

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Western Connecticut Health Network, Inc. and Subsidiaries  
Years Ended September 30, 2016 and 2015  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidated Financial Statements  
and Supplementary Information

Years Ended September 30, 2016 and 2015

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Ernst & Young LLP  
20 Church Street  
Hartford, CT 06103

Tel: +1 860 247 3100  
Fax: +1 860 725 6040  
ey.com

## Report of Independent Auditors

The Board of Directors  
Western Connecticut Health Network, Inc.

We have audited the accompanying consolidated financial statements of Western Connecticut Health Network, Inc. and Subsidiaries, which comprise the consolidated balance sheets 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 Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Western Connecticut Health Network Insurance Co., Ltd. (the Company), a wholly-owned subsidiary, which statements reflect total assets constituting 9% and 8% as of September 30, 2016 and 2015, respectively, and total revenues constituting 1% and 2% in 2016 and 2015, respectively, of the consolidated totals. 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 Company, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose

of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Western Connecticut Health Network, Inc. and Subsidiaries at September 30, 2016 and 2015, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations are presented for purposes of additional analysis and are 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 audits 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 accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Ernst + Young LLP*

January 27, 2017

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidated Balance Sheets  
(In Thousands)

	September 30	
	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 61,070	\$ 74,288
Investments, current portion	36,175	44,016
Assets limited as to use, current portion	16,880	7,368
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$42,905 in 2016 and \$42,590 in 2015	135,583	143,408
Pledges receivable, current portion	7,846	41,268
Inventories	16,082	14,880
Prepaid expenses and other	34,299	23,102
Total current assets	307,935	348,330
Investments	285,879	286,011
Assets limited as to use:		
Funds restricted by donor	93,044	87,103
Board designated funds	61,690	36,934
Beneficial interests in trusts held by others and charitable remainder trust	15,165	14,563
Construction funds	-	8,743
Investments held by Western Connecticut Health Network Insurance Co., Ltd.	103,776	115,882
Total noncurrent assets limited as to use	273,675	263,225
Other assets	27,693	23,791
Property, plant, and equipment:		
Land and land improvements	41,189	40,722
Buildings and building improvements	811,170	745,603
Equipment and other	645,113	611,444
Construction-in-progress (estimated cost to complete at September 30, 2016: \$70,174)	78,754	106,873
	1,576,226	1,504,642
Less accumulated depreciation	891,315	824,711
	684,911	679,931
Pledges receivable, less current portion	14,581	6,592
Bond issuance costs, net	3,797	4,062
Total assets	\$ 1,598,471	\$ 1,611,942

	September 30	
	2016	2015
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 65,526	\$ 63,644
Payroll-related accruals	54,994	69,290
Due to third-party payors	32,175	46,275
Interest payable	2,553	2,494
Other accrued expenses	4,552	3,817
Current portion of long-term debt	9,216	9,227
Total current liabilities	<u>169,016</u>	194,747
Self-insurance liabilities	74,660	78,958
Accrued pension liabilities and other	264,662	227,988
Long-term debt, less current portion	345,568	354,959
Total liabilities	<u>853,906</u>	856,652
Net assets:		
Unrestricted	611,912	601,286
Unrestricted attributable to noncontrolling interest	1,947	2,035
Temporarily restricted	85,290	107,926
Permanently restricted	45,416	44,043
Total net assets	<u>744,565</u>	755,290

Total liabilities and net assets

\$ 1,598,471    \$ 1,611,942

*See accompanying notes.*

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

*(In Thousands)*

	<b>Year Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
Unrestricted revenues:		
Net patient service revenue	\$ 1,216,273	\$ 1,162,464
Provision for uncollectible accounts	34,822	38,642
Net patient service revenue, less provision for uncollectible accounts	1,181,451	1,123,822
Net assets released from restriction	8,144	8,093
Other operating revenues	30,367	25,524
	1,219,962	1,157,439
Expenses:		
Salaries	705,188	684,755
Supplies and other	360,313	334,175
Insurance	7,102	9,517
Depreciation and amortization	74,054	68,744
Interest	9,442	9,510
State of Connecticut Hospital Tax	55,220	39,046
	1,211,319	1,145,747
Income from operations before net gain on extinguishment of long-term debt	8,643	11,692
Net gain on extinguishment of long-term debt	–	1,268
Income from operations	8,643	12,960
Income tax expense	–	168
Nonoperating gains and (losses):		
Contributions and net assets released from restriction for non-operating activities	26,909	33,105
Investment income, net	11,589	9,298
Change in unrealized gains and losses on investments	22,783	(14,249)
Operating expenses of Danbury Hospital and New Milford Hospital Foundation, Inc. and Norwalk Hospital Foundation, Inc.	(4,356)	(4,312)
Interest rate swap activity:		
Interest cost on interest rate swap	(640)	(356)
Change in value of interest rate swap	(1,800)	(2,928)
	(2,440)	(3,284)
	54,485	20,558
Excess of revenues over expenses, before net income attributable to noncontrolling interest in joint venture	63,128	33,350
Less: net income attributable to noncontrolling interest in joint venture	(2,019)	(1,968)
Excess of revenues over expenses	61,109	31,382

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (continued)  
(In Thousands)

	Year Ended September 30	
	2016	2015
Unrestricted net assets:		
Excess of revenues over expenses (continued)	\$ 61,109	\$ 31,382
Net assets released from restrictions for property, plant, and equipment	13,428	5,815
Transfer from temporarily restricted net assets	151	147
Change in pension obligation	(64,362)	(94,525)
Net unrestricted other changes in joint venture	(2,107)	(1,874)
Net income attributable to noncontrolling interest in joint venture	2,019	1,968
Other	300	(943)
Increase (decrease) in unrestricted net assets	10,538	(58,030)
Temporarily restricted net assets:		
Contributions	14,827	30,107
Investment income, net	2,477	1,372
Change in unrealized gains and losses on investments	3,332	(3,068)
Change in beneficial interest in charitable remainder trust	339	(452)
Net assets released from restriction for:		
Operations	(8,144)	(8,093)
Acquisitions of property, plant, and equipment	(13,428)	(5,815)
Non-operating activities	(21,818)	–
Transfer to unrestricted and permanently restricted net assets	(221)	(147)
Other	–	1,077
(Decrease) increase in temporarily restricted net assets	(22,636)	14,981
Permanently restricted net assets:		
Change in beneficial interests in trusts held by others	263	(751)
Contributions	1,040	1,536
Transfer from temporarily restricted net assets	70	–
Increase in permanently restricted net assets	1,373	785
Decrease in net assets	(10,725)	(42,264)
Net assets at beginning of year	755,290	797,554
Net assets at end of year	\$ 744,565	\$ 755,290

See accompanying notes.



Western Connecticut Health Network, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended September 30	
	2016	2015
<b>Operating activities</b>		
Decrease in net assets	\$ (10,725)	\$ (42,264)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	74,054	68,744
Change in unrealized gains and losses on investments	(26,115)	17,317
Change in pension obligation	64,362	94,525
Other changes in net assets	(300)	(134)
Restricted contributions and investment income	(18,344)	(33,015)
Net gain on extinguishment of long-term debt	–	(1,268)
Change in beneficial interests in trusts held by others and charitable remainder trust	(602)	1,203
Provision for uncollectible accounts	34,822	38,642
Changes in operating assets and liabilities (see Note 12)	(75,306)	(110,633)
Net cash provided by operating activities	<u>41,846</u>	<u>33,117</u>
<b>Investing activities</b>		
Additions to property, plant, and equipment	(79,034)	(96,735)
Purchases and sales of investments, net	15,028	(29,188)
Net cash used in investing activities	<u>(64,006)</u>	<u>(125,923)</u>
<b>Financing activities</b>		
Proceeds from issuance of bonds	–	122,120
Payments of long-term debt	(9,402)	(132,356)
Restricted contributions and investment income	18,344	33,015
Net cash provided by financing activities	<u>8,942</u>	<u>22,779</u>
Net decrease in cash and cash equivalents	(13,218)	(70,027)
Cash and cash equivalents at beginning of year	74,288	144,315
Cash and cash equivalents at end of year	<u>\$ 61,070</u>	<u>\$ 74,288</u>

See accompanying notes.

# Western Connecticut Health Network, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Dollars in Thousands)

September 30, 2016

### 1. Summary of Significant Accounting Policies

#### Organization and Basis of Presentation

Western Connecticut Health Network, Inc. (the Network) was established under the statutes of the State of Connecticut and is the parent company of the following subsidiaries: The Danbury Hospital and Subsidiary (Danbury Hospital); Danbury Hospital and New Milford Hospital Foundation, Inc. (DH/NMH Foundation); Western Connecticut Health Network Affiliates, Inc. (WCHNA); Western Connecticut Home Care, Inc. (WCHC); Western Connecticut Medical Group, Inc. (WCMG); Eastern New York Medical Services, P.C. (ENYMS); The Norwalk Hospital Association (Norwalk Hospital); Norwalk Hospital Foundation, Inc. (NHF); Norwalk Hospital Physicians and Surgeons (NHP&S); SWC Corporation (SWC); and Western Connecticut Health Network Investments, LLC (WCHN Investments).

Danbury Hospital is a voluntary, not-for-profit organization incorporated under the General Statutes of the State of Connecticut. The Board of Danbury Hospital is appointed by the Network. Danbury Hospital includes its wholly owned subsidiary, Western Connecticut Health Network Insurance Co., Ltd. (WCHNIC). Danbury Hospital has a single provider license to include New Milford Hospital and operates as one licensed facility with two campuses.

Norwalk Hospital is a voluntary, not-for-profit organization incorporated under the General Statutes of the State of Connecticut. Norwalk Hospital includes its wholly owned subsidiaries, NHF and NHP&S and its majority interest in Norwalk Surgery Center, LLC.

Through September 30, 2015, NHP&S operated as a not-for-profit organization established under the General Statutes of the State of Connecticut and provided physician services to patients primarily in the Greater Norwalk area. NHP&S also provided physician support to Norwalk Hospital. On September 30, 2015, NHP&S was dissolved and all remaining assets were transferred to Norwalk Hospital on that date. NHF is a 501(c)(3) organization whose tax-exempt status is based upon its support of the Network and the health care providers affiliated with it, including Norwalk Hospital and other health care organizations from time to time associated with the Network which qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code. The Board of NHA is appointed by the Network.

WCMG is a tax-exempt organization established under the General Statutes of the State of Connecticut and provides physician services to patients primarily from Western Connecticut and Southeastern New York. WCMG also provides physician support to various Network affiliates.

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **1. Summary of Significant Accounting Policies (continued)**

ENYMS is a tax-exempt New York professional corporation established under the General Statutes of the State of New York. It provides medical services through physicians and other licensed health care providers to the general public from offices located in Westchester County, New York.

