Consolidated Financial Statements and Supplementary Information

Connecticut Children's Medical Center and Subsidiaries
Years Ended September 30, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP

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Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2014 and 2013

Contents

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Report of Independent Auditors

The Board of Directors
Connecticut Children's Medical Center and Subsidiaries

We have audited the accompanying consolidated financial statements of Connecticut Children's Medical Center and Subsidiaries (the Medical Center), 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 did not audit the financial statements of The Children's Fund of Connecticut, Inc., a wholly-owned subsidiary, which statements reflect total assets of $36,013,397 and $34,581,745 as of September 30, 2014 and 2013, respectively, and total revenues and other income of $9,319,382 and $5,272,385 for the years then ended, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Children's Fund of Connecticut, Inc., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Connecticut Children's Medical Center 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 conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating details appearing in conjunction with the consolidated financial statements are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, based on our audits and the report of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

March 27, 2015

Connecticut Children's Medical Center and Subsidiaries

Consolidated Balance Sheets

	September 30 2014	2013
Assets		
Current assets:		
Cash and cash equivalents	**$ 5,760,243**	$ 3,249,955
Funds held by trustee under revenue bond agreement	**5,021,620**	17,008,322
Patient accounts receivable, less allowance for doubtful accounts of approximately $7,432,000 in 2014 and $7,544,000 in 2013	**35,223,272**	31,348,330
Due from affiliated entities	**713,768**	1,645,518
Inventories	**1,389,353**	1,094,287
Other current assets	**13,541,186**	16,208,847
Total current assets	**61,649,442**	70,555,259
Assets whose use is limited:		
Investments	**34,873,798**	33,796,624
Funds held in trust by others	**82,885,871**	79,200,328
Interest in Foundation	**104,410,463**	97,605,124
	222,170,132	210,602,076
Property, plant and equipment:		
Buildings	**136,902,649**	122,797,003
Furniture and equipment	**106,426,925**	81,808,051
Construction in progress	**16,921,791**	29,060,602
	260,251,365	233,665,656
Less accumulated depreciation	**(121,434,591)**	(106,713,922)
	138,816,774	126,951,734
Other assets:		
Bond issuance costs	**679,656**	732,242
Ground lease	**2,358,098**	2,387,390
Other	**24,358,613**	18,520,980
	27,396,367	21,640,612
Total assets	**$ 450,032,715**	$ 429,749,681

	September 30	
	2014	**2013**
Liabilities and net assets		
Current liabilities:		
Current portion of bonds payable	**$ 1,350,000**	$ 1,280,000
Current portion of notes payable	**6,189,100**	5,447,651
Accounts payable and accrued expenses	**46,780,505**	39,853,641
Accrued wages	**19,047,697**	17,210,689
Due to third parties	**33,564,770**	13,394,804
Due to affiliated entities	**7,752,261**	5,705,717
Accrued interest payable and other current liabilities	**64,013**	307,335
Total current liabilities	**114,748,346**	83,199,837
Bonds payable, less current portion	**36,685,000**	38,035,000
Notes payable, less current portion	**22,855,716**	25,226,326
Accrued pension liability	**11,770,096**	8,357,282
Other long term liabilities	**35,220,533**	32,152,251
Total liabilities	**221,279,691**	186,970,696
Net assets:		
Unrestricted	**102,337,958**	124,736,426
Temporarily restricted	**26,191,341**	21,935,545
Permanently restricted	**100,223,725**	96,107,014
Total net assets	**228,753,024**	242,778,985
Total liabilities and net assets	**$ 450,032,715**	$ 429,749,681

See accompanying notes.

Connecticut Children's Medical Center and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2014	**2013**
Revenues:		
Net patient service revenue	**$ 309,418,514**	$ 292,447,537
Provision for bad debts	**(4,813,073)**	(5,933,509)
Net patient service revenue, less provision for bad debts	**304,605,441**	286,514,028
Other revenues	**8,551,408**	11,259,222
Net assets released from restrictions for operations	**13,845,714**	16,391,146
	327,002,563	314,164,396
Expenses:		
Salaries	**167,935,132**	165,817,213
Benefits	**41,735,053**	42,639,049
Supplies and other	**132,224,466**	122,004,253
Depreciation and amortization	**15,604,157**	12,578,220
Interest	**1,242,337**	1,314,300
	358,741,145	344,353,035
Loss from operations	**(31,738,582)**	(30,188,639)
Other income:		
Investment return, net	**4,002,893**	2,120,646
Income from trusts held by others	**3,135,171**	2,518,697
Change in equity interest in net assets of the Foundation	**6,519,525**	8,044,974
	13,657,589	12,684,317
Deficiency of revenues over expenses	**(18,080,993)**	(17,504,322)

Continued on next page.

Connecticut Children's Medical Center and Subsidiaries

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

	Year Ended September 30	
	2014	**2013**
Unrestricted net assets:		
Deficiency of revenues over expenses	**$ (18,080,993)**	$ (17,504,322)
Unrealized (loss) gain on investments	**(1,709,497)**	2,157,451
Net assets released from restrictions for capital	**1,746,968**	556,091
Change in funded status of pension and post-retirement plans	**(3,807,134)**	13,260,268
Change in equity interest in the net assets of the Foundation	**(547,812)**	3,480,735
Change in unrestricted net assets	**(22,398,468)**	1,950,223
Temporarily restricted net assets:		
Transfer from affiliated organization	**10,054,736**	6,948,301
Net assets released from restrictions for operations	**(13,845,714)**	(16,391,146)
Net assets released from restrictions for capital	**(1,746,968)**	(556,091)
Bequests, gifts and grants	**9,391,284**	11,911,562
Change in equity interest in the net assets of the Foundation	**402,458**	(1,897,540)
Change in temporarily restricted net assets	**4,255,796**	15,086
Permanently restricted net assets:		
Change in funds held in trust by others	**3,685,543**	3,495,247
Change in equity interest in the net assets of the Foundation	**431,168**	271,830
Change in permanently restricted net assets	**4,116,711**	3,767,077
Change in net assets	**(14,025,961)**	5,732,386
Net assets at beginning of year	**242,778,985**	237,046,599
Net assets at end of year	**$ 228,753,024**	$ 242,778,985

See accompanying notes.

