

CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Hartford HealthCare Corporation and Subsidiaries  
Years Ended September 30, 2014 and 2013  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

Hartford HealthCare Corporation and Subsidiaries

Consolidated Financial Statements  
and Supplementary Information

Years Ended September 30, 2014 and 2013

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## Report of Independent Auditors

The Board of Directors  
Hartford HealthCare Corporation

We have audited the accompanying consolidated financial statements of Hartford HealthCare Corporation and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, 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 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hartford HealthCare Corporation and Subsidiaries at September 30, 2014 and 2013, 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 performed 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 the 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 audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the 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 28, 2015

# Hartford HealthCare Corporation and Subsidiaries

## Consolidated Balance Sheets

	September 30	
	2014	2013
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 423,879	\$ 293,544
Accounts receivable, less allowances for doubtful accounts of approximately \$95,964 in 2014 and \$85,968 in 2013	292,535	310,228
Other receivables	40,049	70,598
Inventories of supplies	28,782	25,942
Prepaid expenses and other assets	24,158	27,712
Current portion of assets whose use is limited	3,850	7,521
Total current assets	<u>813,253</u>	<u>735,545</u>
Assets whose use is limited:		
Investments and other assets	565,332	548,348
Investments for restricted purposes	315,719	307,583
Escrow funds for long-term debt	8,311	11,768
Funds designated for debt service	33,445	23,281
Investments held by HHCISL	217,815	165,880
	<u>1,140,622</u>	<u>1,056,860</u>
Funds held in trust by others	184,764	178,081
Other assets	146,357	113,591
Property, plant, and equipment, net	1,030,200	997,369
Total assets	<u>\$ 3,315,196</u>	<u>\$ 3,081,446</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 60,131	\$ 42,742
Salaries, wages, payroll taxes, and amounts withheld from employees	87,910	74,218
Accrued expenses	91,567	106,914
Estimated third-party payor settlements	57,206	45,547
Current portion of long-term debt and capital leases	56,638	128,644
Current portion of accrued pension liabilities	16,370	21,622
Current portion of other liabilities	26,062	26,268
Total current liabilities	<u>395,884</u>	<u>445,955</u>
Long-term debt and capital leases	654,020	475,689
Accrued pension liabilities	511,386	369,051
Other liabilities	34,896	53,288
Self insurance liabilities	143,021	127,882
Total liabilities	<u>1,739,207</u>	<u>1,471,865</u>
Net assets:		
Unrestricted	1,104,267	1,160,932
Temporarily restricted	184,811	170,523
Permanently restricted	286,911	278,126
Total net assets	<u>1,575,989</u>	<u>1,609,581</u>
Total liabilities and net assets	<u>\$ 3,315,196</u>	<u>\$ 3,081,446</u>

See accompanying notes.

## Hartford HealthCare Corporation and Subsidiaries

### Consolidated Statements of Operations and Changes in Net Assets

	<b>Year Ended September 30</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 2,333,079	\$ 1,949,253
Provision for bad debts	<b>61,860</b>	43,010
Net patient service revenue less provision for bad debts	<b>2,271,219</b>	1,906,243
Other operating revenue	<b>199,592</b>	211,736
Net assets released from restrictions for operations	<b>10,771</b>	10,309
	<b>2,481,582</b>	2,128,288
Operating expenses:		
Salaries and wages	<b>1,130,131</b>	1,011,861
Employee benefits	<b>304,547</b>	299,157
Supplies and other	<b>465,958</b>	419,284
Purchased services	<b>389,987</b>	314,419
Depreciation and amortization	<b>118,837</b>	102,308
Provision for non-patient bad debts	<b>408</b>	2,059
Interest	<b>19,528</b>	13,969
	<b>2,429,396</b>	2,163,057
Income (loss) from operations	<b>52,186</b>	(34,769)
Nonoperating income (loss):		
Income from investments, net	<b>62,588</b>	69,797
Other	<b>(11,227)</b>	(5,204)
Contribution received from asset transfer from VNA East, Inc.	-	6,882
Contribution received in the acquisition of Backus Corporation	-	309,574
	<b>51,361</b>	381,049
Excess of revenues over expenses	<b>103,547</b>	346,280

*Continued on next page.*

## Hartford HealthCare Corporation and Subsidiaries

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

	<b>Year Ended September 30</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Unrestricted net assets:		
Excess of revenues over expenses	\$ 103,547	\$ 346,280
Transfer from temporarily restricted net assets	46	–
Net unrealized gains and losses on investments	1,972	6,530
Net assets released from restrictions used for the purchase of equipment	5,491	7,334
Change in pension and post-retirement funding obligations	(156,545)	300,817
Other	(11,176)	(9,508)
(Decrease) increase in unrestricted net assets	(56,665)	651,453
Temporarily restricted net assets:		
Restricted contributions	12,022	10,181
Restricted investment income	18,173	34,193
Transfer to unrestricted net assets	(46)	–
Realized gains on investments	451	11,184
Change in unrealized gains and losses on investments	150	(18,839)
Net assets released from restrictions for operations	(10,771)	(10,309)
Contribution received from asset transfer from VNA East, Inc	–	1,091
Contribution received in the acquisition of Backus Corporation	–	3,100
Net assets released from restrictions used for the purchase of equipment	(5,491)	(7,334)
Other	(200)	(123)
Increase in temporarily restricted net assets	14,288	23,144
Permanently restricted net assets:		
Restricted contributions	1,462	4,723
Restricted investment income	642	782
Contribution received from asset transfer from VNA East, Inc.	–	338
Contribution received in the acquisition of Backus Corporation	–	8,025
Change in unrealized gains and losses on funds held in trust by others	6,681	9,203
Increase in permanently restricted net assets	8,785	23,071
(Decrease) increase in net assets	(33,592)	697,668
Net assets at beginning of year	1,609,581	911,913
Net assets at end of year	\$ 1,575,989	\$ 1,609,581

*See accompanying notes.*

# Hartford HealthCare Corporation and Subsidiaries

## Consolidated Statements of Cash Flows

	Year Ended September 30	
	2014	2013
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
(Decrease) increase in net assets	\$ (33,592)	\$ 697,668
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Contribution received in the acquisition of Backus Corporation	–	(320,699)
Contribution received from asset transfer from VNA East, Inc	–	(8,311)
Depreciation and amortization	118,837	102,308
Change in unrealized gains and losses on assets whose use is limited	(16,260)	32,876
Change in unrealized gains and losses on funds held in trust by others	(6,681)	(9,203)
Provision for bad debts	61,860	43,010
Provision for non-patient bad debts	408	2,059
Change in net assets related to pension and post-retirement funding obligations	156,545	(300,817)
Change in fair value of interest rate swap agreements	(143)	(3,502)
Other changes in net assets:		
Restricted contributions and investment income	(32,750)	(61,063)
Changes in assets and liabilities, net <i>(Note 13)</i>	(41,606)	63,434
Net cash provided by operating activities	<b>206,618</b>	237,760
<b>Investing activities</b>		
Purchase of property, plant, and equipment, net	(151,668)	(166,557)
Increase in assets whose use is limited, net	(63,831)	(229,723)
Cash received in the acquisition of Backus Corporation	–	126,238
Cash received in the asset transfer from VNA East	–	4,853
Net cash used in investing activities	<b>(215,499)</b>	(265,189)
<b>Financing activities</b>		
Proceeds from long-term debt and capital leases	290,738	64,218
Payments on long-term debt and capital leases	(184,272)	(11,204)
Restricted contributions and investment income	32,750	61,063
Net cash provided by financing activities	<b>139,216</b>	114,077
Net increase in cash and cash equivalents	130,335	86,648
Cash and cash equivalents at beginning of year	293,544	206,896
Cash and cash equivalents at end of year	<b>\$ 423,879</b>	<b>\$ 293,544</b>

See accompanying notes.



# Hartford HealthCare Corporation and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2014

### **1. Significant Accounting Policies**

The accounting policies that affect significant elements of the Hartford HealthCare Corporation and Subsidiaries' (the Corporation) consolidated financial statements are summarized below and in Note 2.

#### **Organization**

The Corporation was incorporated on August 21, 1985, as a not-for-profit organization under the Non-Stock Corporation Act of the State of Connecticut. The Corporation is organized exclusively for public welfare, charitable, scientific, literary and educational purposes, including the furtherance of the welfare, programs and activities of its subsidiaries.

The Corporation is the sole member of consolidated Hartford Hospital (Hartford), consolidated MidState Medical Center (MidState), combined Windham Community Memorial Hospital Inc. (Windham), consolidated Central Connecticut Health Alliance (CCHA), consolidated H.H.M.O.B, consolidated Hartford HealthCare at Home, Inc. (formerly VNA Health Care, Inc.) (VNA), Natchaug Hospital (Natchaug), consolidated Rushford Center, Inc., Clinical Laboratory Partners, LLC, and PracticeCentral, LLC.

Effective October 1, 2012, CHS Insurance Limited (CHS) became a wholly-owned subsidiary of the Corporation, which involved a repurchase of CHS shares previously owned by Hartford and MidState, along with several other entities. Hartford and MidState previously accounted for their ownership under the equity method of accounting. Effective October 1, 2013, CHS changed its name to Hartford HealthCare Indemnity Services Ltd. (HHCISL). Also effective October 1, 2013, Grand Indemnity Company, Ltd. (GIC), a wholly-owned subsidiary of The Hospital of Central Connecticut (HOCC) merged with HHCISL to consolidate captives for the Corporation. HHCISL was incorporated under the laws of Bermuda as a class 2 insurer, on August 30, 1990. HHCISL provides professional liability and employee benefits liability, in addition to general liability insurance and reinsurance to several Corporation subsidiaries. Refer to Note 9.

Effective January 1, 2013, HHC PhysiciansCare Inc., referred to as Hartford HealthCare Medical Group was formed (HHCIMG). The Corporation is the sole member of HHCIMG, which is a nonprofit organization incorporated under the General Statutes of the State of Connecticut pursuant to Chapter 549b. HHCIMG's primary purpose is to practice medicine and provide healthcare services to the public as a medical foundation.

# Hartford HealthCare Corporation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

Effective April 1, 2013, Hartford HealthCare Endowment LLC (Endowment LLC) became operational to manage the endowment investments for the Corporation. Endowment LLC was formed August 29, 2011, for the purpose of maintaining and managing, on a pooled basis, the endowment investments of the Corporation. Endowment LLC holds the endowment investments for Hartford, MidState, VNA, Windham, HOCC, and Central Connecticut Senior Health Services, Inc. as of September 30, 2014. Endowment LLC acts as manager and is named fiduciary for the Corporation within established investment guidelines. As of January 1, 2014, the endowment investments for The William W. Backus Hospital (Backus) were sold to Endowment LLC. At that time all previously unrealized gains and losses on the sold investments were realized.

