

Lawrence + Memorial Hospital
Consolidated Financial Statements and
Supplemental Information
September 30, 2016 and 2015

Lawrence + Memorial Hospital
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September 30, 2016 and 2015

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Report of Independent Auditors

To the Board of Trustees of
Lawrence + Memorial Hospital

We have audited the accompanying consolidated financial statements of Lawrence + Memorial Hospital and its subsidiary (a subsidiary of Lawrence + Memorial Corporation, the "Hospital"), which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the 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 our 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, we consider internal control relevant to the Company'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 Company'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 Hospital at September 30, 2016 and September 30, 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

As described in Note 1, on September 8, 2016, the parent company of the Hospital, Lawrence + Memorial Corporation ("Corporation"), entered into an affiliation agreement with Yale New Haven Health Services Corporation who became the sole corporate member of the Corporation.

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

PricewaterhouseCoopers LLP

Hartford, Connecticut
December 19, 2016

Lawrence + Memorial Hospital
Consolidated Balance Sheets
September 30, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 3,968,061	\$ 13,362,306
Investments	92,026,239	107,365,636
Patient accounts receivable, net of allowance for doubtful accounts of \$10,501,753 and \$9,884,068, respectively	35,433,350	37,976,959
Other receivables	3,467,831	4,131,254
Inventories	6,339,039	6,194,355
Due from affiliates	1,957,148	1,958,442
Prepaid expenses and other current assets	2,228,771	3,125,348
Debt service fund	1,306,653	1,304,613
Total current assets	<u>146,727,092</u>	<u>175,418,913</u>
Assets limited as to use		
Cash	185,218	183,677
Investments held in trust	25,563	926,080
Endowment investments	19,258,521	17,802,689
Funds held in trust by others	3,664,330	3,584,118
Contributions receivable	20,366	20,366
Total assets limited as to use	<u>23,153,998</u>	<u>22,516,930</u>
Other receivables	22,155,848	19,596,372
Due from Affiliates - long term	14,833,363	-
Property, plant and equipment, net	<u>143,390,721</u>	<u>150,976,973</u>
	<u>\$ 350,261,022</u>	<u>\$ 368,509,188</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 32,055,902	\$ 33,209,795
Accrued vacation and sick pay	9,990,544	10,112,002
Salaries, wages, payroll taxes and amounts withheld from employees	2,526,943	4,908,525
Due to affiliates	2,860,336	2,512,703
Due to third party payors	7,944,521	6,711,203
Current portion of long-term debt	5,729,505	5,495,740
Total current liabilities	<u>61,107,751</u>	<u>62,949,968</u>
Accrued pension and other postretirement benefits	55,475,184	52,989,394
Other liabilities	26,768,140	23,691,278
Long-term debt, less current portion	<u>94,968,208</u>	<u>100,751,741</u>
Total liabilities	<u>238,319,283</u>	<u>240,382,381</u>
Net assets		
Unrestricted	85,490,410	103,203,168
Temporarily restricted	20,326,874	18,960,042
Permanently restricted	6,124,455	5,963,597
Total net assets	<u>111,941,739</u>	<u>128,126,807</u>
	<u>\$ 350,261,022</u>	<u>\$ 368,509,188</u>

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

Lawrence + Memorial Hospital
Consolidated Statements of Operations
Years Ended September 30, 2016 and 2015

	2016	2015
Unrestricted revenues, gains and other support		
Net revenues from services to patients	\$ 326,352,569	\$ 339,282,362
Provision for bad debt	<u>(12,353,274)</u>	<u>(12,821,337)</u>
Net revenue less provision for bad debt	313,999,295	326,461,025
Other operating revenues	32,228,247	30,874,305
Net assets released from restriction used for operations	<u>453,686</u>	<u>577,092</u>
Total unrestricted revenues, gains and other support	<u>346,681,228</u>	<u>357,912,422</u>
Expenses		
Salaries and wages	142,839,009	140,605,613
Employee benefits	53,186,860	51,698,355
Supplies	58,654,793	63,622,692
Purchased services	26,454,290	29,998,356
Other	40,149,293	40,208,162
Interest	3,520,300	3,553,690
Depreciation and amortization	<u>23,201,919</u>	<u>23,639,711</u>
Total expenses	<u>348,006,464</u>	<u>353,326,579</u>
Income (loss) from operations	<u>(1,325,236)</u>	<u>4,585,843</u>
Nonoperating gains		
Unrestricted investment income	236,477	228,240
Income from investments and realized gains	<u>1,584,321</u>	<u>9,708,669</u>
Total nonoperating gains	<u>1,820,798</u>	<u>9,936,909</u>
Excess of revenues over expenses	495,562	14,522,752
Transfers to affiliated entities	(16,417,028)	(19,764,884)
Net unrealized (losses) gains on investments	4,289,066	(16,107,490)
Net assets released from restriction used for purchase of property, plant and equipment	133,618	140,748
Transfer to permanently restricted	(70,383)	-
Donated equipment	5,340	-
Pension related changes other than periodic pension costs	<u>(6,148,934)</u>	<u>(13,761,725)</u>
Decrease in unrestricted net assets	<u>\$ (17,712,759)</u>	<u>\$ (34,970,599)</u>

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

Lawrence + Memorial Hospital
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2016 and 2015

	2016	2015
Unrestricted net assets		
Excess of revenues over expenses	\$ 495,562	\$ 14,522,752
Transfer to affiliated entities	(16,417,028)	(19,764,884)
Net unrealized gains on investment	4,289,066	(16,107,490)
Net assets released from restriction used for purchase of property, plant and equipment	133,618	140,748
Transfer to Permanently Restricted	(70,383)	-
Donated equipment	5,340	-
Pension related changes other than periodic pension costs	<u>(6,148,934)</u>	<u>(13,761,725)</u>
Decrease in unrestricted net assets	(17,712,759)	(34,970,599)
Unrestricted net assets		
Beginning of year	<u>103,203,168</u>	<u>138,173,767</u>
End of year	<u>\$ 85,490,409</u>	<u>\$ 103,203,168</u>
Temporarily restricted net assets		
Income from investments	\$ 451,610	\$ 538,194
Net assets released from restriction	(587,846)	(4,718,825)
Contributions received	216,925	262,546
Change in value of irrevocable trust	(10,261)	683,868
Net realized and unrealized (losses) gains on investments	<u>1,296,404</u>	<u>(1,237,769)</u>
(Decrease) increase in temporarily restricted net assets	1,366,832	(4,471,986)
Temporarily restricted net assets		
Beginning of year	<u>18,960,042</u>	<u>23,432,028</u>
End of year	<u>\$ 20,326,874</u>	<u>\$ 18,960,042</u>
Permanently restricted net assets		
Contributions received	\$ 70,383	\$ -
Change in value of funds held in trust by others	<u>90,475</u>	<u>(84,378)</u>
(Decrease) increase in permanently restricted net assets	\$ 160,858	\$ (84,378)
Permanently restricted net assets		
Beginning of year	<u>5,963,597</u>	<u>6,047,975</u>
End of year	<u>\$ 6,124,455</u>	<u>\$ 5,963,597</u>
Decrease in net assets	<u>\$ (16,185,069)</u>	<u>\$ (39,526,963)</u>

