# Consolidated Financial Statements and Supplementary Information

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

Ernst & Young LLP

Building a better working world

CCMC Corporation and Subsidiaries

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
CCMC Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of CCMC 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 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 CCMC 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 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

CCMC Corporation and Subsidiaries

Consolidated Balance Sheets

| | September 30 2014 | September 30 2013 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 6,660,856** | $ 3,643,185 |
| Short-term investments | **11,232,933** | 4,292,988 |
| Funds held by trustee under revenue bond agreement | **5,021,620** | 17,008,322 |
| Accounts receivable, less allowance for doubtful accounts of approximately $7,432,000 in 2014 and $7,544,000 in 2013 | **39,656,117** | 35,721,547 |
| Inventories | **1,389,353** | 1,094,287 |
| Other current assets | **13,864,350** | 16,508,933 |
| Total current assets | **77,825,229** | 78,269,262 |
| | | |
| Assets whose use is limited: | | |
| Investments | **115,153,581** | 118,334,089 |
| Funds held in trust by others | **82,885,871** | 79,200,328 |
| | **198,039,452** | 197,534,417 |
| | | |
| Property, plant, and equipment: | | |
| Leasehold improvements | **2,646,750** | 2,646,750 |
| Buildings | **136,902,649** | 122,797,003 |
| Furniture and equipment | **108,116,410** | 83,497,536 |
| Construction in progress | **16,921,791** | 29,060,602 |
| | **264,587,600** | 238,001,891 |
| Less accumulated depreciation | **(123,858,803)** | (108,858,277) |
| | **140,728,797** | 129,143,614 |
| Other assets: | | |
| Bond issuance costs | **679,656** | 732,242 |
| Ground lease | **2,358,098** | 2,387,390 |
| Pledges receivable, long term | **3,099,546** | 1,493,762 |
| Other | **24,358,613** | 18,520,980 |
| | **30,495,913** | 23,134,374 |
| Total assets | **$ 447,089,391** | $ 428,081,667 |

| | 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 liabilities | **46,888,207** | 40,018,124 |
| Accrued wages | **19,785,007** | 18,099,416 |
| Due to third parties | **33,564,770** | 13,394,804 |
| Accrued interest payable and other current liabilities | **64,013** | 307,335 |
| Total current liabilities | **107,841,097** | 78,547,330 |
| | | |
| 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 | **35,250,131** | 32,203,191 |
| Total liabilities | **214,402,040** | 182,369,129 |
| | | |
| Net assets: | | |
| Unrestricted | **106,219,054** | 127,634,615 |
| Temporarily restricted | **26,244,572** | 21,970,909 |
| Permanently restricted | **100,223,725** | 96,107,014 |
| Total net assets | **232,687,351** | 245,712,538 |
| | | |
| Total liabilities and net assets | **$ 447,089,391** | $ 428,081,667 |

*See accompanying notes.*

CCMC Corporation 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 | **19,385,792** | 21,891,523 |
| Contributions and donations, net | **2,073,903** | 6,356,113 |
| Investment return, net | **15,468,829** | 10,255,795 |
| Net assets released from restrictions for operations | **13,856,995** | 16,410,503 |
| | **355,390,960** | 341,427,962 |
| Expenses: | | |
| Salaries and wages | **176,241,523** | 174,652,632 |
| Benefits | **44,093,788** | 45,276,368 |
| Supplies and miscellaneous | **135,027,386** | 124,460,512 |
| Interest | **1,242,337** | 1,314,300 |
| Depreciation and amortization | **15,884,013** | 12,798,412 |
| | **372,489,047** | 358,502,224 |
| Deficiency of revenues over expenses | **(17,098,087)** | (17,074,262) |

