Consolidated Financial Statements and Supplementary Information

Hartford HealthCare Corporation and Subsidiaries
Years Ended September 30, 2015 and 2014
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

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Consolidated Financial Statements
and Supplementary Information

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Contents

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Report of Independent Auditors

The Board of Directors
Hartford HealthCare Corporation

We have audited the accompanying consolidated financial statements of Hartford HealthCare Corporation and Subsidiaries (the Corporation), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hartford HealthCare Corporation and Subsidiaries at September 30, 2015 and 2014, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

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

Ernst & Young LLP

January 28, 2016

Hartford HealthCare Corporation and Subsidiaries

Consolidated Balance Sheets

	September 30 2015	September 30 2014
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 376,098**	$ 423,879
Accounts receivable, less allowances for doubtful accounts of approximately $59,648 in 2015 and $64,641 in 2014	**296,632**	292,535
Other receivables	**33,815**	40,049
Inventories of supplies	**30,961**	28,782
Prepaid expenses and other assets	**25,231**	24,158
Current portion of assets whose use is limited	**5,448**	3,850
Total current assets	**768,185**	813,253
Assets whose use is limited:		
Investments and other assets	**586,037**	565,332
Investments for restricted purposes	**296,717**	315,719
Escrow funds for long-term debt	**120,177**	8,311
Funds designated for debt service	**20,825**	33,445
Investments held by HHCISL	**223,799**	217,815
	1,247,555	1,140,622
Funds held in trust by others	**169,546**	184,764
Investments	**68,809**	28,315
Other assets	**98,877**	84,914
Property, plant, and equipment, net	**1,146,890**	1,063,328
Total assets	**$ 3,499,862**	$ 3,315,196
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 87,107**	$ 60,131
Salaries, wages, payroll taxes, and amounts withheld from employees	**84,180**	87,910
Accrued expenses	**97,103**	91,567
Estimated third-party payor settlements	**66,491**	57,206
Current portion of long-term debt and capital leases	**44,207**	56,638
Current portion of accrued pension liabilities	**11,453**	16,370
Current portion of self insurance liabilities and other liabilities	**34,470**	26,062
Total current liabilities	**425,011**	395,884
Long-term debt and capital leases, less current portion	**836,308**	654,020
Accrued pension liabilities, less current portion	**499,491**	511,386
Other liabilities, less current portion	**57,044**	44,816
Self insurance liabilities	**140,854**	133,101
Total liabilities	**1,958,708**	1,739,207
Net assets:		
Unrestricted	**1,094,448**	1,104,267
Temporarily restricted	**174,109**	184,811
Permanently restricted	**272,597**	286,911
Total net assets	**1,541,154**	1,575,989
Total liabilities and net assets	**$ 3,499,862**	$ 3,315,196

See accompanying notes.

Hartford HealthCare Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2015	**2014**
	(In Thousands)	
Unrestricted revenues, gains and other support:		
Net patient service revenue	**$ 2,289,422**	$ 2,333,079
Provision for bad debts	**50,042**	61,860
Net patient service revenue less provision for bad debts	**2,239,380**	2,271,219
Other operating revenue	**192,865**	199,592
Net assets released from restrictions for operations	**14,350**	10,771
	2,446,595	2,481,582
Salaries and wages	**1,122,021**	1,130,131
Employee benefits	**283,891**	304,547
Supplies and other	**477,503**	465,958
Purchased services	**376,518**	389,987
Depreciation and amortization	**125,330**	118,837
Provision for non-patient bad debts	**5,997**	408
Interest	**25,328**	19,528
	2,416,588	2,429,396
Income from operations	**30,007**	52,186
Nonoperating income (loss):		
(Loss) income from investments, net	**(10,636)**	62,588
Other	**(2,732)**	(11,227)
	(13,368)	51,361
Excess of revenues over expenses	**$ 16,639**	$ 103,547

Continued on next page.