Connecticut Children's Medical Center and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30 2014	2013
Operating activities		
Change in net assets	**$ (14,025,961)**	$ 5,732,386
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities and other income:		
Noncash items:		
Provision for bad debts	**4,813,073**	5,933,509
Depreciation and amortization	**15,604,157**	12,578,220
Unrealized gain (losses) on investments	**1,709,497**	(2,157,451)
Change in value of funds held by others	**(3,685,543)**	(3,495,247)
Change in funded status of pension and post-retirement plans	**3,807,134**	(13,260,268)
Change in interest in Foundation	**(6,805,339)**	(9,899,999)
Other changes in net assets:		
Bequests, gifts and grants	**(9,391,284)**	(11,911,562)
Transfer from affiliated organizations	**(10,054,736)**	(6,948,301)
Changes in operating assets and liabilities:		
Patient accounts receivable	**(8,688,015)**	(4,376,062)
Due from affiliated entities, net	**2,978,294**	10,017,996
Due from third parties	**–**	4,899,895
Inventories	**(295,066)**	(401,562)
Other current assets	**2,667,661**	(2,718,517)
Investment in CHS Insurance Limited	**–**	109,961
Other long term assets	**(5,755,755)**	(226,583)
Accounts payable and accrued expenses	**6,926,864**	7,248,827
Accrued wages	**1,837,008**	885,534
Accrued interest payable and other current liabilities	**(243,322)**	(23,380)
Due to third parties	**20,169,966**	8,868,376
Pension liability	**(394,320)**	2,590,652
Other long term liabilities	**3,068,282**	(7,095,420)
Net cash provided (used in) by operating activities and other income	**4,242,595**	(3,648,996)
Investing activities		
Purchases of property, plant and equipment, net	**(27,469,197)**	(28,868,568)
Distribution from CHS Insurance Limited	**–**	12,649,593
Change in funds held by trustee under revenue bond agreement	**11,986,702**	(6,599,741)
Change in investments, net	**(2,786,671)**	(344,902)
Net cash used in investing activities	**(18,269,166)**	(23,163,618)
Financing activities		
Bequests, gifts and grants	**9,391,284**	11,911,562
Transfer from affiliates	**10,054,736**	6,948,301
Principal payments on bonds and notes payable	**(6,988,038)**	(4,658,105)
Proceeds from debt issued	**4,078,877**	13,500,000
Net cash provided by financing activities	**16,536,859**	27,701,758
Net change in cash and cash equivalents	**2,510,288**	889,144
Cash and cash equivalents at beginning of year	**3,249,955**	2,360,811
Cash and cash equivalents at end of year	**$ 5,760,243**	$ 3,249,955

See accompanying notes.

1. Organization and Accounting Policies

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

The Medical Center is the sole member of Connecticut Children's Specialty Group, Inc. (CCSG) and The Children's Fund of Connecticut, Inc. (the Children's Fund). CCSG was formed to provide and promote children's health care and to support the Medical Center. The Children's Fund was formed to further the charitable mission of the Medical Center and to improve pediatric care in the Hartford Region. All material intercompany accounts and transactions have been eliminated in the accompanying financial statements.

Regulatory Matters

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

Use of Estimates

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

Principles of Consolidation

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

1. Organization and Accounting Policies (continued)

Cash and Cash Equivalents

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

Investments

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

Inventories

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

Funds Held in Trust by Others

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

1. Organization and Accounting Policies (continued)

Interest in Foundation

The Interest in Foundation represents the Medical Center's interest in the net assets of Connecticut Children's Medical Center Foundation, Inc. (the Foundation). This investment is accounted for in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-20, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. In 2014 and 2013, the Medical Center did not require and did not receive any unrestricted financial support from the Foundation. The Foundation will provide support in future fiscal years as necessary.

Bond Issuance Costs

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

Property, Plant, and Equipment

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

Pension Plan

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

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net

1. Organization and Accounting Policies (continued)

assets and reported in the 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 reported as unrestricted contributions in the accompanying consolidated financial statements.

Interest Rate Swap Agreements

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

Temporarily and Permanently Restricted Net Assets

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

Medical Malpractice Insurance

Effective October 1, 2012, CHS Insurance, Ltd. (CHS) repurchased its shares held by the Medical Center for approximately $12,900,000, eliminating the Medical Center's interest in CHS. On that date, the Medical Center recorded a loss of $109,961 related to this sale which is included within gain from investments, net in the accompanying consolidated statements of operations and changes in net assets. In connection with the sale of its shares, the Medical Center reevaluated its malpractice coverage and enacted a new program under which the primary level of coverage is $4,000,000 per claim and $12,000,000 in the aggregate. There is an additional $6,000,000 of professional liability purchased through an external insurance company. In addition, there are four layers of excess indemnity coverage with four different insurance companies at $10,000,000 per claim on the first three layers and $15,000,000 per claim on the fourth layer, totaling $45,000,000 in the aggregate. There are no deductibles. As a result, the Medical Center received a distribution of approximately $5,400,000 representing a retro-premium adjustment which was recorded as an offset to malpractice expense included in supplies and other expenses in the accompanying consolidated statements of operations and

1. Organization and Accounting Policies (continued)

changes in net assets in 2013. Additionally, the Medical Center purchased a loss capping policy to limit the exposure on existing claims as of September 30, 2012. Under this policy, any existing claim that settles for greater than the amount reserved for this claim is covered and paid by the insurance company, limiting the Medical Center's liability for increases in claims up to $10,000,000 per claim and $20,000,000 in the aggregate. Should claims settle for greater than the amount already reserved and the $20,000,000 loss capping policy, the Medical Center is fully liable for the excess.

Insurance Recovery Receivable and Insurance Claims Liability

The Medical Center presents anticipated insurance recoveries separately from estimated insurance liabilities for medical malpractice claims and similar contingent liabilities on the consolidated balance sheets. The current portion of the insurance recovery receivable and related insurance claims liability totaled $7,579,924 and $6,909,675 at September 30, 2014 and 2013, respectively, and is included within other current assets and accounts payable and accrued expenses in the accompanying consolidated balance sheets. The non-current portion of the insurance recovery receivable and related insurance claims liability totaled $18,873,772 and $14,945,240 at September 30, 2014 and 2013, respectively, and is included within other assets and other long term liabilities in the accompanying consolidated balance sheets.

Deficiency of Revenues over Expenses

The consolidated statements of operations and changes in net assets include deficiency of revenues over expenses as the performance indicator. Changes in unrestricted net assets which are excluded from deficiency of revenues over expenses include unrealized gains and losses on investments, net assets released from restrictions for capital, change in the equity interest in the net assets of the Foundation and changes in the funded status of the pension and postretirement plans.

Other Income

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

1. Organization and Accounting Policies (continued)

Advertising

The Medical Center's policy is to expense advertising costs as incurred. Total advertising expense was $899,439 and $1,046,140 for the years ended September 30, 2014 and 2013, respectively.

