Income Taxes

The Medical Center and its subsidiaries 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 on related income pursuant to Section 501(a) of the Code.

The Medical Center accounts for uncertainty in income taxes using a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management has determined that there were no material tax uncertainties that met the recognition threshold in 2016 and 2015.

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

Recent Accounting Pronouncement – Fair Value Measurement

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU No. 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value practical expedient in Accounting Standards Codification 820. ASU No. 2015-07 requires retrospective application and is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. Management has elected to early adopt the provisions of this new standard as it relates to the pension plan assets. Accordingly, the standard was retrospectively applied.

New Accounting Pronouncement – Revenue Recognition

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

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements
September 30, 2016 and 2015

New Accounting Pronouncement - Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the provisions of ASU No. 2016-02, a lessee is required to recognize a right-to-use asset and lease liability, initially measured at the present value of the lease payments, in the balance sheet. In addition, lessees are required to provide qualitative and quantitative disclosures that enable users to understand more about the nature of the leasing activities. The Medical Center will be required to retrospectively adopt the guidance in ASU No. 2016-02 for years beginning after December 15, 2019. The Medical Center has not yet determined the impact of adoption of ASU No. 2016-02 on its consolidated financial statements.

New Accounting Pronouncement – Not-for-Profit Entities

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU No. 2016-14 is to be applied retroactively with transition provisions. The Medical Center has not yet determined the impact of this standard on its consolidated financial statements.

Subsequent Events

The Medical Center evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the consolidated financial statements are issued, for potential recognition in the consolidated financial statements as of the balance sheet date. For the year ended September 30, 2016, the Medical Center evaluated subsequent events through January 23, 2017, which is the date the consolidated financial statements were issued. No events occurred that require disclosure in or adjustment to the financial statements.

Reclassifications

Certain reclassifications have been made to the 2015 balances previously reported to conform to the current year presentation.

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements
September 30, 2016 and 2015

2. Net Revenue from Services to Patients and Charity Care

The Medical Center provides health care services primarily to residents of the region. Revenues from the Medicaid program accounted for approximately 34% and 36% of the Medical Center's net patient service revenue for the years ended September 30, 2016 and 2015, respectively. Laws and regulations governing the Medicaid programs are complex and subject to interpretation. The Medical Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicaid program. Changes in the Medicaid program and the reduction of funding levels could have an adverse impact on the Medical Center.

The following table summarizes net revenues from services to patients:

	<u>2016</u>	<u>2015</u>
Total gross revenues from patients	\$ 838,419,941	\$ 779,425,997
Less total contractual allowances	469,724,739	439,248,437
Less charity care	2,645,359	2,258,042
Less administrative and other allowances	4,638,930	4,149,047
Total allowances	<u>477,009,028</u>	<u>445,655,526</u>
DSH settlement with State of Connecticut	<u>-</u>	<u>10,000,000</u>
Patient service revenues	361,410,913	343,770,471
Less provision for bad debts	<u>3,189,687</u>	<u>2,520,081</u>
Patient service revenues, less provision for bad debts	<u>\$ 358,221,226</u>	<u>\$ 341,250,390</u>

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from certain payors are different from established billing rates of the Medical Center, and the difference is accounted for as allowances. The Medical Center records its provision for bad debts based upon a review of all of its outstanding receivables. Write-offs of receivable balances are related primarily to its population of underinsured patients. An underinsured patient is one who has commercial insurance which leaves a significant portion of the Medical Center's reimbursement to be paid by the patient, either through large deductibles or co-pay requirements. Self-pay patients are rare in the pediatric environment, as Medicaid is readily available to children. Self-pay net revenue approximated \$4,500,000 and \$3,600,000 for the years ended September 30, 2016 and 2015, respectively.

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Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payor settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined. In 2015, the Medical Center received a \$10,000,000 settlement related to prior years that increased net patient service revenue. In 2016, net patient service revenue increased by approximately \$3,900,000 for changes in estimates related to prior year settlements.

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

The Medical Center accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Medical Center. Essentially, those policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Medical Center utilizes the generally recognized Federal poverty guidelines.

The costs of charity care incurred were approximately \$1,107,000 and \$929,000 for the years ended September 30, 2016 and 2015, respectively. The costs of charity care are derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing the Medical Center's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients.

3. Related-Party Transactions

Certain Medical Center employees render management and other services to affiliated entities for which the Medical Center is reimbursed. The amount of such reimbursement was \$881,366 and \$807,034 for the years ended September 30, 2016 and 2015, respectively.

The Foundation transferred \$7,661,054 and \$7,849,025 to the Medical Center for the years ended September 30, 2016 and 2015, respectively. These transfers related to donor-restricted contributions received by the Foundation for the benefit of the Medical Center. The Medical Center also transferred \$880,000 to CCMC Corporation for the year ended September 30, 2016.

Due to affiliated organizations, net, includes \$14,710,061 and \$16,425,281 at September 30, 2016 and 2015, respectively, which is primarily related to cash advanced from the Foundation for operating purposes. Interest is not charged and there are no fixed repayment terms on these advances.

