Consolidated Financial Statements and supplementary information

Hartford Hospital
Years Ended September 30, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP

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Building a better working world

Hartford Hospital

Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2014 and 2013

Contents

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Ernst & Young LLP
20 Church Street
Hartford, CT 06103

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

Report of Independent Auditors

The Board of Directors
Hartford HealthCare Corporation

We have audited the accompanying consolidated financial statements of Hartford Hospital (the Hospital), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hartford Hospital at September 30, 2014 and 2013, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

January 28, 2015

Hartford Hospital

Consolidated Balance Sheets

	September 30	
	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	**$ 16,714,023**	$ 20,527,760
Interest in investments held by Endowment LLC	**8,299,447**	6,932,385
Accounts receivable, less allowances for doubtful accounts of approximately $42,446,000 in 2014 and $29,195,000 in 2013	**129,137,758**	150,689,067
Other receivables	**15,831,225**	25,411,846
Due from affiliates	**25,599,777**	19,748,698
Inventories of supplies	**12,834,592**	11,186,533
Prepaid expenses and other assets	**6,594,835**	11,562,812
Current portion of assets whose use is limited	**–**	450,405
Total current assets	**215,011,657**	246,509,506
Assets whose use is limited:		
Investments and other assets	**531,888**	18,201,569
Interest in investments held by Endowment LLC	**309,558,352**	284,017,372
Donor-restricted interest in investments held by Endowment LLC	**224,224,825**	210,085,510
Investments for restricted purposes	**5,510,000**	8,513,381
Escrow funds for long-term debt	**3,243,365**	4,538,771
Funds designated for debt service	**8,997,789**	8,817,532
	552,066,219	534,174,135
Funds held in trust by others	**141,869,326**	137,029,182
Other assets	**79,437,312**	71,120,072
Property, plant, and equipment, net	**381,923,855**	394,196,561
Total assets	**$1,370,308,369**	$1,383,029,456
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 16,591,072**	$ 22,363,854
Salaries, wages, payroll taxes, and amounts withheld from employees	**23,745,816**	21,311,957
Due to affiliates	**14,761,626**	21,999,717
Accrued expenses	**23,145,760**	22,919,740
Estimated third-party payor settlements	**18,683,246**	13,084,951
Current portion of long-term debt	**18,596,036**	101,019,021
Current portion of accrued pension liability	**6,674,125**	8,047,176
Current portion of other liabilities	**9,800,029**	10,988,098
Total current liabilities	**131,997,710**	221,734,514
Long-term debt	**287,081,033**	210,952,088
Accrued pension liability	**254,058,658**	218,856,421
Other liabilities	**41,991,787**	37,533,464
Total liabilities	**715,129,188**	689,076,487
Net assets:		
Unrestricted	**281,544,627**	338,503,669
Temporarily restricted	**146,633,284**	135,289,907
Permanently restricted	**227,001,270**	220,159,393
Total net assets	**655,179,181**	693,952,969
	$1,370,308,369	$1,383,029,456

See accompanying notes.

Hartford Hospital

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2014	**2013**
Unrestricted revenues, gains and other support:		
Net patient service revenue	**$ 1,000,796,127**	$ 921,252,388
Provision for bad debts	**24,640,388**	17,467,613
Net patient service revenue less provision for bad debts	**976,155,739**	903,784,775
Other operating revenue	**74,980,429**	82,422,742
Net assets released from restrictions for operations	**8,360,231**	7,643,831
	1,059,496,399	993,851,348
Operating expenses:		
Salaries and wages	**428,888,306**	437,848,001
Employee benefits	**134,941,400**	155,352,019
Supplies and other	**203,000,364**	209,551,581
Purchased services	**199,061,214**	141,601,806
Depreciation and amortization	**48,969,262**	48,796,972
Interest	**8,386,515**	5,704,487
	1,023,247,061	998,854,866
Income (loss) from operations	**36,249,338**	(5,003,518)
Nonoperating income:		
Income from investments, gifts, and bequests, net	**34,545,918**	48,674,277
Other	**(8,610,177)**	(6,343,399)
	25,935,741	42,330,878
Excess of revenues over expenses	**62,185,079**	37,327,360

Continued on next page.

Hartford Hospital

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

	Year Ended September 30 2014	2013
Unrestricted net assets:		
Excess of revenues over expenses (continued)	**$ 62,185,079**	$ 37,327,360
Transfers to Hartford HealthCare Corporation	**(85,888,983)**	(152,363,815)
Net assets released from restrictions for the purchase of capital	**1,477,729**	5,590,891
Change in pension and post-retirement funding	**(34,732,867)**	153,353,962
(Decrease) increase in unrestricted net assets	**(56,959,042)**	43,908,398
Temporarily restricted net assets:		
Restricted contributions	**7,594,088**	5,592,477
Restricted investment (loss) income	**(1,520,008)**	3,377,925
Return on investments held by Endowment LLC	**15,087,201**	8,017,545
Change in unrealized gains and losses on investments	**20,056**	(20,176,933)
Realized gains on investments	**–**	30,374,948
Net assets released from restrictions for operations	**(8,360,231)**	(7,643,831)
Net assets released from restrictions for the purchase of capital	**(1,477,729)**	(5,590,891)
Increase in temporarily restricted net assets	**11,343,377**	13,951,240
Permanently restricted net assets:		
Restricted contributions	**1,462,398**	4,719,249
Restricted investment income	**–**	553,176
Return on investments held in Endowment LLC	**539,335**	204,354
Change in unrealized gains and losses on funds held in trust by others	**4,840,144**	6,952,304
Increase in permanently restricted net assets	**6,841,877**	12,429,083
(Decrease) increase in net assets	**(38,773,788)**	70,288,721
Net assets at beginning of year	**693,952,969**	623,664,248
Net assets at end of year	**$ 655,179,181**	$ 693,952,969

See accompanying notes.