DH/NMH Foundation (formerly known as Western Connecticut Health Network Foundation, Inc.) is a 501(c)(3) organization whose tax-exempt status is based upon its support of the Network and the health care providers affiliated with it, including Danbury Hospital and other health care organizations from time to time associated with the Network which qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code.

WCHN Investments, LLC is a partnership created in November 2015 whose membership interests are owned by the Network. WCHN Investments was formed for the purpose of pooling the long-term investments of Danbury Hospital, Norwalk Hospital, DH/NMH Foundation and NHF. On December 31, 2015, the long-term investments of Danbury Hospital, Norwalk Hospital, DH/NMH Foundation and NHF were transferred to WCHN Investments in exchange for a pro rata share of the combined investments and investment returns of WCHN Investments. WCHN Investments is a member of the Network Obligated Group (see Note 6).

The consolidated financial statements include the accounts of the Network, Danbury Hospital, DH/NMH Foundation, WCHNA, WCHC, WCMG, ENYMS, Norwalk Hospital, SWC and WCHN Investments. All material intercompany transactions have been eliminated in consolidation.

#### **Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. 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. Significant estimates reflected in the consolidated financial statements include the contractual allowances and allowance for uncollectible accounts for patient service revenue and the related patient accounts receivable, estimated revenue settlements due to or from third parties, reserves for malpractice, workers' compensation and other self-insured liabilities, and benefit plan assumptions.

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Regulatory Matters**

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

##### **Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with maturities of three months or less at date of purchase, other than amounts held in the investment portfolio and assets limited as to use. The carrying value of cash equivalents approximates its fair value. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Network's policy to monitor the financial strength of these institutions.

##### **Investments**

The Network's investment portfolio reported in the accompanying consolidated balance sheets is designated as trading. Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value, based upon quoted market prices, on the consolidated balance sheets. Investment income or loss (including realized and unrealized 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 by law.

Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that the Network holds limited partnership interests, are reported based upon net asset value derived from the application of the equity method of accounting. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, the Network's holdings, may be determined by the investment manager or general partner, and "fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The Network accounts for these investments using the equity method of accounting, except for investments held by the defined benefit pension plans, and reports its share of the increase or decrease in the funds' value as investment gain or loss. Alternative investments held by the defined benefit pension plans are reported at fair value as estimated in an unquoted market using net asset value as a practical expedient. The financial statements of the investees

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **1. Summary of Significant Accounting Policies (continued)**

are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Network's annual consolidated financial statement reporting.

#### **Fair Value of Financial Instruments**

The carrying values of financial instruments classified as current assets and current liabilities as of September 30, 2016 and 2015, approximate fair value based on current market conditions. The fair values of other financial instruments are disclosed in the respective notes and/or in Note 4. Investments include certificates of deposit with original maturities in excess of three months.

#### **Assets Limited as to Use**

Assets limited as to use represent investments with donor restrictions; unrestricted assets set aside by the Board of Directors for the purpose of providing for future improvement, expansion and replacement of property, plant and equipment; assets held by trustees under bond indenture agreements related to financing activities with the State of Connecticut Health and Educational Facilities Authority (CHEFA); beneficial interests in trusts held by others in accordance with donor restrictions; beneficial interest in charitable remainder trust; and investments held by WCHNIC. The portion of amounts required for funding current liabilities is included in current assets.

#### **Patient Accounts Receivable**

Patient accounts receivable result from the health care services provided by the Network. Additions to the allowance for uncollectible accounts result from the provision for uncollectible accounts. Accounts written off as uncollectible are deducted from the allowance for uncollectible accounts.

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **1. Summary of Significant Accounting Policies (continued)**

The Network's estimation of the allowance for uncollectible accounts is based primarily upon the type and age of the patient accounts receivable and the effectiveness of the Network's collection efforts. The Network's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. On a monthly basis, the Network reviews its accounts receivable balances and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

- Historical write-off and collection experience using a hindsight or look-back approach;
- Revenue and volume trends by payor, particularly the self-pay components;
- Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients;
- Cash collections as a percentage of net patient revenue less the provision for uncollectible accounts; and
- Trending of days revenue in accounts receivable

The Network regularly performs hindsight procedures to evaluate historical write-off and collection experience throughout the year to assist in determining the reasonableness of its process for estimating the allowance for uncollectible accounts.

The Network's primary concentration of credit risk is patient accounts receivable, which consists of amounts owed by various governmental agencies, insurance companies and private patients.

#### **Inventories**

The Network uses the first in, first out method, in the valuation of inventory.

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Property, Plant, and Equipment**

Property, plant, and equipment are recorded at cost, or if acquired through a business combination or received as a donation, at the fair value on the date received. The Network 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. The remaining useful lives range from 1–55 years. Included in property, plant, and equipment, net is \$21,681 of internally developed software costs at September 30, 2016.

##### **Bond Issuance Costs**

Discounts and deferred costs related to the issuance of bonds are amortized over the period the obligation is outstanding, using a method that approximates the effective interest method. Accumulated amortization of discounts and deferred costs were \$1,436 and \$1,177 at September 30, 2016 and 2015, respectively.

##### **Excess of Revenues Over Expenses**

The accompanying consolidated statements 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 permanent transfers of assets for other than goods and services, contributions of long-lived assets, changes in pension obligations, net income attributable to noncontrolling interest in joint venture, and net unrestricted other changes in joint venture.

Transactions deemed by management to be ongoing, major or central to the provision of health care services are reported within income from operations.

##### **Other Operating Revenues**

Other operating revenues consists primarily of grant income, education income, research income, cafeteria revenues, ancillary services, EHR incentive payments, and rental income of the Network (see Note 14).

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Nonoperating Gains and (Losses)**

Activities other than in connection with providing health care services are considered to be nonoperating. Nonoperating gains and (losses) primarily consist of contributions, investment income, net, changes in unrealized gains and losses on investments, interest rate swap activity and the operating expenses of DH/NMH Foundation and NHF.

##### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Network has been limited by donors to a specific time frame or purpose. Temporarily restricted net assets primarily consist of contributions restricted for certain health care services (and related investment return) and beneficial interest in charitable remainder trust. Permanently restricted net assets, which are primarily endowment gifts and beneficial interest in trusts held by others, have been restricted by donors, and are to be maintained in perpetuity.

##### **Contributions**

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

Contributions for which donors have not stipulated restrictions, as well as contributions for which donors have stipulated restrictions, but which are met within the same reporting period, are reported as unrestricted support. Contributions for which donors have imposed restrictions which limit the use of the donated assets are reported as temporarily restricted net assets if the restrictions are not met in the same reporting period. When such donor imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributions of assets which donors have stipulated must be maintained in perpetuity, with only the income earned thereon available for current use, are classified as permanently restricted net assets.



## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **1. Summary of Significant Accounting Policies (continued)**

##### **Income Taxes**

The Network comprises not-for-profit corporations, with the exception of Norwalk Surgery, LLC, WCHN Investments, WCHNIC and SWC, as described in Section 501(c)(3) of the Internal Revenue Code (the Code) which are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. These not-for-profits are also exempt from state and local taxes. SWC is a for-profit corporation and WCHNIC is a foreign corporation exempt from US taxation and is not subject to taxes under the Cayman Islands tax concessions law. Norwalk Surgery, LLC and WCHN Investments are limited liability corporations and are treated as partnerships for income tax purposes.

The Network has net operating losses carryforwards from unrelated business activities of approximately \$53,775 and \$52,126 at September 30, 2016 and 2015, respectively, which will begin expiring in 2018. These losses generate a potential deferred tax asset of approximately \$21,510 and \$20,850 at September 30, 2016 and 2015, respectively, which is offset by a corresponding valuation allowance of the same amount due to the uncertainty of utilizing the deferred tax asset in future periods. SWC has a capital loss carryforward of approximately \$2,480 at September 30, 2015. A deferred tax asset for these losses of approximately \$992 at September 30, 2015 is offset by a corresponding valuation allowance for the same amount due to the uncertainty of utilizing the deferred tax asset in future years. The capital loss carryforward expired as of September 30, 2016.

##### **Asset Retirement Obligation**

The Network records a liability for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation is conditional on a future event. The fair value of a liability for a conditional asset retirement obligation is recognized in the period in which the obligation is incurred if a reasonable estimate of fair value can be made. As of September 30, 2016 and 2015, \$9,548 and \$9,446, respectively, is included in accrued pension liabilities and other, relating to such obligations. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2016 and 2015, retirement obligations incurred and settled were minimal.

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 1. Summary of Significant Accounting Policies (continued)

##### State of Connecticut Hospital Tax

Pursuant to Connecticut General Statutes, the State of Connecticut Hospital Tax is based on a percentage of the Network's net patient service revenue. Inpatient service revenue was taxed at 6% and 5.5%, respectively, for the period July 1, 2015 through September 30, 2016 and October 1, 2014 through June 30, 2015. Outpatient service revenue was taxed at 6% and 3.8%, respectively, for the period July 1, 2015 through September 30, 2016 and October 1, 2014 through June 30, 2015.

##### New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements and most industry-specific guidance. The provisions of ASU 2014-09, as amended by ASU 2015-04, will be effective for fiscal years beginning after December 15, 2017, and interim periods within that fiscal year, with early adoption permitted but not prior to annual periods beginning after December 15, 2016. The Network is in the process of evaluating the impact of ASU 2014-09 on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentations of Financial Statements – Going Concern*, that will require management of public and nonpublic companies to evaluate and disclose where there is substantial doubt about an entity's ability to continue as a going concern. The standard is effective for annual periods ending after December 15, 2016, and for annual periods thereafter. Early application is permitted. The Network is in the process of evaluating the requirements of ASU 2014-15.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 simplifies the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability. This will make the presentation of debt issuance costs

# Western Connecticut Health Network, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### 1. Summary of Significant Accounting Policies (continued)

consistent with the presentation of debt discounts or premiums. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and will be applied retrospectively. The Network's adoption of ASU 2015-03 will result in the reclassification of bond issuance costs to long-term debt in the accompanying consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurements (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 eliminates the requirement to categorize within the fair value hierarchy investments whose fair value is measured at net asset value (NAV) as a practical expedient. Instead, entities are required to disclose the fair value of investments measured using NAV so that users can reconcile the amounts within the fair value hierarchy to amounts reported on the balance sheet. ASU 2015-07 is effective for fiscal years beginning after December 15, 2016, and interim periods within that fiscal year, and will be applied retrospectively. The Network's adoption of ASU 2015-07 will have no effect on the consolidated financial statements other than disclosures in the notes to the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require a lessee to report most leases on their balance sheet, but recognize expenses on their income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The provisions of ASU 2016-02 are effective for the Network for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. The Network has begun the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statement Presentation*, which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted and permanently restricted. Instead, NFPs will be required to classify net assets as net assets with donor restrictions or without donor restrictions. Entities that use the direct method of presenting operating cash flows will no longer be required to provide a reconciliation of the change in net assets to operating cash flows. The guidance also modifies required disclosures and reporting related to net assets, investment expenses and qualitative information regarding liquidity. NFPs will also be required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 are effective for the Network for

# Western Connecticut Health Network, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

### **1. Summary of Significant Accounting Policies (continued)**

annual periods beginning after December 15, 2017, and interim periods thereafter. Early adoption is permitted. The Network has begun the process of evaluating the impact of ASU 2016-14 on its consolidated financial statements.