Effective August 1, 2013 (the Acquisition Date), the Corporation acquired Backus Corporation, a system of health care affiliates that provides services throughout the eastern region of Connecticut including Backus, Backus Health Care, Inc., WWB Corporation, Omni Home Health Services of Eastern Connecticut LLC d/b/a Backus Home Health Services, and Backus Physician Services, LLC. The Corporation became the sole corporate member of Backus Corporation and a full corporate affiliation was completed. Pursuant to the acquisition agreement, the Corporation acquired Backus Corporation by means of an inherent contribution where no consideration was transferred by the Corporation. The Corporation accounted for this business combination by applying the acquisition method, and accordingly, the inherent contribution received was valued as the excess of assets acquired over liabilities assumed. In determining the inherent contribution received, all assets acquired and liabilities assumed were measured at fair value as of the Acquisition Date. The results of Backus Corporation's operations have been included in the consolidated financial statements since the Acquisition Date.

Hartford is a voluntary association incorporated under the General Statutes of the State of Connecticut. The consolidated financial statements of Hartford include Jefferson House and Cedar Mountain Commons (departments of Hartford) and the Institute of Living. Jefferson House is a nursing home facility that is operated as a department of Hartford Hospital as mandated by legislation enacted in 1873. Cedar Mountain Commons is a senior living community that opened in February 2001 and is owned by Hartford and Jefferson House. The Institute of Living is a mental health center in Hartford, Connecticut and is a wholly-owned subsidiary of Hartford.

MidState is a nonprofit organization incorporated under the General Statutes of the State of Connecticut. The consolidated financial statements of MidState include Meriden Imaging Center, which MidState has an 80% ownership interest in.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

Windham is a voluntary association incorporated under the General Statutes of the State of Connecticut. The combined financial statements of Windham include The Hatch Hospital Corporation and Windham Hospital Foundation, Inc. The Hatch Hospital Corporation and Windham Hospital Foundation, Inc. are both nonprofit organizations incorporated under the General Statutes of the State of Connecticut.

CCHA is a system of health care affiliates that provides a wide array of services throughout the region including HOCC and its wholly owned subsidiary, GIC, Central Connecticut Senior Health Services, Inc. (CCSHS) (d/b/a Southington Care Center), which includes Mulberry Gardens of Southington, LLC (Mulberry Gardens) and The Orchards at Southington (the Orchards), CenConn Services, Inc. (CSI) and Community Mental Health Affiliates, Inc. (CMHA). CMHA disassociated with CCHA effective December 31, 2013, at which date the assets and liabilities were deconsolidated and CMHA became an independent entity.

H.H.M.O.B. was incorporated under the laws of the State of Connecticut for the purpose of operating a medical office building. The consolidated financial statements of H.H.M.O.B. include Hartford HealthCare Rehabilitation Network (formerly Eastern Rehabilitation Network).

VNA is a nonprofit, non-stock Connecticut corporation, founded in 1901, which was incorporated on March 1, 1986, as the parent company and sole member of VNA Health Resources, Inc. VNA provides corporate management, financial and other services to its subsidiary. Effective July 1, 2013, VNA executed an asset transfer agreement with VNA East, Inc, a non-stock corporation organized in Connecticut whose primary purpose is to provide home health care services to the citizens of Eastern Connecticut. Effective August 28, 2014, VNA executed an asset transfer agreement with Omni Home Health Services of Eastern Connecticut, LLC, d/b/a Backus Home Health Care, a joint venture of two wholly-owned subsidiaries of the Corporation.

Natchaug is a nonprofit organization incorporated under the General Statutes of the State of Connecticut. Natchaug provides inpatient and outpatient psychiatric healthcare services.

Rushford Center, Inc. is a nonprofit organization that includes Rushford Foundation, Inc. The Foundation is a nonprofit agency in which Rushford Center, Inc. is a 100% owner.

Clinical Laboratory Partners, LLC was created in 1998 through a merger of three Connecticut based laboratories.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

PracticeCentral, LLC became operational in fiscal year 2012 and facilitates the adoption of electronic health systems by physician practices throughout the state of Connecticut for effective data sharing and clinical integration.

Effective February 1, 2013, Integrated Care Partners, LLC (ICP) was formed to create the necessary infrastructure for the integrated healthcare delivery system operated by the Corporation. The Corporation is the sole member of ICP. ICP became operational on January 1, 2014.

All material intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

#### **Regulatory Matters**

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

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

The carrying value of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of the Corporation's financial instruments are disclosed in Note 5.

# Hartford HealthCare Corporation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

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

Cash and cash equivalents include cash, commercial paper, and corporate and government bonds that are available to be converted to liquid assets within three months. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Corporation's policy to monitor the financial strength of those institutions.

#### **Patient Accounts Receivable**

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

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage, and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

The Corporation's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies, and private patients. The Corporation manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of patient accounts receivable includes 31% and 28%, and 12% and 9%, for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2014 and 2013, respectively.

#### **Investments**

The majority of the Corporation's investment portfolio is classified as trading with unrealized gains and losses included in the excess of revenues over expenses. HHCISL investments are classified as available for sale with unrealized gains and losses excluded from excess of revenues over expenses and included in unrestricted net assets. Unrealized gains and losses are included in unrestricted net assets on the statements of changes in net assets.

# Hartford HealthCare Corporation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

#### Investments (continued)

Investments held by the Corporation in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations at the consolidated balance sheet dates. Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that the Corporation holds limited partnership interests, are reported based upon net asset value and 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 Corporation's holdings may be determined by the investment manager or general partner and for "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 Corporation accounts for these investments using the equity method of accounting and reports its share of the increase or decrease in the fund's value as investment gain or loss. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Corporation's annual consolidated financial statement reporting.

Alternative investments held by the defined benefit pension plans are held at fair value as estimated in an unquoted market. Valuations of those investments, and therefore the Corporation's holdings may be determined by the investment manager and are primarily based on the underlying securities. Assets temporarily and permanently restricted (by donor) are recorded at fair value at the date of donation, which is then considered cost. Investment income (including realized gains and losses on investments, interest and dividends, and the change in unrealized gains and losses) is included in nonoperating income unless the income or loss is restricted by the donor or law. The cost of securities sold is based on the specific identification method.

The Corporation holds nonmarketable equity investments in private companies. At September 30, 2014 and 2013, the carrying value of the Corporation's portfolio of strategic investments totaled \$8,102,182 and \$7,746,899, respectively of which \$76,751 are accounted for at cost and \$6,230,408 and \$6,791,082 are accounted for using the equity method of accounting at September 30, 2014 and 2013, respectively. These investments are included in other assets on the consolidated balance sheets. The Corporation's share of the income or losses of all equity-method investees, using the most current financial information available, which reflects the financial performance three months in arrears, is included in nonoperating income.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### Inventories

Inventories are stated at the lower of cost or market. The Corporation values its inventories using the first-in, first-out method.

##### Goodwill

Goodwill represents the excess of cost of an acquired entity over the net of the amounts assigned to the fair value of assets acquired and liabilities assumed. As of September 30, 2014 and 2013, goodwill of approximately \$25,800,000 is recorded in the Corporation's consolidated balance sheets within other assets. Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. The impairment test for goodwill requires a comparison of fair value of each reporting unit that has goodwill associated with its operations with its carrying amount. During 2013, the Corporation adopted the provisions of Accounting Standards Update (ASU) 2011-08, *Testing Goodwill for Impairment*, which allows the Corporation to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative impairment test for goodwill. No impairments were recorded for goodwill for the fiscal years ended September 30, 2014 and 2013.

##### Property, Plant, and Equipment

Property, plant, and equipment are stated on the basis of cost. The Corporation provides for depreciation of property, plant and equipment and assets under capital leases using the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives, which range from 3 to 40 years.

Conditional asset retirement obligations recorded under the provisions of Accounting Standards Codification (ASC) 410-20, *Asset Retirement Obligations*, amounted to \$3,540,000 and \$3,972,000 as of September 30, 2014 and 2013, respectively. These obligations are recorded in other noncurrent liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2014 and 2013, retirement obligations incurred and settled were approximately \$405,000 and \$14,000, respectively. Accretion expense was immaterial for the fiscal years ended September 30, 2014 and 2013.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **Assets Whose Use is Limited**

Assets whose use is limited includes assets that are set aside internally by management or by the Board of Directors for future capital improvements, research, donor-restricted assets, education, investments held by HHCISL, escrow funds, and debt service funds for existing obligations on outstanding long-term debt. Amounts that are restricted by the Board of Directors are not available for use without the approval of the Board of Directors. Restricted investment income in excess of a predetermined spending limit has also been set aside as long-term investments. Investments for restricted purposes are those restricted based on donors' intents.

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

Temporarily restricted net assets are those assets whose use by the Corporation has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by donors and are maintained by the Corporation in perpetuity. The Corporation is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value. The investment income generated from these funds is expendable to support healthcare services, and the assets are classified as permanently restricted.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Unrestricted contributions are recorded, net of expenses, within other operating revenue.

##### **Donor-Restricted Gifts**

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



# Hartford HealthCare Corporation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

#### **Bond Issuance Costs**

Bond issuance costs associated with long-term debt for capital projects are amortized over the term of the debt using a method that approximates the effective interest method. Bond issuance costs of approximately \$9,079,000 and \$5,365,000 are recorded in other assets in the consolidated balance sheets as of September 30, 2014 and 2013, respectively.

#### **Interest Rate Swap Agreements**

The Corporation utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. The Corporation does not hold or issue derivative financial instruments for trading purposes. The Corporation may be exposed to credit loss in the event of nonperformance by the counterparties to its interest rate swap agreements. Interest rate swap agreements are reported at fair value. Changes in fair value are recognized in the performance indicator in the consolidated statements of operations and changes in net assets.

#### **Other Operating Revenue**

Other operating revenue includes services to other institutions, electronic health record incentive program revenue, school tuition, rental income, grant income, research income, and unrestricted contributions. Refer to Note 11.

#### **Nonoperating Income**

Nonoperating income includes income on investments, realized and unrealized gains and losses on trading investments, changes in the fair value of swap agreements and the excess of revenues over expenses of Jefferson House and Cedar Mountain Commons.

#### **Excess of Revenues over Expenses**

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, include the changes in pension and post-retirement funding obligations, net assets released from restrictions for the purchase of equipment, unrealized gains and losses on other than trading investments and permanent transfers of assets to and from affiliates.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

##### **Unpaid Losses and Loss Adjustment Expenses**

The reserve for losses and loss adjustment expenses and related reinsurance recoverable for HHCISL includes case basis estimates of reported losses, plus supplemental amounts calculated based upon loss projections utilizing actuarial studies, each entities' own historical data and industry data. In establishing this reserve and the related reinsurance recoverable, HHCISL utilizes the findings of an independent consulting actuary.

Management believes that its aggregate reserve for losses and loss adjustment expenses and related reinsurance recoverable at year end represents its best estimate, based on the available data, of the amount necessary to cover the ultimate cost of losses and the amount of such losses that will be recovered under reinsurance programs; however, because of the nature of the insured risks and limited historical experience, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such asset and liability at the consolidated balance sheet dates. Accordingly, the ultimate asset and liability could be significantly in excess of or less than the amount indicated in these consolidated financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

##### **Reinsurance**

In the normal course of business, HHCISL seeks to reduce their loss exposure by reinsuring certain levels of risk with reinsurers. Premiums ceded are expensed over the term of their related policies.