Hartford Hospital

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2014	**2013**
Cash flows from operating activities		
(Decrease) increase in net assets	**$(38,773,788)**	$ 70,288,721
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	**48,969,262**	48,796,972
Change in unrealized gains and losses on investments	**(186,333)**	63,513,669
Change in investments held by Endowment LLC	**(43,289,442)**	(28,301,975)
Change in unrealized gains and losses on funds held in trust by others	**(4,840,144)**	(6,952,304)
Provision for bad debts	**24,640,388**	17,467,613
Change in net assets related to pension and post-retirement funding obligations	**34,732,867**	(153,353,962)
Transfer to Hartford HealthCare Corporation	**85,888,983**	152,363,815
Other changes in net assets:		
Restricted contributions and investment income	**7,536,478**	14,242,827
Changes in assets and liabilities, net *(Note 14)*	**(21,780,438)**	(9,944,651)
Net cash provided by operating activities	**92,897,833**	168,120,725
Cash flows from investing activities		
Purchase of property, plant, and equipment, net	**(36,696,556)**	(74,436,700)
Decrease (increase) in assets whose use is limited, net	**26,034,096**	(77,241,334)
Net cash used in investing activities	**(10,662,460)**	(151,678,034)
Cash flows from financing activities		
Payments on long-term debt	**(88,386,723)**	(5,971,334)
Proceeds from long-term debt	**82,092,683**	64,627,631
Transfer to Hartford HealthCare Corporation	**(72,218,592)**	(130,749,266)
Restricted contributions and investment income	**(7,536,478)**	(14,242,827)
Net cash used in financing activities	**(86,049,110)**	(86,335,796)
Net decrease in cash and cash equivalents	**(3,813,737)**	(69,893,105)
Cash and cash equivalents at beginning of year	**20,527,760**	90,420,865
Cash and cash equivalents at end of year	**$ 16,714,023**	$ 20,527,760

See accompanying notes.

1. Significant Accounting Policies

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

Organization

The Hospital is a voluntary association incorporated under the General Statutes of the State of Connecticut and is an affiliate of Hartford HealthCare Corporation (HHC). The Board of Directors of the Hospital, appointed by HHC, controls the operations of the Hospital. The accompanying consolidated financial statements include Hartford Hospital, Jefferson House and Cedar Mountain Commons (both of which are departments of the Hospital), and the Institute of Living. Jefferson House is a nursing home facility that is operated as a department of the Hospital as mandated by legislation enacted in 1873. Cedar Mountain Commons is a senior living community that opened in February 2001 and is owned by the Hospital and Jefferson House. The Institute of Living is a mental health center in Hartford, Connecticut, and is a wholly owned subsidiary of the Hospital.

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

Use of Estimates

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

Regulatory Matters

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

1. Significant Accounting Policies (continued)

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Patient Accounts Receivable

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

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

The Hospital's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies, and private patients. The Hospital manages the receivables by regularly reviewing its patient accounts and contracts and by providing appropriate allowances for uncollectible amounts. Significant concentrations of patient accounts receivable include 26% and 11%, and 23% and 10%, for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2014 and 2013, respectively.

1. Significant Accounting Policies (continued)

Interest in Investments Held by Hartford Healthcare Endowment LLC

Effective August 29, 2011, Hartford HealthCare Endowment LLC (Endowment LLC) was created to maintain and manage, on a pooled basis, the endowment funds of the Hospital; Windham Community Memorial Hospital, Inc.; MidState Medical Center; The Hospital of Central Connecticut at New Britain General and Bradley Memorial; HHC; and Hartford HealthCare at Home, Inc. Endowment LLC, a wholly owned subsidiary of HHC, acts as manager and is named fiduciary for HHC within established investment guidelines. As of April 1, 2013, $485,454,102 of the Hospital's investments were sold to Endowment LLC, at which time all previously unrealized gains and losses on the sold investments were realized. As of September 30, 2014 and 2013, the Hospital has an interest in investments held by Endowment LLC, which is reflected in the accompanying consolidated balance sheets and represents the Hospital's pro rata share of Endowment LLC.

The Hospital reports its share of the increase or decrease in Endowment LLC as income or loss from investments in the excess of revenues over expenses, unless the income or loss is restricted by donor or law. Investments held by Endowment LLC in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations at the consolidated balance sheet date. Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that Endowment LLC holds limited partnership interests, are reported based upon net asset value (NAV) and derived from the application of the equity method of accounting. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, Endowment LLC's holdings may be determined by the investment manager or general partner and for "fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Endowment LLC accounts for these investments using the equity method of accounting and reports its share of the increase or decrease in the funds' value as investment gain or loss. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with Endowment LLC's annual consolidated financial statement reporting.

1. Significant Accounting Policies (continued)

Investments

The Hospital's investment portfolio is classified as trading, with unrealized gains and losses included in the excess of revenues over expenses.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations at the consolidated balance sheet date. Alternative investments held by the defined benefit pension plan are held at fair value as estimated in an unquoted market. Assets temporarily and permanently restricted (by donor) are recorded at fair value at the date of donation, which is then considered cost. Investment income (including realized gains and losses on investments, interest and dividends, and the change in unrealized gains and losses) is included in nonoperating income unless the income or loss is restricted by the donor or law. The cost of securities sold is based on the specific identification method.

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

Inventories of Supplies

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

Goodwill

Goodwill represents the excess of cost of an acquired entity over the net of the amounts assigned to the fair value of assets acquired and liabilities assumed. As of September 30, 2014 and 2013, goodwill of approximately $25,811,000 is recorded in the Hospital's consolidated balance sheets within other assets. Goodwill is reviewed annually for impairment or more frequently if events

1. Significant Accounting Policies (continued)

or circumstances indicate that the carrying value of an asset may not be recoverable. The impairment test for goodwill requires a comparison of fair value of each reporting unit that has goodwill associated with its operations with its carrying amount. During 2013, the Hospital adopted the provisions of Accounting Standards Update (ASU) 2011-08, *Testing Goodwill for Impairment*, which allows the Hospital to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative impairment test for goodwill.

The impairment test includes estimating the fair value of each of the reporting units that have goodwill associated with their operations using discounted cash flow and multiples of cash earnings valuation techniques, plus valuation comparisons to recent public sales of similar businesses, if any. These valuation methods require the Hospital to make estimates and assumptions regarding future operating results, cash flows, changes in working capital and capital expenditures, profitability, and the cost of capital. Although the Hospital believes that the estimates and assumptions used are reasonable, actual results could differ from the estimates and assumptions. No impairments were recorded for goodwill for the fiscal years ended September 30, 2014 and 2013.