*Continued on next page.*

CCMC Corporation 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 | **$ (17,098,087)** | $ (17,074,262) |
| Unrealized (loss) gain on investments | **(2,257,309)** | 5,638,186 |
| Change in funded status of pension and post-retirement plans | **(3,807,134)** | 13,260,268 |
| Net assets released from restrictions for capital | **1,746,969** | 556,091 |
| Change in unrestricted net assets | **(21,415,561)** | 2,380,283 |
| | | |
| Temporarily restricted net assets: | | |
| Unrealized (loss) gains on investments | **(28,328)** | 307,813 |
| Income from investments | **430,786** | 496,826 |
| Net assets released from restrictions for operations | **(13,856,995)** | (16,410,503) |
| Net assets released from restrictions for capital | **(1,746,969)** | (556,091) |
| Bequests, gifts and grants | **19,475,169** | 16,177,502 |
| Change in temporarily restricted net assets | **4,273,663** | 15,547 |
| | | |
| Permanently restricted net assets: | | |
| Bequests, gifts and grants | **431,168** | 271,830 |
| Change in funds held in trust by others | **3,685,543** | 3,495,247 |
| Change in permanently restricted net assets | **4,116,711** | 3,767,077 |
| Change in net assets | **(13,025,187)** | 6,162,907 |
| | | |
| Net assets at beginning of year | **245,712,538** | 239,549,631 |
| Net assets at end of year | **$ 232,687,351** | $ 245,712,538 |

*See accompanying notes.*

# CCMC Corporation and Subsidiaries

## Consolidated Statements of Cash Flows

| | Year Ended September 30 | |
|---|---|---|
| | **2014** | **2013** |
| **Operating activities** | | |
| Change in net assets | **$ (13,025,187)** | $ 6,162,907 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Noncash items: | | |
| Provision for bad debts | **4,813,073** | 5,933,509 |
| Depreciation and amortization | **15,884,013** | 12,798,412 |
| Change in funds held in trust by others and assets released from restrictions by trustees | **(3,685,543)** | (3,495,247) |
| Unrealized loss (gain) on investments | **2,285,637** | (5,945,999) |
| Change in funded status of pension and post-retirement plans | **3,807,134** | (13,260,268) |
| Other changes in net assets: | | |
| Restricted contributions and investment income | **(20,337,123)** | (16,946,158) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **(10,353,427)** | (6,130,641) |
| Inventories | **(295,066)** | (401,562) |
| Due from third parties | **–** | 4,899,895 |
| Other current assets | **2,644,583** | (2,836,780) |
| Investment in CHS Insurance Limited | **–** | 109,961 |
| Other long term assets | **(5,755,755)** | (226,583) |
| Accounts payable and accrued liabilities | **6,870,083** | 7,067,593 |
| Accrued wages and interest payable | **1,442,269** | 1,019,303 |
| Due to third parties | **20,169,966** | 8,868,376 |
| Accrued pension liability | **(394,320)** | 2,590,652 |
| Other long-term liabilities | **3,046,940** | (7,086,724) |
| Net cash provided by (used in) operating activities | **7,117,277** | (6,879,354) |
| | | |
| **Investing activities** | | |
| Purchases of property, plant and equipment, net | **(27,469,196)** | (29,048,409) |
| Distribution from CHS Insurance Limited | **–** | 12,649,593 |
| Change in investments, net | **(6,045,074)** | 5,153,310 |
| Change in funds held by trustee under revenue bond | **11,986,702** | (6,599,741) |
| Net cash used in investing activities | **(21,527,568)** | (17,845,247) |
| | | |
| **Financing activities** | | |
| Restricted contributions and investment income | **20,337,123** | 16,946,158 |
| Principal payment on bonds and notes payable | **(6,988,038)** | (4,658,105) |
| Proceeds from new debt and notes payable issued | **4,078,877** | 13,500,000 |
| Net cash provided by financing activities | **17,427,962** | 25,788,053 |
| Change in cash and cash equivalents | **3,017,671** | 1,063,452 |
| | | |
| Cash and cash equivalents at beginning of year | **3,643,185** | 2,579,733 |
| Cash and cash equivalents at end of year | **$ 6,660,856** | $ 3,643,185 |

*See accompanying notes.*

## 1. Organization and Accounting Policies

CCMC Corporation (the Corporation) was incorporated on June 1, 1985 as a not-for-profit organization under the Non-Stock Corporation Act of the State of Connecticut. The Corporation is organized for the purpose of benefiting, carrying out the purposes of, and upholding, promoting and furthering the welfare, programs and activities of its subsidiary Connecticut Children's Medical Center (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). The Corporation is also the sole member of Connecticut Children's Medical Center Foundation, Inc. (the Foundation) and CCMC Affiliates, Inc. CCMC Ventures, Inc. (presently inactive) will conduct the related for-profit activities of the Corporation, its sole shareholder.

### 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 accounts receivable for services to patients, and liabilities, such as third party settlements, professional insurance liabilities and pension and postretirement benefits 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 Corporation 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 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 15). Investment income includes realized gains and losses on investments, interest and dividends and is included in the deficiency of revenues over expenses 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 investment income which is a component of deficiency of revenues over expenses. Based on current market conditions, as well as the Corporation'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.