Hartford HealthCare Corporation and Subsidiaries

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

	Year Ended September 30	
	2015	**2014**
	(In Thousands)	
Unrestricted net assets:		
Excess of revenue over expenses	**$ 16,639**	$ 103,547
Transfer from temporarily restricted net assets	**–**	46
Net unrealized gains and losses on investments	**(12,184)**	1,972
Net assets released from restrictions used for the purchase of equipment	**4,633**	5,491
Change in pension and post-retirement funding obligations	**(18,978)**	(156,545)
Other	**71**	(11,176)
Decrease in unrestricted net assets	**(9,819)**	(56,665)
Temporarily restricted net assets:		
Restricted contributions	**15,080**	12,022
Restricted investment income	**4,890**	18,173
Transfer to unrestricted net assets	**–**	(46)
Realized gains on investments	**12,826**	451
Change in unrealized gains and losses on investments	**(25,186)**	150
Net assets released from restrictions for operations	**(14,350)**	(10,771)
Net assets released from restrictions used for the purchase of equipment	**(4,633)**	(5,491)
Other	**671**	(200)
(Decrease) increase in temporarily restricted net assets	**(10,702)**	14,288
Permanently restricted net assets:		
Restricted contributions	**1,064**	1,462
Restricted investment (loss) income	**(161)**	642
Other	**1**	–
Change in unrealized gains and losses on funds held in trust by others	**(15,218)**	6,681
(Decrease) increase in permanently restricted net assets	**(14,314)**	8,785
Decrease in net assets	**(34,835)**	(33,592)
Net assets at beginning of year	**1,575,989**	1,609,581
Net assets at end of year	**$ 1,541,154**	$1,575,989

See accompanying notes.

Hartford HealthCare Corporation and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2015	**2014**
	(In Thousands)	
Operating activities		
Decrease in net assets	**$ (34,835)**	$ (33,592)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	**125,330**	118,837
Change in unrealized gains and losses on investments and assets whose use is limited	**103,732**	(16,260)
Change in unrealized gains and losses on funds held in trust by others	**15,218**	(6,681)
Provision for bad debts	**50,042**	61,860
Provision for non-patient bad debts	**5,997**	408
Change in net assets related to pension and post-retirement funding obligations	**18,978**	156,545
Change in fair value of interest rate swap agreements	**933**	(143)
Other changes in net assets:		
Restricted contributions and investment income	**(33,699)**	(32,750)
Changes in assets and liabilities, net *(Note 13)*	**(39,518)**	(37,975)
Net cash provided by operating activities	**212,178**	210,249
Investing activities		
Purchase of property, plant, and equipment, net	**(208,892)**	(151,668)
Purchases and sales of investments, net	**(140,891)**	(70,919)
(Increase) decrease in escrow funds for capital projects	**(111,866)**	3,457
Net cash used in investing activities	**(461,649)**	(219,130)
Financing activities		
Proceeds from long-term debt and capital leases	**252,894**	290,738
Payments on long-term debt and capital leases	**(84,903)**	(184,272)
Restricted contributions and investment income	**33,699**	32,750
Net cash provided by financing activities	**201,690**	139,216
Net (decrease) increase in cash and cash equivalents	**(47,781)**	130,335
Cash and cash equivalents at beginning of year	**423,879**	293,544
Cash and cash equivalents at end of year	**$ 376,098**	$ 423,879

See accompanying notes.

1. Significant Accounting Policies

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

Organization

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

The Corporation is the sole member of consolidated Hartford Hospital (Hartford), consolidated Backus Corporation (Backus Corp), consolidated MidState Medical Center (MidState), Windham Community Memorial Hospital Inc. (Windham), consolidated Central Connecticut Health Alliance (CCHA), consolidated The Hospital of Central Connecticut (HOCC), consolidated H.H.M.O.B, consolidated Hartford HealthCare at Home, Inc. (formerly VNA Health Care, Inc.) (VNA), Natchaug Hospital (Natchaug), HHC PhysiciansCare Inc., referred to as Hartford HealthCare Medical Group (HHCMG), consolidated Hartford HealthCare Senior Services (HHCSS) (formerly Central Connecticut Senior Health Services, Inc.), consolidated Rushford Center, Inc., Clinical Laboratory Partners, LLC (CLP), PracticeCentral, LLC, and Hartford HealthCare Indemnity Services Ltd. (HHCISL).

Effective April 6, 2015, the outstanding stock of CenConn Services, Inc. (CSI), a wholly-owned subsidiary of CCHA was assigned and transferred to HOCC. Effective April 30, 2015, CCHA merged with the Corporation. CCHA was a system of health care affiliates which included HOCC, HHCSS, and CSI. The Corporation became the sole corporate member of HOCC and HHCSS effective April 30, 2015. There was no impact to the consolidated financial statements of the Corporation.