In May 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*, which provides guidance to customers about whether a cloud computing arrangement includes a software license. If such an arrangement contains a software license, the software license element of that arrangement should be accounted for consistent with the acquisition of other software licenses. If such an arrangement does not include a software license, the arrangement should be accounted for as a service contract. The provisions of ASU 2015-05 are effective for the Network for annual periods beginning after December 15, 2015. Early adoption is permitted. The Network has begun the process of evaluating the impact of ASU 2015-05 on its consolidated financial statements.

### **Reclassifications**

Certain reclassifications have been made the fiscal year ended September 30, 2015 balances previously reported in the consolidated balance sheets in order to conform with the fiscal year ended September 30, 2016. The reclassifications have no impact to the excess of revenues over expenses for the fiscal year ended September 30, 2015.

### **2. Net Patient Service Revenue and Charity Care**

The Network has agreements with third-party payors that provide for payments at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to ongoing and future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **2. Net Patient Service Revenue and Charity Care (continued)**

The Network has established estimates based on information presently available of amounts due to or from Medicare, Medicaid, and third-party payors for adjustments to current and prior year payment rates, based on industry-wide and Network-specific data. Such amounts are included in the accompanying consolidated balance sheets. Additionally, certain payors' payment rates for various years have been appealed by the Network. If the appeals are successful, additional income applicable to those years might be realized.

Approximately 32%, 9%, and 59% of net patient service revenue was received from Medicare, Medicaid and non-governmental payors, respectively, for the years ended September 30, 2016 and 2015. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Network believes it is in compliance with all applicable laws and regulations. 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 Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Network. Cost reports for the Network, which serve as the basis for the final settlement with government payors, have been settled by final settlement through 2013 for Medicare and 1994 and 1996 for Norwalk Hospital and Danbury Hospital, respectively, for Medicaid. Other years remain open for settlement.

During 2016 and 2015, the Network recorded an increase in net patient service revenue of approximately \$2,051 and \$16,852, respectively, related to changes in previously estimated third-party payor settlements.

The Network manages patient accounts receivable by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable include 31%, 14%, and 55% and 30%, 11%, and 59% for Medicare, Medicaid and non-governmental payors, respectively, at September 30, 2016 and 2015, respectively.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**2. Net Patient Service Revenue and Charity Care (continued)**

The following table summarizes net patient service revenue:

	<b>Year Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
Gross patient service revenue	\$ 3,038,692	\$ 2,865,780
Deductions:		
Allowances	1,773,802	1,669,573
Charity care (at charges)	48,617	33,743
	<u>1,822,419</u>	<u>1,703,316</u>
Net patient service revenue	1,216,273	1,162,464
Provision for uncollectible accounts	34,822	38,642
Net patient service revenue less provision for uncollectible accounts	<u>\$ 1,181,451</u>	<u>\$ 1,123,822</u>

Patient service revenue, net of contractual allowances and before the provision for uncollectible accounts and charity care, recognized in the period from major payor sources is as follows:

	<b>Year Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
Third-party payors	\$ 1,172,453	\$ 1,115,226
Self-pay patients	43,820	47,238
	<u>\$ 1,216,273</u>	<u>\$ 1,162,464</u>

The Network accepts all patients regardless of their ability to pay. A patient is classified as a charity care patient by reference to established policies of the Network. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Network utilizes the generally recognized federal poverty income guidelines, but also includes certain cases where incurred charges are significant when compared to a responsible party's income. Those charges are not included in net patient service revenue for financial reporting purposes.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**2. Net Patient Service Revenue and Charity Care (continued)**

The estimated cost of charity care provided was approximately \$15,189 and \$13,160 for the years ended September 30, 2016 and 2015, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by Network-specific data.

**3. Investments and Assets Limited as to Use**

The composition of investments and assets limited as to use is set forth in the following table:

	<b>September 30</b>	
	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 71,061	\$ 89,806
Common collective funds	125,823	109,845
Fixed income securities	38	384
Mutual funds	318,283	336,561
Real estate/commodities	903	564
Alternative investments (at equity method)	80,136	47,697
	<u>\$ 596,244</u>	<u>\$ 584,857</u>

The above tables do not include \$1,200 of land held for sale as of September 30, 2016 and 2015, which is included within investments and assets limited to use, respectively. Also included in assets limited as to use is beneficial interest in trusts held by others and charitable remainder trusts of \$15,165 and \$14,563 as of September 30, 2016 and 2015, respectively.

Investment income included in nonoperating gains and (losses) for the years ended September 30, 2016 and 2015 consists of:

	<b>2016</b>	<b>2015</b>
Interest and dividend income	\$ 6,475	\$ 7,500
Realized gains and losses, net and equity income on alternative investments	5,114	1,798
	<u>\$ 11,589</u>	<u>\$ 9,298</u>

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **4. Fair Values of Financial Instruments**

For assets and liabilities required to be measured at fair value, the Network measures fair value 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 the unit of account from the Network'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) for purposes of applying other accounting pronouncements.

The Network follows a valuation hierarchy that is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

*Level 3:* Unobservable inputs that 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 Network uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.



Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**4. Fair Values of Financial Instruments (continued)**

Financial instruments carried at fair value in the accompanying consolidated balance sheets, excluding assets invested in the Network's defined benefit pension plans, are classified in the table below in one of the three categories described above:

	September 30, 2016			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 61,070	\$ —	\$ —	\$ 61,070
Investments and assets limited as to use:				
Cash and cash equivalents	71,061	—	—	71,061
Mutual funds:				
Domestic equity	105,375	—	—	105,375
International equity	22,216	—	—	22,216
Fixed income	190,692	—	—	190,692
Common collective funds:				
Domestic equity	—	78,375	—	78,375
International equity	—	47,448	—	47,448
Securities:				
Fixed income	—	38	—	38
Real estate/commodities	108	795	—	903
Beneficial interests in trusts held by others and charitable remainder trust	—	15,165	—	15,165
	<u>450,522</u>	<u>141,821</u>	<u>—</u>	<u>592,343</u>
Liabilities:				
Interest rate swap	—	(2,219)	—	(2,219)
	<u>\$ 450,522</u>	<u>\$ 139,602</u>	<u>\$ —</u>	<u>\$ 590,124</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**4. Fair Values of Financial Instruments (continued)**

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 74,288	\$ –	\$ –	\$ 74,288
Investments and assets limited as to use:				
Cash and cash equivalents	89,806	–	–	89,806
Mutual funds:				
Domestic equity	80,641	–	–	80,641
International equity	31,034	–	–	31,034
Fixed income	224,886	–	–	224,886
Common collective funds:				
Domestic equity	–	85,232	–	85,232
International equity	–	24,613	–	24,613
Securities:				
Fixed income	–	384	–	384
Real estate/commodities	82	482	–	564
Beneficial interests in trusts held by others and charitable remainder trust	–	14,563	–	14,563
	<u>500,737</u>	<u>125,274</u>	<u>–</u>	<u>626,011</u>
Liabilities:				
Interest rate swap	–	(418)	–	(418)
	<u>\$ 500,737</u>	<u>\$ 124,856</u>	<u>\$ –</u>	<u>\$ 625,593</u>

The amounts reported in the tables above do not include alternative investments totaling \$80,136 and \$47,697 as of September 30, 2016 and 2015, respectively, that are accounted for under the equity method of accounting. The above tables do not include \$1,200 of land held for sale as of September 30, 2016 and 2015, which is included within investments and assets limited as to use, respectively. The Network has unfunded commitments to alternative investments of approximately \$42,120 as of September 30, 2016.

The interest rate swap listed above is classified in the accompanying consolidated balance sheets within accrued pension liabilities and other at September 30, 2016 and 2015. The fair value of the interest rate swap is based on the present value of future cash flows based on the mid-market gross value for similar financial instruments.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**4. Fair Values of Financial Instruments (continued)**

Financial assets carried at fair value included in the defined benefit pension plans (see Note 7) are classified in the table below in one of the three categories described above:

	<b>September 30, 2016</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 16,872	\$ —	\$ —	\$ 16,872
Mutual funds:				
Domestic equity	114,903	—	—	114,903
International equity	41,006	—	—	41,006
Fixed income	242,916	—	—	242,916
Common collective funds:				
Domestic equity	—	192,290	—	192,290
International equity	—	67,090	—	67,090
Alternative investments	—	—	126,947	126,947
	<b>\$ 415,697</b>	<b>\$ 259,380</b>	<b>\$ 126,947</b>	<b>\$ 802,024</b>

	<b>September 30, 2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 6,149	\$ —	\$ —	\$ 6,149
Mutual funds:				
Domestic equity	100,333	—	—	100,333
International equity	35,968	—	—	35,968
Fixed income	256,941	—	—	256,941
Other	2,901	—	—	2,901
Common collective funds:				
Domestic equity	—	189,276	—	189,276
International equity	—	52,307	—	52,307
Alternative investments	—	—	88,935	88,935
Other	—	148	—	148
	<b>\$ 402,292</b>	<b>\$ 241,731</b>	<b>\$ 88,935</b>	<b>\$ 732,958</b>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**4. Fair Values of Financial Instruments (continued)**

Fair value for Level 1 assets is based upon quoted market prices. Fair value for Level 2 assets is based upon 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. Level 3 assets consist of alternative investments held by the defined benefit plans, the valuation for which is described in Note 1. Many of the investments classified in Levels 2 and 3 in the above tables consist of shares or units in investment funds, as opposed to direct interests in the funds' underlying holdings, which may be marketable. Fair value for alternative investments is determined by the Network's management for each investment using net asset value as a practical expedient, as permitted by generally accepted accounting principles, rather than using another valuation method to independently estimate fair value. The classification of the alternative investments in Level 2 or 3 is based on the Network's ability to redeem its interest at or near the measurement date. If the interest can be redeemed in the near term, the investment is classified in Level 2. 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 Network 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 the fair value of assets measured using significant unobservable inputs (Level 3) comprised the following:

	<b>September 30</b>	
	<b>2016</b>	<b>2015</b>
Beginning balance at October 1	\$ 88,935	\$ 73,361
Purchases	42,231	22,041
Sales	(8,636)	(8,269)
Change in unrealized gains and losses	4,417	1,802
Ending balance at September 30	<u>\$ 126,947</u>	<u>\$ 88,935</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**5. Pledges Receivable**

Pledges receivable include the following unconditional promises to give:

	<b>September 30</b>	
	<b>2016</b>	<b>2015</b>
Due within one year	\$ 8,075	\$ 41,903
Due within one to five years	13,453	6,598
Due within greater than five years	1,908	400
	<u>23,436</u>	<u>48,901</u>
Allowance and discount for uncollectible pledges	(1,009)	(1,041)
Present value of pledges receivable	<u>\$ 22,427</u>	<u>\$ 47,860</u>

The allowance recognizes the estimated uncollectible portion of pledges and the discount of pledges to net present value. Pledges are discounted using an average rate of 2.11% and 2.06% as of September 30, 2016 and 2015, respectively.