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

Lawrence + Memorial Hospital
Consolidated Statements of Cash Flows
Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ (16,185,068)	\$ (39,526,963)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	23,201,919	23,639,711
Restricted contributions	(441,349)	(493,535)
Net unrealized losses (gains) on investments	(5,599,832)	18,243,554
Provision for bad debts	12,353,274	12,821,337
Decrease (increase) in funds held in trust by others	(80,212)	3,401,496
Changes in other operating accounts		
Patient accounts receivable, net	(9,809,665)	(14,425,227)
Other receivables, net	(1,896,053)	(3,034,647)
Inventories	(144,684)	386,398
Due from affiliates	1,294	(3,604)
Prepaid expenses and other current assets	896,577	(435,842)
Accounts payable	(1,360,016)	6,665,372
Accrued vacation and sick pay	(121,458)	(1,169,699)
Salaries, wages, payroll taxes and amounts withheld from employees	(2,381,582)	(1,042,042)
Due to affiliates	(14,485,730)	297,273
Due to third party payors	1,233,318	1,545,978
Pension, postretirement and other liabilities	5,562,652	12,863,132
Net cash (used in) provided by operating activities	<u>(9,256,615)</u>	<u>19,732,692</u>
Cash flows from investing activities		
Purchase of property, plant and equipment, net	(15,409,546)	(13,000,499)
Purchase of investments	(13,884,750)	(28,398,638)
Sales of investments	34,267,126	32,984,465
(Increase) decrease in debt service fund	(2,040)	(51)
Net cash provided by (used in) investing activities	<u>4,970,790</u>	<u>(8,414,723)</u>
Cash flows from financing activities		
Restricted contributions	441,349	493,535
Principal payments of long term debt	(5,549,768)	(5,366,874)
Proceeds of long term debt	-	-
Net cash (used in) provided by financing activities	<u>(5,108,419)</u>	<u>(4,873,339)</u>
Net (decrease) increase in cash and cash equivalents	(9,394,244)	6,444,630
Cash and cash equivalents		
Beginning of year	<u>13,362,305</u>	<u>6,917,675</u>
End of year	<u>\$ 3,968,061</u>	<u>\$ 13,362,305</u>
Supplemental disclosure of noncash activities		
Construction in process included in accounts payable	\$ 708,606	\$ 914,729
Contributed securities	441,349	493,535

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

Lawrence + Memorial Hospital

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

1. Significant Accounting Policies and Organization

Organization

Lawrence + Memorial Hospital (the "Hospital"), a non-profit organization incorporated under the General Statutes of the State of Connecticut, is a wholly owned subsidiary of Lawrence + Memorial Corporation (the "Corporation"). The Board of the Corporation elects a Board of Directors who manages the property and affairs of the Hospital.

Yale New Haven Health Services Corporation Affiliation

On September 8, 2016, the parent company of the Hospital, Lawrence + Memorial Corporation ("Corporation"), entered into an affiliation agreement with Yale New Haven Health Services Corporation who became the sole corporate member of the Corporation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Hospital and its wholly owned subsidiary, Associated Specialists of Southeastern Connecticut, Inc. ("Associated Specialists"). All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying footnotes. Actual results could differ from those estimates and there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital's significant estimates include the collectability of patient accounts receivable, useful lives of fixed assets, estimated settlements due to third party payors, valuation of certain investments, estimated reserves for self-insurance liabilities, and benefit plan assumptions.

Regulatory Matters

The Hospital is required to file annual operating information with the State of Connecticut Office of Health Care Access ("OHCA").

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital and its subsidiary in perpetuity or in funds held in trust by others whose purpose is for the funds to be maintained in perpetuity.

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 restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are recorded as unrestricted contributions in the accompanying consolidated statements of operations.

Cash and Cash Equivalents

The Hospital and its subsidiary consider all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Lawrence + Memorial Hospital

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Investments

Investments in equity and debt securities are recorded at fair value in the balance sheet. Fair value is generally determined based on quoted market prices where available or net asset values provided by investment managers. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are included in the change in net assets.

Realized and unrealized gains and losses on donor restricted endowment funds are included in temporarily restricted net assets under State law which allows the Board to appropriate as much of the net appreciation of investments as is prudent considering the Hospital's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions.

Investments in limited liability companies are accounted for using the equity method in instances where the limited partner's interest is more than minor (3-5%).

Fair Value Measurements

Fair value guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The guidance describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Hospital for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 – Quoted prices in active markets for identical assets.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets in active markets, quoted prices in markets that are not active, or can be corroborated by observable market data for substantially the same term of the assets.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

In May 2015, the Financial Accounting Standards Board issued ASU 2015-07, Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent), in regard to Topic 820, Fair Value Measurement. The ASU removes the requirement to categorize within the fair value hierarchy investments eligible to be valued using the net asset value (NAV) per share practical expedient. In essence, this amendment results in the Hospital disclosing the majority of its investments as valued by NAV and thus removing the classification of Level 3 and their required disclosures. This update is required for fiscal periods beginning after December 15 2016, however, early adoption is permitted and was elected by the Hospital.

Lawrence + Memorial Hospital

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Assets Held in Trust by Others

The Hospital has been named sole or participating beneficiary in several perpetual and charitable remainder trusts. Under the terms of these trusts, the Hospital has the irrevocable right to receive the income earned on the trust assets in perpetuity from the perpetual trusts and to receive the remainder of the trust assets for the charitable remainder trusts. For perpetual trusts, the estimated present value of the future payments to the Hospital is recorded at the fair value of the assets held in the trust. The charitable remainder trusts are recorded at the present value of the estimated future distributions expected to be received over the expected term of the trust agreement. The Hospital uses appropriate credit adjusted rates. In 2015 a significant remainder trust payment of \$4 million was received from the estate of a donor in accordance with the terms of the trust document. At the time of the trust termination, the trust was recorded at \$3.2 million and based on the value of the trust received; \$.8 million was recorded as a change in value of irrevocable trusts in the Hospital's change in temporarily restricted net assets. The release from restriction of the \$4 million for use on operations was recorded on the Corporation's Statement of Operations as all gifts and development activity is recorded at the Corporation.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors and contribution receivables for the established purpose of providing for future improvement, expansion and replacement of plant and equipment. In addition, the Hospital's interest in externally managed trusts, and unexpended bond proceeds for construction purposes are also included therein.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, or, if received as a donation, at the fair value on the date received. The Hospital provides for depreciation of property, plant and equipment using the straight-line method in amounts sufficient to amortize the cost of its assets over their useful lives. American Hospital Association lives are generally used and provide for a 2-25 year life for land improvements, 5-50 year life for buildings and 2-25 year life for equipment. Lease improvements are amortized over the life of the lease.