Effective October 1, 2013, Grand Indemnity Company, Ltd. (GIC), a wholly-owned subsidiary of HOCC merged with HHCISL to consolidate captives for the Corporation. HHCISL was incorporated under the laws of Bermuda as a class 2 insurer, on August 30, 1990. HHCISL provides professional liability and employee benefits liability, in addition to general liability insurance and reinsurance to several Corporation subsidiaries. Refer to Note 9.

1. Significant Accounting Policies (continued)

Hartford HealthCare Endowment LLC (Endowment LLC) manages the endowment investments for the Corporation. Endowment LLC was formed for the purpose of maintaining and managing, on a pooled basis, the endowment investments of the Corporation. As of January 1, 2014, the endowment investments for The William W. Backus Hospital (Backus) were sold to Endowment LLC. At that time all previously unrealized gains and losses on the sold investments were realized. Endowment LLC holds the endowment investments for Hartford, Backus, MidState, VNA, Windham, HOCC, and HHCSS as of September 30, 2015. Endowment LLC acts as manager and is named fiduciary for the Corporation within established investment guidelines.

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

HOCC is a voluntary, tax-exempt association incorporated under the General Statutes of the State of Connecticut. The consolidated financial statements of HOCC include CSI.

Backus Corp is a system of heath care affiliates that provides services throughout the eastern region of Connecticut including Backus, Backus Health Care, Inc., WWB Corporation, Omni Home Health Services of Eastern Connecticut LLC d/b/a Backus Home Health Services, and Backus Physician Services, LLC.

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

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

1. Significant Accounting Policies (continued)

HHCMG is a nonprofit organization incorporated under the General Statutes of the State of Connecticut pursuant to Chapter 549b. HHCMG's primary purpose is to practice medicine and provide healthcare services to the public as a medical foundation.

Prior to April 30, 2015, CCHA was a system of health care affiliates that provided a wide array of services throughout the region including HOCC, HHCSS (d/b/a Southington Care Center), which includes Mulberry Gardens of Southington, LLC (Mulberry Gardens) and The Orchards at Southington (the Orchards), CSI and Community Mental Health Affiliates, Inc. (CMHA). CMHA disassociated with CCHA effective December 31, 2013, at which date the assets and liabilities were deconsolidated and CMHA became an independent entity.

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

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

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

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

CLP was created in 1998 through a merger of three Connecticut based laboratories. Refer to Note 14.

1. Significant Accounting Policies (continued)

Southington Care Center is a tax-exempt organization incorporated under the General Statutes of the State of Connecticut. The consolidated financial statements of HHCSS include Mulberry Gardens and the Orchards. Southington Care Center provides skilled nursing care and restorative rehabilitation health care services to residents within its geographic location. Mulberry Gardens and the Orchards provide residential services including housing, meals and assistance with activities of daily living for seniors.

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

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

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates. Significant estimates reflected in the consolidated financial statements include the contractual allowances and allowance for doubtful accounts for patient service revenue and the related patient accounts receivable, estimated revenue settlements due to or from third parties, reserves for malpractice, workers' compensation and other self-insured liabilities, and benefit plan assumptions.

1. Significant Accounting Policies (continued)

Regulatory Matters

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

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

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

Patient Accounts Receivable

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

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

The Corporation's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies, and private patients. The Corporation manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of patient accounts receivable includes 36% and 34%, and 15% and 12%, for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2015 and 2014, respectively.

1. Significant Accounting Policies (continued)

Investments

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

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

Alternative investments held by the defined benefit pension plans are stated at fair value as estimated in an unquoted market. Valuations of those investments, and therefore the Corporation's holdings may be determined by the investment manager and are primarily based on the underlying securities. Assets temporarily and permanently restricted (by donor) are recorded at fair value at the date of donation, which is then considered cost. Investment income, other than income on certain unrestricted investments (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.