##### **Income Taxes**

The Corporation and all of its subsidiaries are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code except for Clinical Laboratory Partners, LLC, CSI and H.H.M.O.B. and its subsidiaries, which are taxable entities of which income taxes are immaterial. For all entities included within the Corporation, certain net operating loss carry forwards of approximately \$34,475,000 from unrelated business activities generate a potential deferred tax asset of approximately \$13,276,000. No deferred tax asset has been recorded as this amount is offset by a valuation allowance of the same amount.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

HHCISL is an insurance company organized under the laws of Bermuda. HHCISL has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until the year 2016.

#### **Electronic Health Record Incentive Program**

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The Corporation uses a grant accounting model to recognize EHR incentive revenues. EHR incentive revenues are recognized ratably over the relevant cost report period to determine the amount of reimbursement. Accordingly, the Corporation recognized approximately \$3,500,000 and \$10,400,000 of EHR revenues during the fiscal years ended September 30, 2014 and 2013, respectively. Correspondingly, the Medicare and Medicaid components, respectively, of EHR revenues are approximately \$2,700,000 and \$800,000 and \$7,900,000 and \$2,500,000 for 2014 and 2013, respectively. EHR incentive revenues are included in other operating revenues in the accompanying consolidated statements of operations and changes in net assets.

The Corporation's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

#### **New Accounting Pronouncements**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity

# Hartford HealthCare Corporation and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

expects to be entitled in exchange for those goods or services. The adoption of ASU 2014-09 is required on October 1, 2017, and management is currently evaluating the effect of this guidance on its consolidated financial statements.

#### Reclassifications

Certain reclassifications have been made to the fiscal year ended September 30, 2013, balances previously reported in the consolidated balance sheet and statement of operations and changes in net assets in order to conform with the fiscal year ended September 30, 2014, presentation.

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

Revenues from the Medicare and Medicaid programs, respectively, accounted for approximately 37% and 13%, and 34% and 11% of the Corporation's net patient service revenue for the fiscal years ended September 30, 2014 and 2013, respectively. 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 Corporation believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. 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 Corporation.

The following table summarizes revenue from services to patients:

	<b>Year Ended September 30</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Gross patient service revenue	\$ 5,540,620	\$ 4,664,919
Deductions:		
Contractual allowances and discounts	3,139,577	2,658,150
Charity care	67,964	57,516
Net patient service revenue	<u>2,333,079</u>	<u>1,949,253</u>
Provision for bad debts	61,860	43,010
Net patient service revenue less provision for bad debts	<u>\$ 2,271,219</u>	<u>\$ 1,906,243</u>

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

The Corporation has agreements with third-party payors that provide for payments to the Corporation 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 include estimated retroactive revenue adjustments due to 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. During 2014 and 2013, the Corporation recorded net changes in estimates of approximately \$22,952,000 and \$9,439,000, respectively, which primarily related to better than previously estimated third-party payor settlements.

The Corporation 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 Corporation-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 Corporation. If the appeals are successful, additional income applicable to those years might be realized.

The Corporation has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under those agreements, the HMOs make fee-for-service payments to the Corporation for certain covered services based upon discounted fee schedules. In addition, the Corporation receives monthly capitation payments from certain HMOs based on the number of each HMO's participants, regardless of services actually performed by the Corporation.

The Corporation accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to the established policies of the Corporation. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Corporation utilizes the generally recognized poverty income levels for the State of Connecticut but also includes certain cases where incurred charges are significant when compared to incomes.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

The Corporation'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. The Corporation's allowance for doubtful accounts for self-pay patients increased to 58% of self-pay accounts receivable at September 30, 2014 from 54% of self-pay accounts receivable at September 30, 2013. On a monthly basis, the Corporation reviews its accounts receivable balances, the effectiveness of the Corporation's reserve policies, and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

- 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.
- Various allowance coverage statistics.

The Corporation regularly performs hindsight procedures to evaluate historical write-off and collection experience throughout the year to help determine the reasonableness of its process for estimating the allowance for doubtful accounts.

The Corporation provides services without charge or at amounts less than its established rates to patients who meet the criteria of its charity care policy. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, such services are not reported as revenue. For patients who were determined by the Corporation to have the ability to pay but did not, the uncollected amounts are recorded as part of the provision for bad debts. In distinguishing charity care from the provision for bad debts, a number of factors are considered, certain of which require a high degree of judgment.

Patient service revenue, net of contractual allowances and discounts and before the provision for bad debts, recognized in the period from major payor sources for the fiscal years ended September 30, is as follows:

	<b>2014</b>	<b>2013</b>
Medicare	37%	40%
Medicaid	13	13
Self-pay	5	4
All other	45	43
	<b>100%</b>	<b>100%</b>

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

The estimated cost of charity care provided was approximately \$32,408,000 and \$27,730,000 for the fiscal years ended September 30, 2014 and 2013, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital-specific data.

#### 3. Net Assets

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

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Healthcare services:		
Free beds	\$ 42,510	\$ 39,120
Research	43,013	40,463
Education	16,693	14,532
Capital replacement	23,369	23,063
Other health care services	59,226	53,345
	<b>\$ 184,811</b>	<b>\$ 170,523</b>

Permanently restricted net assets at September 30 are restricted for:

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Investments to be held in perpetuity, the income from which is expendable to support health care services	\$ 79,210	\$ 77,562
Endowment requiring income to be added to original gift to support health care services	22,937	22,483
Restricted funds held in trust by others, the income from which is expendable to support health care services	184,764	178,081
	<b>\$ 286,911</b>	<b>\$ 278,126</b>

The Corporation's endowment consists of hundreds of individual funds established for a variety of purposes. Those funds include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **3. Net Assets (continued)**

The Board of Directors of the Corporation 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 Corporation classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation 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 Corporation 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 Corporation
- 7) The investment policies of the Corporation

The Corporation 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 Corporation must hold in perpetuity or for a donor-specific period(s). Under this policy, as approved by the 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 4% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Corporation 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 Corporation targets a diversified asset allocation that places a greater emphasis on equity-based alternative investments to achieve its long-term objective within prudent risk constraints.



## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 3. Net Assets (continued)

The Corporation has a policy of appropriating for distribution each year 4% of the four quarter average market value of each fiscal year in which the distribution is planned. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns. Backus, HOCC, MidState, Windham, VNA and Rushford evaluated endowment spending based on need and current market conditions as well as long-term investment goals.

Endowment net asset composition (excluding funds held in trust by others) by type of fund as of September 30, 2014, consisted of the following (in thousands):

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	\$ 93,448	\$ 102,148	\$ 195,596
Board-designated endowment funds	147,054	—	—	147,054
	<u>\$ 147,054</u>	<u>\$ 93,448</u>	<u>\$ 102,148</u>	<u>\$ 342,650</u>

Changes in endowment funds for the fiscal year ended September 30, 2014, consisted of the following (in thousands):

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of the year	\$ 137,407	\$ 86,110	\$ 100,045	\$ 323,562
Investment return:				
Investment income	2,612	582	(103)	3,091
Net appreciation (realized and unrealized)	7,510	11,233	831	19,574
Total investment return	10,122	11,815	728	22,665
Contributions	247	4	1,462	1,713
Other	46	(46)	(87)	(87)
Appropriation of endowment assets for expenditure	(768)	(4,435)	—	(5,203)
Endowment net assets, end of year	<u>\$ 147,054</u>	<u>\$ 93,448</u>	<u>\$ 102,148</u>	<u>\$ 342,650</u>

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 3. Net Assets (continued)

Endowment net asset composition (excluding funds held in trust by others) by type of fund as of September 30, 2013, consisted of the following (in thousands):

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	\$ 86,110	\$ 100,045	\$ 186,155
Board-designated endowment funds	137,407	—	—	137,407
	<u>\$ 137,407</u>	<u>\$ 86,110</u>	<u>\$ 100,045</u>	<u>\$ 323,562</u>

Changes in endowment funds for the fiscal year ended September 30, 2013, consisted of the following (in thousands):

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of the year	\$ 117,429	\$ 73,098	\$ 88,443	\$ 278,970
Additions:				
Acquisition of Backus Corporation Assets transferred from VNA East, Inc.	—	1,548	4,965	6,513
	7,441	1,091	338	8,870
Endowment net assets after additions	124,870	75,737	93,746	294,353
Investment return:				
Investment income	1,624	1,772	1,026	4,422
Net appreciation (realized and unrealized)	11,483	13,269	347	25,099
Total investment return	13,107	15,041	1,373	29,521
Contributions	37	4	4,719	4,760
Other	—	—	207	207
Appropriation of endowment assets for expenditure	(607)	(4,672)	—	(5,279)
Endowment net assets, end of year	<u>\$ 137,407</u>	<u>\$ 86,110</u>	<u>\$ 100,045</u>	<u>\$ 323,562</u>

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 3. Net Assets (continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor, as stipulated by UPMIFA, requires the Corporation to retain as a fund of perpetual duration. These deficiencies periodically result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions, in which case the Board of Directors may deem imprudent the continuation of appropriation for a limited period. There were no material deficiencies of this nature which are reported in the unrestricted net assets as of September 30, 2014 and 2013.

#### 4. Assets Whose Use is Limited

Included in assets whose use is limited are the following amounts:

	<b>September 30</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 21,717	\$ 36,510
Money market funds	54,126	53,188
Equity securities:		
U.S.	247,963	205,478
International	181,585	162,744
Fixed income securities:		
U.S.	156,946	69,032
International	17,547	85,730
Mutual funds:		
U.S.	38,205	83,094
International	58	12,117
Common collective funds:		
U.S.	124,050	132,838
Alternative investments and other classifications	298,141	218,685
Other notes and accounts receivable	630	2,123
Pledges receivable, net	3,504	2,842
	<b>\$ 1,144,472</b>	<b>\$ 1,064,381</b>

Hartford HealthCare Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**4. Assets Whose Use is Limited (continued)**

The composition and presentation of income from investments, net, which are included in nonoperating income in the consolidated statements of operations and changes in net assets are as follows:

	<b>Year Ended September 30</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Interest and dividend income	\$ 20,787	\$ 19,793
Realized gains on investments, net	28,918	69,079
Change in unrealized gains and losses on investments	9,567	(20,567)
Other	3,316	1,492
	<u>\$ 62,588</u>	<u>\$ 69,797</u>

Investments held by HHCISL have been classified as available for sale and are recorded at market value and are adjusted for any other than temporary declines in fair value. The cost, gross unrealized gains and losses and market value of the investments held by HHCISL as of September 30, 2014 and 2013 are as follows (in thousands):

	<b>Cost/ Amortized Cost</b>	<b>Gross Unrealized Gain</b>	<b>Gross Unrealized Loss</b>	<b>Market Value</b>
<b>September 30, 2014</b>				
US government securities	\$ 32,695	\$ 359	\$ (426)	\$ 32,628
US agency securities	18,253	135	(238)	18,150
Mortgage backed securities	3,772	17	(116)	3,673
Corporate debt securities	28,348	133	(197)	28,284
Bond funds	69,286	2,700	(97)	71,889
Equity funds	55,723	7,872	(404)	63,191
Total	<u>\$ 208,077</u>	<u>\$ 11,216</u>	<u>\$ (1,478)</u>	<u>\$ 217,815</u>

Hartford HealthCare Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**4. Assets Whose Use is Limited (continued)**

	<b>Cost/ Amortized Cost</b>	<b>Gross Unrealized Gain</b>	<b>Gross Unrealized Loss</b>	<b>Market Value</b>
<b>September 30, 2013</b>				
US government securities	\$ 24,535	\$ 43	\$ (126)	\$ 24,452
US agency securities	18,568	26	(238)	18,356
Mortgage backed securities	5,911	109	(89)	5,931
Corporate debt securities	25,804	55	(172)	25,687
Bond funds	42,973	1,429	(386)	44,016
Equity funds	48,044	7,944	—	55,988
<b>Total</b>	<b>\$ 165,835</b>	<b>\$ 9,606</b>	<b>\$ (1,011)</b>	<b>\$ 174,430</b>

The following tables show HHCISL's gross unrealized losses and fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2014 and 2013 (in thousands).