Nonoperating Gains and Losses

Activities other than in connection with providing health care services are considered to be nonoperating.

Excess of Revenues Over Expenses

The consolidated statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from the excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), and pension-related charges other than periodic pension costs and other postretirement benefits liabilities.

Fair Value of Financial Instruments

Certain investments and other assets and liabilities are carried at amounts that approximate fair value based on current market conditions. The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues or on current rates offered to the Hospital for debt of the same remaining maturities.

Lawrence + Memorial Hospital

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Medical Malpractice Self-Insurance

The Hospital purchases claims made-based professional and general liability insurance to cover medical malpractice claims from L + M Indemnity, Ltd., a wholly owned subsidiary of the Hospital's parent. The Hospital has adopted the policy of self-insuring the tail coverage portion of its malpractice insurance coverage. Management has accrued the estimate of losses anticipated to be incurred.

Income Taxes

The Hospital and its wholly owned subsidiary, Associated Specialists, are not-for-profit organizations and are exempt from federal income taxes on related income under Section 501(c) (3) of the Internal Revenue Code.

Inventories

Inventory consists of supplies, both medical and general, pharmaceuticals and food products needed to sustain daily operation of patient care. Inventories are carried at the lower of cost or market under the first-in-first-out (FIFO) method.

Impairment of Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less cost to dispose.

Accrued Vacation and Sick Pay

Accrued vacation is recorded as a liability as time is earned. As the time is used, the time is relieved from the liability. Accrued sick time is recorded as a percent for employees based on tenure, who have a balance greater than or equal to 800 sick hours and have the prescribed years of service. This payout is only upon termination of employment.

Labor action update

A contract was reached and ratified and the workforce had a three year contract that was signed in February 2014.

Intercompany Receivable/Payable

Effective in FY 2016, the Hospital determined that funding provided to L+M Physician Association Inc. ("LMPA") for losses attributable to physicians serving LMW Healthcare Inc. ("Westerly Hospital") service area in 2015, 2016 and future years are an obligation of Westerly Hospital. Accordingly, such amounts are recorded as due from affiliates at September 30, 2016. Additionally, any cash advances from the Hospital to affiliates other than LMPA will be recorded as due from affiliates on the Hospital's financial statements and due to affiliates on the recipient's financial statements unless the Board of Trustees approves an intercompany transfer.

Reclassification

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

Subsequent Events

The Hospital has performed an evaluation of subsequent events through December 19, 2016, which is the date the financial statements were issued.

Lawrence + Memorial Hospital
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

2. Revenues from Services to Patients and Charity Care

The following summarizes net revenues from services to patients:

	2016	2015
Gross charges from services to patients	\$ 850,212,483	\$ 843,024,228
Less: Charity care	5,392,901	5,427,817
Charges from services to patients, net of charity care	<u>844,819,582</u>	<u>837,596,411</u>
Deductions		
Allowances	505,996,912	485,513,042
State of Connecticut uncompensated care system	12,470,101	12,801,007
Total deductions	<u>518,467,013</u>	<u>498,314,049</u>
Net revenues from services to patients	<u>\$ 326,352,569</u>	<u>\$ 339,282,362</u>

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from most payors are different from established billing rates of the Hospital, and these differences are accounted for as allowances. The State of Connecticut has reduced Uncompensated Care Payments to all hospitals beginning July 2013 for a three year period. In 2015 and 2016, the Corporation paid cash into the State of Connecticut Uncompensated Care Pool that exceeded the amount was received from the State.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments related to prior year settlements decreased the Hospital's revenues by approximately \$3,683,727 in 2016 and increased the Hospital's revenues by approximately \$4,119,679 in 2015.

During 2016 and 2015, approximately 35% and 36%, respectively, of net patient service revenue was received under the Medicare program, and 12% and 12%, respectively, under the state Medicaid program. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital 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 regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation. Noncompliance could result in significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and reductions of funding levels could have an adverse impact on the Hospital.

The Hospital 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 Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized federal poverty income guidelines.

Lawrence + Memorial Hospital
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

3. Investments

Investments at September 30 consist of:

	2016	2015
Investments		
Cash and cash equivalents	\$ 10,019,100	\$ 2,475,788
Bonds	13,696,288	14,797,119
Mutual funds	21,106,180	26,419,933
Hedge funds	39,953,336	57,529,962
Private equities	7,251,335	6,142,834
Total other investments	<u>92,026,239</u>	<u>107,365,636</u>
Funds held in trust by others		
Investments held in trust by others	<u>3,664,330</u>	<u>3,584,118</u>
Total investments held in trust by others	<u>3,664,330</u>	<u>3,584,118</u>
Endowment investments		
Cash and cash equivalents	257,151	201,141
Bonds	2,759,722	2,447,475
Mutual funds	9,399,906	8,553,873
Hedge funds	6,281,535	6,053,615
Private equities	249,301	231,641
Marketable equities	310,906	314,944
Total endowment investments	<u>19,258,521</u>	<u>17,802,689</u>
Total Investments at fair value	<u>\$ 114,949,090</u>	<u>\$ 128,752,443</u>

Lawrence + Memorial Hospital
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

The Hospital's financial instrument categorization is based upon the lowest level of input that is significant to the fair value measurement within the valuation hierarchy. The following table presents the financial instruments carried at fair value using the valuation hierarchy:

	2016				
	Level 1	Level 2	Level 3	NAV Practical Expedient	Total Fair Value
Investments					
Cash and cash equivalents	\$ 10,019,100	\$ -	\$ -	\$ -	\$ 10,019,100
Bonds	7,614,174	6,082,114	-	-	13,696,288
Mutual funds	21,106,180	-	-	-	21,106,180
Hedge funds	-	-	-	39,953,336	39,953,336
Private equities	-	-	-	7,251,335	7,251,335
Total other investments	<u>38,739,454</u>	<u>6,082,114</u>	<u>-</u>	<u>47,204,671</u>	<u>92,026,239</u>
Funds held in trust by others					
Investments held in trust by others	-	-	3,664,330	-	3,664,330
Total held in trust by others	<u>-</u>	<u>-</u>	<u>3,664,330</u>	<u>-</u>	<u>3,664,330</u>
Endowment investments					
Cash and cash equivalents	257,151	-	-	-	257,151
Bonds	1,850,996	-	-	284,377	2,135,373
Mutual funds	8,092,773	624,349	-	1,307,133	10,024,255
Hedge funds	-	-	-	6,281,536	6,281,536
Private equities	-	-	-	249,301	249,301
Marketable equities	310,906	-	-	-	310,906
Total endowment investments	<u>10,511,826</u>	<u>624,349</u>	<u>-</u>	<u>8,122,347</u>	<u>19,258,522</u>
	<u>\$ 49,251,280</u>	<u>\$ 6,706,463</u>	<u>\$ 3,664,330</u>	<u>\$ 55,327,018</u>	<u>\$ 114,949,091</u>
2015					
	Level 1	Level 2	Level 3	NAV Practical Expedient	Total Fair Value
Investments					
Cash and cash equivalents	\$ 2,475,788	\$ -	\$ -	\$ -	\$ 2,475,788
Bonds	9,306,863	5,490,256	-	-	14,797,119
Mutual funds	26,419,933	-	-	-	26,419,933
Hedge funds	-	-	-	57,529,962	57,529,962
Private equities	-	-	-	6,142,834	6,142,834
Total other investments	<u>38,202,584</u>	<u>5,490,256</u>	<u>-</u>	<u>63,672,796</u>	<u>107,365,636</u>
Funds held in trust by others					
Investments held in trust by others	-	-	3,584,118	-	3,584,118
Total held in trust by others	<u>-</u>	<u>-</u>	<u>3,584,118</u>	<u>-</u>	<u>3,584,118</u>
Endowment investments					
Cash and cash equivalents	201,141	-	-	-	201,141
Bonds	1,582,765	564,931	-	299,779	2,447,475
Mutual funds	7,225,792	-	-	1,328,081	8,553,873
Hedge funds	-	-	-	6,053,615	6,053,615
Private equities	-	-	-	231,641	231,641
Marketable equities	314,944	-	-	-	314,944
Total endowment investments	<u>9,324,642</u>	<u>564,931</u>	<u>-</u>	<u>7,913,116</u>	<u>17,802,689</u>
	<u>\$ 47,527,226</u>	<u>\$ 6,055,187</u>	<u>\$ 3,584,118</u>	<u>\$ 71,585,912</u>	<u>\$ 128,752,443</u>

Fair value for Level 1 is based upon quoted prices in active markets that the Hospital has the ability to access at the measurement date. Market price data is generally obtained from exchange or dealer markets. The Hospital does not adjust the quoted price for such assets.

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Fair value for Level 2 is based on quoted 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.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all and reflect assumptions based on the best information available in the circumstances.

Investments included in Level 3 investments are charitable remainder trusts held by third parties which are recorded at the present value of the future distributions expected to be received over the term of the agreement.

In accordance with ASU 2015-07, Disclosure for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent), the Hospital has displayed those alternative investments valued at net asset value outside of the leveling table. The value of these alternative investments represents the ownership interest in the net assets value ("NAV") of the respective partnership. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgement. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate.

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 Hospital 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 following table is a roll forward of the amounts by investment type for financial instruments classified by the Hospital within Level 3 of the fair value hierarchy defined above:

	Beginning October 1, 2015	Investment Income	Realized Gains	Unrealized Gains	Investment Fees	Purchases	Sales	Transfer Out	Ending September 30, 2016
Investment pool									
Funds held in trust	3,584,118	-	-	80,212	-	-	-	-	3,664,330
	<u>\$ 3,584,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,212</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,664,330</u>
	Beginning October 1, 2014	Investment Income	Realized Gains	Unrealized Gains	Investment Fees	Purchases	Sales	Transfer Out	Ending September 30, 2015
Investment pool									
Hedge funds	\$ 54,309,686	\$ 386,194	\$ 822,070	\$ (5,276,131)	\$ (238,953)	\$ 15,395,580	\$ (187,009)	\$ (65,211,437)	\$ -
Private equities	4,404,281	667	319,946	463,808	(108,941)	1,799,667	(504,953)	(6,374,475)	-
Funds held in trust	6,985,614	-	-	599,490	-	-	(4,000,986)	-	3,584,118
	<u>\$ 65,699,581</u>	<u>\$ 386,861</u>	<u>\$ 1,142,016</u>	<u>\$ (4,212,833)</u>	<u>\$ (347,894)</u>	<u>\$ 17,195,247</u>	<u>\$ (4,692,948)</u>	<u>\$ (71,585,912)</u>	<u>\$ 3,584,118</u>

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There were no significant transfers between levels of assets for the fiscal year ended September 30, 2016.

A summary of the investment return is presented below:

	2016	2015
Investment income	\$ 1,422,157	\$ 1,862,864
Realized and unrealized (losses) gains	6,038,848	(9,218,819)
Management fees and other costs	<u>(467,858)</u>	<u>(439,538)</u>
Total return on investments	<u>\$ 6,993,147</u>	<u>\$ (7,795,493)</u>

Following is additional information related to funds whose fair value is not readily determinable as of September 30, 2016.

	Strategy	Fair Value	# of Investments	Timing to Draw Down Commitments	Redemption Terms	Redemption Restrictions
Equity securities	Global developed and emerging market equity	\$ 18,329,991	2	No remaining commitments	Monthly with 10 day's notice	None
Absolute return	Long/short and long-biased equity and credit hedge funds	8,213,264	2	No remaining commitments	Annual with 90 day's notice	lock up provision of 12 months from the purchase date
Directional hedge	Long/short and long-biased equity and credit hedge funds	20,700,172	1	No remaining commitments	Quarterly with 60 day's notice	lock up provision of 25 months from the purchase date
Commodities	Commodity index	582,955	1	No remaining commitments	Monthly with 5 day's notice	None
Private equity	Private equity	7,500,636	8	Long term 5 years	Illiquid	Long Term 5-10 years
		<u>\$ 55,327,018</u>				

None of the funds invested in are finite lived. Unfunded commitments at September 30, 2016 total approximately \$4,430,055 million and relate to private equity funds.

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4. Endowment

The Hospital's endowment consists of donor restricted endowment funds for a variety of purposes. The net assets associated with endowment funds including funds designated by the Board of Directors to function as endowments are classified and reported based on the existence or absence of donor imposed restrictions.