1. Significant Accounting Policies (continued)

The Corporation holds nonmarketable equity investments in private companies. At September 30, 2015 and 2014, the carrying value of the Corporation's portfolio of strategic investments totaled $8,473 and $8,102, respectively of which $77 are accounted for at cost and $8,396 and $8,025 are accounted for using the equity method of accounting at September 30, 2015 and 2014, respectively. These investments are included in other assets on the consolidated balance sheets. The Corporation's share of the income or losses of all equity-method investees, using the most current financial information available, which reflects the financial performance three months in arrears, is included in nonoperating income (loss).

Inventories of Supplies

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

Goodwill

Goodwill represents the excess of cost of an acquired entity over the net of the amounts assigned to the fair value of assets acquired and liabilities assumed. As of September 30, 2015 and 2014, goodwill of approximately $25,800 is recorded in the Corporation's consolidated balance sheets within other assets. Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable.

The impairment test for goodwill requires a comparison of fair value of each reporting unit that has goodwill associated with its operations with its carrying amount. The Corporation adopted the provisions of Accounting Standards Update (ASU) 2011-08, *Testing Goodwill for Impairment*, which allows the Corporation to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative impairment test for goodwill. No impairments were recorded for goodwill for the fiscal years ended September 30, 2015 and 2014.

Property, Plant, and Equipment

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

1. Significant Accounting Policies (continued)

Assets Whose Use is Limited

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

Investments for restricted purposes on the accompanying consolidated balance sheets are those restricted based on donors' intents.

Temporarily and Permanently Restricted Net Assets

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

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

1. Significant Accounting Policies (continued)

Donor-Restricted Gifts

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

Bond Issuance Costs

Bond issuance costs associated with long-term debt for capital projects are amortized over the term of the debt using a method that approximates the effective interest method. Bond issuance costs of approximately $10,296 and $9,079 are recorded in other assets in the consolidated balance sheets as of September 30, 2015 and 2014, respectively.

Interest Rate Swap Agreements

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

Other Operating Revenue

Other operating revenue includes services to other institutions, electronic health record incentive program revenue, school tuition, rental income, grant income, research income, investment income, cafeteria income, joint venture income, and unrestricted contributions. Beginning in fiscal year 2015, investment income of $6,975 on certain internally designated funds is reported in other operating revenue, rather than nonoperating income, to support mission related operating activities. Refer to Note 11.

1. Significant Accounting Policies (continued)

Nonoperating Income (Loss)

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

Excess of Revenues Over Expenses

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

Unpaid Losses and Loss Adjustment Expenses

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

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

1. Significant Accounting Policies (continued)

Reinsurance

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

Income Taxes

The Corporation and all of its subsidiaries are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code except for CLP, CSI and H.H.M.O.B. and its subsidiaries, which are taxable entities of which income taxes are immaterial. For all entities included within the Corporation, certain net operating loss carry forwards of approximately $37,988 from unrelated business activities, which will begin expiring in 2018, and generate a potential deferred tax asset of approximately $14,382. No deferred tax asset has been recorded as this amount is offset by a valuation allowance of the same amount due to the uncertainty of utilizing the deferred tax asset in future periods.

HHCISL is an insurance company organized under the laws of Bermuda. HHCISL has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until the year 2035.

Electronic Health Record Incentive Program

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The Corporation uses a grant accounting model to recognize EHR incentive revenues. EHR incentive revenues are recognized ratably over the

1. Significant Accounting Policies (continued)

relevant cost report period to determine the amount of reimbursement. Accordingly, the Corporation recognized approximately $1,500 and $3,500 of EHR revenues during the fiscal years ended September 30, 2015 and 2014, respectively. Correspondingly, the Medicare and Medicaid components, respectively, of EHR revenues are approximately $1,500 and $0 and $2,700 and $800 for 2015 and 2014, respectively. EHR incentive revenues are included in other operating revenue in the accompanying consolidated statements of operations and changes in net assets.

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

New Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of ASU 2014-09 is required on October 1, 2018, 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, 2014 balances previously reported in the consolidated balance sheet and statement of operations and changes in net assets in order to conform with the fiscal year ended September 30, 2015 presentation. These reclassifications primarily relate to $33,128 of amounts previously recorded in other assets that were moved to property, plant, and equipment, net, $28,315 of amounts previously recorded as other assets that were moved to investments, and $9,920 of amounts previously recorded as self insurance liabilities that were moved to other long-term liabilities. The reclassifications had no impact to consolidated net assets or the excess of revenues over expenses.