4. Concentrations of Credit Risk

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

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The Medical Center's cash and cash equivalents are placed with high credit quality financial institutions. The Medical Center's investment policy limits its exposure to concentrations of credit risk. In the normal course of business, the Medical Center maintains cash balances in excess of the Federal Deposit Insurance Corporation's ("FDIC") insurance limit. Cash balances exceeded FDIC limits by approximately \$6,780,000 and \$10,070,000 at September 30, 2016 and 2015, respectively.

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

	<u>2016</u>	<u>2015</u>
Medicaid	34 %	35 %
Medicaid managed care	4	2
Commercial/managed care - contracted	50	51
Commercial/managed - non-contracted	4	4
Patients and other	<u>8</u>	<u>8</u>
	<u>100 %</u>	<u>100 %</u>

5. Investments

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

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Short-term investments	\$ 46,760	46,760	\$ 35,653	\$ 35,653
Marketable equity securities	361,145	372,450	543,174	536,981
Fixed income securities	26,363	26,646	26,363	27,377
Institutional managed equity funds	22,720,700	23,988,217	23,772,244	23,624,360
Institutional managed bond fund	7,571,723	7,591,333	7,365,317	7,397,486
Other	<u>67,748</u>	<u>68,732</u>	<u>356,020</u>	<u>330,072</u>
	<u>\$ 30,794,439</u>	<u>\$ 32,094,138</u>	<u>\$ 32,098,771</u>	<u>\$ 31,951,929</u>

Investments consisted of mutual funds and individual securities that comprised approximately 75% equity securities and 25% fixed income investments at September 30, 2016, and 76% equity securities and 24% fixed income investments at September 30, 2015.

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The following table summarizes the unrealized losses on investments held at September 30, 2016:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Marketable equity securities	\$ 1,742,070	\$ 95,428	\$ 5,203,542	\$ 1,483,839	\$ 6,945,612	\$ 1,579,267
Fixed income securities	1,030,469	8,268	3,863,127	529,163	4,893,596	537,431
Institutional managed equity funds	106,116	6,531	-	-	106,116	6,531
Other	30,497	1,181	-	-	30,497	1,181
Total investments	<u>\$ 2,909,152</u>	<u>\$ 111,408</u>	<u>\$ 9,066,669</u>	<u>\$ 2,013,002</u>	<u>\$ 11,975,821</u>	<u>\$ 2,124,410</u>

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

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Marketable equity securities	\$ 7,995,517	\$ 1,312,313	\$ 4,099,045	\$ 1,608,196	\$ 12,094,562	\$ 2,920,509
Fixed income securities	3,290,101	63,907	-	-	3,290,101	63,907
Institutional managed equity funds	522,612	23,753	-	-	522,612	23,753
Other	150,836	5,848	44,461	6,253	195,297	12,101
Total investments	<u>\$ 11,959,066</u>	<u>\$ 1,405,821</u>	<u>\$ 4,143,506</u>	<u>\$ 1,614,449</u>	<u>\$ 16,102,572</u>	<u>\$ 3,020,270</u>

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors, the length of time and extent to which the market value has been less than cost along with the Medical Center's intent and ability to hold the investments. During the years ended September 30, 2016 and 2015, the Medical Center has not recorded any other-than-temporary declines in the fair value of investments, as the Medical Center has the ability and intent to hold the securities to recovery.

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Investment returns for the years ended September 30 are as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 685,003	\$ 782,951
Realized gain	217,932	1,822,880
Net swap activity	(104,094)	(367,708)
Investment fees and other	<u>(175,887)</u>	<u>(160,182)</u>
	622,954	2,077,941
Unrealized gain (loss) on investments	<u>1,419,888</u>	<u>(3,852,126)</u>
Total	<u>\$ 2,042,842</u>	<u>\$ (1,774,185)</u>

6. Restricted Net Assets

Endowments

The endowment consists of individual donor-restricted funds established for a variety of purposes which are held and controlled by the Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. At September 30, 2016 and 2015, the Medical Center had \$22,429,597 and \$22,081,136, respectively, in endowments held at the Foundation which are recorded by the Medical Center through its interest in the Foundation.

Interpretation of Relevant Law

The Medical Center's Board and senior management have interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard for expenditure prescribed by UPMIFA. In accordance with UPMIFA, the Medical Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund

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- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Medical Center to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies at September 30, 2016 and 2015.

Return Objectives and Risk Parameters

The Medical Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, the endowment assets are invested in a manner that is intended to produce results that equal or exceed relevant benchmarks. The Medical Center expects its endowment funds, over time, to provide an average rate of return of at least 5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Medical Center 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 Medical Center targets a diversified asset allocation strategy that places a greater emphasis on equity-based investments to achieve its long-term return objectives within the guidelines of its investment policy and prudent risk constraints.

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Endowment Net Asset Composition by Type of Fund

All endowment net assets are donor-restricted endowment funds.