**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 are included in investment income. 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.

**Bond Issuance Costs**

Bond issuance costs incurred to refinance outstanding debt are being amortized using the straight-line method. The difference between the straight-line method and the effective-interest method is immaterial.

## 1. Organization and Accounting Policies (continued)

### Property, Plant, and Equipment

Property, plant, and equipment are recorded on the basis of cost. The Corporation 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.

### Contributions and Donor Restricted Gifts

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

Contributions for which donors have not stipulated restrictions are reported as unrestricted support. 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 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.

**1. Organization and Accounting Policies (continued)**

**Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Corporation 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, program support, medical education and research. 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 investment income, 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 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.

## 1. Organization and Accounting Policies (continued)

### Insurance Recovery Receivable and Insurance Claims Liability

The Corporation 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 statement of operations and changes in net assets includes 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 and changes in the funded status of the pension and postretirement plans.

### Advertising

The Corporation'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 Corporation and its subsidiaries, with the exception of CCMC Ventures, Inc., are not-for-profit organizations 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. CCMC Ventures, Inc. has no federal tax liability because it has been inactive since its incorporation.

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.

**1. Organization and Accounting Policies (continued)**

**Subsequent Events**

The Corporation 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 Corporation 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 program 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 affect on the Medical Center.

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

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 |

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 debt based upon a review of all of its outstanding receivables. Write-offs of receivable balances are related 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.

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

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 cost of charity care is 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 Corporation's ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients.

## 3. Contributions Receivable

Contributions receivable, reported within accounts receivable and other assets in the consolidated balance sheets, include the following unconditional promises to give:

| | **September 30** | |
|---|---|---|
| | **2014** | **2013** |
| Contributions receivable in one year or less | **$ 3,103,644** | $ 3,305,963 |
| Contributions receivable in one to five years | **3,625,636** | 1,839,360 |
| Less discount and provision for bad debts | **(526,090)** | (345,598) |
| Net pledges receivable | **$ 6,203,190** | $ 4,799,725 |

The discount recognizes the estimated uncollectible portion of the contributions receivable and the discount of contributions receivable to net present value.

## 4. Concentrations of Credit Risk

The Corporation'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 Corporation's cash and cash equivalents are placed with high credit quality financial institutions. The Corporation's investment policy limits its exposure to concentrations of credit risk. In the normal course of business, the Corporation 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, carried at fair value, is set forth in the following table:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Cost** | **Market** | **Cost** | **Market** |
| Short-term investments | **$ 11,322,233** | **$ 11,322,233** | $ 4,354,206 | $ 4,354,207 |
| Marketable equity securities | **485,570** | **696,734** | 292,686 | 447,661 |
| Fixed income securities | **28,363** | **30,012** | 100,299 | 104,734 |
| Equity mutual funds | **45,668,216** | **58,515,793** | 52,865,500 | 67,105,251 |
| Fixed income mutual funds | **28,335,727** | **28,546,453** | 26,896,059 | 27,203,262 |
| Multi-strategy mutual funds | **26,816,582** | **27,206,728** | 22,167,998 | 23,411,962 |
| Other | **65,131** | **68,561** | – | – |
| | **$ 112,721,822** | **$ 126,386,514** | $ 106,676,748 | $ 122,627,077 |

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

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** |
| Institutional managed equity funds | **39,636** | **462** | **64,956** | **44** | **104,592** | **506** |
| Mutual funds and other securities | **23,760,807** | **680,171** | **4,123,307** | **140,789** | **27,884,114** | **820,960** |
| Other | **128,083** | **14,640** | | | **128,083** | **14,640** |
| Total investments | **$ 23,942,853** | **$ 695,710** | **$ 4,205,435** | **$ 147,831** | **$ 28,148,288** | **$ 843,541** |

## 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 |
| Institutional managed equity funds | 64,600 | 5,538 | 25,112 | 22 | 89,712 | 5,560 |
| Mutual funds and other securities | 4,000,945 | 24,877 | 106,746 | 2,144 | 4,107,691 | 27,021 |
| Other | 3,652,907 | 27,093 | – | – | 3,652,907 | 27,093 |
| Total investments | $ 7,718,452 | $ 57,508 | $ 177,078 | $ 11,664 | $ 7,895,530 | $ 69,172 |

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 and the length of time and extent to which the market value has been less than cost along with the Corporation's intent and ability to hold the investments. During the years ended September 30, 2014 and 2013, the Corporation 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.