**6. Long-Term Debt and Credit Facility**

Long-term debt consisted of the following:

	<b>September 30</b>	
	<b>2016</b>	<b>2015</b>
Network revenue bonds financed with CHEFA:		
Series G	\$ 19,229	\$ 20,704
Series H (Danbury Hospital)	39,615	39,615
Series H (Norwalk Hospital)	5,590	6,602
Series I	6,558	7,751
Series J	78,060	80,230
Series M	46,030	46,030
Series N	35,505	37,085
Series O	122,120	122,120
Norwalk Hospital term and other loans	2,077	4,049
	<u>354,784</u>	<u>364,186</u>
Less current portion	9,216	9,227
	<u>\$ 345,568</u>	<u>\$ 354,959</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**6. Long-Term Debt and Credit Facility (continued)**

The following is a summary of the combined aggregate amount of maturities and sinking fund requirements of the aforementioned obligations at September 30, 2016, according to their long-term amortization schedule and excluding a net unamortized fair value adjustment recorded of approximately \$911:

2017	\$	9,216
2018		8,306
2019		8,180
2020		8,500
2021		8,865
Thereafter		310,806
	\$	<u>353,873</u>

The fair value of the revenue bonds, as determined by the Network's financing consultant using a discounted cash flow analysis, was approximately \$364,280 and \$373,117 at September 30, 2016 and 2015, respectively. The revenue bonds are categorized as Level 2 in the fair value hierarchy described in Note 4.

The Network paid interest of \$10,322 and \$11,494 in 2016 and 2015, respectively. The Network has capitalized interest of approximately \$298 and \$1,664 in 2016 and 2015, respectively. Debt service funds held under bond indenture agreements for the Danbury Hospital Series H Bonds and Series N Bonds were \$1,868 at September 30, 2016 and 2015.

The Network holds eight series of bonds. In 2011, the Obligated Group, previously comprised of Danbury Hospital and DH/NMH Foundation, was expanded to include the Network and WCMG. During May 2015, Norwalk Hospital and NHF were added to the Obligated Group. During November 2015, WCHN Investments was added to the Obligated Group. All proceeds from the bonds were used to finance Network capital projects. All members of the Obligated Group are jointly and severally liable under the Master Indenture to make all payments required with respect to obligations under the Master Indenture.

The Series H revenue bonds (Danbury Hospital Series H Bonds) mature from 2030 through 2036 at an average coupon rate of 4.425%. The proceeds of the Danbury Hospital Series H Bonds were used for the construction, renovation and equipping of an outpatient diagnostic building with

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **6. Long-Term Debt and Credit Facility (continued)**

approximately 28,000 square feet of medical office space, a 381-space parking garage, a 264-space surface parking lot and to fund capitalized interest. The scheduled payments of principal and interest on the Danbury Hospital Series H Bonds when due is guaranteed by an insurance policy issued by a commercial insurer.

Under the original terms of the Danbury Hospital Series H Bonds financing arrangements between the Obligated Group and CHEFA, the proceeds of the revenue bonds were loaned to the Network. The Network was obligated to provide amounts sufficient to pay the principal and interest due on the Danbury Hospital Series H Bonds. The Master Indentures and Supplemental Master Indentures provide for the potential establishment and maintenance of a Debt Service Reserve Fund and a pledge of gross receipts, as defined. The Master Indentures also establish a debt service coverage ratio requirement and restricts the incurrence of certain indebtedness by the Obligated Group. No violations of financial covenants existed as of September 30, 2016 and 2015.

The Series K revenue bonds (Series K Bonds) were issued in the amount of \$33,035. In 2015, the Series K Bonds were refunded in conjunction with the issuance of the Series O revenue bonds (Series O Bonds).

The Series M revenue bonds (Series M Bonds) were issued in the aggregate principal of \$46,030, with interest payable initially on January 1, 2012, and semiannually on each January 1 and July 1 thereafter. The Series M Bonds bear interest at rates ranging from 5.000% to 5.375% and are scheduled to mature from July 1, 2031 to July 1, 2041. The Series M Bonds are also subject to annual sinking fund installments commencing in 2024 through scheduled maturity. The Series L Revenue Bonds (Series L Bonds) of \$96,000 were issued concurrently with Series M 2011 Bonds. In 2015, the Series L Bonds were refunded in conjunction with the issuance of the Series O Bonds. The proceeds of the Series L Bonds and Series M Bonds were used for funding the planning, design, acquisition, construction, equipping and furnishing of Danbury Hospital's new patient tower, expansion of a parking garage, capital improvements and to fund capitalized interest.

In 2012, the Network issued the Series N revenue bonds (Series N Bonds) in the amount of \$39,880 with interest at rates between 3% and 5%. The Series N Bonds mature serially from July 1, 2014 to July 1, 2029. The proceeds of the Series N Bonds were used to refund Danbury Hospital's Series G Bonds.

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **6. Long-Term Debt and Credit Facility (continued)**

In 2015, the Network issued Series O Bonds in the amount of \$122,120, which bear interest at a variable rate tied to LIBOR (1.206% at September 30, 2016). The Series O Bonds mature serially from July 1, 2022 to July 1, 2041. The proceeds of the Series O Bonds were used to refund the Network Series K and Series L Bonds, which were fully redeemed as of September 30, 2015. The Network recorded a loss on the extinguishment of long-term debt of \$1,357 in the consolidated statements of operations in 2015.

On December 7, 2012, Norwalk Hospital financed a portion of the construction of an outpatient pavilion and other equipment through the issuance of the Series J revenue bonds (Series J Bonds), in the original principal amount of \$82,000. Interest-only payments were required for the first two years of the Series J Bonds. In May 2015, Norwalk Hospital amended the loan agreement associated with the Series J Bonds (with principal then outstanding of \$80,935), primarily to reduce the interest rate and amend certain financial covenants. The amended loan terms qualified as an extinguishment of the debt under applicable accounting requirements. The Network recorded a gain on the extinguishment of long-term debt of \$2,625 in the consolidated statements of operations in 2015. The Series J Bonds are subject to mandatory tender on December 1, 2024, and bear interest at a rate per annum equal to 70% of the sum of the one-month LIBOR Rate plus 125 basis points. The interest rate on the Series J Bonds is reset monthly.

On December 7, 2012, Norwalk Hospital entered into an interest rate swap agreement to reduce the interest rate volatility on the Series J Bonds. The swap confirmation has a notional amount of \$82,000. Under the terms of the agreement, Norwalk Hospital pays a fixed rate of 1.2343% to the counterparty, and the counterparty pays a variable rate of 70% of one-month LIBOR to Norwalk Hospital. The payments under the swap confirmation are based on the outstanding notional amount; the notional amount will amortize at the same rate as the Norwalk Hospital Series J Bonds. The payments under the swap confirmation produce a synthetic fixed rate of 2.1093% on the Series J Bonds through December 1, 2024.

In 2011, Norwalk Hospital financed the construction of the parking garage and other equipment through a private placement of CHEFA Revenue Bonds, Series G, H, and I, in the aggregate principal amount of \$46,840. As of May 8, 2015, the repayment of the Series G, H and I Bonds are secured by the Gross Receipts pledged by the Obligated Group under the Network Master Trust Indenture. As a result, the Network is obligated to provide amounts sufficient to pay the principal and interest due on the Series G, H, and I Bonds.



## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **6. Long-Term Debt and Credit Facility (continued)**

The Series G Bonds totaling \$25,000 mature serially through 2025 with interest at an annual rate of 5.12%. Interest on the bonds is payable semi-annually each June and December 1.

The Series H Bonds totaling \$10,040 mature serially through 2020 with interest at an annual rate of 3.49%. Interest on the bonds is payable semi-annually each June and December 1.

The Series I Bonds totaling \$11,800 mature serially through 2020 with interest at an annual rate of 3.4%. Interest on the bonds is payable semi-annually each June and December 1.

In 2007, Norwalk Hospital financed certain equipment related to an energy project through CHEFA, which issued \$9,066 in debt under a Master Financing Agreement (the Agreement), dated as of April 1, 2007, with Bank of America Public Capital Corp. as the lender (the Lender). The loan is payable in 120 equal installments of \$93 beginning June 3, 2007, with interest of 4.38%. Norwalk Hospital has granted a collateral interest to the Lender in the equipment financed.

In connection with this borrowing, Norwalk Hospital applied to the Department of Public Utility Control (DPUC) for a capital grant for customer-side distributed resources. Pursuant to the application, DPUC has approved a rate reduction subsidy with regard to certain of the equipment financed under this Agreement. Effective July 3, 2010, the rate reduction subsidy of \$1 per month is remitted by the Connecticut Light and Power Company directly to the Lender and is recorded as a reduction to interest expense.

#### **7. Pension Plans**

The Network has three defined benefit pension plans, for which plan benefits are based on years of service and the employee's compensation (collectively referred to as the Plans). The Plans include the WCHN Retirement Plan (the Network Plan), the New Milford Hospital Retirement Plan (the New Milford Plan) and the Norwalk Hospital Retirement Plan (the Norwalk Hospital Plan). Additionally, the Network maintains deferred compensation plans for certain executives.

Effective May 26, 2011, the Board of Directors adopted a resolution to freeze the Network Plan for non-union employees effective December 31, 2011, with certain employees continuing to accrue benefits based on age and vesting. Effective September 7, 2012, the Board of Directors adopted a second resolution to freeze benefits for all of those that had been continuing to accrue.