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

	2016		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ 4,244,566	\$ 17,836,570	\$ 22,081,136
Contributions	-	883,341	883,341
Investment return	263,705	-	263,705
Net appreciation (realized and unrealized)	398,616	-	398,616
Appropriation of endowment assets for expenditure	(1,197,201)	-	(1,197,201)
Endowment net assets, ending balance	<u>\$ 3,709,686</u>	<u>\$ 18,719,911</u>	<u>\$ 22,429,597</u>
	2015		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	\$ 4,605,125	\$ 17,337,854	\$ 21,942,979
Contributions	-	498,716	498,716
Investment return	417,438	-	417,438
Net appreciation (realized and unrealized)	794,207	-	794,207
Appropriation of endowment assets for expenditure	(1,572,204)	-	(1,572,204)
Endowment net assets, ending balance	<u>\$ 4,244,566</u>	<u>\$ 17,836,570</u>	<u>\$ 22,081,136</u>

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

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Temporarily Restricted

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

	<u>2016</u>	<u>2015</u>
Equipment purchases	3 %	2 %
Education	5	7
Other health care services	92	91
	<u>100 %</u>	<u>100 %</u>

Permanently Restricted

Permanently restricted net assets at September 30 are restricted to:

	<u>2016</u>	<u>2015</u>
Health care and children's services	82 %	81 %
Other health care services	14	14
Education	4	5
	<u>100 %</u>	<u>100 %</u>

7. Pension Plan and Defined Contribution Plan

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

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

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

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

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Included in unrestricted net assets at September 30, 2016 and 2015 are unrecognized actuarial losses of \$32,059,945 and \$27,031,839, respectively. The actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2017 is \$1,984,109.

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

	<u>2016</u>	<u>2015</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 90,743,362	\$ 88,747,942
Interest cost	3,536,986	3,431,884
Actuarial loss, including the effects of any assumption changes	7,880,183	2,780,248
Benefits paid	<u>(4,468,416)</u>	<u>(4,216,712)</u>
Benefit obligation at end of year	<u>\$ 97,692,115</u>	<u>\$ 90,743,362</u>
Change in Plan assets:		
Fair value of Plan assets at beginning of year	\$ 71,345,898	\$ 76,977,846
Contributions	-	-
Actual return on Plan assets	6,336,583	(1,415,236)
Benefits paid	<u>(4,468,416)</u>	<u>(4,216,712)</u>
Fair value of Plan assets at end of year	<u>\$ 73,214,065</u>	<u>\$ 71,345,898</u>
Funded status of the Plan	<u>\$ (24,478,050)</u>	<u>\$ (19,397,464)</u>

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

	<u>2016</u>	<u>2015</u>
Discount rate	3.27 %	4.00 %
Rate of compensation	N/A	N/A
Cash balance interest credit	5.50	5.50

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

	<u>2016</u>	<u>2015</u>
Interest cost	\$ 3,536,986	\$ 3,431,884
Expected return on plan assets	(4,872,147)	(4,717,144)
Net amortization, net actuarial loss	<u>1,387,641</u>	<u>1,387,915</u>
Net periodic benefit costs	<u>\$ 52,480</u>	<u>\$ 102,655</u>

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

	<u>2016</u>	<u>2015</u>	
Discount rate	4.00 %	4.00	%
Cash balance interest credit	5.50	5.50	
Expected long-term rate of return on plan assets	6.75	6.75	
Rate of compensation	N/A	N/A	

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

The accumulated benefit obligation at September 30, 2016 and 2015 was \$97,692,115 and \$90,743,362, respectively.

Plan Assets

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

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

	<u>Percentage of Plan Assets at Year-End</u>	
	<u>2016</u>	<u>2015</u>
Asset Category:		
Domestic equities	36 %	35 %
International equities	19	19
Debt securities	40	40
Other	5	6
	<u>100 %</u>	<u>100 %</u>

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The fair values of the Plan assets at September 30, 2016, by asset category, are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Money market mutual funds	\$ 620,839	\$ -	\$ -	\$ 620,839
Fixed income securities:				
U.S. government bonds	3,426,870	-	-	3,426,870
Municipal bonds	820,944	-	-	820,944
Corporate bonds	5,093,726	-	-	5,093,726
Foreign bonds	874,101	-	-	874,101
Fixed income mutual funds	3,520,735	-	-	3,520,735
Equity mutual funds	<u>29,713,513</u>	<u>-</u>	<u>-</u>	<u>29,713,513</u>
Total assets in the fair value hierarchy	<u>\$ 44,070,728</u>	<u>\$ -</u>	<u>\$ -</u>	<u>44,070,728</u>
Investments measured at net asset value(a)				<u>29,143,337</u>
				<u>\$ 73,214,065</u>

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The fair values of the Plan assets at September 30, 2015, by asset category, are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Money market mutual funds	\$ 229,131	\$ -	\$ -	\$ 229,131
Fixed income securities:				
U.S. government bonds	2,029,206	-	-	2,029,206
Municipal bonds	739,088	-	-	739,088
Corporate bonds	5,366,920	-	-	5,366,920
Foreign bonds	767,014	-	-	767,014
Fixed income mutual funds	3,715,799	-	-	3,715,799
Equity mutual funds	29,414,668	-	-	29,414,668
	<u>42,261,826</u>	<u>-</u>	<u>-</u>	<u>42,261,826</u>
Total assets in the fair value hierarchy	<u>\$ 42,261,826</u>	<u>\$ -</u>	<u>\$ -</u>	<u>42,261,826</u>
Investments measured at net asset value(a)				<u>29,084,072</u>
Total				<u>\$ 71,345,898</u>

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value ("NAV") per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the ending Plan assets disclosed.

Investments measured at net asset value are subject to various management, incentive and other fees based on net asset value, classes, capital account balances and/or capital commitments. Investments may also be subject to lock up periods.