Property, Plant, and Equipment

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

Conditional asset retirement obligations recorded under the provisions of Accounting Standards Codification (ASC) 410-20, *Asset Retirement Obligations*, amounted to $2,092,073 and $2,497,171 as of September 30, 2014 and 2013. These obligations are recorded in other liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2014 and 2013, retirement obligations incurred and settled were approximately $405,100 and $13,700, respectively. Accretion expense was immaterial for the fiscal years ended September 30, 2014 and 2013.

1. Significant Accounting Policies (continued)

Assets Whose Use is Limited

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

Temporarily and Permanently Restricted Net Assets

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

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

Pledges receivable to be received after one year are discounted to present value, and an allowance for uncollectible pledges is recorded. Amortization of the discount is recognized as revenue and is reflected in accordance with donor-imposed restrictions, if any, on the contributions.

Donor-Restricted Gifts

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

1. Significant Accounting Policies (continued)

reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are unrestricted contributions in the accompanying consolidated financial statements, except those relating to donations of long-lived assets.

Bond Issuance Costs

Bond issuance costs associated with long-term debt for capital projects are amortized over the term of the debt using a method that approximates the effective interest method. Bond issuance costs of $3,587,402 and $2,430,387 are recorded in other assets in the consolidated balance sheets as of September 30, 2014 and 2013, respectively. During 2014, the Hospital paid $1,205,528 in additional bond issuance costs.

Other Operating Revenue

Other operating revenue includes services to other institutions, electronic health record incentive program revenue, school tuition, joint venture income, rental income, grant income, food income, research income, and unrestricted contributions. See Note 12.

Nonoperating Income

Nonoperating income includes income on investments, return on interest in investments held by Endowment LLC, realized and unrealized gains and losses on trading investments, and the excess of revenues over expenses of Jefferson House and Cedar Mountain Commons.

Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, include the changes in pension and postretirement funding obligations, net assets released from restrictions for the purchase of property and equipment, and permanent transfers of assets to and from affiliates.

1. Significant Accounting Policies (continued)

Professional Liability and Workers' Compensation Insurance

Coverage for medical malpractice insurance is provided on a claims-made basis. The primary coverage is with Hartford HealthCare Indemnity Series, Limited (HHCISL) (previously known as CHS Insurance Limited or CHS), a captive insurance company that, effective October 1, 2012 became a wholly owned subsidiary of HHC. Prior to this the Hospital had a 25% ownership interest, which was repurchased by CHS and transferred to HHC. As a result of the repurchase, the Hospital's equity investment of $21,614,549 was derecognized, and $31,758,335 of unrestricted net assets were transferred to HHC during 2013 to recapitalize CHS. This is reflected in the consolidated statements of operations and changes in net assets within transfers to HHC.

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

Malpractice claims are discounted at 1.72% and 2.08% for the incurred-but-not-reported liability, which was approximately $9,768,000 and $10,023,000 at September 30, 2014 and 2013, respectively. In addition, the current portion of medical malpractice insurance recoveries and the related claim liabilities of approximately $9,333,000 and $10,548,000 as of September 30, 2014 and 2013, respectively, are included in other current assets and other current liabilities, and the long-term portion of medical malpractice insurance recoveries and the related claim liabilities of approximately $29,931,000 and $25,453,000 as of September 30, 2014 and 2013, respectively, are included in other assets and other liabilities.

The Hospital has an established policy of self-insuring the deductible portion of its workers' compensation insurance. The deductible limits are $1,000,000 per claim for the fiscal years ended September 30, 2014 and 2013. In connection with this self-insurance program, Bank of America issued an irrevocable direct pay letter of credit to the Travelers Indemnity Company, the primary insurer, for an amount not to exceed $8,750,000 at September 30, 2014 and 2013. The reserve recorded by the Hospital is approximately $14,614,000 and $12,015,000 and discounted at 3% and 4% as of September 30, 2014 and 2013, respectively.

1. Significant Accounting Policies (continued)

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 50l(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Electronic Health Record Incentive Program

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The Hospital uses a grant accounting model to recognize EHR incentive revenues. EHR incentive revenues are recognized ratably over the relevant cost report period to determine the amount of reimbursement. The Hospital recognized no EHR revenues during fiscal year ended September 30, 2014. The Hospital recognized approximately $3,252,000 of EHR revenues during fiscal year ended September 30, 2013. Correspondingly, the Medicare and Medicaid components, respectively, of EHR revenues are approximately $2,324,000 and $928,000 for 2013. EHR incentive revenues are included in other operating revenues in the accompanying consolidated statements of operations and changes in net assets.

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

1. Significant Accounting Policies (continued)

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of ASU 2014-09 is required on October 1, 2017, and management is currently evaluating the effect of this guidance on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the fiscal year ended September 30, 2013, balances previously reported in the consolidated balance sheet and statement of operations and changes in net assets in order to conform to the fiscal year ended September 30, 2014 presentation. These reclassifications primarily relate to $76.9 million of amounts previously recorded in other operating revenue that were moved to offset Hospital operating expenses within the statement of operations for services provided to other HHC affiliates for the year ended September 30, 2013.

2. Net Patient Service Revenue and Charity Care

Revenues from the Medicare and Medicaid programs, respectively, accounted for approximately 43% and 12% and 42% and 11% of the Hospital's net patient service revenue for the fiscal years ended September 30, 2014 and 2013, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

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

The following table summarizes net revenue from services to patients:

	Year Ended September 30, 2014	2013
Gross revenues from patients:		
Inpatients	**$ 1,603,648,875**	$ 1,551,885,696
Outpatients	**950,436,707**	860,051,337
	2,554,085,582	2,411,937,033
Deductions:		
Allowances and discounts	**1,520,387,941**	1,462,507,969
Charity care	**32,901,514**	28,176,676
Net patient service revenue	**1,000,796,127**	921,252,388
Provision for bad debts	**24,640,388**	17,467,613
Net patient service revenue less provision for bad debts	**$ 976,155,739**	$ 903,784,775

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges, and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. During 2014 and 2013, the Hospital recorded net changes in estimates of $5,196,162 and $826,806, respectively, which primarily related to better than previously estimated third-party payor settlements.

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

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

The Hospital has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

The Hospital accepts all patients regardless of their ability to pay. A patient is c1assified as a charity patient by reference to the established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized poverty income levels for the State of Connecticut but also includes certain cases where incurred charges are significant when compared to incomes.