(In Thousands)

2. Net Patient Service Revenue and Charity Care

Revenues from the Medicare and Medicaid programs, respectively, accounted for approximately 36% and 12%, and 37% and 13% of the Corporation's net patient service revenue for the fiscal years ended September 30, 2015 and 2014, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

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

The following table summarizes revenue from services to patients:

	Year Ended September 30	
	2015	**2014**
Gross patient service revenue	**$ 5,657,713**	$ 5,540,620
Deductions:		
Contractual allowances and discounts	**3,318,875**	3,139,577
Charity care	**49,416**	67,964
Net patient service revenue	**2,289,422**	2,333,079
Provision for bad debts	**50,042**	61,860
Net patient service revenue less provision for bad debts	**$ 2,239,380**	$ 2,271,219

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

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

longer subject to such audits, reviews and investigations. During 2015 and 2014, the Corporation recorded net changes in estimates of approximately ($9,559) and $22,952, respectively, which primarily related to changes in previously estimated third-party payor settlements.

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

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

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

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

The Corporation's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. The Corporation's allowance for doubtful accounts for self-pay patients decreased to 50% of self-pay accounts receivable at September 30, 2015 from 58% of self-pay accounts receivable at September 30, 2014. On a monthly basis, the Corporation reviews its accounts receivable balances, the effectiveness of the Corporation's reserve policies, and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

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

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

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

(In Thousands)

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

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

	2015	2014
Medicare	**36%**	37%
Medicaid	**12**	13
Self-pay	**5**	5
All other	**47**	45
	100%	100%

The estimated cost of charity care provided was approximately $20,451 and $29,248 for the fiscal years ended September 30, 2015 and 2014, 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:

	2015	2014
Healthcare services:		
Free beds	**$ 39,517**	$ 42,510
Research	**40,251**	43,013
Education	**15,591**	16,693
Capital replacement	**23,360**	23,369
Other health care services	**55,390**	59,226
	$ 174,109	$ 184,811

(In Thousands)

3. Net Assets (continued)

Permanently restricted net assets at September 30 are restricted for:

	2015	2014
Investments to be held in perpetuity, the income from which is expendable to support health care services	**$ 80,268**	$ 79,210
Endowment requiring income to be added to original gift to support health care services	**22,783**	22,937
Restricted funds held in trust by others, the income from which is expendable to support health care services	**169,546**	184,764
	$ 272,597	$ 286,911

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

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

1) The duration and preservation of the fund
2) The purposes of the Corporation and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation

(In Thousands)

3. Net Assets (continued)

5) The expected total return from income and the appreciation of investments
6) Other resources of the Corporation
7) The investment policies of the Corporation

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

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

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

Endowment fund composition (excluding funds held in trust by others) by type of fund as of September 30, 2015, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 84,918	$ 103,051	$ 187,969
Board-designated endowment funds	164,946	–	–	164,946
	$ 164,946	$ 84,918	$ 103,051	$ 352,915

(In Thousands)

3. Net Assets (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment funds, beginning of the year				
Investment return:	**$ 147,054**	**$ 93,448**	**$ 102,148**	**$ 342,650**
Investment income	**2,182**	**262**	**98**	**2,542**
Net depreciation (realized and unrealized)	**(5,660)**	**(3,674)**	**(259)**	**(9,593)**
Total investment return	**(3,478)**	**(3,412)**	**(161)**	**(7,051)**
Contributions	**–**	**–**	**1,064**	**1,064**
Transfers into endowment funds	**22,370**	**332**	**–**	**22,702**
Appropriation of endowment assets for expenditure	**(1,000)**	**(5,450)**	**–**	**(6,450)**
Endowment funds, end of year	**$ 164,946**	**$ 84,918**	**$ 103,051**	**$ 352,915**

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ –	$ 93,448	$ 102,148	$ 195,596
Board-designated endowment funds	147,054	–	–	147,054
	$ 147,054	$ 93,448	$ 102,148	$ 342,650

(In Thousands)

3. Net Assets (continued)

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

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

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor, as stipulated by UPMIFA, requires the Corporation to retain as a fund of perpetual duration. These deficiencies periodically result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions, in which case the Board of Directors may deem imprudent the continuation of appropriation for a limited period. There were no material deficiencies of this nature which are reported in the unrestricted net assets as of September 30, 2015 and 2014.