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Investments Measured Using NAV per Share Practical Expedient

The following table summarizes investments measured at fair value based on NAV per share as of September 30, 2016 and 2015, respectively.

	September 30, 2016			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Mutual fund, multi asset Limited liability companies:	\$ 9,069,100	\$ -	Daily	Upon written notice
Intermediate bond	7,278,697	-	Monthly	Upon written notice
Institutional loan	3,692,717	-	Daily	Upon written notice
Limited partnership	9,103,823	-	Quarterly	Upon written notice

	September 30, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Mutual fund, multi asset Limited liability companies:	\$ 8,753,001	\$ -	Daily	Upon written notice
Intermediate bond	7,338,698	-	Monthly	Upon written notice
Institutional loan	4,355,064	-	Daily	Upon written notice
Limited partnership	8,637,309	-	Quarterly	Upon written notice

The Medical Center does not expect to contribute to its pension plan in fiscal 2017.

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

Fiscal year:	
2017	\$ 7,357,000
2018	5,598,000
2019	5,922,000
2020	6,612,000
2021	5,358,000
Years 2022 - 2026	28,228,000

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The Medical Center also has a defined contribution plan. The Connecticut Children's Retirement Savings Plan, (the "Savings Plan") covers all eligible employees as defined by the plan document. Eligible employees may contribute up to 100 percent of their pretax annual compensation, as defined by the plan document, up to the Internal Revenue Service limits. The Medical Center makes safe harbor matching contributions equal to 100 percent of the first 3 percent of compensation deferred by the participant, plus 50 percent of the next 2 percent of compensation deferred by the participant. In addition, the Medical Center makes an employer core contribution for eligible employees, that ranges from 1 percent to 7 percent, as determined by the Board of Directors, of a participant's annual compensation. The Medical Center expensed contributions to the Savings Plan for the years ended September 30, 2016 and 2015 of \$4,331,251 and \$5,677,473, respectively.

8. Post-Retirement Benefit Plan

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

Included in unrestricted net assets at September 30, 2016 and 2015 are \$2,660,882 and \$2,993,289, respectively, of net unrecognized actuarial gains that have not yet been recognized in net periodic benefit cost. There is \$191,458 of actuarial gain included in unrestricted net assets that is expected to be recognized in net periodic pension cost during the year ending September 30, 2017.

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

	<u>2016</u>	<u>2015</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 6,071,638	\$ 6,340,898
Service cost	194,499	228,789
Interest cost	257,816	263,408
Actuarial losses (gains), including the effects of any assumption changes	117,501	(683,727)
Benefits paid	<u>(423,513)</u>	<u>(77,730)</u>
Benefit obligation at end of year	<u>\$ 6,217,941</u>	<u>\$ 6,071,638</u>
Change in PRW Plan assets:		
Fair value of PRW Plan assets at beginning of year	\$ -	\$ -
Contributions	423,513	77,730
Benefits paid	<u>(423,513)</u>	<u>(77,730)</u>
Fair value of PRW Plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Accrued post-retirement obligation included in other long-term liabilities	<u>\$ 6,217,941</u>	<u>\$ 6,071,638</u>

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

	<u>2016</u>	<u>2015</u>
Discount rate	3.52 %	4.30 %
Healthcare cost trend rate:		
Current year	7.50	8.00
Ultimate	4.50	5.00
Year ultimate reached	2022	2021

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

	<u>2016</u>	<u>2015</u>
Service cost	\$ 194,499	\$ 228,789
Interest cost	257,816	263,408
Net amortization, Net actuarial gain	<u>(214,966)</u>	<u>(158,512)</u>
Net periodic benefit costs	<u>\$ 237,349</u>	<u>\$ 333,685</u>

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

	<u>2016</u>	<u>2015</u>
Discount rate	4.30 %	4.20 %
Health care cost trend rate		
Current year	8.00	8.50
Ultimate	5.00	5.00
Year ultimate reached	2021	2021

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

	<u>One-percentage Point</u>	
	<u>Increase</u>	<u>Decrease</u>
Effect on postretirement benefit obligation	\$ 81,665	\$ 72,404
Effect on total of service and interest cost	9,120	8,001

The Medical Center expects to contribute \$155,000 to its post-retirement benefit plan in fiscal 2017.

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

Fiscal year:	
2017	\$ 155,000
2018	187,000
2019	222,000
2020	241,000
2021	272,000
Years 2022 - 2026	1,678,000

9. Bonds Payable

A summary of long-term debt is as follows:

	<u>2016</u>	<u>2015</u>
Hospital revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority ("CHEFA")		
Series D (4.19% effective interest rate)	\$ 35,269,625	\$ 36,684,625
Less current portion	1,500,000	1,415,000
	<u>\$ 33,769,625</u>	<u>\$ 35,269,625</u>

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

In June 2011, the Medical Center along with the Foundation (Collectively, the "Obligated Group") refinanced their existing CHEFA hospital revenue bonds with variable rate revenue bonds (the Series D Bonds) with a principal amount of \$41,580,000. The "Series D Bonds" were issued at par and directly placed with one investor. The investor has committed to holding the bonds for a ten year period, at the end of which, the investor may put the bonds back to the Obligated Group or extend their holding period at their discretion. The bonds mature in varying amounts through 2032, with interest rates based on 65% of LIBOR plus a spread of 1.52%, ranging from 1.71% to 2.95% in the current year. In September 2016, the Obligated Group reissued the Series D Bonds to obtain a lower interest rate; the scheduled principal payments were not changed. The interest rates are now based on 67% of LIBOR plus a spread of 0.85%.