## 5. Investments (continued)

Investment return, net for the years ended September 30, 2014 and 2013 consists of the following:

| | 2014 | 2013 |
|---|---|---|
| Interest and dividend income | **$ 2,054,701** | $ 2,564,919 |
| Realized gain | **10,943,047** | 5,090,125 |
| Loss on sale of CHS | **–** | (109,961) |
| Net swap activity | **(499,834)** | 318,026 |
| Trust income | **3,135,171** | 2,518,697 |
| Temporarily restricted income | **–** | – |
| Investment fees | **(164,256)** | (126,011) |
| | **$ 15,468,829** | $ 10,255,795 |

## 6. Restricted Net Assets

### Endowments

The Corporation's 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 Corporation had $21,942,979 and $19,645,169 in endowments held at the Foundation, respectively.

### Interpretation of Relevant Law

The Corporation'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 Corporation 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

**6. Restricted Net Assets (continued)**

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 Corporation 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.

**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 Corporation 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 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 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 Corporation 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.

## 6. Restricted Net Assets (continued)

### Strategies Employed for Achieving Objectives

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 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.

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 |

**6. Restricted Net Assets (continued)**

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 Foundation's spending policy, which applies to the Corporation, is that any expenditure associated with the endowment is appropriated based on the donor's intention.

**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.

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.

**7. Pension Plan (continued)**

The following table presents a reconciliation of the beginning and ending balances of the Plans' projected benefit obligation and the fair value of plan assets, as well as the funded status of the 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 |
| | | |
| **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 |

**7. Pension Plan (continued)**

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 cost | **$ 236,947** | $ 1,254,183 |

The weighted-average assumptions used to determine net periodic benefit costs are as follows for September 30, 2014 and 2013:

| | 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 and 2013, 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)

| | September 30, 2013 | | | |
|---|---|---|---|---|
| | **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.

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 benefit costs for the years ended 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** | **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 |

In June 2011, the Medical Center and 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 (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 Medical Center or extend their holding period at their discretion. The Series D 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 agreements 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 Obligated Group was in compliance with the covenants.

**9. Bonds Payable (continued)**

The carrying value of the bonds payable approximates fair value. The Corporation 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 |

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.

**9. Bonds Payable (continued)**

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 | Notional Amount at September 30 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 Corporation 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 believes that the lawsuits will not 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 the 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.

**13. Operating Leases (continued)**

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. The Foundation performs fundraising services to provide support to the Medical Center and its other related 501(c)(3) companies. Expenses related to providing these services are as follows:

| | **2014** | 2013 |
|---|---|---|
| Health care services | **$ 297,377,642** | $ 286,028,539 |
| Fundraising | **2,466,171** | 2,607,347 |
| General and administrative | **72,645,234** | 69,866,338 |
| | **$ 372,489,047** | $ 358,502,224 |

**15. Fair Value of Financial Instruments**

The Corporation 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 Corporation'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 Corporation 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 Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Corporation also considers counterparty credit risk in its assessment of fair value.