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **7. Pension Plans (continued)**

The New Milford Plan was frozen effective January 31, 2010, and was amended effective October 31, 2012, to cease the future accrual of benefits to each highly compensated employee as defined by the IRS. Effective September 30, 2015, the New Milford Hospital pension plan merged into the Network's plan. As a result, the benefit obligation and plan assets were transferred to the Network Plan as of that date. There was no impact to the consolidated financial statements of the Network.

Effective September 30, 2013, the Norwalk Hospital Plan was frozen for all purposes (except as provided below) for those Participants who are not covered by the collective bargaining agreement between Norwalk Hospital and the Connecticut Health Care Associates, National Union of Hospital and Health Care Employees, AFSCME, AFL-CIO Nurses' Union (Non-Union Participants). This means that no Non-Union Participants shall accrue benefits under the plan after September 30, 2013, and no compensation or service after that date shall be taken into account in determining such participants' accrued benefits under the plan, provided, however, that interest credits shall continue to be credited as required by applicable law. Norwalk Hospital Plan Participants who are members of the Connecticut Health Care Associates, National Union of Hospital and Health Care Employees, AFSCME, AFL-CIO Nurses' Union, and who were employed by the Norwalk Hospital on or before December 31, 2006 (when the Norwalk Hospital Plan was frozen for all new hires), shall continue to accrue benefits under the Norwalk Hospital Plan.

Effective December 31, 2015, the Norwalk Hospital Plan was also merged into the Network's Plan. As a result, a remeasurement of the Norwalk Hospital Plan assets and benefit obligation was performed as of December 31, 2015, and then the plan assets and benefit obligation were transferred to the Network Plan as of that date. There was no material impact to the consolidated financial statements of the Network.

Contributions to the Plans are intended to provide for benefits attributed to services rendered to date. The Network makes contributions in amounts sufficient to meet the required benefits to be paid to the Plans' participants as they become due as required by the Employee Retirement Income Security Act of 1974.

The Network established defined contribution pension plans for all eligible employees after freezing the Plans. Pension expense related to the defined contribution plans for the years ended September 30, 2016 and 2015 was \$25,660 and \$24,769, respectively.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**7. Pension Plans (continued)**

The following table presents a reconciliation of the beginning and ending balances of the Plans' projected benefit obligation and the fair value of plan assets, as well as the funded status of the Plans and accrued pension cost included in the consolidated balance sheets:

	<b>September 30</b>	
	<b>2016</b>	<b>2015</b>
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ (894,680)	\$ (846,330)
Service cost	(2,157)	(2,161)
Actuarial gains and losses, net	(81,611)	(25,076)
Interest cost	(39,361)	(38,399)
Benefits paid	29,814	28,459
Actuarial loss	(4,975)	(11,173)
Benefit obligation at end of year	<u>(992,970)</u>	<u>(894,680)</u>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	732,958	737,192
Employer contributions	30,000	32,262
Actual return on plan assets	68,880	(8,037)
Benefits paid	(29,814)	(28,459)
Fair value of plan assets at end of year	<u>802,024</u>	<u>732,958</u>
Unfunded status, included in accrued pension liabilities and other on the accompanying consolidated balance sheets	<u>\$ (190,946)</u>	<u>\$ (161,722)</u>
	<b>Year Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
<b>Components of net periodic benefit income</b>		
Service cost	\$ 2,157	\$ 2,161
Interest cost	39,361	38,399
Expected return on plan assets	(53,545)	(55,379)
Net amortization and deferral	7,304	4,303
Recognized net loss	-	1,818
Net periodic benefit income	<u>\$ (4,723)</u>	<u>\$ (8,698)</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**7. Pension Plans (continued)**

The actuarial gains and losses, net in 2016 and 2015 primarily relate to changes in the discount rate and mortality table used to measure the benefit obligation.

**Assumptions**

	<b>2016</b>	<b>2015</b>
<b>Weighted-average assumptions used to determine benefit obligations</b>		
Discount rate	<b>3.73%</b>	4.43–4.49%
Rate of increase in compensation	<b>3.46%</b>	3.00–3.50%
<b>Weighted-average assumptions used to determine net periodic benefit income</b>		
Discount rate	<b>4.43%</b>	4.56–4.64%
Rate of increase in compensation	<b>3.46%</b>	3.50%
Expected long-term return on plan assets	<b>7.00%</b>	7.50%

The Network's expected long-term rate of return on assets assumption is derived from a review of anticipated future long-term performance of individual asset classes and consideration of the appropriate asset allocation strategy given the anticipated requirements of the Plans to determine the average rate of earnings expected on the funds invested to provide for the pension plan benefits. While the review gives appropriate consideration to recent fund performance and historical returns, the assumption is primarily a long-term, prospective rate.

Amounts recorded in unrestricted net assets and not yet amortized as components of net periodic benefit cost for the pension plans total \$383,461 and \$319,514 as of September 30, 2016 and 2015, respectively, and represent unrecognized actuarial losses. The amortization of these components expected to be recognized in net periodic benefit cost for the year ended September 30, 2017 is \$7,727.

The accumulated benefit obligation was \$986,823 and \$888,217 for the years ended September 30, 2016 and 2015, respectively. The Plans' measurement date is September 30.

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 7. Pension Plans (continued)

##### Plan Assets

The Network maintains target allocation percentages among various asset classes based on an investment policy established for the Plans which is designed to achieve long-term objectives of return, while mitigating against downside risk and considering expected cash flows. The target allocations for the Network Plans' assets are 50% in equities, 25% in fixed income securities and 25% in alternative investments. The investment policy is reviewed from time to time to ensure consistency with the long-term objective of funding the Plans to a level sufficient to pay benefits as they become due.

The weighted average asset allocations for the Plans' assets by category are as follows:

Asset Category	September 30	
	2016	2015
Equity securities	52%	52%
Fixed income securities	30	35
Other investments	18	13
	<u>100%</u>	<u>100%</u>

As discussed in Note 4, the Network follows a three-level hierarchy to categorize assets measured at fair value. In accordance with this hierarchy, as of September 30, 2016 and 2015, 52%, 32%, and 16%, and 55%, 34%, and 11%, respectively, of the Plans' assets which are measured at fair value on a recurring basis were categorized as Level 1, Level 2, and Level 3 investments, respectively.

##### Contributions

The Network expects to contribute \$24,000 to its Plans in fiscal year 2017.

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### 7. Pension Plans (continued)

##### Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year	Pension Benefits
2017	\$ 35,270
2018	37,860
2019	40,300
2020	42,460
2021	45,040
Years 2022–2026	255,430

#### 8. Professional Liability Insurance

Effective October 1, 2004, the Network formed a captive insurance company, WCHNIC, domiciled in the Cayman Islands, to provide alternative general and professional liability insurance to Danbury Hospital, WCMG, and Norwalk Hospital, as of March 1, 2014, as well as providing community doctors with a competitive professional liability insurance option. Effective January 1, 2016, no community physicians were covered by WCHNIC.

Coverage for medical malpractice insurance with WCHNIC is on a claims-made basis. The Network has professional liability coverage through WCHNIC of \$40,000 per claim and \$40,000 in the aggregate. WCHNIC purchased \$40,000 of excess reinsurance coverage above a self-insured retention of \$5,000 per claim and \$30,000 in the aggregate. The Network has recorded a liability of \$13,481 and \$12,819 at September 30, 2016 and 2015, respectively, based on a discount rate of 3.5% (as of September 30, 2016 and 2015), for incurred-but-not-reported claims, which is included in accrued pension liabilities and other on the accompanying consolidated balance sheets.

Assets held by WCHNIC approximate \$141,612 and \$132,832 as of September 30, 2016 and 2015, respectively, of which a majority is reflected as assets limited as to use in the accompanying consolidated balance sheets. Total liabilities recorded by WCHNIC approximate \$74,860 and \$79,138 as of September 30, 2016 and 2015, respectively, of which a majority is reflected as self-insurance liabilities in the accompanying consolidated balance sheets.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**8. Professional Liability Insurance (continued)**

The reserve for losses and loss adjustment expenses for WCHNIC are included in self-insurance liabilities in the accompanying consolidated balance sheets. Activity in the reserve for losses and loss adjustment expenses for the years ended September 30, 2016 and 2015, is summarized as follows:

	<u>2016</u>	<u>2015</u>
Balance at the beginning of period	\$ 78,851	\$ 81,991
Incurred related to:		
Current period	14,553	15,364
Prior period	(10,127)	(8,755)
Total incurred	<u>4,426</u>	<u>6,609</u>
Paid related to:		
Current period	(21)	(335)
Prior period	(8,596)	(9,414)
Total paid	<u>(8,617)</u>	<u>(9,749)</u>
Net provision for losses and loss adjustment expenses	<u>\$ 74,660</u>	<u>\$ 78,851</u>

Also included in self-insurance liabilities as of September 30, 2016 and 2015, are unearned premiums of \$0 and \$107, respectively.

The actuary estimated the liability for unpaid losses based on industry data, as well as entity-specific data. Management considers the liability to be adequate as of September 30, 2016 and 2015; however, no assurance can be given that the ultimate settlement of losses may not vary materially from the liability recorded. Future adjustments to the amounts recorded resulting from the continual review process, as well as differences between estimates and ultimate payments, will be reflected in the consolidated statements of operations and changes in net assets of future years when such adjustments, if any, become known.

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

#### **9. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets of \$85,290 and \$107,926 as of September 30, 2016 and 2015, respectively, are available to the Network for health care services and capital expenditures and include the Network's beneficial interest in a charitable remainder trust. Permanently restricted net assets total \$45,416 and \$44,043 as of September 30, 2016 and 2015, respectively, and represent investments to be held in perpetuity and beneficial interest in trusts held by others, the income from which is expendable to support health care services.

#### **10. Endowments**

The Network endowment consists of approximately 63 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, are classified and reported in the accompanying consolidated balance sheets based on the existence or absence of donor-imposed restrictions.

The Network classifies net assets of donor-restricted endowment funds for organizations subject to an enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA). Connecticut enacted its UPMIFA statute effective October 1, 2007. This standard requires not-for-profit organizations subject to an enacted version of UPMIFA to classify the portion of the endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time and purpose restricted) until appropriated for expenditure by the organization. The portion to be classified as temporarily restricted consists of accumulated unspent income and appreciation.