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

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

The carrying value of the bonds payable approximates fair value. The Medical Center classifies bonds payable in Level 2 of the valuation hierarchy.

The Medical Center is required to make monthly interest and semi-annual principal repayments for the Series D Bonds. Interest paid for 2016 and 2015 was \$632,058 and \$618,683, respectively.

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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

2017	\$ 1,500,000
2018	1,580,000
2019	1,665,000
2020	1,740,000
2021	1,830,000
Aggregate thereafter	<u>26,954,625</u>
	<u>\$ 35,269,625</u>

In November 2005, the Medical Center entered into an interest rate swap agreement (the 2005 swap) effectively converting \$23,700,000 of its then existing variable-rate debt ("Series C debt") to a fixed-rate basis of 3.704% through June 2018. The fair value of the swap (a liability of \$277,123 and \$549,134 at September 30, 2016 and 2015, respectively,) is reported in other long-term liabilities. The change in value of \$277,011 and \$326,043 is reported as a component of income from investments for the years ended September 30, 2016 and 2015, respectively. The swap, while serving as an economic hedge, does not qualify for hedge accounting.

Upon the refunding of the Series C debt in June 2011, the Medical Center applied the 2005 swap against the newly issued Series D debt and entered into a new swap agreement (the 2011 swap), which along with the 2005 swap, effectively converts all of its outstanding Series D debt to a fixed-rate basis. The interest rate on the new swap is 4.6138%. The fair value of the 2011 swap (a liability of \$553,115 as of September 30, 2015) is reported in other long-term liabilities. The change in value of \$553,115 and \$463,780 is reported as a component of income from investments for the years ended September 30, 2016 and 2015, respectively. The swap was terminated by the Medical Center in 2016 through a Termination Agreement, which required a final payment by the Medical Center of approximately \$60,000.

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

Swap Type	Expiration Date	Medical Center Receives	Medical Center Pays	Notional Amount at September 30	
				2016	2015
Series C - Fixed to Floating (2005 Swap)	July 1, 2018	70% of LIBOR	3.70%	\$ 6,550,000	\$ 9,675,000
Series D - Fixed to Floating (2011 Swap)	July 1, 2032	65% LIBOR + 1.52%	4.61%	-	26,408,498
				<u>\$ 6,550,000</u>	<u>\$ 36,083,498</u>

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements
September 30, 2016 and 2015

10. Notes Payable

Notes payable at September 30 consists of the following:

	<u>2016</u>	<u>2015</u>
Notes payable to a bank in monthly installments of \$128,417 through October 2018 at 1.455% interest. Secured by certain equipment.	\$ 5,620,637	\$ 7,068,428
Notes payable to a bank in monthly installments of \$114,385 through September 2019 at 2.52% interest. Secured by certain equipment.	3,962,022	5,217,573
Notes payable to a bank in monthly installments of \$147,233 through October 2018 at 2.85% interest. Secured by certain equipment.	3,569,569	5,209,211
Notes payable to a bank in monthly installments of \$59,782 through August 2019 at 4.08% interest. Secured by certain equipment.	1,969,561	2,592,756
Notes payable to a bank in monthly installments of \$55,978 through June 2018 at 1.302% interest. Secured by certain equipment.	1,161,630	1,813,638
Notes payable to a bank in monthly installments of \$9,845 through January 2021, interest free. Secured by certain equipment.	511,960	630,104
Note payable to a software company in quarterly installments of \$25,875 through September 2017.	105,250	182,946
Note payable to a software company in monthly installments of \$4,713 through September 2017.	56,786	-
Notes payable to landlord for leasehold improvements payable in monthly installments of \$1,431 through August 2019 at 6%, unsecured.	45,837	59,799
Notes payable to a health care equipment manufacturing company in monthly installments of \$18,392 through December 2015, at 4.15% interest. Secured by certain equipment.	-	51,544
Notes payable to a hospital association payable in monthly installments of \$6,529, interest free.	-	13,058
	<u>17,003,252</u>	<u>22,839,057</u>
Less current portion	<u>6,048,195</u>	<u>5,918,464</u>
Total	<u>\$ 10,955,057</u>	<u>\$ 16,920,593</u>

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

Interest paid on the notes was \$508,993 and \$615,737 for the years ended September 30, 2016 and 2015, respectively.

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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

2017	\$ 6,048,195
2018	5,857,646
2019	3,791,106
2020	1,266,924
2021	39,381
	<hr/>
	\$ 17,003,252
	<hr/>

11. Line of Credit

The Medical Center has a line of credit agreement with Bank of America, N.A. for \$15,000,000. Amounts advanced under this line of credit are due on demand and interest is charged at the LIBOR rate plus 1.25%. There were no borrowings at September 30, 2016, and this line of credit expires on March 31, 2017.

12. Contingencies

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

There have been malpractice claims that fall within the Medical Center's malpractice insurance which have been asserted against the Medical Center. In addition, there are known incidents that have occurred through September 30, 2016, that may result in the assertion of claims. Refer to Note 1.