Income Taxes

The Medical Center and its subsidiaries are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

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

Subsequent Events

The Medical Center evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the consolidated financial statements are issued, for potential recognition in the consolidated financial statements as of the balance sheet date. For the year ended September 30, 2014, the Medical Center evaluated subsequent events through March 27, 2015, which is the date the consolidated financial statements were issued. Except as noted in Note 10 where a new line of credit for $15,000,000 was opened in November 2014, no events occurred that require disclosure in or adjustment to the consolidated financial statements.

2. Net Revenue From Services to Patients and Charity Care

The Medical Center provides health care services primarily to residents of the region. Revenues from the Medicaid program accounted for approximately 37% and 37% of the Medical Center's net patient service revenue for the years ended September 30, 2014 and 2013, respectively. Laws and regulations governing the Medicaid programs are complex and subject to interpretation. The Medical Center believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties and exclusion from the Medicaid program. Changes in the Medicaid program and the reduction of funding levels could have an adverse impact on the Medical Center.

The following table summarizes net revenues from services to patients:

	Year Ended September 30	
	2014	**2013**
Total gross revenues from patients	**$ 702,777,015**	$ 676,878,020
Less total contractual allowances	**387,252,545**	377,012,973
Less charity care	**1,531,966**	1,613,807
Less administrative and other allowances	**4,573,990**	5,803,703
Total allowances	**393,358,501**	384,430,483
Net patient service revenue	**309,418,514**	292,447,537
Less provision for bad debts	**4,813,073**	5,933,509
Net patient service revenue, less provision for bad debts	**$ 304,605,441**	$ 286,514,028

2. Net Revenue From Services to Patients and Charity Care (continued)

Patient accounts receivable and revenues are recorded when patient services are performed. Amounts received from certain payors are different from established billing rates of the Medical Center, and the difference is accounted for as allowances. The Medical Center records its provision for bad debts based upon a review of all of its outstanding receivables. Write-offs of receivable balances are related primarily to its population of underinsured patients. An underinsured patient is one who has commercial insurance which leaves a significant portion of the Medical Center's reimbursement to be paid by the patient, either through large deductibles or co-pay requirements. Self-pay patients are rare in the pediatric environment, as Medicaid is readily available to children. Self-pay net revenue approximated $3,500,000 and $4,400,000 for the years ended September 30, 2014 and 2013, respectively.

Net patient service revenue is reported at the estimated realizable amounts from patients, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustments. Provisions for estimated third-party payor settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined. There were no impacts to net patient service revenue for the year ended September 30, 2014 for net adjustments and settlements relating to prior years.

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

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

The costs of charity care incurred were $730,330 and $626,607 for the years ended September 30, 2014 and 2013, respectively. The costs of charity care are derived from both estimated and actual data. The estimated cost of charity care includes the direct and indirect cost of providing such services and is estimated utilizing the Medical Center's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients.

3. Related-Party Transactions

Certain Medical Center employees render management and other services to affiliated entities for which the Medical Center is reimbursed. The amount of such reimbursement was $738,852 and $223,128 for the years ended September 30, 2014 and 2013, respectively.

4. Concentrations of Credit Risk

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

The Medical Center's cash and cash equivalents are placed with high credit quality financial institutions. The Medical Center's investment policy limits its exposure to concentrations of credit risk. In the normal course of business, the Medical Center maintains cash balances in excess of the Federal Deposit Insurance Corporation's (FDIC) insurance limit. Cash balances exceeded FDIC limits by approximately $5,300,000 and $3,000,000 at September 30, 2014 and 2013, respectively.

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

	2014	**2013**
Medicaid	**36%**	34%
Medicaid Managed Care	**1**	–
Commercial/Managed Care – Contracted	**49**	52
Commercial/Managed – Non-Contracted	**6**	6
Patients and other	**8**	8
	100%	100%

5. Investments

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

	2014		2013	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Short-term investments	**$ 89,300**	**$ 89,300**	$ 61,219	$ 61,219
Marketable equity securities	**485,570**	**696,734**	292,686	447,661
Fixed income securities	**26,363**	**28,182**	100,299	104,734
Institutional managed equity funds	**19,664,509**	**23,130,409**	17,520,470	22,672,685
Institutional managed bond fund	**10,837,642**	**10,860,612**	10,342,169	10,443,625
Other	**65,131**	**68,561**	65,000	66,700
	$ 31,168,515	**$ 34,873,798**	$ 28,381,843	$ 33,796,624

Investments consisted of mutual funds and individual securities that comprised approximately 69% equity securities and 31% fixed income investments at September 30, 2014, and 68% equity securities and 32% fixed income investments at September 30, 2013.

The following table summarizes the unrealized losses on investments held at September 30, 2014:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
Marketable equity securities	**$ 14,327**	**$ 437**	**$ 17,172**	**$ 6,998**	**$ 31,499**	**$ 7,435**
Fixed income securities	**5,275,918**	**521,573**	**1,875,013**	**134,435**	**7,150,931**	**656,008**
Institutional managed equity funds	**39,636**	**462**	**64,956**	**44**	**104,592**	**506**
Other	**128,083**	**14,640**			**128,083**	**14,640**
Total investments	**$ 5,457,964**	**$ 537,112**	**$ 1,957,141**	**$ 141,477**	**$ 7,415,105**	**$ 678,589**

5. Investments (continued)

The following table summarizes the unrealized losses on investments held at September 30, 2013:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Marketable equity securities	$ –	$ –	$ 45,220	$ 9,498	$ 45,220	$ 9,498
Fixed income securities	64,600	5,538	25,112	22	89,712	5,560
Institutional managed equity funds	3,471,840	102,854	1,162,952	122,522	4,634,792	225,376
Other	–	–	64,815	185	64,815	185
Total investments	$ 3,536,440	$ 108,392	$ 1,298,099	$ 132,227	$ 4,834,539	$ 240,619

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors, the length of time and extent to which the market value has been less than cost along with the Medical Center's intent and ability to hold the investments. During the years ended September 30, 2014 and 2013, the Medical Center has not recorded any other-than-temporary declines in the fair value of investments, as the Corporation has the ability and intent to hold the securities to recovery.