The Hospital's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. The Hospital's allowance for doubtful accounts for self-pay patients increased to 66% of self-pay accounts receivable at September 30, 2014 from 59% of self-pay accounts receivable at September 30, 2013. On a monthly basis, the Hospital reviews its accounts receivable balances, the effectiveness of the Hospital's reserve policies, and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

- Revenue and volume trends by payor, particularly the self-pay components.
- Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients.
- Various allowance coverage statistics.

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

The Hospital provides services without charge or at amounts less than its established rates to patients who meet the criteria of its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such services are not reported as revenue. For patients who were determined by the Hospital to have the ability to pay but did not,

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

the uncollected amounts are recorded as part of the provision for bad debts. In distinguishing charity care from the provision for bad debts, a number of factors are considered, certain of which require a high degree of judgment.

Patient service revenue, net of contractual allowances and discounts and before the provision for bad debts, recognized in the period from major payor sources for the fiscal years ended September 30, 2014 and 2013, is as follows:

	2014	2013
Medicare	**43%**	42%
Medicaid	**12**	11
Self-pay	**4**	4
All other	**41**	43
	100%	100%

The estimated cost of charity care provided was $14,218,964 and $12,510,698 for the fiscal years ended September 30, 2014 and 2013, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by Hospital-specific data.

3. Net Assets

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

	2014	2013
Health care services:		
Free beds	**$ 40,873,653**	$ 37,657,208
Research	**42,704,989**	40,180,080
Education	**15,042,515**	12,996,298
Capital replacement	**11,155,084**	10,466,962
Other health care services	**36,857,043**	33,989,359
	$ 146,633,284	$ 135,289,907

3. Net Assets (continued)

Permanently restricted net assets at September 30 are restricted for:

	2014	2013
Investments to be held in perpetuity, the income from which is expendable to support healthcare services	**$ 62,331,296**	$ 60,868,896
Endowment requiring income to be added to original gift to support healthcare services	**22,800,648**	22,261,315
Restricted funds held in trust by others, the income from which is expendable to support healthcare services	**141,869,326**	137,029,182
	$ 227,001,270	$ 220,159,393

The Hospital's endowment consists of hundreds of individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

1) The duration and preservation of the fund
2) The purposes of the Hospital 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 Hospital
7) The investment policies of the Hospital

3. Net Assets (continued)

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Hospital must hold in perpetuity or for a donor-specific period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 4% over the long term. Actual returns in any given year may vary from this amount.

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

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

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

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 76,433,295	$ 83,130,211	$ 159,563,506
Net appreciation (realized and unrealized)	9,692,658	539,335	10,231,993
Contributions	–	1,462,398	1,462,398
Appropriation of endowment assets for expenditure	(3,781,873)	–	(3,781,873)
Endowment net assets, end of year	$ 82,344,080	$ 85,131,944	$ 167,476,024

3. Net Assets (continued)

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

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 67,274,063	$ 77,653,432	$ 144,927,495
Investment return:			
Investment income	1,505,374	757,530	2,262,904
Net appreciation (realized and unrealized)	11,965,883	–	11,965,883
Total investment return	13,471,257	757,530	14,228,787
Contributions	–	4,719,249	4,719,249
Appropriation of endowment assets for expenditure	(4,312,025)	–	(4,312,025)
Endowment net assets, end of year	$ 76,433,295	$ 83,130,211	$ 159,563,506

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

4. Assets Whose Use is Limited

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

	September 30, 2014	September 30, 2013
Cash and cash equivalents	**$ 1,677,747**	$ 5,089,009
Interest in investments held by Endowment LLC	**533,783,177**	494,102,882
Money market funds	**12,241,154**	13,806,709
Equity securities:		
U.S.	**718,287**	643,317
Fixed income securities:		
U.S.	**142,154**	1,877,354
Common collective funds:		
U.S.	**–**	4,785,830
Other notes and accounts receivable	**85,311**	109,809
Pledges receivable, net	**3,418,389**	2,842,378
Due from affiliated entities, net	**–**	11,367,252
	$ 552,066,219	$ 534,624,540

During 2013, a significant portion of the Hospital's assets whose use is limited was transferred to Endowment LLC, as discussed in Note 1.

The Hospital advances funds to affiliates to provide capital for the expansion of certain mission-related activities. The Hospital expects these advances to be repaid, generally with interest. Periodically, amounts outstanding are reviewed for collectibility, and adjustments are provided where collection is doubtful.

4. Assets Whose Use is Limited (continued)

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

	Year Ended September 30	
	2014	**2013**
Interest and dividend income	**$ 6,748,127**	$ 6,408,443
Return on interest in investments held by Endowment LLC	**27,662,906**	20,080,076
Realized (losses) gains on investments, net	**(31,392)**	65,522,494
Change in unrealized gains and losses on investments	**166,277**	(43,336,736)
	$ 34,545,918	$ 48,674,277

5. Fair Values of Financial Instruments

As defined in ASC 820, *Fair Value Measurement*, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

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

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

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

5. Fair Values of Financial Instruments (continued)

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 Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Financial assets carried at fair value in the accompanying consolidated balance sheets, excluding assets invested in the Hospital's defined benefit pension plan and Endowment LLC, are classified in the following tables below in one of the three categories described above:

	September 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	**$ 16,714,023**	**$ –**	**$ –**	**$ 16,714,023**
Assets whose use is limited:				
Cash and cash equivalents	**1,677,747**	**–**	**–**	**1,677,747**
Money market funds	**12,241,154**	**–**	**–**	**12,241,154**
Equity securities:				
U.S.	**718,287**	**–**	**–**	**718,287**
Fixed income securities:				
U.S.	**–**	**142,154**	**–**	**142,154**
Other assets:				
Domestic mutual funds	**9,346,145**	**–**	**–**	**9,346,145**
Funds held in trust by others	**–**	**141,869,326**	**–**	**141,869,326**
Total	**$ 40,697,356**	**$ 142,011,480**	**$ –**	**$ 182,708,836**