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

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

The Medical Center and CCSG record as a liability the estimate for claims-made malpractice liabilities and the estimate for incurred but not reported claims. The estimate for incurred but not reported claims, discounted at 4.00%, totaled \$3,276,331 and \$4,312,042 at September 30, 2016 and 2015, respectively, and are reported as other liabilities in the consolidated balance sheet. The Medical Center has recorded related insurance recoveries receivable in consideration for the expected insurance recoveries for the total claims-made insurance as follows:

	<u>2016</u>	<u>2015</u>
Other current assets	\$ 7,359,806	\$ 6,460,657
Other assets	<u>16,147,306</u>	<u>22,092,207</u>
	<u>\$ 23,507,112</u>	<u>\$ 28,552,864</u>

The Medical Center records as a liability an estimate of workers' compensation claims. Such liability, undiscounted, totaled approximately \$2,213,000 and \$2,201,000 at September 30, 2016 and 2015, respectively.

13. Commitments

Ground Lease

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

The Ground Lease was recorded as a prepaid asset in the original amount of \$2,900,000 and is amortized over the term of the lease. The net asset is recorded at \$2,299,514 and \$2,328,806 as of September 30, 2016 and 2015, respectively, and is included in other assets in the accompanying consolidated balance sheet. The lease includes certain covenants which restrict, among other things, the Medical Center's ability to be a party to mergers.

Parking Agreement

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

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements
September 30, 2016 and 2015

14. Operating Leases

Rental and lease expense amounted to \$14,227,288 and \$14,066,271 for the years ended September 30, 2016 and 2015, respectively.

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

Fiscal years ending September 30:	
2017	\$ 11,525,894
2018	8,133,803
2019	7,700,146
2020	7,101,438
2021	6,702,218
Thereafter	<u>36,658,594</u>
	<u>\$ 77,822,093</u>

15. Functional Expenses

The Medical Center provides health care services to residents within its geographic location including pediatric care and outpatient surgery. Expenses related to providing these services are as follows:

	<u>2016</u>	<u>2015</u>
Health care services	\$ 299,419,982	\$ 287,851,536
General and administrative	<u>84,422,998</u>	<u>78,112,644</u>
	<u>\$ 383,842,980</u>	<u>\$ 365,964,180</u>

16. Fair Value of Financial Instruments

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

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

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

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Medical Center utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

The Medical Center's financial assets and liabilities carried at fair value as of September 30, 2016 are classified in the table below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 5,665,941	\$ -	\$ -	\$ 5,665,941
Fixed income securities	73,406	-	-	73,406
Mutual funds:				
Domestic	372,450	-	-	372,450
Equity:				
Domestic growth (a)	4,867,114	-	-	4,867,114
Domestic value (a)	8,858,633	-	-	8,858,633
International (a)	4,214,746	-	-	4,214,746
Domestic equity common trust fund	-	2,898,245	-	2,898,245
Fixed Income:				
International	86,049	-	-	86,049
Domestic	159,577	-	-	159,577
Intermediate term (a)	-	7,505,284	-	7,505,284
Global (a)	2,537,837	-	-	2,537,837
Inflation protected (a)	452,065	-	-	452,065
Foundation held funds and miscellaneous other investments	68,733	-	-	68,733
Funds held in trust by others	-	-	80,740,462	80,740,462
	<u>-</u>	<u>-</u>	<u>80,740,462</u>	<u>80,740,462</u>
Total	<u>\$ 27,356,551</u>	<u>\$ 10,403,529</u>	<u>\$ 80,740,462</u>	<u>\$ 118,500,542</u>
Liabilities,				
Interest rate swap agreements (b)	\$ -	\$ 277,123	\$ -	\$ 277,123
	<u>-</u>	<u>277,123</u>	<u>-</u>	<u>277,123</u>

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

The Medical Center's financial assets and liabilities carried at fair value as of September 30, 2015 are classified in the table below in one of the three categories described above:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Cash and cash equivalents	\$ 10,245,260	\$ -	\$ -	\$ 10,245,260
Fixed income securities	63,030	-	-	63,030
Mutual funds:				
Domestic	536,981	-	-	536,981
Equity:				
Domestic growth (a)	4,675,896	-	-	4,675,896
Domestic value (a)	4,620,275	-	-	4,620,275
International (a)	7,478,722	-	-	7,478,722
Domestic equity common trust fund	-	3,221,152	-	3,221,152
Fixed Income:				
International	112,904	-	-	112,904
Domestic	292,327	-	-	292,327
Intermediate term (a)	7,284,582	-	-	7,284,582
Global (a)	2,520,778	-	-	2,520,778
Inflation protected (a)	815,210	-	-	815,210
Foundation held funds and miscellaneous other investments	330,072	-	-	330,072
Funds held in trust by others	-	-	75,285,353	75,285,353
Total	<u>\$ 38,976,037</u>	<u>\$ 3,221,152</u>	<u>\$ 75,285,353</u>	<u>\$ 117,482,542</u>
Liabilities,				
Interest rate swap agreements (b)	<u>\$ -</u>	<u>\$ 1,102,249</u>	<u>\$ -</u>	<u>\$ 1,102,249</u>

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

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

Connecticut Children's Medical Center and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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

The changes in funds held in trust by others classified as Level 3 are as follows for the years ended September 30:

	<u>2016</u>	<u>2015</u>
Beginning balance for the year	\$ 75,285,353	\$ 82,885,871
Valuation gain (loss)	<u>5,455,109</u>	<u>(7,600,518)</u>
Ending balance for the year	<u>\$ 80,740,462</u>	<u>\$ 75,285,353</u>

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

Connecticut Children's Medical Center and Subsidiaries

Consolidating Balance Sheet

September 30, 2016

	Connecticut Children's Medical Center	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Assets							
Current Assets							
Cash and cash equivalents	\$ 4,161,628	\$ -	\$ 4,161,628	\$ 256,063	\$ 1,248,250	\$ -	\$ 5,665,941
Patient accounts receivable, less allowance for doubtful accounts of approximately \$2,070,000 for the Medical Center and \$1,155,000 for CCSG	32,051,457	-	32,051,457	3,044,231	-	-	35,095,688
Due from affiliated entities	18,853	-	18,853	361,890	-	-	380,743
Inventories	2,407,715	-	2,407,715	-	-	-	2,407,715
Other current assets	8,281,500	-	8,281,500	3,980,297	960,871	-	13,222,668
Total current assets	<u>46,921,153</u>	<u>-</u>	<u>46,921,153</u>	<u>7,642,481</u>	<u>2,209,121</u>	<u>-</u>	<u>56,772,755</u>
Assets Whose Use is Limited							
Funds held in trust by others	80,740,462	-	80,740,462	-	-	-	80,740,462
Investments	-	-	-	721,978	31,372,160	-	32,094,138
Interest in net assets of Connecticut Children's Medical Center Foundation, Inc.	-	108,498,436	108,498,436	-	-	-	108,498,436
Total assets whose use is limited	<u>80,740,462</u>	<u>108,498,436</u>	<u>189,238,898</u>	<u>721,978</u>	<u>31,372,160</u>	<u>-</u>	<u>221,333,036</u>
Property, Plant and Equipment							
Buildings	149,753,616	-	149,753,616	2,417,672	-	-	152,171,288
Furniture and equipment	126,178,592	-	126,178,592	2,549,884	250,872	-	128,979,348
Construction in progress	2,121,842	-	2,121,842	38,740	-	-	2,160,582
	278,054,050	-	278,054,050	5,006,296	250,872	-	283,311,218
Less accumulated depreciation	<u>(151,474,917)</u>	<u>-</u>	<u>(151,474,917)</u>	<u>(3,901,224)</u>	<u>(145,526)</u>	<u>-</u>	<u>(155,521,667)</u>
Total property, plant and equipment	<u>126,579,133</u>	<u>-</u>	<u>126,579,133</u>	<u>1,105,072</u>	<u>105,346</u>	<u>-</u>	<u>127,789,551</u>
Other Assets							
Bond issuance costs	615,889	-	615,889	-	-	-	615,889
Ground lease	2,299,514	-	2,299,514	-	-	-	2,299,514
Other	19,616,829	-	19,616,829	5,708,698	5,493	-	25,331,020
Total other assets	<u>22,532,232</u>	<u>-</u>	<u>22,532,232</u>	<u>5,708,698</u>	<u>5,493</u>	<u>-</u>	<u>28,246,423</u>
Total assets	<u>\$ 276,772,980</u>	<u>\$ 108,498,436</u>	<u>\$ 385,271,416</u>	<u>\$ 15,178,229</u>	<u>\$ 33,692,120</u>	<u>\$ -</u>	<u>\$ 434,141,765</u>

Connecticut Children's Medical Center and Subsidiaries

Consolidating Balance Sheet

September 30, 2016

	Connecticut Children's Medical Center	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Liabilities and Net Assets (Deficiency)							
Current Liabilities							
Current portion of bonds payable	\$ 1,500,000	\$ -	\$ 1,500,000	\$ -	\$ -	\$ -	\$ 1,500,000
Current portion of notes payable	6,033,372	-	6,033,372	14,823	-	-	6,048,195
Accounts payable and accrued expenses	36,868,927	-	36,868,927	3,886,297	822,749	-	41,577,973
Accrued wages	10,784,228	-	10,784,228	6,718,689	-	-	17,502,917
Due to third parties	3,164,295	-	3,164,295	1,336,824	-	-	4,501,119
Due to affiliated entities	15,089,703	-	15,089,703	1,101	-	-	15,090,804
Accrued interest payable and other current liabilities	53,729	-	53,729	71,703	-	-	125,432
Total current liabilities	73,494,254	-	73,494,254	12,029,437	822,749	-	86,346,440
Bonds Payable, Less Current Portion	33,769,625	-	33,769,625	-	-	-	33,769,625
Notes Payable, Less Current Portion	10,924,043	-	10,924,043	31,014	-	-	10,955,057
Accrued Pension Liability	24,478,050	-	24,478,050	-	-	-	24,478,050
Due to Third Parties	8,912,180	-	8,912,180	4,281,338	-	-	13,193,518
Other Long Term Liabilities	20,788,011	-	20,788,011	7,705,914	-	-	28,493,925
Total liabilities	172,366,163	-	172,366,163	24,047,703	822,749	-	197,236,615
Net Assets (Deficiency)							
Unrestricted	1,148,781	85,216,380	86,365,161	(8,869,474)	32,869,371	-	110,365,058
Temporarily restricted	22,517,574	4,562,145	27,079,719	-	-	-	27,079,719
Permanently restricted	80,740,462	18,719,911	99,460,373	-	-	-	99,460,373
Total net assets (deficiency)	104,406,817	108,498,436	212,905,253	(8,869,474)	32,869,371	-	236,905,150
Total liabilities and net assets (deficiency)	<u>\$ 276,772,980</u>	<u>\$ 108,498,436</u>	<u>\$ 385,271,416</u>	<u>\$ 15,178,229</u>	<u>\$ 33,692,120</u>	<u>\$ -</u>	<u>\$ 434,141,765</u>