	<b>Less than Twelve Months</b>		<b>Over Twelve Months</b>	
	<b>Gross Unrealized Loss</b>	<b>Market Value</b>	<b>Gross Unrealized Loss</b>	<b>Market Value</b>
<b>September 30, 2014</b>				
US government securities	\$ —	\$ —	\$ (426)	\$ 18,491
US agency securities	(3)	437	(236)	11,439
Mortgage backed securities	(13)	579	(103)	2,188
Corporate debt securities	—	349	(196)	16,590
Bond funds	(97)	15,404	—	—
Equity funds	(404)	21,694	—	—
<b>Total</b>	<b>\$ (517)</b>	<b>\$ 38,463</b>	<b>\$ (961)</b>	<b>\$ 48,708</b>

Hartford HealthCare Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**4. Assets Whose Use is Limited (continued)**

	<b>Less than Twelve Months</b>		<b>Over Twelve Months</b>	
	<b>Gross Unrealized Loss</b>	<b>Market Value</b>	<b>Gross Unrealized Loss</b>	<b>Market Value</b>
<b>September 30, 2013</b>				
US government securities	\$ (126)	\$ 9,481	\$ –	\$ –
US agency securities	(238)	12,645	–	–
Mortgage backed securities	(89)	3,830	–	–
Corporate debt securities	(172)	17,238	–	–
Bond funds	(386)	15,115	–	–
Total	\$ (1,011)	\$ 58,309	\$ –	\$ –

Management evaluates investments for other than temporary impairment at least annually and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value is less than cost, the financial condition of the issuer, and the intent and ability of the Corporation to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. The Corporation has determined that the unrealized losses are deemed to be temporary impairments as of September 30, 2014 and 2013.

Contractual maturities of fixed income securities as of September 30, 2014, are as follows:

	<b>Amortized Cost</b>	<b>Fair Value</b>
Due within one year	\$ 6,224	\$ 6,226
Due after one year through five years	55,832	55,782
Due after five years through ten years	9,884	9,813
Due after more than ten years	11,128	10,914
	<b>\$ 83,068</b>	<b>\$ 82,735</b>

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

As defined in ASC 820, *Fair Value Measurement*, fair value is 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. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

*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 are based on inputs not quoted in active markets, but corroborated by market data.

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Corporation 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.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 5. Fair Values of Financial Instruments (continued)

Financial assets and liabilities carried at fair value in the accompanying consolidated balance sheets, excluding assets invested in the Corporation's pension plans, are classified in the following tables below in one of the three categories described above (in thousands):

	September 30, 2014			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 423,879	\$ –	\$ –	\$ 423,879
Assets whose use is limited:				
Cash and cash equivalents	21,717	–	–	21,717
Money market funds	49,168	4,958	–	54,126
Equity securities:				
U.S.	247,963	–	–	247,963
International	181,585	–	–	181,585
Fixed income securities:				
U.S.	–	156,946	–	156,946
International	–	17,547	–	17,547
Mutual funds:				
U.S.	38,058	147	–	38,205
International	42	16	–	58
Common collective funds:				
U.S.	–	124,050	–	124,050
Alternative investments:				
U.S.	–	254	97,672	97,926
International	–	–	118	118
Other assets:				
Mutual funds:				
U.S.	43,383	1,080	–	44,463
International	1,980	–	–	1,980
Funds held in trust by others	–	184,764	–	184,764
<b>Total</b>	<b>\$ 1,007,775</b>	<b>\$ 489,762</b>	<b>\$ 97,790</b>	<b>\$ 1,595,327</b>
<b>Other liabilities</b>				
Interest rate swaps	\$ –	\$ 7,222	\$ –	\$ 7,222



## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 5. Fair Values of Financial Instruments (continued)

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 293,544	\$ –	\$ –	\$ 293,544
Assets whose use is limited:				
Cash and cash equivalents	11,565	24,945	–	36,510
Money market funds	53,188	–	–	53,188
Equity securities:				
U.S.	205,478	–	–	205,478
International	162,744	–	–	162,744
Fixed income securities:				
U.S.	–	69,032	–	69,032
International	–	85,730	–	85,730
Mutual funds:				
U.S.	49,131	33,963	–	83,094
International	11,608	509	–	12,117
Common collective funds:				
U.S.	–	132,838	–	132,838
Alternative investments:				
U.S.	–	3,589	53,988	57,577
International	–	2,790	5,760	8,550
Other assets:				
Mutual funds:				
U.S.	36,914	515	–	37,429
International	1,851	–	–	1,851
Funds held in trust by others	–	178,081	–	178,081
<b>Total</b>	<b>\$ 826,023</b>	<b>\$ 531,992</b>	<b>\$ 59,748</b>	<b>\$ 1,417,763</b>
<b>Other liabilities</b>				
Interest rate swaps	\$ –	\$ 7,365	\$ –	\$ 7,365

The amounts reported in the preceding tables do not include alternative investments totaling approximately \$200,097,000 and \$152,558,000 as of September 30, 2014 and 2013, respectively, that were accounted for under the equity method of accounting. The Corporation has unfunded commitments to alternative investments of approximately \$62,567,000 as of September 30, 2014.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 5. Fair Values of Financial Instruments (continued)

The Corporation established a Pension Plan Master Trust (The Trust) effective May 1, 2011. Each respective entity owns participant units in the trust. The Trust's assets consist of cash and cash equivalents, equities, fixed income funds, and alternative investments. The Trust also invests in derivative instruments, the purpose of which is to economically hedge the change in the funded status of the participating plans for a significant portion of the total pension liability that can occur due to changes in interest rates. The Trust follows a three-level hierarchy, which are measured at fair value on a recurring basis and were categorized as Level 1, Level 2, and Level 3 investments, respectively.

Financial assets for the defined benefit plans classified within the Pension Plan Master Trust as of September 30, 2014, are classified in the table below in one of the three categories described above (in thousands):

	<b>September 30, 2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 46,013	\$ —	\$ —	\$ 46,013
Equity securities:				
U.S.	360,439	—	—	360,439
International	286,779	—	—	286,779
Fixed income bonds:				
U.S.	7,323	122,869	—	130,192
International	—	22,310	—	22,310
Mutual funds:				
U.S.	91,940	—	—	91,940
International	1,280	—	—	1,280
Common collective funds:				
U.S.	—	406,575	—	406,575
Alternative investments and other	—	—	157,711	157,711
<b>Total</b>	<b>\$ 793,774</b>	<b>\$ 551,754</b>	<b>\$ 157,711</b>	<b>\$ 1,503,239</b>

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 5. Fair Values of Financial Instruments (continued)

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 19,335	\$ —	\$ —	\$ 19,335
Money market funds	2,759	—	—	2,759
Equity securities:				
U.S.	278,324	—	—	278,324
International	244,890	—	—	244,890
Fixed income bonds:				
U.S.	—	117,108	—	117,108
International	—	26,737	—	26,737
Mutual funds:				
U.S.	145,807	80,110	—	225,807
International	23,296	968	—	24,264
Common collective funds:				
U.S.	—	313,591	—	313,591
Alternative investments and other	—	3,275	152,545	155,820
<b>Total</b>	<b>\$ 714,301</b>	<b>\$ 541,789</b>	<b>\$ 152,545</b>	<b>\$ 1,408,635</b>

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. The funds held in trust by others that is categorized in Level 2 consist of shares or units in investment funds, as opposed to direct interests in the funds' underlying holdings, which may be marketable. The interest rate swap agreements are valued based on a determination of market expectations relating to the future cash flows associated with the swap contract using sophisticated modeling based on observable market-based inputs, such as interest rate curves.

Assets that are valued using significant unobservable inputs, such as extrapolated data, proprietary models or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy. Level 3 assets are valued based on the Corporation's ownership interest in the net asset value (NAV) of the fund. As the NAV reported by each fund is used as a practical expedient to estimate the fair value of the Corporation's

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 5. Fair Values of Financial Instruments (continued)

interest therein. The Corporation routinely monitors and assesses methodologies and assumptions used in valuing these interests. The Level 3 assets include certain liquidity restrictions that may require 90 days advance notice for redemptions.

The changes in the fair value of assets measured using significant unobservable inputs (Level 3) were comprised of the following for the year ended September 30:

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Beginning balance at October 1	\$ 212,293	\$ 150,162
Net appreciation (realized and unrealized)	10,375	18,412
Sales	(11,537)	(22,815)
Purchases	44,370	66,534
Ending balance at September 30	\$ 255,501	\$ 212,293

The methods described above may produce a fair value that may not be indicative of net realizable value or reflect future fair values. Furthermore, while the Corporation 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.

#### 6. Property, Plant, and Equipment

Property, plant, and equipment consist of the following at September 30:

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Land and land improvement	\$ 63,378	\$ 62,968
Buildings and fixed equipment	1,386,748	1,354,188
Equipment	928,731	892,557
	2,378,857	2,309,713
Less accumulated depreciation	(1,536,318)	(1,426,722)
	842,539	882,991
Construction in process (estimated cost to complete – \$147,134,000)	187,661	114,378
	\$ 1,030,200	\$ 997,369

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **6. Property, Plant, and Equipment (continued)**

The Corporation capitalized interest expense of \$6,375,000 and \$2,920,000 for the fiscal years ended September 30, 2014 and 2013, respectively.