Investment returns for the years ended September 30, 2014 and 2013 are as follows:

	2014	2013
Interest and dividend income	**$ 728,192**	$ 947,058
Realized gain	**3,938,791**	1,091,534
Loss on sale of CHS	**–**	(109,961)
Net swap activity	**(499,834)**	318,026
Investment fees and other	**(164,256)**	(126,011)
	$ 4,002,893	$ 2,120,646

6. Restricted Net Assets

Endowments

The endowment consists of seven individual donor-restricted funds established for a variety of purposes which are held and controlled by the Foundation. As required by GAAP, net assets associated with endowment funds are classified and reported based on donor-imposed restrictions. At September 30, 2014 and 2013, the Medical Center had $21,942,979 and $19,645,169, respectively, in endowments held at the Foundation which are recorded by the Medical Center through its interest in the Foundation.

Interpretation of Relevant Law

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

(1) The duration and preservation of the fund.

(2) The purposes of the organization and the donor-restricted endowment fund.

(3) General economic conditions.

(4) The possible effect of inflation and deflation.

(5) The expected total return from income and the appreciation of investments.

(6) Other resources of the organization.

(7) The investment policies of the organization.

6. Restricted Net Assets (continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Medical Center to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no deficiencies at September 30, 2014 and 2013.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Endowment Net Asset Composition by Type of Fund

All endowment net assets are donor-restricted endowment funds.

6. Restricted Net Assets (continued)

Changes in endowment net assets for the years ended September 30, 2014 and 2013 consisted of the following:

	September 30, 2014		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	**$ 2,738,483**	**$ 16,906,686**	**$ 19,645,169**
Contributions		**431,168**	**431,168**
Investment return	**411,618**		**411,618**
Net appreciation (realized and unrealized)	**2,055,469**		**2,055,469**
Appropriation of endowment assets for expenditure	**(600,445)**		**(600,445)**
Endowment net assets, ending balance	**$ 4,605,125**	**$ 17,337,854**	**$ 21,942,979**

	September 30, 2013		
	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning balance	$ 1,534,913	$ 16,634,856	$ 18,169,769
Contributions	–	271,830	271,830
Investment return	74,390	–	74,390
Net appreciation (realized and unrealized)	1,596,451	–	1,596,451
Appropriation of endowment assets for expenditure	(467,271)	–	(467,271)
Endowment net assets, ending balance	$ 2,738,483	$ 16,906,686	$ 19,645,169

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

6. Restricted Net Assets (continued)

Temporarily Restricted

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

	2014	**2013**
Equipment purchases	**2%**	2%
Education	**8**	7
Other health care services	**90**	91
	100%	100%

Permanently Restricted

Permanently restricted net assets at September 30 are restricted to:

	2014	**2013**
Health care and children's services	**83%**	82%
Other health care services	**13**	13
Education	**4**	5
	100%	100%

7. Pension Plan

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

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

7. Pension Plan (continued)

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

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

Included in unrestricted net assets at September 30, 2014 and 2013 are unrecognized actuarial losses of $19,372,121 and $16,096,254, respectively. The actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2015 is $1,387,915.

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

	Year Ended September 30	
	2014	**2013**
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 79,974,687**	$ 84,989,182
Interest cost	**3,384,986**	2,886,841
Actuarial loss (gains), including the effects of any assumption changes	**7,632,859**	(6,303,517)
Benefits paid	**(2,244,590)**	(1,597,819)
Benefit obligation at end of year	**$ 88,747,942**	$ 79,974,687

7. Pension Plan (continued)

	Year Ended September 30	
	2014	**2013**
Change in plan assets		
Fair value of plan assets at beginning of year	**$ 71,617,405**	$ 65,962,284
Contributions	**100,000**	1,425,000
Actual return on plan assets	**7,505,031**	5,827,940
Benefits paid	**(2,244,590)**	(1,597,819)
Fair value of plan assets at end of year	**$ 76,977,846**	$ 71,617,405
Funded status of the plan	**$ (11,770,096)**	$ (8,357,282)

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

	2014	2013
Discount rate	**4.00%**	4.45%
Rate of compensation	**N/A**	N/A
Cash balance interest credit	**5.50**	5.50
Return on plan assets	**6.75**	6.75

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

	2014	2013
Interest cost	**$ 3,384,986**	$ 2,886,841
Expected return on plan assets	**(4,226,469)**	(3,940,309)
Net amortization:		
Net actuarial loss	**1,078,430**	2,307,651
Net periodic benefit costs	**$ 236,947**	$ 1,254,183

7. Pension Plan (continued)

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

	2014	2013
Discount rate	**4.45%**	3.60%
Cash balance interest credit	**5.50**	5.50
Expected long-term rate of return on plan assets	**6.75**	6.75
Rate of compensation	**N/A**	N/A

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

The accumulated benefit obligation at September 30, 2014 and 2013 was $88,747,942 and $79,974,687, respectively.

Plan Assets

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

7. Pension Plan (continued)

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

Asset Category	Percentage of Plan Assets at Year-End 2014	2013
Domestic equities	**37%**	44%
International equities	**19**	19
Debt securities	**38**	36
Other	**6**	1
Total	**100%**	100%

The fair values of the Plan assets at September 30, 2014, by asset category, are as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Money market mutual funds [a]	**357,228**	**–**	**–**	357,228
Fixed income securities:				
U.S. government bonds [b]	**2,273,832**	**–**	**–**	2,273,832
Municipal bonds [c]	**693,600**	**–**	**–**	693,600
Corporate bonds [d]	**4,982,567**	**–**	**–**	4,982,567
Foreign bonds [e]	**865,871**	**–**	**–**	865,871
Fixed income mutual funds [f]	**3,584,208**	**11,507,036**	**–**	15,091,244
Equity mutual funds [g]	**34,389,192**	–	**–**	34,389,192
Multi-asset balanced mutual funds [h]	–	**15,521,959**	**–**	15,521,959
Foreign multi-asset balanced mutual funds [i]	–	**2,802,353**	**–**	2,802,353
Total	**$ 47,146,498**	**$ 29,831,348**	**$ –**	**$ 76,977,846**

7. Pension Plan (continued)

The fair values of the Plan assets at September 30, 2013, by asset category, are as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Money market mutual funds [(a)]	$ 20,773	$ –	$ –	$ 20,773
Fixed income securities:				
U.S. government bonds [(b)]	1,909,958	–	–	1,909,958
Municipal bonds [(c)]	562,761	–	–	562,761
Corporate bonds [(d)]	4,710,792	–	–	4,710,792
Foreign bonds [(e)]	615,864	–	–	615,864
Fixed income mutual funds [(f)]	3,515,214	11,094,171	–	14,609,385
Equity mutual funds [(g)]	31,996,839	–	–	31,996,839
Multi-asset balanced mutual funds [(h)]	–	17,191,033	–	17,191,033
Total	$ 43,332,201	$ 28,285,204	$ –	$ 71,617,405

[(a)] Includes investments in mutual funds that invest primarily in short-term debt securities including U.S. Treasury bills, commercial paper and certificates of deposits.