5. Fair Values of Financial Instruments (continued)

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 20,527,760	$ –	$ –	$ 20,527,760
Assets whose use is limited:				
Cash and cash equivalents	5,089,009	–	–	5,089,009
Money market funds	13,806,709	–	–	13,806,709
Equity securities:				
U.S.	643,317	–	–	643,317
Fixed income securities:				
U.S.	–	1,877,354	–	1,877,354
Common collective funds:				
U.S.	–	4,785,830	–	4,785,830
Other assets:				
Domestic mutual funds	7,976,887	–	–	7,976,887
Funds held in trust by others	–	137,029,182	–	137,029,182
Total	$ 48,043,682	$ 143,692,366	$ –	$ 191,736,048

The Hospital has $542,082,624 and $501,035,267 of financial assets as of September 30, 2014 and 2013, respectively, that are held by Endowment LLC (refer to Note 1). Financial assets classified within the trust are 54.3% Level 1, 20.9% Level 2, and 28.4% in alternative investments accounted for under the equity method as of September 30, 2014, and 56.3% Level 1, 22.0% Level 2, and 21.7% in alternative investments accounted for under the equity method as of September 30, 2013.

Financial assets carried at fair value included in the cash balance retirement plan are held in an HHC master trust. The Hospital owns participant units in the trust. Financial assets classified within the trust are 52.3% Level 1, 37.1% Level 2, and 10.6% Level 3 as of September 30, 2014, and 53.3% Level 1, 34.4% Level 2 and 12.3% Level 3 as of September 30, 2013.

Fair value for Level 1 assets is based upon quoted market prices. Fair value for Level 2 assets is based upon model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants,

5. Fair Values of Financial Instruments (continued)

dealers, and brokers. Many of the investments categorized as Level 2 consist of shares or units in investment funds which are recorded based on net asset value (NAV), as opposed to direct interests in the funds' underlying holdings, which may be marketable.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflect future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

6. Property, Plant, and Equipment

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

	2014	2013
Land and land improvements	**$ 25,007,521**	$ 25,005,192
Buildings and building improvements	**633,289,180**	617,251,881
Equipment	**451,360,983**	430,555,831
	1,109,657,684	1,072,812,904
Less accumulated depreciation	**(778,936,579)**	(729,283,731)
	330,721,105	343,529,173
Construction in process (estimated cost to complete - $29,186,224)	**51,202,750**	50,667,388
	$ 381,923,855	$ 394,196,561

The Hospital capitalized interest expense of $3,044,292 and $2,223,468 for the fiscal years ended September 30, 2014 and 2013, respectively.

7. Pensions and Other Postretirement Benefits

The Hospital has a cash balance retirement plan, the Retirement Plan for Employees of Hartford Hospital, covering substantially all employees, and a noncontributory, supplemental defined benefit retirement plan for certain executive employees (collectively, the pension plans). Contributions to the pension plans are based on actuarially determined amounts sufficient to

7. Pensions and Other Postretirement Benefits (continued)

meet the benefits to be paid to the plan participants. The assets of the pension plans are available to pay the benefits of eligible employees for participating entities based on their allocated share of assets. The service cost component of net periodic pension cost and all other components are actuarially determined as defined by each plan.

The benefits are based on years of service and the employees' compensation as defined by each of the plans. The Hospital makes contributions in amounts sufficient to fund the pension plans' current service cost, and the funding policy is to contribute amounts to these plans sufficient to meet the minimum funding requirement set forth by federal government regulations.

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

The Hospital has a defined contribution plan. Pension expense for the defined contribution plan was \$11,942,440 and \$13,460,328 for the fiscal years ended September 30, 2014 and 2013, respectively.

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

	2014	2013
Unrecognized actuarial loss	**\$ 259,840,118**	\$ 227,144,339
Unrecognized prior service credit	**(1,570,295)**	(3,607,383)
	\$ 258,269,823	\$ 223,536,956

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

Unrecognized actuarial loss	\$ 17,924,626
Unrecognized prior service credit	(269,754)
	\$ 17,654,872

7. Pensions and Other Postretirement Benefits (continued)

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

	Pension Benefits		Other Postretirement Benefits	
	2014	**2013**	**2014**	**2013**
Change in benefit obligation				
Benefit obligation at beginning of year	**$ (858,362,709)**	$ (931,214,510)	**$ (63,205,296)**	$ (68,007,360)
Service cost	**(31,260,216)**	(35,893,918)	**(1,499,654)**	(1,871,428)
Interest cost	**(39,454,236)**	(35,588,455)	**(2,938,626)**	(2,609,456)
Employee contributions	**–**	–	**(3,149,047)**	(3,785,444)
Benefits paid	**55,320,440**	62,626,412	**7,455,080**	8,500,705
Actuarial gains and losses	**(63,718,605)**	81,707,762	**(566,802)**	4,567,687
Benefit obligation at end of year	**(937,475,326)**	(858,362,709)	**(63,904,345)**	(63,205,296)
Change in plan assets				
Fair value of plan assets at beginning of year	**707,969,791**	629,459,961	**–**	–
Actual return on plan assets	**62,739,414**	87,315,499	**–**	–
Benefits paid	**(55,320,440)**	(62,626,412)	**(7,455,080)**	(8,500,705)
Employer contribution	**37,627,000**	53,820,743	**7,455,080**	8,500,705
Fair value of plan assets at end of year	**753,015,765**	707,969,791	**–**	–
Underfunded status of the plans	**$ (184,459,561)**	$ (150,392,918)	**$ (63,904,345)**	$ (63,205,296)
Components of net periodic benefit cost				
Service cost	**$ 31,260,216**	$ 35,893,918	**$ 1,499,654**	$ 1,871,428
Interest cost	**39,454,236**	35,588,455	**2,938,626**	2,609,456
Expected return on plan assets	**(47,074,386)**	(42,758,963)	**–**	–
Net amortization and deferral	**14,216,172**	22,482,195	**(328,660)**	(328,660)
Settlement loss	**–**	368,442	**–**	–
Benefit cost included in the consolidated statements of operations and changes in net assets	**$ 37,856,238**	$ 51,574,047	**$ 4,109,620**	$ 4,152,224

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

The accumulated benefit obligation for the pension plans was $888,997,079 and $814,150,407 as of September 30, 2014 and 2013, respectively.