The Leadership of the Network has 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 Network classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of 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



Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

**10. Endowments (continued)**

assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Network considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Network and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Network
- (7) The investment policies of the Network

The Network 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 purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Network must hold in perpetuity or for a donor-specific period(s) as well as board-designated funds. Under this policy, as approved by the Network's Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 5% over the long term. Actual returns in any given year may vary from this amount.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**10. Endowments (continued)**

To satisfy its long-term rate-of-return objectives, the Network 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 Network targets a diversified asset allocation to achieve its long-term objective within prudent risk constraints. For DH/NMH Foundation, each year, the Network's Board of Directors will approve an endowment and similar fund spending rate. The objectives of the portfolio are the enhancement of capital and real purchasing power while limiting exposure to risk of loss. The DH/NMH Foundation endowment spending rate will be calculated on the 13 quarter trailing average market value of each portfolio as of the prior May 31. The computed value may be adjusted for large contributions, withdrawals or market value swings as necessary. A default spending cap on appreciation of seven percent in any given year is currently in effect. The Network Board of Directors abides by these regulations and will adjust this rate accordingly.

Endowment net asset composition by type of fund as of September 30, 2016 consisted of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	\$ 13,284	\$ 38,146	\$ 51,430
Board-designated endowment funds	19,236	—	—	19,236
Endowment funds at end of year	<u>\$ 19,236</u>	<u>\$ 13,284</u>	<u>\$ 38,146</u>	<u>\$ 70,666</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**10. Endowments (continued)**

Changes in endowment funds for the fiscal year ended September 30, 2016 consisted of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment funds at beginning of the year	\$ 17,841	\$ 13,451	\$ 37,037	\$ 68,329
Investment return:				
Investment income, net	595	1,905	–	2,500
Change in unrealized gains and losses	1,007	2,478	–	3,485
Total investment return	1,602	4,383	–	5,985
Contributions	–	–	1,039	1,039
Appropriation of endowment assets for expenditures	(207)	(4,329)	–	(4,536)
Other changes:				
Transfer to permanently restricted endowment	–	(70)	70	–
Net asset reclassification-net loss on endowments	–	(151)	–	(151)
Endowment funds at end of year	<u>\$ 19,236</u>	<u>\$ 13,284</u>	<u>\$ 38,146</u>	<u>\$ 70,666</u>

Endowment net asset composition by type of fund as of September 30, 2015 consisted of the following:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ –	\$ 13,451	\$ 37,037	\$ 50,488
Board-designated endowment funds	17,841	–	–	17,841
Endowment funds at end of year	<u>\$ 17,841</u>	<u>\$ 13,451</u>	<u>\$ 37,037</u>	<u>\$ 68,329</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**10. Endowments (continued)**

Changes in endowment funds for the fiscal year ended September 30, 2015 consisted of the following:

	<b>Temporarily Permanently</b>			
	<b>Unrestricted</b>	<b>Restricted</b>	<b>Restricted</b>	<b>Total</b>
Endowment funds at beginning of the year	\$ 9,785	\$ 17,333	\$ 35,501	\$ 62,619
Investment return:				
Investment income, net	236	974	–	1,210
Change in unrealized gains and losses	(680)	(2,648)	–	(3,328)
Total investment return	(444)	(1,674)	–	(2,118)
Contributions	10,000	183	1,536	11,719
Appropriation of endowment assets for expenditures	(1,500)	(2,542)	–	(4,042)
Other changes:				
Net asset reclassification-net loss on endowments	–	151	–	151
Endowment funds at end of year	<u>\$ 17,841</u>	<u>\$ 13,451</u>	<u>\$ 37,037</u>	<u>\$ 68,329</u>

The primary long-term management objective for Network's endowment funds is to maintain the permanent nature of each endowment fund, while providing a predictable, stable, and constant stream of earnings. Consistent with that objective, the primary investment goal is to earn annual interest and dividends.

From time to time, the fair value of assets associated with individual donor-restricted endowments funds may fall below the level fund of the corpus that UPMIFA requires the Network to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2016. There were \$151 in deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2015.

## Western Connecticut Health Network, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

*(Dollars in Thousands)*

#### **10. Endowments (continued)**

Also included within permanently restricted net assets are \$7,270 and \$7,006 of beneficial interests in trusts held by others as of September 30, 2016 and 2015, respectively.

#### **11. Commitments and Contingencies**

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Network. While the outcomes of the lawsuits and claims cannot be determined at this time, management believes that any loss that may arise from these lawsuits and claims will not have a material adverse effect on the financial position or on the net assets of the Network.

The Network has received requests for information from governmental authorities relating to, among other things, patient billings. These requests relate to compliance with certain laws and regulations. Management is cooperating with these governmental authorities in their information requests and ongoing investigations. While management does not believe that any of these inquiries or investigations will result in a material future loss, the ultimate results of these inquiries and investigations, including the impact on the Network, cannot be determined at this time.

#### **Workers' Compensation Insurance**

The Network is self-insured for workers' compensation benefits. Estimated liabilities of approximately \$9,243 and \$9,789, using a discount rate of 3.5% have been accrued as of September 30, 2016 and 2015, respectively, based on expected future payments pertaining to such years, and are included in accrued pension liabilities and other on the consolidated balance sheets.

#### **Operating Leases**

The Network leases property and equipment under noncancelable operating leases that expire in various years through 2028. Certain leases may be renewed at the end of their term.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**11. Commitments and Contingencies (continued)**

Future minimum payments under noncancelable operating leases, and future receipts under noncancelable subleases where the Network is receiving rental receipts, with initial terms of one year or more consisted of the following at September 30, 2016:

	<b>Operating Lease Payments</b>	<b>Sublease Rental Receipts</b>
2017	\$ 26,161	\$ 2,548
2018	23,745	2,304
2019	21,238	1,562
2020	18,874	1,278
2021	17,035	1,080
Thereafter	54,137	1,023
	<u>\$ 161,190</u>	<u>\$ 9,795</u>

Rent expense was \$29,095 and \$26,798 for the years ended September 30, 2016 and 2015, respectively, and is included within supplies and other in the accompanying consolidated statements of operations. Rental income for the years ended September 30, 2016 and 2015 was approximately \$4,618 and \$5,449, respectively, and is included within other operating revenues in the accompanying consolidated statements of operations.

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
*(Dollars in Thousands)*

**12. Changes in Components of Operating Assets and Liabilities**

	<b>Year Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
Decrease (increase) in operating assets:		
Pledges receivable	\$ 25,433	\$ (10,355)
Accounts receivable, net	(26,997)	(53,417)
Inventories	(1,202)	(421)
Prepaid expenses and other assets	(15,099)	11,964
Bond issuance costs, net	265	549
	<u>(17,600)</u>	<u>(51,680)</u>
Increase (decrease) in operating liabilities:		
Accounts payable	1,882	(7,976)
Payroll-related accruals	(14,296)	201
Due to third-party payors	(14,100)	(7,361)
Interest payable	59	(80)
Other accrued expenses	735	(556)
Self-insurance liabilities	(4,298)	(7,074)
Accrued pension liabilities and other	(27,688)	(36,107)
	<u>(57,706)</u>	<u>(58,953)</u>
Change in operating assets and liabilities	<u>\$ (75,306)</u>	<u>\$ (110,633)</u>

**13. Functional Expenses**

The Network provides general health care services to residents within its geographic location. Expenses related to providing these services, including the operating expenses of DH/NMH Foundation and NHF are as follows:

	<b>Year Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
Healthcare services	\$ 905,906	\$ 870,685
General and administrative	305,413	275,062
Fundraising	4,356	4,312
	<u>\$ 1,215,675</u>	<u>\$ 1,150,059</u>

Western Connecticut Health Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)  
(Dollars in Thousands)

**14. Other Operating Revenues**

Other operating revenues consisted of the following:

	<b>Year Ended September 30</b>	
	<b>2016</b>	<b>2015</b>
Rental income	\$ 5,598	\$ 5,449
Captive malpractice insurance premiums	718	674
Captive investment income	4,561	938
Grants	4,475	4,902
Education	3,384	2,401
Research	557	642
EHR incentive payments	366	1,671
Dietary/nutrition	1,789	1,885
Ancillary services	1,313	1,256
Other income	7,606	5,706
	<u>\$ 30,367</u>	<u>\$ 25,524</u>

**15. Subsequent Events**

The Network has performed an evaluation of subsequent events through January 27, 2017, the date the consolidated financial statements were issued, and noted no subsequent events which require adjustment to or disclosure in the accompanying consolidated financial statements.



## Supplementary Information

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidating Balance Sheet  
(In Thousands)

September 30, 2016

	The Danbury Hospital and Subsidiary	Danbury Hospital and New Milford Hospital Foundation, Inc.	Western Connecticut Health Network, Inc.	The Norwalk Hospital Association and Subsidiaries	Western Connecticut Health Network Investments, LLC	Western Connecticut Medical Group, Inc.*	Eliminations	Subtotal Obligated Group	SWC Corporation	Western Connecticut Health Network Affiliates, Inc.	Western Connecticut Home Care, Inc.	Eliminations	Total
<b>Assets</b>													
<b>Current assets:</b>													
Cash and cash equivalents	\$ 24,546	\$ 188	\$ 622	\$ 17,736	\$ -	\$ 13,830	\$ -	\$ 56,922	\$ 922	\$ 2,020	\$ 1,206	\$ -	\$ 61,070
Investments, current portion	15,098	-	-	21,077	-	-	-	36,175	-	-	-	-	36,175
Assets limited as to use, current portion	16,880	-	-	-	-	-	-	16,880	-	-	-	-	16,880
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$42,905	67,983	-	-	48,263	-	14,797	-	131,043	497	2,513	1,530	-	135,583
Due from related parties, current portion	9,496	105	242	-	-	4,322	(12,624)	1,541	40	-	-	(1,581)	-
Pledges receivable, current portion	-	5,352	-	2,494	-	-	-	7,846	-	-	-	-	7,846
Inventories	11,965	-	-	3,419	-	64	-	15,448	445	-	189	-	16,082
Prepaid expenses and other	31,220	-	18	2,706	-	1,174	(1,359)	33,759	-	16	161	363	34,299
Total current assets	177,188	5,645	882	95,695	-	34,187	(13,983)	299,614	1,904	4,549	3,086	(1,218)	307,935
Investments	-	2,297	-	-	282,494	-	-	284,791	-	-	1,088	-	285,879
Interest in investments held by Western Connecticut Health Network Investments, LLC	121,804	15,546	-	145,144	-	-	(282,494)	-	-	-	-	-	-
<b>Assets limited as to use:</b>													
Funds restricted by donor	-	-	-	-	93,044	-	-	93,044	-	-	-	-	93,044
Donor restricted interest in investments held by WCHN Investments, LLC	-	64,298	-	28,746	-	-	(93,044)	-	-	-	-	-	-
Board designated funds	-	-	-	-	61,690	-	-	61,690	-	-	-	-	61,690
Board designated interest in investments held by WCHN Investments, LLC	-	8,990	-	52,700	-	-	(61,690)	-	-	-	-	-	-
Beneficial interest in trusts held by others and charitable remainder trust investments held by Western Connecticut Health Network Insurance Co., Ltd.	103,776	-	-	-	-	-	-	103,776	-	-	-	-	103,776
Total noncurrent assets limited as to use	103,776	80,558	-	89,341	154,734	-	(154,734)	273,675	-	-	-	-	273,675
<b>Other assets</b>													
Investment in NHSC	4,427	349	11,245	28,613	-	11,982	(28,923)	27,693	43	40	35	(118)	27,693
Interest in Danbury Hospital and New Milford Hospital Foundation, Inc. and Norwalk Hospital Foundation, Inc.	87,854	-	-	-	-	-	(87,854)	-	-	-	-	-	-
Due from related parties, less current portion	-	-	2,029	2,012	-	3,061	(7,102)	-	-	-	-	-	-
<b>Property, plant, and equipment:</b>													
Land and land improvements	12,764	472	-	27,953	-	-	-	41,189	-	-	-	-	41,189
Buildings and building improvements	529,995	706	12	274,597	-	2,086	-	807,396	406	3,349	19	-	811,170
Equipment and other	317,503	221	-	297,760	-	18,358	-	633,842	697	9,342	1,232	-	645,113
Construction in progress (estimated cost to complete: \$70,174)	30,101	-	-	46,943	-	1,710	-	78,754	-	-	-	-	78,754
	890,363	1,399	12	647,253	-	22,154	-	1,561,181	1,103	12,691	1,251	-	1,576,226
Less accumulated depreciation	491,994	473	12	374,225	-	11,250	-	877,954	938	11,485	938	-	891,315
	398,369	926	-	273,028	-	10,904	-	683,227	165	1,206	313	-	684,911
Pledges receivable, less current portion	-	6,473	-	8,108	-	-	-	14,581	-	-	-	-	14,581
Bond issuance costs, net	3,540	-	-	257	-	-	-	3,797	-	-	-	-	3,797
Total assets	\$ 896,958	\$ 111,794	\$ 360,406	\$ 642,198	\$ 437,228	\$ 60,134	\$ (906,260)	\$ 1,602,458	\$ 2,112	\$ 5,795	\$ 4,522	\$ (16,416)	\$ 1,598,471