#### **7. Pensions and Other Postretirement Benefits**

The Corporation has cash balance retirement plans and defined benefit pension plans (both contributory and noncontributory), covering substantially all employees and noncontributory, supplemental defined-benefit retirement plans for certain executive employees (collectively, the Plans). As noted in Note 5, a Master Trust was established in 2012 for certain plans. Contributions to the Plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to the Plan participants. The assets of the Plans are available to pay the benefits of eligible employees for participating entities based on their allocated share of assets. The service cost component of net periodic pension cost and all other components are actuarially determined as defined by each plan.

The benefits are based on years of service and the employees' compensation as defined by each of the Plans. The Corporation makes contributions in amounts sufficient to fund the Plans' current service cost, and the funding policy is to contribute amounts to these plans sufficient to meet the minimum funding requirements set forth by federal government regulations. All of the cash balance retirement plans and defined benefit pension plans are frozen to new members.

The Corporation also has defined contribution plans covering substantially all of its employees and executives. Expense for employer contributions was approximately \$29,963,000 and \$25,878,000 for 2014 and 2013, respectively.

The Corporation provides health care and life insurance benefits to its retired employees who meet certain eligibility requirements. The Corporation's policy is to fund the cost of postretirement benefits, other than pensions, as incurred.

Hartford HealthCare Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Pensions and Other Postretirement Benefits (continued)**

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic benefit cost:

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Unrecognized actuarial loss	\$ <b>507,643</b>	\$ 355,427
Unrecognized prior service credit	<b>(12,315)</b>	(15,964)
	<b>\$ 495,328</b>	<b>\$ 339,463</b>

The actuarial loss and prior service credit included in unrestricted net assets at September 30, 2014, and expected to be recognized in net periodic benefit cost during the fiscal year ending September 30, 2015 (in thousands), are as follows:

Unrecognized actuarial loss	\$ <b>29,638</b>
Unrecognized prior service credit	<b>(1,884)</b>
	<b>\$ 27,754</b>

Hartford HealthCare Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**7. Pensions and Other Postretirement Benefits (continued)**

The following table sets forth the Plans' funded status and amounts recognized in the consolidated balance sheets:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	2014	2013
	<i>(In Thousands)</i>			
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ (1,685,616)	\$ (1,653,336)	\$ (84,285)	\$ (100,728)
Inclusion of obligation at Acquisition date	–	(172,411)	–	(3,447)
Service cost	(41,303)	(48,637)	(1,550)	(1,954)
Interest cost	(80,625)	(66,718)	(3,881)	(3,678)
Employee contributions	–	–	(3,287)	(3,900)
Benefits paid	88,184	85,399	9,278	10,232
Actuarial gains and losses	(194,153)	170,087	(3,879)	6,226
Plan amendments, other	–	–	–	12,964
Benefit obligation at end of year	\$ (1,913,513)	\$ (1,685,616)	\$ (87,604)	\$ (84,285)
<b>Change in plans' assets</b>				
Fair value of assets at beginning of year	\$ 1,408,635	\$ 1,100,228	\$ –	\$ –
Inclusion of plan assets at Acquisition date	–	155,088	–	–
Actual return on plans' assets	121,837	156,416	–	–
Benefits paid	(88,184)	(85,399)	(9,278)	(10,232)
Employer contributions	60,951	82,302	5,991	6,332
Employee contributions	–	–	3,287	3,900
Fair value of plans' assets at end of year	1,503,239	1,408,635	–	–
Underfunded status of the plans	\$ (410,274)	\$ (276,981)	\$ (87,604)	\$ (84,285)
<b>Components of net periodic benefit cost</b>				
Service cost	\$ 41,303	\$ 48,637	\$ 1,550	\$ 1,954
Interest cost	80,625	66,718	3,881	3,678
Expected return on plans' assets	(97,281)	(80,346)	–	–
Settlement loss	213	556	–	–
Net amortization and deferral	17,651	34,134	(751)	(55)
Cost included in the consolidated statements of operations and changes in net assets	\$ 42,511	\$ 69,699	\$ 4,680	\$ 5,577

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 7. Pensions and Other Postretirement Benefits (continued)

The actuarial loss in 2014 primarily relates to changes in the discount rate and mortality table used to measure the benefit obligation, and the actuarial gain in 2013 primarily relates to changes in the discount rate used to measure the benefit obligation.

The accumulated benefit obligation for the Corporation's plans was approximately \$1,818,296,000 and \$1,618,138,000 as of September 30, 2014 and 2013, respectively.

The weighted-average assumptions used to develop net periodic benefit cost and the projected benefit obligation were as follows:

	<b>Pension Benefits</b>		<b>Other Post-Retirement Benefits</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Discount rate for determining benefit obligation at year-end	<b>3.75 – 4.55%</b>	4.10 – 5.20%	<b>3.80 – 4.20%</b>	4.05 – 4.70%
Discount rate for net periodic benefit cost	<b>4.10 – 5.20%</b>	3.40 – 4.25%	<b>4.05 – 4.70%</b>	3.85 – 3.90%
Expected rate of return on plan	<b>4.75 – 7.50%</b>	3.90 – 7.50%	–	–
Rate of compensation increase	<b>3.50%</b>	3.50%	–	–

The expected rate of return on assets was determined by the expected return on each asset class based on a model that considers historical and expected future performance.

The Corporation has three postretirement benefit plans. The weighted-average annual assumed rates of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) are assumed to be 8.5% to 9.0%. Rates are assumed to decline to 5% through 2020 or 2019 for the plans. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the service and interest costs and accumulated postretirement benefit obligations by approximately \$316,000 and \$380,000 at September 30, 2014 and 2013, respectively. A one percentage point decrease in the assumed health care cost trend rate would decrease the service and interest cost and accumulated postretirement benefit obligation by approximately \$273,000 and \$323,000 at September 30, 2014 and 2013, respectively.



## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 7. Pensions and Other Postretirement Benefits (continued)

##### Plan Assets

The Trust's weighted-average asset allocations at September 30, by asset category, are as follows:

	<b>Target</b>	<b>2014</b>	<b>2013</b>
Equity securities	57%	<b>59%</b>	60%
Fixed income/debt securities	25	<b>22</b>	24
Commodities/inflation/real assets	8	<b>6</b>	6
Other	10	<b>13</b>	10
Total	100%	<b>100%</b>	100%

The goals of the plans are to provide a secure retirement benefit for plan participants and to manage pension plan assets for the exclusive benefit of the participants. The Investment Committee of the Board of Directors of each organization is responsible for developing, reviewing, and monitoring the investment policy. The plans' assets are invested in accordance with the policy.

##### Contributions

The Corporation expects to make contributions of approximately \$39,898,000 and \$5,728,000 in fiscal year 2015 related to its Plans and its other postretirement benefit plans, respectively.

Hartford HealthCare Corporation and Subsidiaries  
Notes to Consolidated Financial Statements (continued)

**7. Pensions and Other Postretirement Benefits (continued)**

**Estimated Future Benefit Payments**

Future benefit payments are expected to be paid as follows (in thousands):

<b>Fiscal Year</b>	<b>Pension Benefits</b>	<b>Other Postretirement Benefits</b>
2015	\$ 98,578	\$ 5,728
2016	96,864	5,831
2017	105,909	5,943
2018	106,911	5,977
2019	110,237	5,970
2020-2024	601,219	29,027

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 8. Long-Term Debt

Details of long-term debt are as follows:

	September 30	
	2014	2013
	<i>(In Thousands)</i>	
HHC Revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA):		
Series A, consisting of a tax-exempt serial bond and term bonds; interest at rates ranging from 4.00% to 5.00%	<b>\$ 251,960</b>	\$ 254,730
Series B, tax-exempt variable rate term bond; interest at rates ranging from 0.07% to 0.09%	<b>71,085</b>	71,085
Series C, taxable variable rate term bond; interest at rates ranging from 0.12% to 0.14%	<b>50,000</b>	50,000
Series D, taxable, fixed rate at 5.75%	<b>163,180</b>	–
Series E, tax-exempt; interest rates ranging from 4.00% to 5.00%	<b>83,790</b>	–
Backus Revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA):		
Series E, tax-exempt fixed rate at 5.00%	–	7,647
Series F, tax-exempt; variable interest rates ranging from 5.00% to 5.25%	–	28,946
Series G, tax exempt; variable interest rates ranging from 3.60% to 5.00%	–	25,412
Revolving line of credit	<b>16,941</b>	113,493
Capital lease obligations (HHC, Backus, HOCC, Hartford) due in monthly installments, at varying rates of imputed interest from 1.94% to 7.16%	<b>29,134</b>	32,404
Term loan (HHC), at a variable rate of 0.90% as of September, 30, 2014	<b>28,030</b>	–
Master financing agreement with CHEFA (Hartford) due in monthly installments with a fixed rate of 2.75% through September 17, 2015	<b>4,223</b>	8,327
Commercial notes (Natchaug), at varying rates of imputed interest to 9.44%	<b>2,483</b>	2,731
Mortgage (Backus) due in monthly installments with fixed rate of 6.125% through May 1, 2025	<b>1,464</b>	1,528
Term loan (VNA) due in monthly installments with a variable interest rate through June 1, 2014	–	525
Other loans and notes, at varying rates of imputed interest	<b>1,455</b>	2,630
Premium on bonds	<b>6,913</b>	4,875
	<b>710,658</b>	604,333
Less current portion	<b>56,638</b>	128,644
	<b>\$ 654,020</b>	\$ 475,689

On September 29, 2011, HHC issued approximately \$375,815,000 of CHEFA Revenue Bonds Series A, B, and C (the HHC 2011 Bonds). In conjunction with the issuance of the HHC 2011 Bonds, an obligated group was formed. The members of the obligated group are HHC, Hartford Hospital, The Hospital of Central Connecticut at New Britain General and Bradley Memorial, Windham Community Memorial Hospital, and MidState Medical Center (collectively referred to as the Obligated Group). Effective January 2014, The William W. Backus Hospital became part of the Obligated Group. On March 26, 2014, HHC issued approximately \$163,180,000 of Taxable Bonds Series D (the HHC Series D Bonds) and approximately \$83,790,000 of CHEFA

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **8. Long-Term Debt (continued)**

Revenue Bonds Series E (the HHC Series E Bonds) concurrently (collectively referred to as the HHC 2014 Bonds). Obligated Group members are jointly and severally liable under a Master Trust Indenture (MTI) to make all payments required with respect to obligations under the MTI. HHC does have the right to name designated affiliates, although presently none exist.

The HHC 2011 and 2014 Bonds were issued to refund portions of existing debt under HHC and to obtain funds for future capital needs. The HHC Series A Revenue Bonds consist of serial bonds that mature annually from July 1, 2014 through July 1, 2023, and term bonds that mature from July 1, 2024 through July 1, 2041. The HHC Series B Revenue Bonds consist of term bonds that mature from July 1, 2042 through July 1, 2049. The HHC Series B Revenue Bonds are secured by an irrevocable letter of credit issued by Bank of America which expires on September 29, 2018. The HHC Series C Revenue Bonds consist of term bonds that mature from July 1, 2042 through July 1, 2049. The HHC Series C Revenue Bonds are secured by an irrevocable letter of credit issued by JP Morgan Chase Bank that expires on October 1, 2016. The reimbursement terms of the letters of credit for the HHC Series B and C Revenue Bonds are such that in the event a letter of credit is drawn upon due to a failed remarketing, the components available shall equal the aggregate principal and interest amount of bonds outstanding. The HHC Series D Bonds consist of term bonds that mature on April 1, 2044. The HHC Series E Bonds consist of term bonds that mature from July 1, 2025 through July 1, 2042.