## 15. Fair Value of Financial Instruments (continued)

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 | $ 6,660,856 | $ – | $ – | $ 6,660,856 |
| Money Market Mutual Funds | 11,232,933 | | | $ 11,232,933 |
| 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 | 27,206,728 | – | 30,230,789 |
| Equity: | | | | |
| Domestic growth [c] | 17,495,099 | – | – | 17,495,099 |
| Domestic value [c] | 17,478,832 | – | – | 17,478,832 |
| International [c] | 19,514,905 | – | – | 19,514,905 |
| 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 | 15,215,847 | – | – | 15,215,847 |
| Intermediate term [c] | 7,123,169 | – | – | 7,123,169 |
| Global [c] | 2,730,651 | – | – | 2,730,651 |
| Short-term [c] | 186,627 | 8,771,422 | – | 8,958,049 |
| 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 | 2,995,633 | – | 3,418,917 |
| Total | $ 149,793,571 | $ 71,161,290 | $ – | $ 220,954,861 |
| | | | | |
| **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 | $ 3,643,185 | $ – | $ – | $ 3,643,185 |
| Money market mutual funds [a] | 4,354,207 | – | – | 4,354,207 |
| Fixed income securities [b] | 104,734 | – | – | 104,734 |
| Domestic fixed | 13,457,731 | – | – | 13,457,731 |
| International fixed | 1,103,498 | – | – | 1,103,498 |
| Marketable equity securities [c] | 447,661 | – | – | 447,661 |
| Domestic equity | 18,250,153 | – | – | 18,250,153 |
| International equity | 3,298,668 | – | – | 3,298,668 |
| Mutual Funds: | | | | – |
| Domestic | 7,188,520 | – | – | 7,188,520 |
| International | 2,092,701 | – | – | 2,092,701 |
| Equity: | | | | – |
| Domestic growth [d] | 16,060,094 | – | – | 16,060,094 |
| Domestic large blend | 12,136,461 | – | – | 12,136,461 |
| Domestic value [d] | 15,241,491 | – | – | 15,241,491 |
| International [d] | 16,853,920 | – | – | 16,853,920 |
| Real estate, small cap and other [d] | 299,051 | – | – | 299,051 |
| Mid cap blend [d] | 2,843,570 | – | – | 2,843,570 |
| 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 [d] | 13,160,244 | – | – | 13,160,244 |
| Non-traditional bond | 4,000,945 | – | – | 4,000,945 |
| Global [d] | 1,621,443 | – | – | 1,621,443 |
| Short term and other fixed [d] | 181,591 | 7,414,248 | – | 7,595,839 |
| Inflation protected [d] | 824,791 | – | – | 824,791 |
| Multi-strategy funds [e] | 1,557,134 | 23,411,962 | – | 24,969,096 |
| Common Trust Fund [f] | – | 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 [g] | 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 [h] | – | 1,880,869 | – | 1,880,869 |
| Total | $ 160,657,832 | $ 61,821,080 | $ – | $ 222,478,912 |
| | | | | |
| **Liabilities** | | | | |
| Interest rate swap agreements [i] | $ – | $ 2,552,994 | | $ 2,552,994 |

## 15. Fair Value of Financial Instruments (continued)

(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 fixed income invests, which may include government, municipal or corporate bonds of varied duration.
(c) Includes investments in publicly traded stock of domestic corporations.
(d) 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.
(e) 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.
(f) 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.
(g) 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.
(h) 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.
(i) 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 indications of liquidity, but are description 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 upon 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 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.

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

# Supplementary Information

# CCMC Corporation and Subsidiaries

## Consolidating Balance Sheets

September 30, 2014

| | Hospital & Subsidiaries | Foundation | Affiliates | Corporation | Ventures | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Current assets: | | | | | | | |
| Cash and cash equivalents | $ 5,760,243 | $ 850,818 | $ 7,768 | $ 42,028 | $ – | $ – | $ 6,660,856 |
| Short-term investments | – | 11,232,933 | – | – | – | – | 11,232,933 |
| Funds held by trustee under revenue bond agreement | 5,021,620 | – | – | – | – | – | 5,021,620 |
| Accounts receivable, less allowance of approximately $7,432,000 | 35,223,272 | 2,490,846 | 1,941,999 | – | – | – | 39,656,117 |
| Due from affiliated entities | 713,768 | 6,187,501 | 2,407,775 | – | – | (9,309,044) | – |
| Inventories | 1,389,353 | – | – | – | – | – | 1,389,353 |
| Other current assets | 13,541,186 | 237,744 | 85,420 | – | – | – | 13,864,350 |
| Total current assets | 61,649,442 | 20,999,842 | 4,442,962 | 42,028 | – | (9,309,044) | 77,825,229 |
| Assets whose use is limited: | | | | | | | |
| Investments | 34,873,798 | 80,279,783 | – | – | – | – | 115,153,581 |
| Funds held in trust by others | 82,885,871 | – | – | – | – | – | 82,885,871 |
| Investment in Foundation | 104,410,463 | – | – | – | – | (104,410,463) | – |
| | 222,170,132 | 80,279,783 | – | – | – | (104,410,463) | 198,039,452 |
| Property, plant, and equipment: | | | | | | | |
| Leasehold improvements | – | – | 2,646,750 | – | – | – | 2,646,750 |
| Buildings | 136,902,649 | – | – | – | – | – | 136,902,649 |
| Furniture and equipment | 106,426,925 | 824,022 | 865,463 | – | – | – | 108,116,410 |
| Construction in progress | 16,921,791 | – | – | – | – | – | 16,921,791 |
| | 260,251,365 | 824,022 | 3,512,213 | – | – | – | 264,587,600 |
| Less accumulated depreciation | (121,434,591) | (515,695) | (1,908,517) | – | – | – | (123,858,803) |
| | 138,816,774 | 308,327 | 1,603,696 | – | – | – | 140,728,797 |
| Other assets: | | | | | | | |
| Bond issuance costs | 679,656 | – | – | – | – | – | 679,656 |
| Ground lease | 2,358,098 | – | – | – | – | – | 2,358,098 |
| Pledges receivable, long term | – | 3,099,546 | – | – | – | – | 3,099,546 |
| Other | 24,358,613 | – | – | 1,000 | – | (1,000) | 24,358,613 |
| | 27,396,367 | 3,099,546 | – | 1,000 | – | (1,000) | 30,495,913 |
| Total assets | $ 450,032,715 | $ 104,687,498 | $ 6,046,658 | $ 43,028 | $ – | $ (113,720,507) | $ 447,089,391 |