\* Includes Eastern New York Medical Services, P.C.

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)  
(In Thousands)

September 30, 2016

	The Danbury Hospital and Subsidiary	Danbury Hospital and New Milford Hospital Foundation, Inc.	Western Connecticut Health Network, Inc.	The Norwalk Hospital Association and Subsidiaries	Western Connecticut Health Network Investments, LLC	Western Connecticut Medical Group, Inc.*	Eliminations	Subtotal Obligated Group	SWC Corporation	Western Connecticut Health Network Affiliates, Inc.	Western Connecticut Home Care, Inc.	Eliminations	Total
<b>Liabilities and net assets</b>													
Current liabilities:													
Accounts payable	\$ 38,710	\$ -	\$ -	\$ 26,730	\$ -	\$ 12	\$ (438)	\$ 65,014	\$ 137	\$ 126	\$ 249	\$ -	\$ 65,526
Payroll-related accruals	30,951	124	-	11,490	-	11,573	-	54,138	409	256	191	-	54,994
Due to third-party payors	18,200	-	-	13,975	-	-	-	32,175	-	-	-	-	32,175
Due to related parties, current portion	-	425	-	13,301	-	1	(13,387)	340	36	95	747	(1,218)	-
Interest payable	1,948	-	-	605	-	-	-	2,553	-	-	-	-	2,553
Other accrued expenses	3,010	38	-	294	-	956	-	4,298	-	48	206	-	4,552
Current portion of long-term debt	1,640	-	-	7,576	-	-	-	9,216	-	-	-	-	9,216
Total current liabilities	94,459	587	-	73,971	-	12,542	(13,825)	167,734	582	525	1,393	(1,218)	169,016
Self-insurance liabilities	74,660	-	-	17,268	-	-	(17,268)	74,660	-	-	-	-	74,660
Accrued pension liabilities and other	32,854	51	205,856	28,131	-	9,003	(11,655)	264,240	-	-	540	(118)	264,662
Due to related parties, less current portion	-	-	4,600	-	-	2,660	(7,260)	-	-	-	-	-	-
Long-term debt, less current portion	241,630	-	-	103,938	-	-	-	345,568	-	-	-	-	345,568
Total liabilities	443,603	638	210,456	223,308	-	24,205	(50,008)	852,202	582	525	1,933	(1,336)	853,906
Net assets:													
Unrestricted	392,151	27,761	100,601	369,701	344,184	35,929	(652,657)	617,670	1,530	5,270	2,522	(15,080)	611,912
Unrestricted attributable to noncontrolling interest	-	-	-	1,947	-	-	-	1,947	-	-	-	-	1,947
Temporarily restricted	25,378	47,569	39,887	37,653	55,375	-	(120,639)	85,223	-	-	67	-	85,290
Permanently restricted	35,826	35,826	9,462	9,589	37,669	-	(82,956)	45,416	-	-	-	-	45,416
Total net assets	453,355	111,156	149,950	418,890	437,228	35,929	(856,252)	750,256	1,530	5,270	2,589	(15,080)	744,565
Total liabilities and net assets	\$ 896,958	\$ 111,794	\$ 360,406	\$ 642,198	\$ 437,228	\$ 60,134	\$ (906,260)	\$ 1,602,458	\$ 2,112	\$ 5,795	\$ 4,522	\$ (16,416)	\$ 1,598,471

\* Includes Eastern New York Medical Services, P.C.

Western Connecticut Health Network, Inc. and Subsidiaries

Consolidating Statement of Operations  
(In Thousands)

Year Ended September 30, 2016

	The Danbury Hospital and Subsidiary	Danbury Hospital and New Milford Hospital Foundation, Inc.	Western Connecticut Health Network, Inc.	The Norwalk Hospital Association and Subsidiaries	Western Connecticut Health Network Investments, LLC	Western Connecticut Medical Group, Inc.*	Eliminations	Subtotal Obligated Group	SWC Corporation	Western Connecticut Health Network Affiliates, Inc.	Western Connecticut Home Care, Inc.	Eliminations	Total
Unrestricted revenues:													
Gross patient service revenue less contractual allowances	\$ 658,305	\$ -	\$ -	\$ 416,787	\$ -	\$ 141,528	\$ (1,337)	\$ 1,215,283	\$ 15,174	\$ 23,624	\$ 11,318	\$ (509)	\$ 1,264,890
Charity care	18,294	-	-	18,589	-	2,195	-	39,078	-	9,431	108	-	48,617
Net patient service revenue	640,011	-	-	398,198	-	139,333	(1,337)	1,176,205	15,174	14,193	11,210	(509)	1,216,273
Provision for uncollectible accounts	18,797	-	-	13,216	-	1,956	-	33,969	23	584	246	-	34,822
Net patient service revenue, less provision for uncollectible accounts	621,214	-	-	384,982	-	137,377	(1,337)	1,142,236	15,151	13,609	10,964	(509)	1,181,451
Net assets released from restriction	7,062	-	-	1,017	-	-	-	8,079	-	-	65	-	8,144
Other operating revenues	22,492	-	716	12,894	-	108,422	(113,989)	30,535	-	158	187	(513)	30,367
	650,768	-	716	398,893	-	245,799	(115,326)	1,180,850	15,151	13,767	11,216	(1,022)	1,219,962
Expenses:													
Salaries	364,033	-	3,527	217,976	-	206,126	(104,514)	687,148	1,228	9,049	7,763	-	705,188
Supplies and other	185,349	-	837	123,689	-	37,207	(6,060)	341,022	13,664	3,560	2,860	(793)	360,313
Insurance	7,102	-	-	2,094	-	2,625	(4,719)	7,102	-	141	88	(229)	7,102
Depreciation and amortization	46,720	-	1	23,406	-	3,146	-	73,273	49	612	120	-	74,054
Interest	7,341	-	-	2,101	-	-	-	9,442	-	-	-	-	9,442
State of Connecticut Hospital Tax	35,066	-	-	20,154	-	-	-	55,220	-	-	-	-	55,220
	645,611	-	4,365	389,420	-	249,104	(115,293)	1,173,207	14,941	13,362	10,831	(1,022)	1,211,319
Income (loss) from operations	5,157	-	(3,649)	9,473	-	(3,305)	(33)	7,643	210	405	385	-	8,643
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-
Nonoperating gains and (losses):													
Contributions and net assets released from restriction for non-operating activities	-	4,556	-	22,346	-	-	-	26,902	-	-	7	-	26,909
Investment income, net	3,542	1,322	241	6,729	9,883	(221)	(9,939)	11,557	-	-	32	-	11,589
Change in unrealized gains and losses on investments	11,098	1,182	-	10,434	11,090	-	(11,090)	22,714	-	-	69	-	22,783
Change in equity interest in unrestricted net assets of Danbury Hospital and New Milford Hospital Foundation, Inc. and Norwalk Hospital Foundation, Inc.	4,900	-	-	-	-	-	(4,900)	-	-	-	-	-	-
Operating expenses of Danbury Hospital and New Milford Hospital Foundation, Inc. & Norwalk Hospital Foundation, Inc.	-	(2,007)	-	(2,438)	-	-	89	(4,356)	-	-	-	-	(4,356)
Interest rate swap activity:													
Interest cost on interest rate swap	-	-	-	(640)	-	-	-	(640)	-	-	-	-	(640)
Change in value of interest rate swap	-	-	-	(1,800)	-	-	-	(1,800)	-	-	-	-	(1,800)
	-	-	-	(2,440)	-	-	-	(2,440)	-	-	-	-	(2,440)
	19,540	5,053	241	34,631	20,973	(221)	(25,840)	54,377	-	-	108	-	54,485
Excess (deficiency) of revenues over expenses, before income attributable to noncontrolling interest in joint venture	24,697	5,053	(3,408)	44,104	20,973	(3,526)	(25,873)	62,020	210	405	493	-	63,128
Less: net income attributable to noncontrolling interest in joint venture	-	-	-	(2,019)	-	-	-	(2,019)	-	-	-	-	(2,019)
Excess (deficiency) of revenues over expenses	\$ 24,697	\$ 5,053	\$ (3,408)	\$ 42,085	\$ 20,973	\$ (3,526)	\$ (25,873)	\$ 60,001	\$ 210	\$ 405	\$ 493	\$ -	\$ 61,109

\* Includes Eastern New York Medical Services, P.C.