[(b)] Includes investments in publicly traded U.S. government and U.S. Agency bonds.

[(c)] Includes investments in publicly traded municipal bonds offered by U.S. states and cities.

[(d)] Includes investments in publicly offered and traded domestic corporate bonds, including both unsecured and asset-backed securities.

[(e)] Includes investments in publicly offered and traded unsecured foreign corporate bonds.

[(f)] Investment in a fixed income mutual fund that maintains a diverse portfolio of short-term high quality bonds, actively managed across the mortgage-backed security, U.S. Treasury, corporate and international fixed income sectors.

[(g)] Includes investments in domestic and international equity mutual funds and exchange traded funds.

[(h)] Investments in mutual funds that allocate assets among both fixed and equity investments, as well as other forms of investments with the intent of providing returns while diversifying assets and spreading risk over multiple asset classes.

[(i)] Investments in mutual funds that allocate assets in foreign holdings among both fixed and equity investments, as well as other forms of investments with the intent of providing returns while diversifying assets and spreading risk over multiple asset classes.

The Medical Center does not expect to contribute to its pension plan in fiscal 2015.

7. Pension Plan (continued)

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

	Pension Benefits
Fiscal year:	
2015	$ 9,117,000
2016	4,898,000
2017	5,001,000
2018	5,776,000
2019	5,331,000
Years 2020 – 2024	26,595,000

8. Post-retirement Benefit Plan

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

Included in unrestricted net assets at September 30, 2014 and 2013 are $2,468,074 and $2,999,341, respectively, of net unrecognized actuarial gains that have not yet been recognized in net periodic benefit cost. There is $158,512 of actuarial gain included in unrestricted net assets that is expected to be recognized in net periodic pension cost during the year ending September 30, 2015.

8. Post-retirement Benefit Plan (continued)

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

	Year Ended September 30	
	2014	**2013**
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 5,658,107**	$ 7,816,241
Service cost	**219,274**	394,911
Interest cost	**268,206**	312,324
Actuarial losses (gains), including the effects of any assumption changes	**330,315**	(2,761,469)
Benefits paid	**(135,004)**	(103,900)
Benefit obligation at end of year	**$ 6,340,898**	$ 5,658,107

	Year Ended September 30	
	2014	**2013**
Change in plan assets		
Fair value of plan assets at beginning of year	**$ –**	$ –
Contributions	**135,004**	103,900
Benefits paid	**(135,004)**	(103,900)
Fair value of plan assets at end of year	**$ –**	$ –
Accrued post-retirement obligation included in other long-term liabilities	**$ (6,340,898)**	$ (5,658,107)

8. Post-retirement Benefit Plan (continued)

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

	2014	2013
Discount rate	**4.20%**	4.80%
Healthcare cost trend rate:		
Current year	**8.50**	9.00
Ultimate	**5.00**	5.00
Number of years to reach ultimate	**7**	8

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

	2014	2013
Service cost	**$ 219,274**	$ 394,911
Interest cost	**268,206**	312,324
Net amortization:		
Net actuarial gain	**(200,952)**	–
Net periodic benefit cost	**$ 286,528**	$ 707,235

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

	2014	2013
Discount rate	**4.80%**	3.85%
Health care cost trend rate		
Initial rate	**9.00**	8.00
Ultimate rate	**5.00**	5.00
Years to ultimate	**7**	6

8. Post-retirement Benefit Plan (continued)

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

	One-percentage Point Increase	One-percentage Point Decrease
Effect on postretirement benefit obligation	$ 105,951	$ (93,373)
Effect on total of service and interest cost	14,123	(12,349)

The Medical Center expects to contribute $163,000 to its post-retirement benefit plan in fiscal 2015.

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

	Post-retirement Benefits
Fiscal year:	
2015	$ 163,000
2016	182,000
2017	213,000
2018	243,000
2019	277,000
Years 2020 – 2024	1,874,000

9. Bonds Payable

A summary of long-term debt is as follows:

	September 30 2014	September 30 2013
Hospital revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA)		
Series D (4.19% effective interest rate)	**$ 38,035,000**	$ 39,315,000
	38,035,000	39,315,000
Less current portion	**1,350,000**	1,280,000
	$ 36,685,000	$ 38,035,000

9. Bonds Payable (continued)

In June 2011, the Medical Center along with the Foundation (the Obligated Group) refinanced their existing State of Connecticut Health and Educational Facilities Authority (CHEFA) hospital revenue bonds with variable rate revenue bonds (the Series D Bonds) with a principal amount of $41,580,000. The Series D Bonds were issued at par and directly placed with one investor. The investor has committed to holding the bonds for a ten year period, at the end of which, the investor may put the bonds back to the Obligated Group or extend their holding period at their discretion. The bonds mature in varying amounts through 2032, with interest rates based on 65% of LIBOR plus a spread of 1.52%, ranging from 1.66% to 1.71% in the current year.

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

Pursuant to the mortgage agreement and related documents, the Obligated Group is required to meet certain covenants including a days cash on hand, debt to capitalization and a debt service coverage ratio requirement. At September 30, 2014 and 2013, the Medical Center was in compliance with the covenants.

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

The Medical Center is required to make monthly interest and semi-annual principal repayments for the Series D Bonds. A principal payment for the Series D bonds was paid on January 1, 2015. Interest paid for 2014 and 2013 was $636,884 and $669,182, respectively.

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

2015	$ 1,350,000
2016	1,415,000
2017	1,500,000
2018	1,580,000
2019	1,665,000
Aggregate thereafter	30,525,000
	$ 38,035,000

9. Bonds Payable (continued)

In November 2005, the Medical Center entered into an interest rate swap agreement (the 2005 swap) effectively converting $23,700,000 of its then existing variable-rate debt (Series C debt) to a fixed-rate basis of 3.704% through June 2018. The fair value of the swap (a liability of $879,859 and $1,359,365 at September 30, 2014 and 2013, respectively) is reported in other long term liabilities. The change in value of $479,506 and $609,486 is reported as a component of income from investments for the years ended September 30, 2014 and 2013, respectively. The swap, while serving as an economic hedge, does not qualify for hedge accounting.