The MTI and Supplemental MTI provide for the potential establishment and maintenance of a debt service reserve fund, a pledge of gross receipts, as defined, and parity with the HHC Series A and E Revenue Bonds that remain outstanding. The MTI and loan agreements establish certain restrictive covenants, including a debt service coverage ratio and days cash on hand requirement. No violations of covenants existed as of and for the fiscal years ended September 30, 2014 and 2013.

The fair value of the HHC 2011 and 2014 Bonds was approximately \$680,006,000 at September 30, 2014 and the fair value of the HHC 2011 Bonds was approximately \$377,885,000 at September 30, 2013. The carrying value of the HHC 2011 and 2014 Bonds was \$620,015,000 at September 30, 2014 and the carrying value of the HHC 2011 Bonds was \$375,815,000 as of September 30, 2013. The fair value of the HHC 2011 and 2014 Bonds was determined by HHC's investment advisor using a market approach that uses prices and other relevant information generated by market transactions involving identical or comparable liabilities and categorized as Level 2 in the fair value hierarchy described in Note 5.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **8. Long-Term Debt (continued)**

As part of the HHC 2011 Bonds, the Obligated Group entered into a new line of credit for \$20,000,000. This line expires in March 2015. As of September 30, 2014, HHC had not drawn upon this line of credit. As of September 30, 2013, HHC had drawn \$20,020,436 on this line of credit, with a variable rate of 1.27%, and is included in current portion of long-term debt on the consolidated balance sheets. In 2012, HHC obtained an additional \$60,000,000 line of credit. In August 2013, the Obligated Group entered into an amendment increasing this line of credit to \$100,000,000. As of September 30, 2014 and 2013, the Corporation had drawn \$16,941,032 and \$92,771,513, respectively, on this line of credit, with a variable rate of 0.85% and 0.88%, respectively, and is also included in current portion of long-term debt. This line of credit expires in April 2015.

In April 2014, the Obligated Group entered into a new loan agreement in the amount of \$85,000,000. Under this agreement, a line of credit will be provided for borrowings up to a maximum aggregate amount outstanding of \$85,000,000 until April 2016, with an interest rate equal to the LIBOR Rate plus the Applicable Margin, as defined in the loan agreement. On June 30, 2015 the line will be converted to a term loan, to be repaid in 36 equal quarterly installments of principal until April 2024. As of September 30, 2014, the Corporation had drawn \$28,029,655 on this line of credit, with a variable rate of 0.90%.

MidState and Windham entered into interest rate swap agreements in connection with debt instruments that have subsequently been terminated. MidState entered into an interest rate swap agreement with a financial institution, with an original notional amount of \$47,594,000. MidState receives a variable rate equal to 67% of one month LIBOR and pays a fixed rate of 3.78%. This agreement terminates on July 1, 2026. Windham entered into two interest rate swap agreements with a financial institution, with an original notional amount of \$19,745,000. Windham receives a variable rate equal to 67% of one month LIBOR and pays a fixed rate of 3.38%. These agreements terminate on July 1, 2037. The changes in the fair value of these agreements are reported in the accompanying consolidated statements of operations and changes in net assets as a component of income from investments along with the net cash receipts on the swap agreement. The fair value of the swap agreements were \$7,222,453 and \$7,365,406 at September 30, 2014 and 2013, respectively, and are recorded in other liabilities in the accompanying consolidated balance sheets. Although the swap agreements represent an economic hedge of the interest rate, they do not qualify for hedge accounting. The changes in fair value of these agreements is reported in the accompanying consolidated statements of operations and changes in net assets as a component of other nonoperating income along with the net cash receipts on the swap agreement.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **8. Long-Term Debt (continued)**

Backus held Series E, Series F and Series G bonds (Backus Bonds) through a Master Indenture, as amended and supplemented by Supplemental Master Indenture No.4 (Prior MTI), which provided for among other things, a pledge of the gross receipts, restrictions on the incurrence of certain indebtedness of Backus, and covenants regarding Backus's debt service coverage ratios, sale and lease of assets, and other covenants similar in financings of this type. The bonds were secured by the real property of Backus, including all buildings and equipment. Pursuant to the loan agreements, Backus was obligated to provide amounts which would be sufficient to enable the Authority to pay the principal and interest on the Backus Bonds. Series E consisted of term maturities (\$6,920,000) with due dates from 2017 to 2022 and at an interest rate of 5%. Series F consisted of serial maturities (\$4,350,000) with due dates from 2014 to 2018, with interest rates of 4.00% to 4.25% and term maturities (\$22,125,000) from 2023 to 2035 with interest rates of 5.00% to 5.25%. Series G consisted of serial maturities (\$16,405,000) from 2014 to 2026, with interest rates of 3.60% to 5.00% and term maturities (\$7,420,000) in 2035 at an interest rate of 5%. Series E and Series F Bonds were subject to optional redemption prior to maturity. Series G bonds maturing after July 1, 2015, were subject to optional redemption prior to maturity. The fair value of the Backus Bonds was approximately \$63,533,000 at September 30, 2013. The fair value was determined by Backus' investment advisor using a market approach that uses prices and other relevant information generated by market transactions involving identical or comparable liabilities and categorized as Level 2 in the fair value hierarchy described in Note 5. The Backus Bonds were defeased in conjunction with the HHC 2014 Bonds.

On January 27, 2014, the Obligated Group entered into a bridge loan (the Bridge Loan) in the amount of \$80,902,000, part of which was used to defease the Backus Bonds prior to the closing of the HHC 2014 Bonds. A portion of the proceeds of the HHC 2014 Bonds were used to pay off the outstanding balance of the Bridge Loan prior to September 30, 2014. During 2014, Backus placed \$57,511,994 in an escrow refunding trust relating to Series F and G bonds which will be redeemed as of July 1, 2018 and July 1, 2015, respectively. The Backus Series E Bonds were extinguished during 2014.

HHC has entered into several capital lease obligations. The leases are due in monthly installments with varying interest rates. HHC entered into three capital leases for equipment in 2013 with options to purchase, with imputed interest rates from 1.94% to 3.53%. The total monthly installments due for the three lease obligations are \$216,443 with an outstanding balance of \$8,351,562 and \$10,936,000 as of September 30, 2014 and 2013, respectively. Hartford has capital leases for satellite locations entered into in 2010 and 2012. Both leases are twenty year leases with an option to purchase. One lease has monthly installments of \$71,637

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 8. Long-Term Debt (continued)

with an interest rate of 6.25% and the second lease has monthly installments of \$33,797 with an interest rate of 7.16%. The outstanding Hartford capital lease obligations were \$13,286,550 and \$13,307,190 as of September 30, 2014 and 2013, respectively. Backus leases include a twenty-year capital lease of \$5,108,015 with an interest rate of 6.06% for a building entered into in 2012. Under the terms of the lease, Backus has the option for two additional five year terms as well as an option to purchase the property. The outstanding balance on this capital lease at September 30, 2014 and 2013 was \$4,772,491 and 4,919,654, respectively. The remaining capital leases recorded total approximately \$2,723,000 and \$3,241,000 with interest rates ranging from 2.25% to 5.90% as of September 30, 2014 and 2013, respectively.

In September 2010, Hartford entered into a master financing agreement with CHEFA, for funds to be used to purchase all or a portion of the costs of various capital expenditures. The interest rate is 2.75% and amounts are payable in monthly installments of \$357,156 for a period of five years. The outstanding balance related to the master financing agreement as of September 30, 2014 and 2013 was \$4,222,710 and \$8,327,342, respectively.

Principal payments due on long-term debt are as follows (in thousands):

Fiscal year ending September 30:	
2015	\$ 56,638
2016	12,735
2017	7,475
2018	5,421
2019	7,272
Thereafter	614,204
	<u>\$ 703,745</u>

Interest paid for the fiscal years ended September 30, 2014 and 2013, was approximately \$22,519,000 and \$13,904,000, respectively.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **9. Professional Liability and Workers' Compensation Insurance**

The Corporation's primary professional and general liability coverage is with HHCISL for the majority of its subsidiaries. As discussed in Note 1, HHCISL is a wholly-owned subsidiary of the Corporation. Hartford, MidState, HOCC and Windham were insured by HHCISL for the years ended September 30, 2014 and 2013. Effective August 1, 2013, HHCISL began providing primary coverage for VNA and CCSHS. Effective October 1, 2013, HHCISL also began providing primary coverage for Backus. Prior to being covered by HHCISL, primary coverage for VNA and CCSHS was through commercially insured products and through a self-insured trust for Backus.

Prior to October 1, 2013, Backus had the policy of self-insuring the deductible portion of its general and professional liability insurance coverage. The deductible limits were \$1,000,000 per claim and \$5,000,000 annually for 2013. Management accrues its best estimate of ultimate losses for both reported claims and claims incurred but not reported. Backus maintains a revocable trust for purposes of funding malpractice or comprehensive general liability losses. The self-insurance liabilities recorded by Backus as of September 30, 2013 amounted to approximately \$14,347,000.

Effective October 1, 2013, the policy limits provided by HHCISL are \$7,500,000 per claim and \$39,000,000 in the aggregate. The primary layer of the excess coverage of \$20,000,000 is shared with two insurance carriers. The secondary layer is \$20,000,000 with a single carrier. The third and fourth layers are \$10,000,000 each with two other insurance carriers. The top layer is \$20,000,000 for a total excess coverage of \$80,000,000.

In addition, HHCISL provides primary layer coverage, on a claims-made basis, for employee benefits coverage with limits of \$2,000,000 for each employee benefits wrongful act, with an aggregate limit of \$6,000,000. HHCISL also provides primary layer coverage, on an occurrence basis, general liability with limits of \$2,000,000 per occurrence, with an aggregate limit of \$4,000,000. Effective January 1, 2013, HHCISL provided employee medical stop loss coverage to the Corporation with a limit of \$650,000 in excess of \$350,000 per employee.

Effective October 1, 2012, HHCISL entered into a fully retrospectively rated agreement with a former shareholder and insured, Connecticut Children's Medical Center (CCMC), whereby HHCISL issued a policy to the benefit of CCMC and CCMC pays a deposit premium which will be adjusted based on actual claims activity.



## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 9. Professional Liability and Workers' Compensation Insurance (continued)

Prior to January 1, 2013, HOCC had professional and general liability coverage with GIC, which was a wholly owned subsidiary of HOCC. HOCC did not self-insure any professional liability risks other than exposures greater than its excess coverages. As discussed in Note 1, effective October 1, 2013, GIC merged with HHCISL.