The Danbury Hospital and Subsidiary

Consolidating Balance Sheet  
(In Thousands)

September 30, 2016

	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Eliminations	Total
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 24,232	\$ 314	\$ -	\$ 24,546
Investments, current portion	15,098	-	-	15,098
Assets limited as to use, current portion	1,868	15,012	-	16,880
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$11,440	67,983	-	-	67,983
Due from related parties, current portion	9,696	-	(200)	9,496
Inventories	11,965	-	-	11,965
Prepaid expenses and other	8,710	22,510	-	31,220
Total current assets	139,552	37,836	(200)	177,188
Interest in investments held by Western Connecticut Health Network Investments, LLC	121,804	-	-	121,804
Assets limited as to use:				
Investments held by Western Connecticut Health Network Insurance Co., Ltd.	-	103,776	-	103,776
Total noncurrent assets limited as to use	-	103,776	-	103,776
Other assets	4,427	-	-	4,427
Investment in Western Connecticut Health Network Insurance Co., Ltd.	66,752	-	(66,752)	-
Interest in Danbury Hospital and New Milford Hospital Foundation, Inc.	87,854	-	-	87,854
Property, plant and equipment:				
Land and land improvements	12,764	-	-	12,764
Buildings and building improvements	529,995	-	-	529,995
Equipment and other	317,503	-	-	317,503
Construction in progress (estimated cost to complete: \$49,511)	30,101	-	-	30,101
	890,363	-	-	890,363
Less accumulated depreciation	491,994	-	-	491,994
	398,369	-	-	398,369
Bond issuance costs, net	3,540	-	-	3,540
Total assets	\$ 822,298	\$ 141,612	\$ (66,952)	\$ 896,958

The Danbury Hospital and Subsidiary  
 Consolidating Balance Sheet (continued)  
 (In Thousands)

September 30, 2016

	<b>The Danbury Hospital</b>	<b>Western Connecticut Health Network Insurance Co., Ltd.</b>	<b>Eliminations</b>	<b>Total</b>
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable	\$ 38,710	\$ -	\$ -	\$ 38,710
Payroll-related accruals	30,951	-	-	30,951
Due to third-party payors	18,200	-	-	18,200
Due to related parties, current portion	-	200	(200)	-
Interest payable	1,948	-	-	1,948
Other accrued expenses	3,010	-	-	3,010
Current portion of long-term debt	1,640	-	-	1,640
Total current liabilities	94,459	200	(200)	94,459
Self-insurance liabilities	-	74,660	-	74,660
Accrued pension liabilities and other	32,854	-	-	32,854
Long-term debt, less current portion	241,630	-	-	241,630
Total liabilities	368,943	74,860	(200)	443,603
Net assets:				
Share capital	-	12	(12)	-
Additional paid in capital	-	12,863	(12,863)	-
Unrestricted	392,151	53,877	(53,877)	392,151
Temporarily restricted	25,378	-	-	25,378
Permanently restricted	35,826	-	-	35,826
Total net assets	453,355	66,752	(66,752)	453,355
Total liabilities and net assets	\$ 822,298	\$ 141,612	\$ (66,952)	\$ 896,958

The Danbury Hospital and Subsidiary  
 Consolidating Statement of Operations  
 (In Thousands)

Year Ended September 30, 2016

	The Danbury Hospital	Western Connecticut Health Network Insurance Co., Ltd.	Eliminations	Total
Unrestricted revenues:				
Gross patient service revenue less contractual allowances	\$ 658,305	\$ -	\$ -	\$ 658,305
Charity care	18,294	-	-	18,294
Net patient service revenue	640,011	-	-	640,011
Provision for uncollectible accounts	18,797	-	-	18,797
Net patient service revenue, less provision for uncollectible accounts	621,214	-	-	621,214
Net assets released from restriction	7,062	-	-	7,062
Other operating revenues	12,265	16,965	(6,738)	22,492
	640,541	16,965	(6,738)	650,768
Expenses:				
Salaries	364,033	-	-	364,033
Supplies and other	191,810	277	(6,738)	185,349
Insurance	-	7,102	-	7,102
Depreciation and amortization	46,720	-	-	46,720
Interest	7,341	-	-	7,341
State of Connecticut Hospital Tax	35,066	-	-	35,066
	644,970	7,379	(6,738)	645,611
(Loss) income from operations	(4,429)	9,586	-	5,157
Nonoperating gains and (losses):				
Investment income, net	3,542	-	-	3,542
Change in unrealized gains and losses on investments	11,098	3,472	(3,472)	11,098
Change in equity interest in unrestricted net assets of Danbury Hospital and New Milford Hospital Foundation, Inc.	4,900	-	-	4,900
Change in investment in WCHNIC	9,586	-	(9,586)	-
	29,126	3,472	(13,058)	19,540
Excess of revenues over expenses	\$ 24,697	\$ 13,058	\$ (13,058)	\$ 24,697

The Norwalk Hospital Association and Subsidiaries

Consolidating Balance Sheet  
(In Thousands)

September 30, 2016

	Norwalk Hospital Association	Norwalk Surgery Center, LLC	Norwalk Hospital Foundation, Inc.	Eliminations	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 14,673	\$ 642	\$ 2,421	\$ -	\$ 17,736
Investments, current portion	15,836	-	5,241	-	21,077
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$26,100	46,916	1,347	-	-	48,263
Due from related parties, current portion	259	-	-	(259)	-
Pledges receivable, current portion	-	-	2,494	-	2,494
Inventories	3,164	255	-	-	3,419
Prepaid expenses and other	2,456	54	196	-	2,706
Total current assets	83,304	2,298	10,352	(259)	95,695
Interest in investments held by Western Connecticut Health Network Investments, LLC	143,647	-	1,497	-	145,144
Assets limited as to use:					
Donor restricted interest in investments held by WCHN Investments, LLC	-	-	28,746	-	28,746
Board designated interest in investments held by WCHN Investments, LLC	-	-	52,700	-	52,700
Beneficial interest in charitable remainder trusts	7,895	-	-	-	7,895
Total assets limited as to use	7,895	-	81,446	-	89,341
Other assets	28,578	4,142	35	(4,142)	28,613
Beneficial interest in Norwalk Hospital Foundation, Inc.	100,837	-	-	(100,837)	-
Due from related parties, less current portion	2,012	-	-	-	2,012
Property, plant and equipment:					
Land and land improvements	27,953	-	-	-	27,953
Buildings and building improvements	274,597	-	-	-	274,597
Equipment and other	294,678	2,647	131	304	297,760
Construction in progress (estimated cost to complete: \$17,063)	46,943	-	-	-	46,943
	644,171	2,647	131	304	647,253
Less: accumulated depreciation	372,195	1,899	131	-	374,225
Total property, plant, and equipment	271,976	748	-	304	273,028
Pledges receivable, less current portion	-	-	8,108	-	8,108
Bond issuance costs, net	257	-	-	-	257
Total assets	\$ 638,506	\$ 7,188	\$ 101,438	\$ (104,934)	\$ 642,198



The Norwalk Hospital Association and Subsidiaries

Consolidating Balance Sheet (continued)

(In Thousands)

September 30, 2016

	Norwalk Hospital Association	Norwalk Surgery Center, LLC	Norwalk Hospital Foundation, Inc.	Eliminations	Total
<b>Liabilities and net assets</b>					
Current liabilities:					
Accounts payable	\$ 26,551	\$ 179	\$ -	\$ -	\$ 26,730
Payroll-related accruals	11,405	85	-	-	11,490
Due to third-party payors	13,975	-	-	-	13,975
Due to related parties, current portion	13,128	-	432	(259)	13,301
Interest payable	603	2	-	-	605
Other accrued expenses	-	294	-	-	294
Current portion of long-term debt	6,666	910	-	-	7,576
Total current liabilities	72,328	1,470	432	(259)	73,971
Self-insurance liabilities	17,268	-	-	-	17,268
Accrued pension liability and other	28,118	13	-	-	28,131
Long-term debt, less current portion	103,522	416	-	-	103,938
Total liabilities	221,236	1,899	432	(259)	223,308
Net assets:					
Unrestricted	370,197	3,342	61,659	(65,497)	369,701
Unrestricted attributable to noncontrolling interest	-	1,947	-	-	1,947
Temporarily restricted	37,484	-	29,758	(29,589)	37,653
Permanently restricted	9,589	-	9,589	(9,589)	9,589
Total net assets	417,270	5,289	101,006	(104,675)	418,890
Total liabilities and net assets	\$ 638,506	\$ 7,188	\$ 101,438	\$ (104,934)	\$ 642,198

The Norwalk Hospital Association and Subsidiaries

Consolidating Statement of Operations  
(In Thousands)

Year Ended September 30, 2016

	Norwalk Hospital Association	Norwalk Surgery Center, LLC	Norwalk Hospital Foundation, Inc.	Eliminations	Total
Unrestricted revenues:					
Gross patient revenue less contractual allowances	\$ 403,670	\$ 13,117	\$ -	\$ -	\$ 416,787
Charity care	18,589	-	-	-	18,589
Net patient service revenue	385,081	13,117	-	-	398,198
Provision for uncollectible accounts	12,857	359	-	-	13,216
Net patient service revenue, less provision for uncollectible accounts	372,224	12,758	-	-	384,982
Net assets released from restriction	1,017	-	-	-	1,017
Other operating revenues	12,937	-	-	(43)	12,894
	386,178	12,758	-	(43)	398,893
Expenses:					
Salaries	215,917	2,059	-	-	217,976
Supplies and other	119,004	4,685	-	-	123,689
Insurance	2,094	-	-	-	2,094
Depreciation and amortization	22,950	456	-	-	23,406
Interest	2,027	74	-	-	2,101
State of Connecticut Hospital Tax	20,154	-	-	-	20,154
	382,146	7,274	-	-	389,420
Income from operations	4,032	5,484	-	(43)	9,473
Nonoperating gains (losses):					
Contributions	-	-	22,346	-	22,346
Investment income, net	4,801	4	1,924	-	6,729
Change in unrealized gains and losses on investments	7,312	-	3,122	-	10,434
Operating expenses of Norwalk Hospital Foundation, Inc.	-	-	(2,481)	43	(2,438)
Change in equity interest in unrestricted net assets of Norwalk Hospital Foundation, Inc.	24,911	-	-	(24,911)	-
Interest rate swap activity:					
Interest cost on interest rate swap	(640)	-	-	-	(640)
Change in value of interest rate swap	(1,800)	-	-	-	(1,800)
	(2,440)	-	-	-	(2,440)
	34,584	4	24,911	(24,868)	34,631
Excess of revenues over expenses, before income attributable to noncontrolling interest in joint venture	38,616	5,488	24,911	(24,911)	44,104
Less: net income attributable to noncontrolling interest in joint venture	-	(2,019)	-	-	(2,019)
Excess of revenues over expenses	\$ 38,616	\$ 3,469	\$ 24,911	\$ (24,911)	\$ 42,085

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