(In Thousands)

4. Investments and Assets Whose Use is Limited

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

	September 30 2015	September 30 2014
Cash and cash equivalents	**$ 15,150**	$ 21,717
Money market funds	**153,066**	54,126
Equity securities:		
U.S.	**241,739**	247,963
International	**149,914**	181,585
Fixed income securities:		
U.S.	**136,287**	156,946
International	**11,350**	17,547
Mutual funds:		
U.S.	**34,152**	66,520
International	**40,125**	58
Common collective funds:		
U.S.	**70,158**	139,454
Alternative investments	**463,732**	282,737
Other notes and accounts receivable	**23**	630
Pledges receivable, net	**6,116**	3,504
	$ 1,321,812	$ 1,172,787

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

	Year Ended September 30 2015	Year Ended September 30 2014
Interest and dividend income	**$ 11,654**	$ 20,787
Realized gains on investments, net	**39,119**	28,918
Change in unrealized gains and losses on investments	**(66,362)**	9,567
Other	**4,953**	3,316
	$ (10,636)	$ 62,588

(In Thousands)

4. Investments and Assets Whose Use is Limited (continued)

Investments held by HHCISL have been classified as available for sale and are recorded at market value and are adjusted for any other than temporary declines in fair value. The cost, gross unrealized gains and losses and market value of the investments held by HHCISL as of September 30, 2015 and 2014, are as follows:

	Cost/ Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Market Value
September 30, 2015				
US government securities	**$ 34,646**	**$ 353**	**$ (442)**	**$ 34,557**
US agency securities	**7,257**	**18**	**(215)**	**7,060**
Mortgage backed securities	**2,234**	**3**	**(83)**	**2,154**
Corporate debt securities	**32,311**	**200**	**(206)**	**32,305**
Bond funds	**79,510**	**397**	**(37)**	**79,870**
Equity funds	**70,526**	**1,286**	**(3,959)**	**67,853**
Total	**$ 226,484**	**$ 2,257**	**$ (4,942)**	**$ 223,799**

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

Management evaluates investments for other than temporary impairment at least annually and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value is less than cost, the financial condition of the issuer, and the intent and ability of the Corporation to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. The Corporation has determined that the unrealized losses are deemed to be temporary impairments as of September 30, 2015 and 2014.

(In Thousands)

4. Investments and Assets Whose Use is Limited (continued)

Contractual maturities of fixed income securities as of September 30, 2015, are as follows:

	Amortized Cost	Fair Value
Due within one year	**$ 5,224**	**$ 5,263**
Due after one year through five years	**53,131**	**52,985**
Due after five years through ten years	**7,907**	**7,931**
Due after more than ten years	**10,186**	**9,897**
	$ 76,448	**$ 76,076**

5. Fair Values of Financial Instruments

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

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

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

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

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

(In Thousands)

5. Fair Values of Financial Instruments (continued)

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

	September 30, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	**$ 376,098**	**$ –**	**$ –**	**$ 376,098**
Investments and assets whose use is limited:				
Cash and cash equivalents	**13,651**	**1,499**	**–**	**15,150**
Money market funds	**148,094**	**4,972**	**–**	**153,066**
Equity securities:				
U.S.	**241,739**	**–**	**–**	**241,739**
International	**149,914**	**–**	**–**	**149,914**
Fixed income securities:				
U.S.	**–**	**136,287**	**–**	**136,287**
International	**–**	**11,350**	**–**	**11,350**
Mutual funds:				
U.S.	**8,347**	**25,805**	**–**	**34,152**
International	**40,112**	**13**	**–**	**40,125**
Common collective funds:				
U.S.	**–**	**70,158**	**–**	**70,158**
International	**–**	**–**	**–**	**–**
Alternative investments:				
U.S.	**–**	**11**	**109,611**	**109,622**
International	**–**	**196**	**–**	**196**
Other assets:				
Mutual funds:				
U.S.	**13,465**	**543**	**–**	**14,008**
International	**1,249**	**–**	**–**	**1,249**
Funds held in trust by others	**–**	**169,546**	**–**	**169,546**
Total	**$ 992,669**	**$ 420,380**	**$ 109,611**	**$ 1,522,660**
Other liabilities				
Interest rate swaps	**$ –**	**$ 8,155**	**$ –**	**$ 8,155**