7. Pensions and Other Postretirement Benefits (continued)

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

	September 30, 2014	September 30, 2013
Discount rate for projected benefit obligation	**4.20%**	4.65%
Discount rate for net periodic benefit cost	**4.65%**	3.85%
Expected long-term rate of return on plan assets	**7.50%**	7.50%
Rate of compensation increase	**3.50%**	3.50%

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

The Hospital has a postretirement benefit plan. The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 7%. Rates are assumed to decline to 5% through 2018. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the service and interest cost and accumulated postretirement benefit obligation by $2,230,040 and $2,520,503 at September 30, 2014 and 2013, respectively. A one percentage point decrease in the assumed health care cost trend rate would decrease the service and interest cost and accumulated postretirement benefit obligation by $1,971,610 and $2,227,871 at September 30, 2014 and 2013, respectively.

Plan Assets

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

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

7. Pensions and Other Postretirement Benefits (continued)

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

Contributions

The Hospital expects to make contributions of approximately $31,938,000 and $4,199,000 in fiscal year 2015 related to its defined benefit pension plan and its other postretirement benefit plan, respectively.

Estimated Future Benefits Payments

Future benefit payments are expected to be paid as follows:

Fiscal Year	Pension Benefits	Other Post-Retirement Benefits
2015	$ 66,952,660	$ 4,199,247
2016	62,883,332	4,262,273
2017	69,017,838	4,339,190
2018	66,917,262	4,361,112
2019	67,463,928	4,310,402
Years 2020 – 2024	338,375,763	21,057,586

8. Long-Term Debt

Details of long-term debt are as follows:

	September 30 2014	2013
Intercompany debt with HHC:		
Series A, consisting of a tax-exempt serial bond and term bonds; interest at rates ranging from 4.4% to 5.0%	**$ 115,494,082**	$ 114,454,804
Series B, tax-exempt variable rate term bond; interest at rates ranging from 0.07% to 0.09%	**48,221,793**	48,221,793
Series C, taxable variable rate term bond; interest at rates ranging from 0.12% to 0.14%	**28,831,592**	28,831,592
Series D, taxable fixed rate of 5.75%	**79,915,757**	–
Master financing agreement with State of Connecticut Health and Educational Facilities Authority (CHEFA) due in monthly installments with a fixed rate of 2.75% through September 17, 2015	**4,222,710**	8,327,342
Capital lease obligations, with option to purchase, due in monthly installments with interest at 6.25% and 7.16%	**13,281,332**	13,307,190
Revolving lines of credit	**12,839,088**	95,212,946
Other notes	**677,556**	1,447,256
Premium on bonds	**2,193,159**	2,168,186
	305,677,069	311,971,109
Less current portion	**(18,596,036)**	(101,019,021)
	$ 287,081,033	$ 210,952,088

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

8. Long-Term Debt (continued)

Taxable Bonds Series D (the HHC Series D Bonds) and approximately $83,790,000 of CHEFA Revenue Bonds Series E (the HHC Series E Bonds) concurrently (collectively referred to as the HHC 2014 Bonds). Obligated Group members are jointly and severally liable under a Master Trust Indenture (MTI) to make all payments required with respect to obligations under the MTI. HHC does have the right to name designated affiliates, although presently none exist.

The HHC 2011 and 2014 Bonds were issued to refund portions of existing debt under HHC and to obtain funds for future capital needs. As such, the HHC 2011 and 2014 Bonds are reflected as intercompany debt in the preceding schedule. The Hospital is party to the HHC 2011 Series A, Series B, and Series C Revenue Bonds and to the HHC Series D Bonds. During 2014 and 2013, the Hospital was allocated an additional $2,176,926 and $22,010,772, respectively, of previously unallocated Series A Revenue Bonds by HHC in accordance with the plan of refinance. The HHC Series A Revenue Bonds consist of serial bonds that mature annually from July 1, 2014 through July 1, 2023, and the term bonds mature from July 1, 2024 through July 1, 2041. The HHC Series B Revenue Bonds consist of term bonds that mature from July 1, 2042 through July 1, 2049. The HHC Series B Revenue Bonds are secured by an irrevocable letter of credit issued by Bank of America which expires on September 29, 2018. The HHC Series C Revenue Bonds consist of term bonds, that mature from July 1, 2042 through July 1, 2049. The HHC Series C Revenue Bonds are secured by an irrevocable letter of credit issued by JP Morgan Chase Bank that expires on October 1, 2016. The reimbursement terms of the letters of credit for the HHC Series B and C Revenue Bonds are such that in the event a letter of credit is drawn upon due to a failed remarketing, the components available shall equal the aggregate principal and interest amount of bonds outstanding. The HHC Series D Bonds consist of term bonds that mature on April 1, 2044. During 2014, the Hospital made advance payments of $365,422 to HHC for the bonds maturing in 2015.

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

The fair value of the HHC 2011 and 2014 Bonds was approximately $680,006,000 at September 30, 2014 and the fair value of the HHC 2011 Bonds was approximately $377,885,000 at September 30, 2013. The carrying value of the HHC 2011 and 2014 Bonds was $620,015,000

8. Long-Term Debt (continued)

at September 30, 2014 and the carrying value of the HHC 2011 Bonds was $375,815,000 as of September 30, 2013. The fair value of the HHC 2011 and 2014 Bonds was determined by HHC's investment advisor using a market approach that uses prices and other relevant information generated by market transactions involving identical or comparable liabilities and categorized as Level 2 in the fair value hierarchy described in Note 5. The carrying value of the Hospital's other long-term debt approximates fair value at September 30, 2014 and 2013.

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

The Hospital has two capital lease obligations for satellite locations. Both leases are twenty-year leases with an option to purchase. On October 1, 2010, the Hospital entered into an arrangement with monthly installments of $71,637 and interest at 6.25%. In November 2012, the Hospital entered into another arrangement with monthly installments of $33,797 and interest at 7.16%. The combined outstanding capital lease obligation was $13,281,332 and $13,307,190 as of September 30, 2014 and 2013, respectively.

As part of the HHC 2011 Bonds, the Obligated Group entered into a new line of credit for $20,000,000. This line expires in March 2015. As of September 30, 2014, the Hospital had not drawn on this line of credit. As of September 30, 2013, the Hospital had drawn $17,037,110 on this line of credit, with a variable rate of 1.27%, and which is also included in the current portion of long-term debt on the consolidated balance sheets. In 2012, the Obligated Group entered into an additional $60,000,000 line of credit with another bank. In August 2013, the Obligated Group entered into an amendment increasing this line of credit to $100,000,000. This line of credit expires in April 2015. As of September 30, 2014 and 2013, the Hospital had drawn $12,839,088 and $78,175,836, respectively, on this line of credit, with a variable rate of 0.85% and 0.88%, respectively, and which is also included in the current portion of long-term debt.