The Hospital understands net asset classification guidance requires that donor restricted endowment gifts be maintained in perpetuity. Consistent with net asset classification guidance, the Hospital classified 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. The Hospital considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund.
- The purposes of the Hospital and donor-restricted endowment fund.
- 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 Hospital.
- The investment policies of the Hospital.

Changes in endowment net assets for year ended September 30:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets at beginning of year	\$ -	\$ 15,036,239	\$ 2,839,683	\$ 17,875,922
Investment return				
Investment income	-	30,745	-	30,745
Net realized and unrealized gains	-	1,296,404	-	1,296,404
Total investment return	-	1,327,149	-	1,327,149
Contribution received	-	-	70,384	70,384
Income distribution	-	(134,160)	-	(134,160)
Endowment net assets at end of year	\$ -	\$ 16,229,228	\$ 2,910,067	\$ 19,139,295

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	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets at beginning of year	\$ -	\$ 16,369,375	\$ 2,839,683	\$ 19,209,058
Investment return				
Investment income	-	45,381	-	45,381
Net realized and unrealized gains	-	(1,237,769)	-	(1,237,769)
Total investment return	-	(1,192,388)	-	(1,192,388)
Income distribution	-	(140,748)	-	(140,748)
Endowment net assets at end of year	\$ -	\$ 15,036,239	\$ 2,839,683	\$ 17,875,922

The portion of the endowment retained either by explicit donor stipulation or by net asset classification guidance is summarized as follows:

	2016	2015
Temporarily restricted net assets		
Unspent income and appreciation on permanently restricted endowments for purchase of equipment and healthcare services	<u>\$ 16,229,228</u>	<u>\$ 15,036,239</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 16,229,228</u>	<u>\$ 15,036,239</u>
Permanently restricted net assets		
Corpus of permanently restricted contributions for which income is to be used for purchase of equipment and healthcare services	<u>\$ 2,910,067</u>	<u>\$ 2,839,683</u>
Total endowment funds classified as permanently restricted net assets	<u>\$ 2,910,067</u>	<u>\$ 2,839,683</u>

Endowment Funds With Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist they are classified as a reduction of unrestricted net assets.

Endowment Investment Return Objectives and Risk Parameters

The Hospital has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the permanent nature of endowment funds. Under this policy, the return objective for the endowment assets measured over a full market cycle shall be to maximize the return against a blended index, based on the endowment's target asset allocation applied to the appropriate individual benchmarks.

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Strategies Employed for Achieving Endowment Investment Objectives

To achieve 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 gains) and current yield (interest and dividends). The Hospital targets a diversified asset allocation to achieve its long-term objectives within prudent Hospital risk constraints.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

Spending is guided by several factors most important is the value of the portfolio. Generally, the Board will approve a spending policy limiting annual expenditures for grants and operating expenses up to 4.5% of the value of the Funds' assets based on a 12 quarter rolling average for the endowment and operating funds.

Investment managers are given ample notice of the required withdrawal schedule. Appropriate liquidity is maintained to fund these withdrawals without impairing the investment process.

5. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2016 and 2015:

	2016	2015
Funds held in trust by others	\$ 471,749	\$ 482,010
Contributions receivable	20,366	20,366
Free beds and plant replacement and expansion	16,229,228	15,036,239
Specific purpose reserves	<u>3,605,531</u>	<u>3,421,427</u>
	<u>\$ 20,326,874</u>	<u>\$ 18,960,042</u>

Permanently restricted net assets at September 30 are restricted to:

	2016	2015
Funds held in trust by others	\$ 3,214,388	\$ 3,123,914
Donor restricted endowment funds	<u>2,910,067</u>	<u>2,839,683</u>
	<u>\$ 6,124,455</u>	<u>\$ 5,963,597</u>

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6. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	2016	2015
Land and land improvements	\$ 8,906,686	\$ 8,904,363
Buildings	153,010,381	152,295,547
Equipment	<u>278,800,242</u>	<u>270,848,642</u>
	440,717,309	432,048,552
Less: Accumulated depreciation	<u>(307,044,723)</u>	<u>(283,857,352)</u>
	133,672,586	148,191,200
Construction in progress	<u>9,718,135</u>	<u>2,785,773</u>
	<u>\$ 143,390,721</u>	<u>\$ 150,976,973</u>

7. Long-Term Debt

	2016	2015
CHEFA Series F Revenue Bonds		
Various rate bonds, due 2017 to 2026	\$ 25,090,000	\$ 28,065,000
5.0% Term Bonds, due 2027 to 2031	8,705,000	8,705,000
5.0% Term Bonds, due 2032 to 2036	11,100,000	11,100,000
CHEFA Series G revenue bonds		
3.2% Term Bonds, due 2017 to 2023, option to extend with a maturity date of 2038	27,525,000	28,375,000
CHEFA H revenue bonds		
Variable rate bonds, due 2023 to 2034	21,405,000	21,405,000
Tax exempt lease	6,611,863	8,302,654
Capital lease obligation	<u>6,278</u>	<u>53,360</u>
Total debt outstanding	100,443,141	106,006,014
Less: Amounts classified as current	5,729,505	5,495,740
Cost of issuance	2,058,260	2,187,006
Add: Bond premium	<u>2,312,832</u>	<u>2,428,473</u>
Total long-term portion of long-term debt	<u>\$ 94,968,208</u>	<u>\$ 100,751,741</u>

On September 15, 2011 the Connecticut Health and Education Facilities Authority (“CHEFA”) issued \$58,940,000 of Series F Bonds (the “Series F Bonds”) on behalf of the Hospital and Lawrence + Memorial Corporation (collectively referred to as the “Obligated Group” under the Series F Bond agreements). The Series F Bonds are structured with a term bonds due at various dates through July 1, 2036, with annual sinking fund payments due each July 1st. Interest on the Series F Bonds is payable semiannually on the first business day of January 1 and July 1 which began on January 1, 2012.

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The tax exempt lease was obtained on June 27, 2013 in the principal amount of \$12,000,000. This is a seven year equipment lease on specific capital purchases that is administered through CHEFA and Bank of America-Merrill Lynch. This lease obligation will be amortized monthly through June 27, 2020 at a nominal annual interest rate of 1.759%.

On October 10, 2013 Series G was issued in a private placement offering with Bank of America-Merrill Lynch and CHEFA in the amount of \$29,200,000 with an interest rate of 3.20% until October 1, 2023 with an option to extend at a negotiated rate with a maturity date of July 1, 2038.

On November 5, 2013, Series H was issued by CHEFA to refinance Series E. Series H was issued in the amount of \$21,405,000 with a variable rate and a maturity date of July 1, 2034. This bond has a letter of credit guaranteed by T.D. Bank. Interest on the Series H Bonds accrues at the weekly rate and is payable on the first business day of each month commencing January 1, 2014.