Coverage for professional liability insurance is provided on a claims-made basis at HHCISL. As such, the subsidiaries of the Corporation that are insured by HHCISL have also recorded a liability for estimated incurred but not reported claims. Professional liability claims are discounted at 1.72% and 2.08% for the incurred-but-not-reported liability, which was approximately \$19,181,000 and \$16,955,000 at September 30, 2014 and 2013, respectively.

Activity in the reserve for losses and loss adjustment expenses is summarized as follows for the fiscal year ended September 30:

	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Net reserve, beginning of year	\$ 107,446	\$ 9,455
Transfer in of CHS reserves	–	98,329
Incurred related to:		
Current year	32,710	39,436
Prior years	<u>(10,786)</u>	<u>(14,928)</u>
Total incurred	21,924	24,508
Paid related to:		
Current year	(588)	(4,490)
Prior years	<u>(16,542)</u>	<u>(20,356)</u>
Total paid	(17,130)	(24,846)
Net reserve, end of year	112,240	107,446
Plus: reinsurance recoverable	4,349	7,275
Plus: CCMC reserves	31,783	23,612
Gross balance, end of the year	<u>\$ 148,372</u>	<u>\$ 138,333</u>

As a result of changes in estimates of insured events in prior years, the reserve for losses and loss adjustment expenses decreased by \$10,786,187 and \$14,923,864 in 2014 and 2013, respectively.

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **9. Professional Liability and Workers' Compensation Insurance (continued)**

The ultimate settlement of losses may vary significantly from the reserves recorded. In particular, ultimate settlements on professional liability claims depend, among other things, on the resolution of litigation, the outcome of which is difficult to predict. In addition, since the reserves have been discounted, there is the possibility that the timing of loss payments and income earned on invested assets will be significantly different than anticipated.

During the year, potential workers' compensation losses from asserted and unasserted claims identified by the Corporation's risk management system are accrued based upon estimates that incorporate the Corporation's past experience, as well as the nature of each claim or incident and relevant trend factors.

The Corporation's workers' compensation reserve, as estimated by management in conjunction with its independent actuaries is \$26,706,847 and \$20,928,612 as of September 30, 2014 and 2013, respectively, is included in other long-term liabilities on the consolidated balance sheets and is discounted at 3% in 2014 and at a range of 0.0% to 4.0% in 2013.

A significant portion of the Corporation has established a policy of self-insuring the deductible portion of its workers' compensation insurance. The deductible limits are \$1,000,000 per claim for fiscal years ended September 30, 2014 and 2013. In connection with this self-insurance program, Bank of America issued an irrevocable direct pay letter of credit to the Travelers Indemnity Company, the primary insurer, for an amount not to exceed \$8,750,000 at both September 30, 2014 and 2013.

#### **10. Commitments and Contingencies**

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Corporation. Such lawsuits and claims are either specifically covered by insurance as explained in Note 1 or are deemed to be immaterial. While the outcomes of the lawsuits cannot be determined at this time, management believes that any loss that may arise from these actions will not have a material adverse effect on the financial position or changes in net assets of the Corporation.

The Corporation has several operating lease agreements for certain real estate, medical equipment, and computer equipment. Certain of these leases have renewal options for periods up to five years and escalation clauses. Rent is payable in equal monthly installments. Rent expense was approximately \$36,276,000 and \$33,957,000 for the fiscal years ended September 30, 2014 and 2013, respectively.

Hartford HealthCare Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

The future minimum lease payments are as follows (in thousands):

2015	\$	20,162
2016		16,600
2017		14,327
2018		12,945
2019		10,973
Thereafter		35,819
	\$	<u>110,826</u>

**11. Other Operating Revenues**

Other operating revenues for the fiscal years ended September 30, consisted of the following:

	<u>2014</u>	<u>2013</u>
	<i>(In Thousands)</i>	
Services to others	\$ 82,050	\$ 82,601
Grant revenue	39,409	54,814
Rental income	13,598	11,471
Tuition revenue	9,914	10,454
Investment income	7,076	6,509
Cafeteria income	6,146	5,548
Joint ventures	5,686	5,715
Contributions	4,110	1,626
EHR revenue	3,465	10,373
Other	28,138	22,625
	<u>\$ 199,592</u>	<u>\$ 211,736</u>

Hartford HealthCare Corporation and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**12. Functional Expenses**

The Corporation provides health care services to residents within its geographic location. Net expenses related to providing these services are as follow:

	<b>Year Ended September 30</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Health care services	<b>\$ 1,828,359</b>	\$ 1,595,844
Support services	<b>601,037</b>	567,213
	<b>\$ 2,429,396</b>	<b>\$ 2,163,057</b>

**13. Supplemental Cash Flow Information**

The changes in assets and liabilities are as follows:

	<b>September 30</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
Increase in accounts receivable	<b>\$ (44,167)</b>	\$ (46,989)
Decrease (increase) in other receivables	<b>30,141</b>	(644)
Decrease (increase) in inventories of supplies and prepaid expenses and other assets	<b>714</b>	(3,531)
(Increase) decrease in other assets	<b>(32,766)</b>	46,355
Increase (decrease) in accounts payable and accrued expenses	<b>2,042</b>	(26,067)
Increase (decrease) in estimated third-party payor settlements	<b>11,659</b>	(271)
Increase in salaries, wages, payroll taxes, and amounts withheld from employees	<b>13,692</b>	7,148
(Decrease) increase in accrued pension liabilities, self-insurance liabilities and other liabilities	<b>(22,921)</b>	87,433
	<b>\$ (41,606)</b>	<b>\$ 63,434</b>

## Hartford HealthCare Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### **14. Subsequent Events**

The Corporation evaluated subsequent events through January 28, 2015, which is the date the consolidated financial statements were issued, for potential recognition in the consolidated financial statements as of the balance sheet date for the fiscal year ended September 30, 2014.

During October 2014, HOCC and MidState became corporate guarantors of a five year, \$2,800,000 term loan entered into by an affiliate in which the Corporation has a majority ownership interest. This subsequent event did not require an adjustment to the consolidated financials as of September 30, 2014.

No other events occurred that require disclosure or adjustment to the consolidated financial statements.

## Supplementary Information

Hartford Health Care Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2014  
(In Thousands)