8. Long-Term Debt (continued)

Principal payments due on long-term debt are as follows:

Fiscal year ending September 30:	
2015	$ 18,596,036
2016	7,497,912
2017	2,133,268
2018	2,323,969
2019	2,488,625
Thereafter	270,444,100
	$ 303,483,910

Interest paid for the fiscal years ended September 30, 2014 and 2013, was $8,386,515 and $5,704,486, respectively.

9. Commitments and Contingencies

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

The Hospital has several operating lease agreements for certain real estate, medical equipment, and computer equipment. Certain of these leases have renewal options for periods up to five years and escalation clauses. Rent is payable in equal monthly installments. Rent expense was $13,834,880 and $13,209,234 for the fiscal years ended September 30, 2014 and 2013, respectively.

The future minimum lease payments are as follows:

2015	$ 3,548,189
2016	2,979,427
2017	2,897,482
2018	2,936,964
2019	2,994,707
Thereafter	10,079,744
	$ 25,436,513

10. Related-Party Transactions

The Hospital provides services to various HHC affiliates and is reimbursed for the cost of these services. Fees charged to affiliates for the fiscal years ended September 30, 2014 and 2013, which are included in other operating revenue in the consolidated statements of operations and changes in net assets, were $43,801,977 and $76,861,274, respectively. Expenses incurred from services provided by other affiliates, primarily HHC, for the fiscal years ended September 30, 2014 and 2013, which are included in purchased services in the consolidated statements of operations and changes in net assets, were $97,222,658 and $36,272,807, respectively. Other intercompany activity with subsidiaries of the Hospital includes recurring transactions associated with operations and cash management, which have been eliminated in consolidation.

Amounts due from affiliates related to these services at September 30 are as follows:

	2014	2013
Due from HHC	**$ 15,751,095**	$ 16,305,533
Due from Hospital of Central Connecticut	**2,913,208**	–
Due from Hartford HealthCare Medical Group	**2,380,257**	8,626
Due from Hartford HealthCare at Home	**1,733,241**	2,048,334
Due from Windham Community Memorial Hospital	**953,199**	–
Due from The William W. Backus Hospital	**596,172**	–
Due from Rushford	**206,942**	–
Due from Midstate Medical Center	**459,251**	1,386,205
Due from Natchaug Hospital	**458,519**	–
Due from Integrated Care Partners	**147,893**	–
	$ 25,599,777	$ 19,748,698

10. Related-Party Transactions (continued)

Amounts due to affiliates related to these services at September 30 are as follows:

	2014	2013
Due to HHC	**$ (12,536,043)**	$ (15,646,071)
Due to Hartford HealthCare Rehabilitation Network	**(1,525,898)**	(2,735,988)
Due to Clinical Laboratory Partners	**(291,861)**	(257,706)
Due to Central Connecticut Senior Health Services, Inc.	**(221,208)**	–
Due to Hartford HealthCare Medical Office Building	**(186,616)**	(3,340,741)
Due to Hospital of Central Connecticut	–	(19,211)
	$ (14,761,626)	$ (21,999,717)

During 2014 and 2013, the Hospital transferred approximately $85,889,000 and $152,364,000, respectively, of unrestricted net assets to HHC primarily to provide additional funding to various affiliates, and in 2013, approximately $31,758,000 of unrestricted net assets were transferred to HHCISL (refer to Note 1).

11. Guarantees

The Hospital guarantees certain debt issues of related parties. The related parties would not have been able to obtain favorable financing terms and rates without the Hospital's guarantee. The term of the guarantees is equal to the term of the related debt, with maturities between 2014 and 2015. The maximum potential amount of future payments the Hospital could be required to make under its guarantees at September 30, 2014 and 2013, was approximately $353,000 and $1,167,000, respectively. If the related party does not make the necessary principal and interest payments required by the debt agreements, the Hospital is required to pay the monthly debt service.

The Hospital also guarantees the termination value of a swap agreement of a related party. The arrangement relates to an interest rate swap contract with a counterparty with an original notional amount of $19,745,000 to fix the variable rate debt at a rate of 4.15%. The Hospital would be responsible for any termination payments related to the swap in the event of either nonperformance by the counterparty or by the counterparty's election to terminate the swap agreement. This guarantee is expected to significantly reduce annual debt service payments of the related party. The swap's termination value was $3,011,300 and $2,701,010 as of September 30, 2014 and 2013, respectively.

12. Other Operating Revenues

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

	2014	2013
Services to others	**22,039,711**	25,576,075
Grants	**21,797,722**	22,520,051
Tuition	**9,732,030**	10,242,894
Joint ventures	**5,685,994**	5,714,545
Rental	**3,215,091**	2,708,905
Food income	**3,287,448**	3,679,514
Contributions	**2,682,350**	1,422,218
Rebates	**2,255,896**	2,939,309
EHR revenue	**–**	3,314,339
Other	**4,284,187**	4,304,892
	$ 74,980,429	$ 82,422,742

13. Functional Expenses

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

	Year Ended September 30,	
	2014	2013
Health care services	**$ 923,480,472**	$ 901,466,516
Support services	**99,766,589**	97,388,350
	$ 1,023,247,061	$ 998,854,866

14. Supplemental Cash Flow Information

The changes in assets and liabilities are as follows:

	Year Ended September 30, 2014	2013
Increase in accounts receivable	**$ (3,089,079)**	$ (16,354,978)
Decrease in other receivables	**9,580,621**	941,333
(Increase) decrease in due to and from affiliates	**(23,390,179)**	19,188,723
Increase in interest in investments held by Endowment LLC	**(1,367,062)**	(6,932,385)
(Increase) decrease in inventories of supplies	**(1,648,059)**	257,473
Decrease (increase) in prepaid expenses and other assets	**1,598,595**	(3,380,492)
(Increase) decrease in other assets	**(8,317,240)**	594,920
Increase in estimated third-party settlements	**5,598,295**	9,525,279
Decrease in accounts payable	**(5,772,782)**	(4,856,887)
Increase (decrease) in salaries, wages, payroll taxes, and amounts withheld from employees	**2,433,859**	(381,019)
Increase (decrease) in accrued expenses	**226,020**	(5,546,181)
Increase (decrease) in accrued pension liability & other liabilities	**2,366,573**	(3,000,437)
	$ (21,780,438)	$ (9,944,651)

15. Subsequent Event

The Hospital evaluated subsequent events through January 28, 2015, which is the date the consolidated financial statements were issued, for potential recognition in the consolidated financial statements as of the balance sheet date for the fiscal year ended September 30, 2014. No events occurred that require disclosure or adjustment to the consolidated financial statements.