Under the terms of the trust indenture for the Series F, G and H Bonds, the Obligated Group is required to meet certain financial covenants including a debt service coverage ratio and days cash on hand ratio. Members of the Obligated Group are jointly and severally obligated to provide amounts sufficient to enable the Authority to pay principal and interest on the Series F, G and H Bonds. The Bonds and bond proceeds have been allocated to the Hospital and as such, the Hospital will make future debt service payments as required under the terms of the bonds.

The bonds may be retired at an earlier date pursuant to terms of the master indenture. Payment of the bonds is collateralized by a pledge of the gross receipts, as defined and certain real property of the Hospital.

The Series H Bonds are considered variable rate demand bonds and are remarketed on a weekly basis. The Hospital maintains a letter of credit in the amount of \$21,405,000 which expires on November 5, 2018. If the bonds are unable to be remarketed, the letter of credit could be utilized to purchase the bonds. The Obligated Group would then be subject to the payment terms of the letter of credit, which are monthly installments. The Series H Bonds have been successfully remarketed in the past and there have been no draws on the letter of credit.

The fair value of the outstanding bonds is \$97,549,831 and \$101,550,368 at September 30, 2016 and, 2015, respectively.

Principal repayments on the outstanding long term debt are as follows:

Years	Annual Principal Repayment
2017	\$ 5,729,505
2018	5,916,285
2019	6,142,340
2020	5,932,466
2021 and thereafter	<u>76,722,545</u>
	<u>\$ 100,443,141</u>

The Hospital made cash interest payments of \$3,299,570 and \$3,495,549 in fiscal year 2016 and 2015, respectively. No interest was capitalized during 2016 or 2015.

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8. Pension and Other Postretirement Benefits

The Hospital has a defined benefit plan covering all employees who elected to stay in the plan. The plan is frozen to new participants as of June 30, 1999. The benefits are based on years of service and the employee's compensation during the last five years of employment.

The Hospital provides health care and life insurance benefits to its retired employees who meet certain eligibility requirements. The Hospital's policy is to fund the cost of postretirement benefits other than pension as incurred. This plan was frozen to include only those employees who retired prior to May 1, 1994.

The following table sets forth the Plans' funded status and amounts recognized in the consolidated balance sheet at September 30, 2016 and 2015 (measurement date of September 30):

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 161,858,874	\$ 156,674,809	\$ 754,324	\$ 837,437
Service cost	927,155	2,141,301	-	-
Interest cost	6,473,434	6,195,482	21,661	24,077
Employee contributions	542,229	41,451	-	-
Benefits paid	(12,604,580)	(7,608,334)	(88,574)	(91,218)
Actuarial loss (gain)	12,154,524	4,414,165	(288)	(15,972)
Benefit obligation at end of year	169,351,636	161,858,874	687,123	754,324
Change in plan assets				
Fair value of plan assets at beginning of year	110,861,876	115,176,724	-	-
Actual return on plan assets	9,433,228	(4,147,965)	-	-
Employee contributions	42,229	41,451	-	-
Employer contributions	8,010,000	7,400,000	88,574	95,403
Benefits paid	(12,604,580)	(7,608,334)	(88,574)	(95,403)
Fair value of plan assets at end of year	115,742,753	110,861,876	-	-
Funded status of the plan	(53,608,883)	(50,996,998)	(687,123)	(754,324)
Unrecognized net loss (gain) from past experience different from that assumed and effects of changes in assumptions	61,389,110	55,236,126	(384,802)	(443,280)
Prior Service Costs	-	4,050	-	-
Accrued benefit costs recognized in the consolidated balance sheet	\$ 7,780,227	\$ 4,243,178	\$ (1,071,925)	\$ (1,197,604)
Components of net periodic benefit costs				
Service cost	\$ 927,155	\$ 2,141,301	\$ -	\$ -
Interest cost	6,473,434	6,195,482	21,661	24,077
Expected return on plan assets	(8,259,142)	(8,603,526)	-	-
Amortization of net loss (gain)	5,327,454	3,328,824	(58,766)	(60,777)
Net amortization and deferral	4,050	75,107	-	-
Benefit cost	\$ 4,472,951	\$ 3,137,188	\$ (37,105)	\$ (36,700)

The net actuarial loss of approximately \$12.1 million is due to a decrease in discount rate.

Lawrence + Memorial Hospital
Notes to Consolidated Financial Statements
September 30, 2016 and 2015

The weighted average assumptions used to determine the net benefit cost at the beginning of the year are as follows:

	2016	2015
Discount rate	4.10 %	4.05 %
Average rate of compensation increases	2.50 %	2.50 %
Expected return on assets	7.50 %	7.50 %

The weighted average assumptions used to determine the benefit obligation at the end of the year are as follows:

	2016	2015
Discount rate	3.33 %	4.10 %
Average rate of compensation increases	2.50 %	2.50 %

The Plan's asset allocations as of September 30 are as follows:

Asset Category	2016	2015
Cash	2 %	2 %
Bonds	32	32
Mutual funds	27	26
Hedge funds	39	40
	100 %	100 %

The expected rate of return on assets is calculated based on past experience.

Expected benefits to be paid under the plans are as follows:

Fiscal Years Beginning October 1,	Expected Benefits
2017	\$ 8,626,925
2018	8,820,838
2019	9,031,161
2020	9,186,588
2021	9,491,046
Expected aggregate for 5 fiscal years beginning 2022	49,624,028

Annual employer contributions are determined by the Hospital based upon calculations prepared by the plan's actuary. Expected contributions to the plans for 2017 are approximately (unaudited):

Pension	\$ 7,400,000
Retiree health	85,758

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The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) for participants is assumed to be 7.5% in 2016 reducing to 5.0% by the year 2020 and remaining at that level thereafter. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the accumulated post-retirement benefit obligation and service cost plus interest cost by approximately \$42,000 and \$49,000, respectively, at September 30, 2016 and 2015. A one percentage point decrease in the assumed health care cost trend rate would decrease the accumulated postretirement benefit obligation and service cost plus interest cost by approximately \$38,000 and \$45,000, respectively, at September 30, 2016 and 2015.

Plan Assets

The defined benefit plan assets are valued utilizing the same fair value hierarchy as the Hospital's investments as described in Note 1.