Upon the refunding of the Series C debt in June 2011, the Medical Center applied the 2005 swap against the newly issued Series D debt and entered into a new swap agreement (the 2011 swap), which along with the 2005 swap, effectively converts all of its outstanding Series D debt to a fixed-rate basis. The interest rate on the new swap is 4.6138%. The fair value of the 2011 swap (a liability of $1,012,213 and $1,193,629 as of September 30, 2014 and 2013, respectively) is reported in other long term liabilities. The change in value of $181,416 and $913,929 is reported as a component of income from investments for the years ended September 30, 2014 and 2013, respectively. The swap, while serving as an economic hedge, does not qualify for hedge accounting.

The 2011 swap has an embedded option that gives the Medical Center the right to terminate the swap beginning July 1, 2016, and on the first business day of each month thereafter. If the option is exercised by the Medical Center, the transaction will terminate and neither party will owe a termination payment amount. There is no exercise premium.

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

Swap Type	Expiration Date	Medical Center Receives	Medical Center Pays	Notional Amount at September 30 2014	2013
Series C – Fixed to Floating (2005 Swap)	July 1, 2018	70% of LIBOR	3.70%	**$ 12,725,000**	$ 15,675,000
Series D – Fixed to Floating (2011 Swap)	July 1, 2032	65% LIBOR + 1.52%	4.61%	**24,518,878**	22,665,000
				$ 37,243,878	$ 38,340,000

The total notional amount differs from the amount outstanding on the debt as a result of the different amounts that the Medical Center receives. The notional amount of the 2011 swap is modified to adjust for the differing percentage of LIBOR received under the 2005 swap.

10. Notes Payable

Notes payable at September 30, 2014 and 2013 consists of the following:

	2014	2013
Notes payable to an independent financing company payable in semi-annual installments of $199,606 through October 2015, interest free	**$ 399,211**	$ 798,422
Notes payable to an independent financing company payable in monthly installments of $27,889 through March 2014, interest free	**–**	167,334
Notes payable to a health care equipment manufacturing company in monthly installments of $18,392 through December 2015, at 4.15% interest. Secured by certain equipment.	**265,880**	471,517
Notes payable to a bank in monthly installments of $147,233 through October 2018 at 2.85% interest. Secured by certain equipment.	**6,802,836**	8,351,736
Notes payable to a bank in monthly installments of $128,417 through October 2018 at 1.455% interest. Secured by certain equipment.	**8,495,319**	9,901,610
Notes payable to a bank in monthly installments of $55,978 through June 2018 at 1.302% interest. Secured by certain equipment.	**2,457,216**	3,092,473
Notes payable to a bank in monthly installments of $114,385 through September 2019 at 2.52% interest. Secured by certain equipment.	**6,441,905**	7,635,795
Notes payable to a bank in monthly installments of $59,782 through August 2019 at 3.94% interest. Secured by certain equipment.	**3,191,082**	–
Notes payable to a bank in monthly installments of $9,845 through January 2021, interest free. Secured by certain equipment.	**827,012**	–
Note payable to landlord for leasehold improvements payable in monthly installments of $1,431 through August 2019 at 6%. Unsecured.	**72,949**	85,336
Note payable to a hospital association payable in monthly installments of $6,529, interest free	**91,406**	169,754
	29,044,816	30,673,977
Less current portion	**6,189,100**	5,447,651
	$ 22,855,716	$ 25,226,326

10. Notes Payable (continued)

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

Interest paid on the notes was $605,312 and $596,530 for the years ended September 30, 2014 and 2013, respectively.

In November 2014, a Line of Credit was opened in the amount of $15,000,000 with investment assets pledged as collateral. There are no outstanding amounts on the line of credit.

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

2015	$ 6,189,100
2016	6,014,499
2017	5,886,160
2018	5,857,646
2019	3,791,106
Aggregate thereafter	1,306,305
	$ 29,044,816

11. Contingencies

There have been malpractice claims that fall within the Medical Center's malpractice insurance which have been asserted against the Medical Center. In addition, there are known incidents that have occurred through September 30, 2014, that may result in the assertion of claims. Refer to Note 1.

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

The Medical Center and CCSG record as a liability the estimate for claims-made malpractice liabilities and the estimate for incurred but not reported claims. The estimate for incurred but not reported claims, discounted at 4.00%, totaled $5,576,736 and $6,100,898 at September 30, 2014 and 2013, respectively. The Medical Center has recorded related insurance recoveries receivable of $26,453,696 and $21,854,915 at September 30, 2014 and 2013, respectively, in consideration for the expected insurance recoveries for the total claims-made insurance.

11. Contingencies (continued)

The Medical Center records as a liability an estimate of workers' compensation claims. Such liability, undiscounted, totaled approximately $2,055,125 and $2,064,873 at September 30, 2014 and 2013, respectively.

12. Commitments

Ground Lease

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

The Ground Lease was recorded as a prepaid asset in the original amount of $2,900,000 and is amortized over the term of the lease. The net asset is recorded at $2,358,098 and $2,387,390 as of September 30, 2014 and 2013, respectively, and is included in other assets in the accompanying consolidated balance sheets. The lease includes certain covenants which restrict, among other things, the Medical Center's ability to be a party to mergers.

Parking Agreement

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

13. Operating Leases

Rental and lease expense amounted to $12,985,729 and $10,507,394 for the years ended September 30, 2014 and 2013, respectively.

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

Fiscal years ending September 30:	
2015	$ 10,618,151
2016	9,732,713
2017	8,822,668
2018	7,220,794
2019	7,133,889
	$ 43,528,215

14. Functional Expenses

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

	Year Ended September 30	
	2014	**2013**
Health care services	**$ 288,254,913**	$ 276,723,729
General and administrative	**70,486,232**	67,629,306
	$ 358,741,145	$ 344,353,035