(In Thousands)

5. Fair Values of Financial Instruments (continued)

	September 30, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	$ 423,879	$ –	$ –	$ 423,879
Investments and assets whose use is limited:				
Cash and cash equivalents	21,717	–	–	21,717
Money market funds	49,168	4,958	–	54,126
Equity securities:				
U.S.	247,963	–	–	247,963
International	181,585	–	–	181,585
Fixed income securities:				
U.S.	–	156,946	–	156,946
International	–	17,547	–	17,547
Mutual funds:				
U.S.	66,373	147	–	66,520
International	42	16	–	58
Common collective funds:				
U.S.	–	139,454	–	139,454
Alternative investments:				
U.S.	–	254	82,268	82,522
International	–	–	118	118
Other assets:				
Mutual funds:				
U.S.	15,068	1,080	–	16,148
International	1,980	–	–	1,980
Funds held in trust by others	–	184,764	–	184,764
Total	$ 1,007,775	$ 505,166	$ 82,386	$ 1,595,327
Other liabilities				
Interest rate swaps	$ –	$ 7,222	$ –	$ 7,222

The amounts reported in the preceding tables do not include alternative investments totaling approximately $353,915 and $200,097 as of September 30, 2015 and 2014, respectively, that were accounted for under the equity method of accounting. The Corporation has unfunded commitments to alternative investments of approximately $119,068 as of September 30, 2015.

(In Thousands)

5. Fair Values of Financial Instruments (continued)

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

Financial assets for the defined benefit plans classified within the Pension Plan Master Trust as of September 30, 2015, are classified in the table below in one of the three categories described above:

	September 30, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 18,711**	**$ –**	**$ –**	**$ 18,711**
Equity securities:				
U.S.	**345,101**	**–**	**–**	**345,101**
International	**224,333**	**–**	**–**	**224,333**
Fixed income bonds:				
U.S.	**7,453**	**119,589**	**–**	**127,042**
International	**–**	**20,525**	**–**	**20,525**
Mutual funds:				
U.S.	**107,135**	**–**	**–**	**107,135**
International	**1,179**	**–**	**–**	**1,179**
Common collective funds:				
U.S.	**–**	**506,126**	**–**	**506,126**
Alternative investments and other	**–**	**–**	**69,845**	**69,845**
Total	**$ 703,912**	**$ 646,240**	**$ 69,845**	**$ 1,419,997**

(In Thousands)

5. Fair Values of Financial Instruments (continued)

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

Fair value for Level 1 assets is based upon quoted market prices. Fair value for Level 2 assets is based upon model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. The funds held in trust by others that is categorized in Level 2 consist of shares or units in investment funds, as opposed to direct interests in the funds' underlying holdings, which may be marketable. The interest rate swap agreements are valued based on a determination of market expectations relating to the future cash flows associated with the swap contract using sophisticated modeling based on observable market-based inputs, such as interest rate curves.

Assets that are valued using significant unobservable inputs, such as extrapolated data, proprietary models or indicative quotes that cannot be corroborated with market data are classified in Level 3 within the fair value hierarchy. Level 3 assets are valued based on the Corporation's ownership interest in the net asset value (NAV) of the fund. As the NAV reported by each fund is used as a practical expedient to estimate the fair value of the Corporation's interest therein. The Corporation routinely monitors and assesses methodologies and assumptions used in valuing these interests. The Level 3 assets include certain liquidity restrictions that may require 90 days advance notice for redemptions.

(In Thousands)

5. Fair Values of Financial Instruments (continued)

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

	2015	2014
Beginning balance at October 1	**$ 240,097**	$ 197,178
Net appreciation (realized and unrealized)	**11,271**	10,086
Sales	**(196,863)**	(11,537)
Purchases	**124,951**	44,370
Ending balance at September 30	**$ 179,456**	$ 240,097

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

6. Property, Plant, and Equipment

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

	2015	2014
Land and land improvement	**$ 77,862**	$ 63,378
Buildings and fixed equipment	**1,479,469**	1,386,748
Equipment	**1,057,402**	946,731
	2,614,733	2,396,857
Less accumulated depreciation	**(1,651,933)**	(1,536,318)
	962,800	860,539
Construction in process (estimated cost to complete – $296,018)	**184,090**	202,789
	$ 1,146,890	$ 1,063,328

Included in property, plant, and equipment, net is $116,942 and $77,047 of internally developed software costs for the fiscal years ended September 30, 2015 and 2014, respectively. The Corporation capitalized interest expense of $6,269 and $6,375 for the fiscal years ended September 30, 2015 and 2014, respectively.