The following table summarizes the fair values of investments by major type held by the pension plan at September 30, 2016:

	Level 1	Level 2	Level 3	NAV Practical Expedient	2016
Investments, at fair value					
Cash	\$ 1,767,536	\$ -	\$ -	\$ -	\$ 1,767,536
Bonds	37,261,667	-	-	-	37,261,667
Mutual funds	26,282,535	5,514,804	-	-	31,797,339
Hedge funds	-	-	-	44,916,210	44,916,210
Total investments, at fair value	<u>\$ 65,311,738</u>	<u>\$ 5,514,804</u>	<u>\$ -</u>	<u>\$ 44,916,210</u>	<u>\$ 115,742,752</u>

The following table summarizes the fair values of investments by major type held by the pension plan at September 30, 2015:

	Level 1	Level 2	Level 3	NAV Practical Expedient	2015
Investments, at fair value					
Cash	\$ 2,345,782	\$ -	\$ -	\$ -	\$ 2,345,782
Bonds	35,027,573	-	-	-	35,027,573
Mutual funds	24,119,636	4,946,910	-	-	29,066,546
Hedge funds	-	-	-	44,421,975	44,421,975
Total investments, at fair value	<u>\$ 61,492,991</u>	<u>\$ 4,946,910</u>	<u>\$ -</u>	<u>\$ 44,421,975</u>	<u>\$ 110,861,876</u>

As disclosed in Note 1, as a result of the adoption of ASU 2015-07, the Hospital discloses all the plan assets under NAV instead of Level 3 in both 2016 and 2015.

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September 30, 2016 and 2015

The table below represents the change in fair value measurements for Level 3 investments held by the plan for the years ended September 30:

	2016	2015
Beginning balances	\$ -	\$ 33,457,838
Realized gains	-	554,617
Fees	-	(204,757)
Unrealized losses	-	(3,485,723)
Purchases	-	14,100,000
Sales	-	-
Transfers out	-	(44,421,975)
Ending balances	<u>\$ -</u>	<u>\$ -</u>

The investment objective for the pension and post retirement plans seeks a positive long-term total return after inflation to meet the Hospital's current and future plan obligations.

Asset allocations combine tested theory and informed market judgment to balance investment risks with the need for high returns.

The Hospital's 401(k) plan covers eligible employees who elect to participate. Eligible employees may contribute a percentage of their salary. The Hospital matches 100% of the first 4% of gross pay deferred by employees for those employees who do not participate in the defined benefit plan. Contributions charged to operations were approximately \$3,565,368 and \$3,416,963 for 2016 and 2015, respectively.

9. Functional Expenses

The Hospital provides general health care services to residents within its geographic location including pediatric care, cardiac catheterization, and outpatient surgery. Expenses by function are as follows:

	2016	2015
Health care services	\$ 255,536,062	\$ 249,259,940
General and administrative	<u>92,470,402</u>	<u>104,066,639</u>
	<u>\$ 348,006,464</u>	<u>\$ 353,326,579</u>

10. Contingencies

The Hospital is a party to various lawsuits incidental to its business. Management believes that the lawsuits will not have a material adverse effect on the Hospital's financial position, results of operations, changes in net assets or cash flows.

Consolidating Supplemental Information

Lawrence + Memorial Hospital
Consolidating Balance Sheet
September 30, 2016

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 3,965,054	\$ 3,007	\$ -	\$ 3,968,061
Investments	92,026,239	-	-	92,026,239
Patient accounts receivable, net	35,197,755	235,595	-	35,433,350
Other receivables	3,467,831	-	-	3,467,831
Inventories	6,339,039	-	-	6,339,039
Due from affiliates	2,063,848	-	(106,700)	1,957,148
Prepaid expenses and other current assets	2,228,771	-	-	2,228,771
Debt service fund	1,306,653	-	-	1,306,653
Total current assets	146,595,190	238,602	(106,700)	146,727,092
Assets limited as to use				
Cash	185,218	-	-	185,218
Investments held in trust	25,563	-	-	25,563
Endowment investments	19,258,521	-	-	19,258,521
Funds held in trust by others	3,664,330	-	-	3,664,330
Contributions receivable	20,366	-	-	20,366
Total assets limited as to use	23,153,998	-	-	23,153,998
Other assets				
Other receivables	22,155,848	-	-	22,155,848
Due from Affiliates - long term	14,833,363	-	-	14,833,363
Property, plant and equipment	143,390,721	-	-	143,390,721
Total assets	\$ 350,129,120	\$ 238,602	\$ (106,700)	\$ 350,261,022

Lawrence + Memorial Hospital
Consolidating Balance Sheet
September 30, 2016

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Liabilities				
Current liabilities				
Accounts payable	\$ 31,263,913	\$ 791,989	\$ -	\$ 32,055,902
Accrued vacation and sick pay	9,990,544	-	-	9,990,544
Salaries, wages, payroll taxes and amounts withheld from employees	2,526,943	-	-	2,526,943
Due to affiliates	2,860,336	106,700	(106,700)	2,860,336
Due to third party payors	7,944,521	-	-	7,944,521
Current portion of long-term debt	5,729,505	-	-	5,729,505
Total current liabilities	60,315,762	898,689	(106,700)	61,107,751
Accrued pension and other postretirement benefits	55,475,184	-	-	55,475,184
Other liabilities	26,768,140	-	-	26,768,140
Long-term debt, less current portion	94,968,208	-	-	94,968,208
Total liabilities	237,527,294	898,689	(106,700)	238,319,283
Net assets				
Unrestricted	86,150,497	(660,087)	-	85,490,410
Temporarily restricted	20,326,874	-	-	20,326,874
Permanently restricted	6,124,455	-	-	6,124,455
Total net assets	112,601,826	(660,087)	-	111,941,739
	<u>\$ 350,129,120</u>	<u>\$ 238,602</u>	<u>\$ (106,700)</u>	<u>\$ 350,261,022</u>

Lawrence + Memorial Hospital
Consolidating Balance Sheet
September 30, 2015

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Assets				
Current assets				
Cash and cash equivalents	\$ 13,348,901	\$ 13,405	\$ -	\$ 13,362,306
Investments	107,365,636	-	-	107,365,636
Patient accounts receivable, net	37,925,784	51,175	-	37,976,959
Other receivables	4,131,254	-	-	4,131,254
Inventories	6,194,355	-	-	6,194,355
Due from affiliates	2,065,142	-	(106,700)	1,958,442
Prepaid expenses and other current assets	3,125,348	-	-	3,125,348
Debt service fund	1,304,613	-	-	1,304,613
Total current assets	<u>175,461,033</u>	<u>64,580</u>	<u>(106,700)</u>	<u>175,418,913</u>
Assets limited as to use				
Cash	183,677	-	-	183,677
Investments held in trust	926,080	-	-	926,080
Endowment investments	17,802,689	-	-	17,802,689
Funds held in trust by others	3,584,118	-	-	3,584,118
Contributions receivable	20,366	-	-	20,366
Total assets limited as to use	<u>22,516,930</u>	<u>-</u>	<u>-</u>	<u>22,516,930</u>
Other assets				
Other receivables	19,596,372	-	-	19,596,372
Due from Affiliates - long term	-	-	-	-
Property, plant and equipment	150,976,973	-	-	150,976,973
Total assets	<u>\$ 368,551,308</u>	<u>\$ 64,580</u>	<u>\$ (106,700)</u>	<u>\$ 368,509,188</u>