15. Fair Value of Financial Instruments

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

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

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

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

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

15. Fair Value of Financial Instruments

Financial assets and liabilities carried at fair value as of September 30, 2014 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 5,760,243	$ –	$ –	$ 5,760,243
Fixed income securities [(a)]	117,482	–	–	117,482
Domestic fixed	6,535,302	–	–	6,535,302
International fixed	345,854	–	–	345,854
Marketable equity securities [(b)]	494,722	–	–	494,722
Domestic equity	17,454,812	–	–	17,454,812
International equity	1,599,252	–	–	1,599,252
Mutual Funds:				
Domestic	12,362,690	–	–	12,362,690
International	3,331,872	–	–	3,331,872
Multi-Strategy	3,024,061	–	–	3,024,061
Equity:				
Domestic growth [(c)]	5,495,099	–	–	5,495,099
Domestic value [(c)]	5,478,832	–	–	5,478,832
International [(c)]	8,129,521	–	–	8,129,521
Real estate, small cap and other [(c)]	–	–	–	–
International equity common trust fund	–	5,913,593	–	5,913,593
Domestic equity common trust fund	–	11,728,000	–	11,728,000
Fixed income:				
International	618,442	–	–	618,442
Domestic	6,299,598	–	–	6,299,598
Intermediate term [(c)]	7,123,169	–	–	7,123,169
Global [(c)]	2,730,651	–	–	2,730,651
Short-term [(c)]	186,627	–	–	186,627
Inflation protected [(c)]	825,258	–	–	825,258
Common Trust Fund [(d)]	–	1,983,537	–	1,983,537
Domestic Fixed Common Trust Fund	–	7,155,394	–	7,155,394
Funds held by trustee under revenue bond agreement [(e)]	5,021,620	–	–	5,021,620
Fund of funds	–	2,247,593	–	2,247,593
Real estate investments	–	3,159,391	–	3,159,391
Foundation held funds and miscellaneous other investments [(f)]	423,285	2,995,632	–	3,418,916
Total	$ 93,358,392	$ 35,183,139	$ –	$ 128,541,531
Liabilities				
Interest rate swap agreements [(g)]	$ –	$ 1,892,072	$ –	$ 1,892,072

15. Fair Value of Financial Instruments (continued)

Financial assets and liabilities carried at fair value as of September 30, 2013 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 3,249,955	$ –	$ –	$ 3,249,955
Fixed income securities [(a)]	104,734	–	–	104,734
Domestic fixed	13,457,731	–	–	13,457,731
International fixed	1,103,498	–	–	1,103,498
Marketable equity securities [(b)]	447,661	–	–	447,661
Domestic equity	18,250,152	–	–	18,250,152
International equity	3,298,668	–	–	3,298,668
Mutual Funds:				
Domestic	7,188,520	–	–	7,188,520
International	2,092,701	–	–	2,092,701
Multi-Strategy	1,557,134	–	–	1,557,134
Equity:				
Domestic growth [(c)]	6,131,402	–	–	6,131,402
Domestic value [(c)]	5,941,957	–	–	5,941,957
International [(c)]	6,705,662	–	–	6,705,662
Real estate, small cap and other [(c)]	223,001	–	–	223,001
International equity common trust fund	–	6,422,430	–	6,422,430
Domestic equity common trust fund	–	10,896,020	–	10,896,020
Fixed income:				
International	612,673	–	–	612,673
Domestic	4,315,044	–	–	4,315,044
Intermediate term [(c)]	7,932,577	–	–	7,932,577
Global [(c)]	1,621,443	–	–	1,621,443
Short-term [(c)]	192,733	–	–	192,733
Inflation protected [(c)]	824,791	–	–	824,791
Common Trust Fund [(d)]	–	3,670,663	–	3,670,663
Domestic Fixed Common Trust Fund	–	4,445,606	–	4,445,606
Funds held by trustee under revenue bond agreement [(e)]	17,008,322	–	–	17,008,322
Fund of funds	–	2,275,089	–	2,275,089
Real estate investments	–	1,404,193	–	1,404,193
Foundation held funds and miscellaneous other investments [(f)]	–	1,880,869	–	1,880,869
Total	$ 102,260,359	$ 30,994,870	$ –	$ 133,255,229
Liabilities				
Interest rate swap agreements [(g)]	$ –	$ 2,552,994	$ –	$ 2,552,994

15. Fair Value of Financial Instruments (continued)

[a] Includes investments in publicly traded fixed income invests, which may include government, municipal or corporate bonds of varied duration.

[b] Includes investments in publicly traded stock of domestic corporations.

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

[d] The common trust fund seeks to gain exposure to large cap U.S. companies by replicating the S&P 500 Tobacco Free Index, which excludes any company for which tobacco is one of its top five revenue producing industries. There are no liquidity restrictions as the redemption frequency and notice period is daily.

[e] These funds reflect proceeds from borrowings that are held in trust for the Medical Center's use. Funds are generally invested in money market mutual funds and may be drawn on by the Medical Center to purchase capital assets.

[f] These funds reflect the value of the Medical Center's interest in funds held in trust for the Medical Center's benefit. The Medical Center receives statements and records its portion of the trusts' statement value.

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

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

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

Supplementary Information

Connecticut Children’s Medical Center and Subsidiaries

Consolidating Balance Sheets

September 30, 2014

	Connecticut Children’s Medical Center	Effect of Adoption of ASC 958-20	Total	Connecticut Children’s Specialty Group	Children’s Fund	Eliminations	Total Consolidated
Assets							
Current assets:							
Cash and cash equivalents	$ 3,850,387		$ 3,850,387	$ 366,412	$ 1,543,444		$ 5,760,243
Funds held by trustee under revenue bond agreement	5,021,620		5,021,620				5,021,620
Patient accounts receivable, less allowance for doubtful accounts of approximately $6,600,000 for the Medical Center and $832,000 for Specialty Group	30,704,847		30,704,847	4,518,425			35,223,272
Due from affiliated entities	210,170		210,170	503,598			713,768
Inventories	1,389,353		1,389,353				1,389,353
Other current assets	9,315,275		9,315,275	3,593,158	632,753		13,541,186
Total current assets	50,491,652	–	50,491,652	8,981,593	2,176,197	–	61,649,442
Assets whose use is limited:							
Investments				1,159,137	33,714,661		34,873,798
Funds held in trust by others	82,885,871		82,885,871				82,885,871
Interest in Foundation		104,410,463	104,410,463				104,410,463
	82,885,871	104,410,463	187,296,334	1,159,137	33,714,661	–	222,170,132
Property, plant and equipment:							
Buildings	132,296,341		132,296,341	4,606,308			136,902,649
Furniture and equipment	103,960,357		103,960,357	2,232,800	233,768		106,426,925
Construction in progress	16,921,791		16,921,791				16,921,791
	253,178,489		253,178,489	6,839,108	233,768		260,251,365
Less accumulated depreciation	(118,311,796)	–	(118,311,796)	(3,006,073)	(116,722)		(121,434,591)
	134,866,693		134,866,693	3,833,035	117,046	–	138,816,774
Other assets:							
Bond issuance costs	679,656		679,656				679,656
Ground lease	2,358,098		2,358,098				2,358,098
Other	17,767,000		17,767,000	6,586,120	5,493		24,358,613
	20,804,754	–	20,804,754	6,586,120	5,493	–	27,396,367
Total assets	$ 289,048,970	$ 104,410,463	$ 393,459,433	$ 20,559,885	$ 36,013,397	$ –	$ 450,032,715