# CCMC Corporation and Subsidiaries

## Consolidating Balance Sheets (continued)

| | Hospital & Subsidiaries | Foundation | Affiliates | Corporation | Ventures | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| **Liabilities and net assets (deficiency)** | | | | | | | |
| Current liabilities: | | | | | | | |
| Current portion of bonds payable | $ 1,350,000 | $ – | $ – | $ – | $ – | $ – | $ 1,350,000 |
| Current portion of notes payable | 6,189,100 | – | – | – | – | – | 6,189,100 |
| Accounts payable and accrued liabilities | 46,780,505 | 27,964 | 79,738 | – | – | – | 46,888,207 |
| Accrued wages | 19,047,697 | 219,473 | 517,837 | – | – | – | 19,785,007 |
| Due to third parties | 33,564,770 | – | – | – | – | – | 33,564,770 |
| Accrued interest payable and other current liabilities | 64,013 | – | – | – | – | – | 64,013 |
| Due to affiliated entities | 7,752,261 | – | 1,105,197 | 432,734 | 18,853 | (9,309,044) | – |
| Total current liabilities | 114,748,346 | 247,437 | 1,702,772 | 432,734 | 18,853 | (9,309,044) | 107,841,097 |
| Bonds payable, less current portion | 36,685,000 | – | – | – | – | – | 36,685,000 |
| Notes payable, less current portion | 22,855,716 | – | – | – | – | – | 22,855,716 |
| Accrued pension liability | 11,770,096 | – | – | – | – | – | 11,770,096 |
| Other long term liabilities | 35,220,533 | 29,598 | – | – | – | – | 35,250,131 |
| Total liabilities | 221,279,691 | 277,035 | 1,702,772 | 432,734 | 18,853 | (9,309,044) | 214,402,040 |
| Net assets (deficiency): | | | | | | | |
| Unrestricted | 102,337,958 | – | 4,290,655 | (389,706) | (18,853) | (1,000) | 106,219,054 |
| Temporarily restricted | 26,191,341 | 87,072,609 | 53,231 | – | – | (87,072,609) | 26,244,572 |
| Permanently restricted | 100,223,725 | 17,337,854 | – | – | – | (17,337,854) | 100,223,725 |
| Total net assets (deficiency) | 228,753,024 | 104,410,463 | 4,343,886 | (389,706) | (18,853) | (104,411,463) | 232,687,351 |
| Total liabilities and net assets (deficiency) | $ 450,032,715 | $ 104,687,498 | $ 6,046,658 | $ 43,028 | $ 0 | $ (113,720,507) | $ 447,089,391 |