	Hartford HealthCare	Consolidated Hartford Hospital	Consolidated MidState Medical Center	Windham Hospital	The Hospital of Central Connecticut	Backus Hospital	Consolidated H.H.M.O.B.	Consolidated Hartford HealthCare at Home, Inc.	Natchaug Hospital	Rushford Center, Inc.	Clinical Laboratory Partners	Practice Central	Central CT Senior Health Services, Inc.	Hartford HealthCare Endowment LLC	Hartford HealthCare Medical Group	Hartford HealthCare Indemnity Services, Ltd.	Central Connecticut Health Alliance, Inc. and other subsidiaries	Backus Corporation and Other Subsidiaries	Integrated Care Partners	Eliminations	Total
<b>Assets</b>																					
<b>Current assets:</b>																					
Cash and cash equivalents	\$ 67,740	\$ 16,714	\$ 45,863	\$ 6,754	\$ 50,445	\$ 187,019	\$ 2,525	\$ 1,356	\$ 2,394	\$ 2,166	\$ 6,219	\$ 275	\$ 9,578	\$ --	\$ 7,731	\$ 7,397	\$ 7,624	\$ 866	\$ 1,213	\$ --	\$ 423,879
Accounts receivable, less allowances	--	129,138	23,724	9,382	40,491	36,980	10	16,378	8,227	3,688	9,822	--	2,179	--	10,939	--	--	1,577	--	--	292,535
Other receivables	588	15,831	5,480	976	22,123	1,320	1,193	--	2,166	396	1,496	--	--	8,299	601	6,272	1,508	21	--	(28,221)	40,049
Interest in investments held by Endowment, LLC	--	8,299	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	(8,299)
Due from affiliates	32,460	25,600	387	689	1,190	2,053	1,099	150	--	134	--	10	259	--	--	--	5	306	--	--	(64,342)
Inventories of supplies	--	12,834	3,432	1,188	5,624	3,771	--	--	175	--	1,473	--	33	--	252	--	--	--	--	--	--
Prepaid expenses and other assets	6,856	6,595	2,297	493	2,169	1,644	98	233	256	499	594	3	213	--	915	832	433	28	--	--	24,158
Current portion of assets whose use is limited	--	--	--	564	--	3,286	--	--	--	--	--	--	--	--	--	--	--	--	--	--	3,850
<b>Total current assets</b>	<b>107,644</b>	<b>215,011</b>	<b>81,183</b>	<b>20,046</b>	<b>122,042</b>	<b>236,073</b>	<b>4,925</b>	<b>18,117</b>	<b>13,218</b>	<b>6,883</b>	<b>19,604</b>	<b>288</b>	<b>12,262</b>	<b>8,299</b>	<b>20,438</b>	<b>14,501</b>	<b>9,570</b>	<b>2,798</b>	<b>1,213</b>	<b>(100,862)</b>	<b>813,253</b>
<b>Assets whose use is limited:</b>																					
Interest in investments held by Endowment, LLC	--	309,558	14,990	79	118,173	47,662	--	16,838	--	--	--	--	--	--	--	--	--	--	--	--	(507,300)
Donor restricted interest in investments held by Endowment, LLC	--	224,225	1,596	1,992	28,912	8,312	--	16,583	--	--	--	--	--	--	--	--	--	--	--	--	(281,620)
Investments and other assets	--	532	--	418	--	57,082	--	--	--	--	--	--	--	507,300	--	--	--	--	--	--	565,332
Investments for restricted purposes	--	5,510	--	89	1,230	26,640	--	630	--	--	--	--	--	281,620	--	--	--	--	--	--	315,719
Escrow funds for long term debt	5,068	3,243	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	8,311
Funds designated for debt service	395	8,998	6,308	1,440	16,304	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	33,445
Investments held by HHICSL	--	--	--	--	--	--	--	--	--	--	--	--	--	--	217,815	--	--	--	--	--	217,815
<b>Total</b>	<b>5,463</b>	<b>552,066</b>	<b>22,894</b>	<b>4,018</b>	<b>164,619</b>	<b>139,696</b>	<b>--</b>	<b>34,051</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>788,920</b>	<b>--</b>	<b>217,815</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(788,920)</b>	<b>1,140,622</b>
<b>Funds held in trust by others</b>																					
Interest in investments held by Endowment, LLC	--	141,869	14,800	3,182	16,309	2,633	--	5,916	50	--	--	--	5	--	--	--	--	--	--	--	184,764
Investment in subsidiaries	563,909	--	25,537	--	--	--	--	--	--	--	--	--	2,778	--	--	--	--	--	--	--	(28,315)
<b>Total</b>	<b>563,909</b>	<b>--</b>	<b>25,537</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>2,778</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>(28,315)</b>
<b>Other assets</b>																					
Property, plant, and equipment, net	48,614	79,438	17,071	2,628	24,115	7,214	531	--	1,992	--	94	--	215	28,315	2,388	--	(2,027)	1,144	--	(65,375)	146,357
Total assets	\$ 821,020	\$ 1,370,308	\$ 277,445	\$ 72,239	\$ 501,255	\$ 513,451	\$ 31,787	\$ 62,220	\$ 27,698	\$ 12,957	\$ 28,204	\$ 748	\$ 29,905	\$ 825,534	\$ 41,016	\$ 232,316	\$ 8,436	\$ 4,825	\$ 1,213	\$ (1,547,381)	\$ 3,315,196
<b>Liabilities and net assets</b>																					
<b>Current liabilities:</b>																					
Accounts payable	\$ 17,853	\$ 16,591	\$ 2,784	\$ 1,700	\$ 3,875	\$ 8,404	\$ 412	\$ 1,592	\$ 769	\$ 543	\$ 2,999	\$ --	\$ 394	\$ --	\$ 1,224	\$ 296	\$ 522	\$ 137	\$ 36	\$ --	\$ 60,131
Salaries, wages, payroll taxes, and amounts withheld from employees	14,555	23,746	7,005	2,298	11,493	7,612	50	2,050	1,772	816	2,377	--	1,408	--	11,204	--	128	1,396	--	--	87,910
Accrued expenses	36,162	23,146	362	1,593	9,390	6,966	1,880	2,770	--	1,745	908	--	1,121	--	5,133	236	146	2	7	--	91,567
Due to affiliates	--	14,762	3,583	3,927	5,525	2,842	--	11,972	3,793	1,432	6,245	--	505	--	2,803	--	58	24	1,384	(58,855)	--
Estimated third-party payor settlements	--	18,683	4,070	3,379	19,390	8,036	--	1,318	(77)	400	1,304	--	76	--	--	--	--	627	--	--	57,206
Current portion of long-term debt and capital leases	31,257	18,596	759	4,422	872	400	--	--	184	89	--	--	--	--	--	--	59	--	--	--	56,638
Current portion of accrued pension liabilities	311	6,674	3,686	1,162	342	4,195	--	--	--	--	--	--	--	--	--	--	--	--	--	--	16,370
Current portion of other liabilities	--	9,800	4,709	339	23,716	654	--	--	585	--	--	--	1,071	--	--	29,976	--	--	--	--	(23,788)
<b>Total current liabilities</b>	<b>100,138</b>	<b>131,998</b>	<b>26,958</b>	<b>18,820</b>	<b>53,603</b>	<b>39,109</b>	<b>2,342</b>	<b>19,702</b>	<b>7,026</b>	<b>5,025</b>	<b>13,833</b>	<b>--</b>	<b>4,575</b>	<b>--</b>	<b>20,364</b>	<b>30,508</b>	<b>913</b>	<b>2,186</b>	<b>1,427</b>	<b>(82,643)</b>	<b>395,884</b>
Long-term debt and capital leases	85,516	287,081	86,762	31,550	63,082	68,199	8,972	2,299	35	--	--	--	20,425	--	--	--	99	--	--	--	654,020
Accrued pension liabilities	1,435	254,059	34,689	42,664	133,575	38,601	984	401	4,120	--	--	--	--	--	858	--	--	--	--	--	511,386
Other liabilities	--	41,992	22,024	12,412	22,881	4,532	--	--	2,048	--	--	--	--	--	2,333	--	1,969	--	--	--	(75,295)
Self insurance liabilities	--	--	--	--	--	8,528	--	--	--	--	--	--	--	--	134,175	--	--	318	--	--	143,021
<b>Total liabilities</b>	<b>187,089</b>	<b>715,130</b>	<b>170,433</b>	<b>7</b>	<b>273,141</b>	<b>158,969</b>	<b>12,298</b>	<b>20,103</b>	<b>15,493</b>	<b>5,060</b>	<b>13,833</b>	<b>--</b>	<b>25,000</b>	<b>--</b>	<b>23,555</b>	<b>164,683</b>	<b>2,981</b>	<b>2,504</b>	<b>1,427</b>	<b>(157,938)</b>	<b>1,739,207</b>
<b>Net assets:</b>																					
Unrestricted	583,575	281,544	89,335	(39,450)	178,222	342,594	19,489	31,583	11,975	6,374	14,371	748	4,804	543,914	17,461	67,633	5,455	2,321	(214)	(1,057,467)	1,104,267
Temporarily restricted	20,916	146,633	2,099	1,877	26,776	3,535	--	2,092	180	1,523	--	--	96	281,620	--	--	--	--	--	--	(302,536)
Permanently restricted	29,440	227,001	15,578	4,366	23,116	8,353	--	8,442	50	--	--	--	5	--	--	--	--	--	--	--	(29,440)
<b>Total net assets</b>	<b>633,931</b>	<b>655,178</b>	<b>107,012</b>	<b>(33,207)</b>	<b>228,114</b>	<b>354,482</b>	<b>19,489</b>	<b>42,117</b>	<b>12,205</b>	<b>7,897</b>	<b>14,371</b>	<b>748</b>	<b>4,905</b>	<b>825,534</b>	<b>17,461</b>	<b>67,633</b>	<b>5,455</b>	<b>2,321</b>	<b>(214)</b>	<b>(1,389,443)</b>	<b>1,575,989</b>
<b>Total liabilities and net assets</b>	<b>\$ 821,020</b>	<b>\$ 1,370,308</b>	<b>\$ 277,445</b>	<b>\$ 72,239</b>	<b>\$ 501,255</b>	<b>\$ 513,451</b>	<b>\$ 31,787</b>	<b>\$ 62,220</b>	<b>\$ 27,698</b>	<b>\$ 12,957</b>	<b>\$ 28,204</b>	<b>\$ 748</b>	<b>\$ 29,905</b>	<b>\$ 825,534</b>	<b>\$ 41,016</b>	<b>\$ 232,316</b>	<b>\$ 8,436</b>	<b>\$ 4,825</b>	<b>\$ 1,213</b>	<b>\$ (1,547,381)</b>	<b>\$ 3,315,196</b>

Hartford Health Care Corporation and Subsidiaries

Consolidating Statement of Operations

For the Year Ended September 30, 2014

(In Thousands)

	Hartford HealthCare	Consolidated Hartford Hospital	Consolidated MidState Medical Center	Windham Hospital	The Hospital of Central Connecticut	Backus Hospital	Consolidated H.H.M.O.B.	Consolidated Hartford HealthCare at Home, Inc.	Natchaug Hospital	Rushford Center, Inc.	Clinical Laboratory Partners	Practice Central	Central CT Senior Health Services, Inc.	Hartford HealthCare Endowment LLC	Hartford HealthCare Medical Group	Hartford HealthCare Indemnity Services, Ltd.	Central Connecticut Health Alliance, Inc. and Other Subsidiaries	Backus Corporation and other subsidiaries	Integrated Care Partners	Eliminations	Total	
Unrestricted revenues, gains and other support:																						
Net patient service revenue	\$ -	\$ 1,000,796	\$ 225,517	\$ 82,055	\$ 367,170	\$ 301,653	\$ -	\$ 71,126	\$ 49,700	\$ 17,445	\$ 88,957	\$ -	\$ 16,401	\$ -	\$ 105,623	\$ -	\$ 848	\$ 16,146	\$ -	\$ (10,358)	\$ 2,333,079	
Provision for bad debts	-	24,640	6,385	4,548	5,458	8,035	30	261	919	804	5,097	-	12	-	5,251	-	-	485	-	(65)	61,860	
Net patient service revenue less provision for bad debts	-	976,156	219,132	77,507	361,712	293,618	(30)	70,865	48,781	16,641	83,860	-	16,389	-	100,372	-	848	15,661	-	(10,293)	2,271,219	
Other operating revenue	166,080	74,980	15,842	5,365	11,024	7,226	29,067	2,627	52	12,768	20,836	173	12,416	-	9,331	33,641	8,179	1,553	1,988	(213,556)	199,592	
Net assets released from restrictions for operations	-	8,360	322	127	1,352	287	-	124	54	94	-	-	51	-	-	-	-	-	-	-	10,771	
	166,080	1,059,496	235,296	82,999	374,088	301,131	29,037	73,616	48,887	29,503	104,696	173	28,856	-	109,703	33,641	9,027	17,214	1,988	(223,849)	2,481,582	
Operating expenses:																						
Salaries and wages	82,902	428,888	69,745	38,236	148,416	110,167	1,028	34,330	28,615	17,613	43,089	14	15,645	-	92,359	-	4,841	12,806	2,696	(1,259)	1,130,131	
Employee benefits	18,434	134,941	19,653	9,508	45,122	21,447	467	7,287	8,450	3,512	10,407	25	4,283	-	17,283	-	1,193	2,960	481	(906)	304,547	
Supplies and other	27,645	203,000	42,948	10,588	49,865	47,931	3,002	5,838	3,505	2,175	24,849	33	3,847	-	16,919	26,011	1,964	2,523	352	(7,037)	465,958	
Purchased services	49,558	199,061	67,200	22,407	96,257	54,306	21,717	24,231	6,075	6,597	18,458	2,498	3,103	-	28,797	551	142	3,004	471	(214,446)	389,987	
Depreciation and amortization	9,009	48,969	13,076	4,216	18,226	15,651	1,954	860	1,084	664	1,437	-	925	-	1,717	-	940	109	-	-	118,837	
Provision for non-patient bad debts	-	-	-	408	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	408	
Interest	968	8,387	3,992	1,430	1,418	2,992	101	26	144	31	-	-	200	-	3	-	36	-	-	(200)	19,528	
	188,516	1,023,246	216,614	86,793	359,304	252,494	28,269	72,572	47,873	30,592	98,240	2,570	28,003	-	157,078	26,562	9,116	21,402	4,000	(223,848)	2,429,396	
(Loss) income from operations	(22,436)	36,250	18,682	(3,794)	14,784	48,637	768	1,044	1,014	(1,089)	6,456	(2,397)	853	-	(47,375)	7,079	(89)	(4,188)	(2,012)	(1)	52,186	
Nonoperating income (loss):																						
Income from investments, net	137	34,546	3,871	223	9,562	9,253	67	2,423	-	76	-	-	139	63,013	-	-	142	2,149	-	(63,013)	62,588	
Other	-	(8,610)	(724)	(962)	-	(186)	(32)	2	-	-	(759)	-	48	-	-	-	-	(4)	-	-	(11,227)	
	137	25,936	3,147	(739)	9,562	9,067	35	2,425	-	76	(759)	-	187	63,013	-	-	142	2,145	-	(63,013)	51,361	
(Deficiency) excess of revenues over expenses	\$ (22,299)	\$ 62,186	\$ 21,829	\$ (4,533)	\$ 24,346	\$ 57,704	\$ 803	\$ 3,469	\$ 1,014	\$ (1,013)	\$ 5,697	\$ (2,397)	\$ 1,040	\$ 63,013	\$ (47,375)	\$ 7,079	\$ 53	\$ (2,043)	\$ (2,012)	\$ (63,014)	\$ 103,547	



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