Supplementary Information

Hartford Hospital

Consolidating Balance Sheet

September 30, 2014

	Hartford Hospital	Jefferson House Combined [1]	The Institute of Living	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 8,310,780	$ 7,560,045	$ 843,198	$ –	$ 16,714,023
Interest in investments held by Endowment LLC	8,299,447	–	–	–	8,299,447
Accounts receivable, less allowances for doubtful accounts of $42,446,000	128,300,658	837,100	–	–	129,137,758
Other receivables	15,820,683	526	10,016	–	15,831,225
Due from affiliates	26,155,102	1,275,863	1,554,820	(3,386,008)	25,599,777
Inventories of supplies	12,834,592	–	–	–	12,834,592
Prepaid expenses and other assets	6,559,164	35,671	–	–	6,594,835
Total current assets	206,280,426	9,709,205	2,408,034	(3,386,008)	215,011,657
Assets whose use is limited:					
Investments and other assets	531,888	–	–	–	531,888
Interest in investments held by Endowment LLC	186,552,382	88,479,071	34,526,899	–	309,558,352
Donor-restricted interest in investments held by Endowment LLC	188,987,060	6,310,352	28,927,413	–	224,224,825
Investments for restricted purposes	5,298,538	211,462	–	–	5,510,000
Escrow funds for long-term debt	3,243,365	–	–	–	3,243,365
Funds designated for debt service	8,997,789	–	–	–	8,997,789
	393,611,022	95,000,885	63,454,312	–	552,066,219
Funds held in trust by others	112,879,389	26,806,414	2,183,523	–	141,869,326
Other assets	79,437,312	–	–	–	79,437,312
Property, plant, and equipment, net	367,897,021	8,838,817	5,188,017	–	381,923,855
Total assets	$ 1,160,105,170	$ 140,355,321	$ 73,233,886	$ (3,386,008)	$ 1,370,308,369

(1) Includes Cedar Mountain Commons

Hartford Hospital

Consolidating Balance Sheet (continued)

September 30, 2014

	Hartford Hospital	Jefferson House Combined (1)	The Institute of Living	Eliminations	Total
Liabilities and net assets					
Current liabilities:					
Accounts payable	$ 16,411,539	$ 179,533	$ –	$ –	$ 16,591,072
Salaries, wages, payroll taxes and amounts withheld from employees	23,404,488	341,328	–	–	23,745,816
Due to affiliates	17,205,913	361,745	579,976	(3,386,008)	14,761,626
Accrued expenses	21,982,407	1,174,108	(10,755)	–	23,145,760
Estimated third-party payor settlements	18,683,246	–	–	–	18,683,246
Current portion of long-term debt	18,596,036	–	–	–	18,596,036
Current portion of accrued pension liability	6,674,125	–	–	–	6,674,125
Current portion of other liabilities	9,800,029	–	–	–	9,800,029
Total current liabilities	132,757,783	2,056,714	569,221	(3,386,008)	131,997,710
Long-term debt, less current portion	287,081,033	–	–	–	287,081,033
Accrued pension liability	254,058,658	–	–	–	254,058,658
Other liabilities	41,991,787	–	–	–	41,991,787
Total liabilities	715,889,261	2,056,714	569,221	(3,386,008)	715,129,188
Net assets:					
Unrestricted	135,104,064	104,886,863	41,553,700	–	281,544,627
Temporarily restricted	122,874,055	4,066,608	19,692,621	–	146,633,284
Permanently restricted	186,237,790	29,345,136	11,418,344	–	227,001,270
Total net assets	444,215,909	138,298,607	72,664,665	–	655,179,181
Total liabilities and net assets	$ 1,160,105,170	$ 140,355,321	$ 73,233,886	$ (3,386,008)	$ 1,370,308,369

(1) Includes Cedar Mountain Commons

Hartford Hospital

Consolidating Statement of Operations

Year Ended September 30, 2014

	Hartford Hospital	Jefferson House Combined [1]	The Institute of Living	Eliminations	Total
Unrestricted revenues, gains and other support:					
Net patient service revenue	$ 1,000,796,127	$ –	$ –	$ –	$ 1,000,796,127
Provision for bad debts	24,640,388	–	–	–	24,640,388
Net patient service revenue less provision for bad debts	976,155,739	–	–	–	976,155,739
Other operating revenue	74,586,939	–	393,490	–	74,980,429
Net assets released from restrictions for operations	8,337,418	22,813	–	–	8,360,231
	1,059,080,096	22,813	393,490	–	1,059,496,399
Operating expenses:					
Salaries and wages	428,888,306	–	–	–	428,888,306
Employee benefits	134,941,400	–	–	–	134,941,400
Supplies and other	202,925,870	21,007	53,487	–	203,000,364
Purchased services	199,059,408	1,806	–	–	199,061,214
Depreciation and amortization	48,593,411	–	375,851	–	48,969,262
Interest	8,386,515	–	–	–	8,386,515
	1,022,794,910	22,813	429,338	–	1,023,247,061
Income (loss) from operations	36,285,186	–	(35,848)	–	36,249,338
Nonoperating income (loss):					
Income from investments, gifts and bequests, net	22,868,369	8,159,097	3,518,452	–	34,545,918
Other	(6,524,957)	(2,063,052)	(22,168)	–	(8,610,177)
	16,343,412	6,096,045	3,496,284	–	25,935,741
Excess of revenues over expenses	$ 52,628,598	$ 6,096,045	$ 3,460,436	$ –	$ 62,185,079

(1) Includes Cedar Mountain Commons

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