Lawrence + Memorial Hospital
Consolidating Balance Sheet
September 30, 2015

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Liabilities				
Current liabilities				
Accounts payable	\$ 32,897,000	\$ 312,795	\$ -	\$ 33,209,795
Accrued vacation and sick pay	10,112,002	-	-	10,112,002
Salaries, wages, payroll taxes and amounts withheld from employees	4,908,525	-	-	4,908,525
Due to affiliates	2,512,703	106,700	(106,700)	2,512,703
Due to third party payors	6,711,203	-	-	6,711,203
Current portion of long-term debt	5,495,740	-	-	5,495,740
Total current liabilities	62,637,173	419,495	(106,700)	62,949,968
Accrued pension and other postretirement benefits	52,989,394	-	-	52,989,394
Other liabilities	23,691,278	-	-	23,691,278
Long-term debt, less current portion	100,751,741	-	-	100,751,741
Total liabilities	240,069,586	419,495	(106,700)	240,382,381
Net assets				
Unrestricted	103,558,083	(354,915)	-	103,203,168
Temporarily restricted	18,960,042	-	-	18,960,042
Permanently restricted	5,963,597	-	-	5,963,597
Total net assets	128,481,722	(354,915)	-	128,126,807
	<u>\$ 368,551,308</u>	<u>\$ 64,580</u>	<u>\$ (106,700)</u>	<u>\$ 368,509,188</u>

Lawrence + Memorial Hospital
Consolidating Statement of Operations
Year Ended September 30, 2016

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Net revenues from services to patients	\$ 325,023,874	\$ 1,328,695	\$ -	\$ 326,352,569
Provision for bad debt	(12,339,856)	(13,418)	-	(12,353,274)
Net revenue less provision for bad debt	312,684,018	1,315,277	-	313,999,295
Other operating revenues	32,202,655	25,592	-	32,228,247
Net assets released from restriction used for operation	453,686	-	-	453,686
	<u>345,340,359</u>	<u>1,340,869</u>	<u>-</u>	<u>346,681,228</u>
Operating expenses				
Salaries and wages	142,839,009	-	-	142,839,009
Employee benefits	53,188,034	(1,174)	-	53,186,860
Supplies	58,654,701	92	-	58,654,793
Purchased services	26,014,497	439,793	-	26,454,290
Other	37,412,640	2,736,653	-	40,149,293
Interest	3,520,300	-	-	3,520,300
Depreciation and amortization	23,201,919	-	-	23,201,919
Total expenses	<u>344,831,100</u>	<u>3,175,364</u>	<u>-</u>	<u>348,006,464</u>
Income (loss) from operations	<u>509,259</u>	<u>(1,834,495)</u>	<u>-</u>	<u>(1,325,236)</u>
Nonoperating gains				
Unrestricted investment income	236,477	-	-	236,477
Income from investments and realized gains	1,584,321	-	-	1,584,321
	<u>1,820,798</u>	<u>-</u>	<u>-</u>	<u>1,820,798</u>
Excess (deficit) of revenues over expenses	2,330,057	(1,834,495)	-	495,562
Transfers to affiliate entities				-
Net unrealized losses on investments	(17,946,351)	1,529,323	-	(16,417,028)
Net assets released from restriction used for purchase of property, plant and equipment	4,289,066	-	-	4,289,066
Transfer to permanently restricted	133,618	-	-	133,618
Donated equipment	(70,383)	-	-	(70,383)
Donated equipment	5,340	-	-	5,340
Pension related changes other than periodic pension costs	(6,148,937)	-	-	(6,148,937)
(Decrease) increase in unrestricted net assets	<u>\$ (17,407,590)</u>	<u>\$ (305,172)</u>	<u>\$ -</u>	<u>\$ (17,712,762)</u>

Lawrence + Memorial Hospital
Consolidating Statement of Operations
Year Ended September 30, 2015

	Lawrence & Memorial Hospital	Associated Specialists of Connecticut	Eliminating Entities	Consolidated
Net revenues from services to patients	\$ 337,821,155	\$ 1,461,207	\$ -	\$ 339,282,362
Provision for bad debt	(12,798,310)	(23,027)	-	(12,821,337)
Net revenue less provision for bad debt	325,022,845	1,438,180	-	326,461,025
Other operating revenues	30,854,159	57,404	(37,258)	30,874,305
Net assets released from restriction used for operation	577,092	-	-	577,092
	<u>356,454,096</u>	<u>1,495,584</u>	<u>(37,258)</u>	<u>357,912,422</u>
Operating expenses				
Salaries and wages	140,640,103	(34,490)	-	140,605,613
Employee benefits	51,694,855	15,075	(11,575)	51,698,355
Supplies	63,622,692	-	-	63,622,692
Purchased services	29,627,730	370,626	-	29,998,356
Other	37,349,172	2,884,673	(25,683)	40,208,162
Interest	3,553,690	-	-	3,553,690
Depreciation and amortization	23,639,711	-	-	23,639,711
Total expenses	<u>350,127,953</u>	<u>3,235,884</u>	<u>(37,258)</u>	<u>353,326,579</u>
Income (loss) from operations	<u>6,326,143</u>	<u>(1,740,300)</u>	<u>-</u>	<u>4,585,843</u>
Nonoperating gains				
Unrestricted investment income	228,240	-	-	228,240
Income from investments and realized gains	9,708,669	-	-	9,708,669
	<u>9,936,909</u>	<u>-</u>	<u>-</u>	<u>9,936,909</u>
Excess (deficit) of revenues over expenses	16,263,052	(1,740,300)	-	14,522,752
Transfers to affiliate entities	(21,705,946)	1,941,062	-	(19,764,884)
Net unrealized losses on investments	(16,107,490)	-	-	(16,107,490)
Net assets released from restriction used for purchase of property, plant and equipment	140,748	-	-	140,748
Pension related changes other than periodic pension costs	(13,761,725)	-	-	(13,761,725)
(Decrease) increase in unrestricted net assets	<u>\$ (35,171,361)</u>	<u>\$ 200,762</u>	<u>\$ -</u>	<u>\$ (34,970,599)</u>