# CCMC Corporation and Subsidiaries

## Consolidating Statements of Operations and Changes in Net Assets

### Year Ended September 30, 2014

| | Hospital & Subsidiaries | Foundation | Affiliates | Corporation | Ventures | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Net patient service revenue | $ 309,418,514 | $ – | $ – | $ – | $ – | $ – | $ 309,418,514 |
| Provision for bad debts | (4,813,073) | – | – | – | – | – | (4,813,073) |
| Net patient service revenue, less provision for bad debts | 304,605,441 | – | – | – | – | – | 304,605,441 |
| Other revenues | 8,551,408 | 8,402 | 10,825,982 | – | – | – | 19,385,792 |
| Contributions and donations, net | – | 2,073,903 | – | – | – | – | 2,073,903 |
| Investment income | 7,138,064 | 8,330,765 | – | – | – | – | 15,468,829 |
| Net assets released from restrictions for operations | 13,845,714 | – | 11,281 | – | – | – | 13,856,995 |
| | 334,140,627 | 10,413,070 | 10,837,263 | – | – | – | 355,390,960 |
| Expenses: | | | | | | | |
| Salaries and wages | 167,935,132 | 2,213,000 | 6,046,763 | 46,628 | – | – | 176,241,523 |
| Benefits | 41,735,053 | 624,927 | 1,720,556 | 13,252 | – | – | 44,093,788 |
| Supplies and miscellaneous | 132,224,466 | 1,024,121 | 1,778,549 | – | 250 | – | 135,027,386 |
| Interest | 1,242,337 | – | – | – | – | – | 1,242,337 |
| Depreciation and amortization | 15,604,157 | 31,497 | 248,359 | – | – | – | 15,884,013 |
| | 358,741,145 | 3,893,545 | 9,794,227 | 59,880 | 250 | – | 372,489,047 |
| Operating (loss) income | (24,600,518) | 6,519,525 | 1,043,036 | (59,880) | (250) | – | (17,098,087) |
| Change in equity interest in net assets of the Foundation | 6,519,525 | – | – | – | – | (6,519,525) | – |
| (Deficiency) excess of revenues over expenses | (18,080,993) | 6,519,525 | 1,043,036 | (59,880) | (250) | (6,519,525) | (17,098,087) |

# CCMC Corporation and Subsidiaries

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

| | Hospital & Subsidiaries | Foundation | Affiliates | Corporation | Ventures | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| Unrestricted net assets: | | | | | | | |
| (Deficiency) excess of revenues over expenses | $ (18,080,993) | $ 6,519,525 | $ 1,043,036 | $ (59,880) | $ (250) | $ (6,519,525) | $ (17,098,087) |
| Unrealized gain on investments | (1,709,497) | (547,812) | – | – | – | – | (2,257,309) |
| Change in funded status of pension and post-retirement plans | (3,807,134) | – | – | – | – | – | (3,807,134) |
| Net assets released from restrictions for capital | 1,746,969 | – | – | – | – | – | 1,746,969 |
| Change in equity interest in the net assets of the Foundation | (547,812) | – | – | – | – | 547,812 | – |
| Increase decrease in unrestricted net assets | (22,398,467) | 5,971,713 | 1,043,036 | (59,880) | (250) | (5,971,713) | (21,415,561) |
| | | | | | | | |
| Proof | | | | | | | |
| Temporarily restricted net assets: | | | | | | | |
| Unrealized gains on investments | – | (28,328) | – | – | – | – | (28,328) |
| Income from investments | – | 430,786 | – | – | – | – | 430,786 |
| Transfer from (to) affiliates | 10,054,736 | (10,070,546) | 15,810 | – | – | – | – |
| Net assets released from restrictions for operations | (13,845,714) | – | (11,281) | – | – | – | (13,856,995) |
| Net assets released from restrictions for capital | (1,746,969) | – | – | – | – | – | (1,746,969) |
| Change in equity interest in the net asset of the Foundation | 402,458 | – | – | – | – | (402,458) | – |
| Bequests, gift, and grants | 9,391,284 | 10,070,546 | 13,339 | – | – | – | 19,475,169 |
| Increase (decrease) in temporarily restricted net assets | 4,255,795 | 402,458 | 17,868 | – | – | (402,458) | 4,273,663 |
| | | | | | | | |
| Permanently restricted net assets: | | | | | | | |
| Bequests, gifts and grants | – | 431,168 | – | – | – | – | 431,168 |
| Change in equity interest in the net assets of the Foundation | 431,168 | – | – | – | – | (431,168) | – |
| Change in funds held by others | 3,685,543 | – | – | – | – | – | 3,685,543 |
| Increase in permanently restricted net assets | 4,116,711 | 431,168 | – | – | – | (431,168) | 4,116,711 |
| | | | | | | | |
| Net assets (deficiency) at beginning of year | 242,778,985 | 97,605,124 | 3,282,983 | (329,827) | (18,603) | (97,606,124) | 245,712,538 |
| Net assets (deficiency) at end of year | $ 228,753,024 | $ 104,410,463 | $ 4,343,887 | $ (389,707) | $ (18,853) | $ (104,411,463) | $ 232,687,351 |

EY | Assurance | Tax | Transactions | Advisory

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