Connecticut Children's Medical Center and Subsidiaries

Consolidating Balance Sheets (continued)

September 30, 2014

	Connecticut Children's Medical Center	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Liabilities and net assets (deficiency)							
Current liabilities:							
Current portion of bonds payable	$ 1,350,000		$ 1,350,000				$ 1,350,000
Current portion of notes payable	6,175,949		6,175,949	13,151			6,189,100
Accounts payable and accrued expenses	40,922,726		40,922,726	5,007,098	850,681		46,780,505
Accrued wages	12,269,133		12,269,133	6,778,564			19,047,697
Due to third parties	27,554,100		27,554,100	6,010,670			33,564,770
Due to affiliated entities	7,733,907		7,733,907	18,354			7,752,261
Accrued interest payable and other current liabilities	49,938		49,938	14,075			64,013
Total current liabilities	96,055,753		96,055,753	17,841,912	850,681	–	114,748,346
Bonds payable, less current portion	36,685,000		36,685,000				36,685,000
Notes payable, less current portion	22,795,917		22,795,917	59,799			22,855,716
Accrued pension liability	11,770,096		11,770,096				11,770,096
Other long-term liabilities	25,550,702		25,550,702	9,669,831			35,220,533
Total liabilities	192,857,468		192,857,468	27,571,542	850,681	–	221,279,691
Net assets (deficiency):							
Unrestricted	(8,509,048)	82,702,390	74,193,342	(7,011,657)	35,156,273		102,337,958
Temporarily restricted	21,814,679	4,370,219	26,184,898		6,443		26,191,341
Permanently restricted	82,885,871	17,337,854	100,223,725				100,223,725
Total net assets (deficiency)	96,191,502	104,410,463	200,601,965	(7,011,657)	35,162,716	–	228,753,024
Total liabilities and net assets (deficiency)	$ 289,048,970	$ 104,410,463	$ 393,459,433	$ 20,559,885	$ 36,013,397	$ –	$ 450,032,715

Connecticut Children's Medical Center and Subsidiaries

Consolidating Statements of Operations and Changes in Net Assets

Year Ended September 30, 2014

	Connecticut Children's Medical Center	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Revenues:							
Net patient service revenue	$ 256,377,861		$ 256,377,861	$ 53,040,653			$ 309,418,514
Provision for bad debts	(3,419,884)		(3,419,884)	(1,393,189)			(4,813,073)
Net patient service revenue, less provision for bad debts	252,957,977		252,957,977	51,647,464			304,605,441
Patient accounts receivable, less allowance of approximately $6,600,000	3,092,774		3,092,774	3,173,091	4,305,056	(2,019,513)	8,551,408
Net assets released from restrictions for operations	13,260,718		13,260,718		584,996		13,845,714
	269,311,469		269,311,469	54,820,555	4,890,052	(2,019,513)	327,002,563
Expenses:							
Salaries	109,870,644		109,870,644	49,299,264	1,647,229	7,117,995	167,935,132
Benefits	30,164,094		30,164,094	9,512,485	539,952	1,518,522	41,735,053
Supplies and other	124,087,405		124,087,405	14,799,460	3,993,631	(10,656,030)	132,224,466
Depreciation and amortization	14,745,956		14,745,956	838,100	20,101		15,604,157
Interest	1,231,379		1,231,379	10,958			1,242,337
	280,099,478		280,099,478	74,460,267	6,200,913	(2,019,513)	358,741,145
Loss from operations	(10,788,009)		(10,788,009)	(19,639,712)	(1,310,861)	–	(31,738,582)
Other income:							
Investment return, net	(462,130)		(462,130)	35,693	4,429,330		4,002,893
Income from trusts held by others	3,135,171		3,135,171				3,135,171
Change in equity interest in net assets of the Foundation		6,519,525	6,519,525				6,519,525
	2,673,041	6,519,525	9,192,566	35,693	4,429,330	–	13,657,589
(Deficiency) excess of revenues over expenses	(8,114,968)	6,519,525	(1,595,443)	(19,604,019)	3,118,469	–	(18,080,993)

Continued on next page.

Connecticut Children's Medical Center and Subsidiaries

Consolidating Statements of Operations and Changes in Net Assets (continued)

Year Ended September 30, 2014

	Connecticut Children's Medical Center	Effect of Adoption of ASC 958-20	Total	Connecticut Children's Specialty Group	Children's Fund	Eliminations	Total Consolidated
Unrestricted net assets:							
(Deficiency) excess of revenues over expenses	$ (8,114,968)	$ 6,519,525	$ (1,595,443)	$ (19,604,019)	$ 3,118,469		$ (18,080,993)
Transfer from affiliated organizations, net	(22,991,224)		(22,991,224)	22,991,224	–		–
Unrealized gain (loss) on investments			–	84,942	(1,794,439)		(1,709,497)
Net assets released from restrictions for capital	1,746,968		1,746,968				1,746,968
Change in funded status of pension and post-retirement plans	(3,807,134)		(3,807,134)				(3,807,134)
Change in equity interest in the net assets of the Foundation		(547,812)	(547,812)				(547,812)
Change in unrestricted net assets	(33,166,358)	5,971,713	(27,194,645)	3,472,147	1,324,030		(22,398,468)
Temporarily restricted net assets:							
Transfer from affiliated organization	10,054,736		10,054,736				10,054,736
Net assets released from restrictions for operations	(13,260,718)		(13,260,718)		(584,996)		(13,845,714)
Net assets released from restrictions for capital	(1,746,968)		(1,746,968)				(1,746,968)
Bequests, gifts and grants	9,098,264		9,098,264		293,020		9,391,284
Change in equity interest in the net assets of the Foundation		402,458	402,458				402,458
Change in temporarily restricted net assets	4,145,314	402,458	4,547,772		(291,976)		4,255,796
Permanently restricted net assets:							
Change in funds held by others	3,685,543		3,685,543				3,685,543
Change in equity interest in the net assets of the Foundation		431,168	431,168				431,168
Change in permanently restricted net assets	3,685,543	431,168	4,116,711				4,116,711
Change increase in net assets	(25,335,501)	6,805,339	(18,530,162)	3,472,147	1,032,054		(14,025,961)
Net assets (deficiency) at beginning of year	121,527,005	97,605,124	219,132,129	(10,483,806)	34,130,662		242,778,985
Net assets (deficiency) at end of year	$ 96,191,504	$ 104,410,463	$ 200,601,967	$ (7,011,659)	$ 35,162,716	$ –	$ 228,753,024

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