Connecticut Children's Medical Center and Subsidiaries

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2016

	Connecticut Children's Medical Center	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Revenues							
Patient service revenues	\$ 306,769,581	\$ -	\$ 306,769,581	\$ 54,641,332	\$ -	\$ -	\$ 361,410,913
Provision for bad debts	(1,605,446)	-	(1,605,446)	(1,584,241)	-	-	(3,189,687)
Patient service revenues, less provision for bad debts	305,164,135	-	305,164,135	53,057,091	-	-	358,221,226
Other revenues	3,849,544	-	3,849,544	5,329,171	4,797,102	(609,751)	13,366,066
Net assets released from restrictions for operations	16,467,708	-	16,467,708	64,214	2,961	-	16,534,883
Total revenues	325,481,387	-	325,481,387	58,450,476	4,800,063	(609,751)	388,122,175
Expenses							
Salaries	125,996,279	-	125,996,279	47,402,448	2,186,947	7,122,747	182,708,421
Benefits	26,196,501	-	26,196,501	10,745,889	673,220	1,638,231	39,253,841
Supplies and other	130,340,460	-	130,340,460	14,949,916	3,330,539	(9,370,729)	139,250,186
Depreciation and amortization	19,075,785	-	19,075,785	2,382,662	31,034	-	21,489,481
Interest	1,137,843	-	1,137,843	3,208	-	-	1,141,051
Total expenses	302,746,868	-	302,746,868	75,484,123	6,221,740	(609,751)	383,842,980
Income (loss) from operations	22,734,519	-	22,734,519	(17,033,647)	(1,421,677)	-	4,279,195
Other Income (Loss)							
Investment return, net	(10,799)	-	(10,799)	40,779	592,974	-	622,954
Income from trusts held by others	3,025,303	-	3,025,303	-	-	-	3,025,303
Change in equity interest in net assets of the Foundation	-	4,708,191	4,708,191	-	-	-	4,708,191
Total other income (loss)	3,014,504	4,708,191	7,722,695	40,779	592,974.00	-	8,356,448
Excess (deficiency) of revenues over expenses	25,749,023	4,708,191	30,457,214	(16,992,868)	(828,703)	-	12,635,643

Connecticut Children's Medical Center and Subsidiaries

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2016

	Connecticut Children's Medical Center	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Unrestricted Net Assets (continued)							
Excess (deficiency) of revenues over expenses (from previous page)	\$ 25,749,023	\$ 4,708,191	\$ 30,457,214	\$ (16,992,868)	\$ (828,703)	\$ -	\$ 12,635,643
Transfer from affiliated organizations, net	(20,941,044)	-	(20,941,044)	20,061,044	-	-	(880,000)
Unrealized loss on investments	-	-	-	-	1,419,888	-	1,419,888
Net assets released from restrictions for capital	3,878,457	-	3,878,457	26,656	-	-	3,905,113
Change in funded status of pension and post-retirement plans	(4,937,060)	-	(4,937,060)	-	-	-	(4,937,060)
Change in equity interest in the net assets of the Foundation	-	2,209,549	2,209,549	-	-	-	2,209,549
Change in unrestricted net assets	3,749,376	6,917,740	10,667,116	3,094,832	591,185	-	14,353,133
Temporarily Restricted Net Assets							
Transfer from affiliated organization	7,661,054	-	7,661,054	-	-	-	7,661,054
Net assets released from restrictions for operations	(16,467,708)	-	(16,467,708)	(64,214)	(2,961)	-	(16,534,883)
Net assets released from restrictions for capital	(3,878,457)	-	(3,878,457)	(26,656)	-	-	(3,905,113)
Bequests, gifts and grants	10,017,374	-	10,017,374	90,870	-	-	10,108,244
Change in equity interest in the net assets of the Foundation	-	317,579	317,579	-	-	-	317,579
Change in temporarily restricted net assets	(2,667,737)	317,579	(2,350,158)	-	(2,961)	-	(2,353,119)
Permanently Restricted Net Assets							
Change in funds held in trust by others	5,455,109	-	5,455,109	-	-	-	5,455,109
Change in equity interest in the net assets of the Foundation	-	883,341	883,341	-	-	-	883,341
Change in permanently restricted net assets	5,455,109	883,341	6,338,450	-	-	-	6,338,450
Change in net assets	6,536,748	8,118,660	14,655,408	3,094,832	588,224	-	18,338,464
Net Assets (Deficiency) at Beginning of Year	97,870,069	100,379,776	198,249,845	(11,964,306)	32,281,147	-	218,566,686
Net Assets (Deficiency) at End of Year	\$ 104,406,817	\$ 108,498,436	\$ 212,905,253	\$ (8,869,474)	\$ 32,869,371	\$ -	\$ 236,905,150