7. Pensions and Other Postretirement Benefits

The Corporation has cash balance retirement plans and defined benefit pension plans (both contributory and noncontributory), covering substantially all employees and noncontributory, supplemental defined-benefit retirement plans for certain executive employees (collectively, the Plans). As noted in Note 5, a Master Trust was established in 2011 for certain plans. Contributions to the Plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to the Plan participants. The assets of the Plans are available to pay the benefits of eligible employees for participating entities based on their allocated share of assets. The service cost component of net periodic pension cost and all other components are actuarially determined as defined by each plan.

The benefits are based on years of service and the employees' compensation as defined by each of the Plans. The Corporation makes contributions in amounts sufficient to fund the Plans' current service cost, and the funding policy is to contribute amounts to these plans sufficient to meet the minimum funding requirements set forth by federal government regulations. The majority of the cash balance retirement plans and defined benefit pension plans are frozen to new members. The Corporation's Board of Directors adopted a resolution in December 2014 to freeze the remaining defined benefit plans which had not been previously frozen, and move all employees to a single defined contribution plan effective January 1, 2016. On the effective date, substantially all employees will be eligible to participate in the defined contribution plan. As a result of the approved resolution, the plan liabilities were remeasured as of December 31, 2014. All outstanding prior service costs related to these plans were recognized as a curtailment gain or loss as of the date of remeasurement. The amount was included in employee benefits within the consolidated statement of operations and changes in net assets for the year ended September 30, 2015.

The Corporation also has defined contribution plans covering substantially all of its employees and executives. Expense for employer contributions was approximately $33,551 and $29,963 for 2015 and 2014, respectively.

The Corporation provides health care and life insurance benefits to its retired employees who meet certain eligibility requirements. The Corporation's policy is to fund the cost of postretirement benefits, other than pensions, as incurred. During 2015, the Corporation announced changes to these benefits effective January 1, 2018. No new retirees will be eligible for these benefits and current retirees will be offered a fixed amount to use on private health exchanges. As a result, the postretirement benefit plan was remeasured as of December 31,

(In Thousands)

7. Pensions and Other Postretirement Benefits (continued)

2014, upon adoption of the changes to the plan by the Board of Directors, which decreased the accrued pension liabilities within the consolidated balance sheets by approximately $47,507 and decreased employee benefits expense within the consolidated statement of operations and changes in net assets by approximately $22,516 for the year ended September 30, 2015.

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

		2015		2014
Unrecognized actuarial loss	**$**	**552,103**	$	507,439
Unrecognized prior service credit		**(38,001)**		(12,315)
	$	**514,102**	$	495,124

The actuarial loss and prior service credit included in unrestricted net assets at September 30, 2015, and expected to be recognized in net periodic benefit cost during the fiscal year ending September 30, 2016, are as follows:

Unrecognized actuarial loss	$	18,596
Unrecognized prior service credit		(27,708)
	$	(9,112)

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

	Pension Benefits				Other Postretirement Benefits			
		2015		2014		2015		2014
Change in benefit obligation								
Benefit obligation at beginning of year	**$**	**(1,913,513)**	$	(1,685,616)	**$**	**(87,604)**	$	(84,285)
Service cost		**(39,317)**		(41,303)		**(476)**		(1,550)
Interest cost		**(78,020)**		(80,625)		**(1,984)**		(3,881)
Employee contributions		**–**		–		**(3,490)**		(3,287)
Benefits paid		**92,440**		88,184		**11,328**		9,278
Actuarial gains and losses		**(21,347)**		(194,153)		**(4,301)**		(3,879)
Curtailments		**89,622**		–		**–**		–
Plan amendments, other		**–**		–		**50,708**		–
Benefit obligation at end of year	**$**	**(1,870,135)**	$	(1,913,513)	**$**	**(35,819)**	$	(87,604)

(In Thousands)

7. Pensions and Other Postretirement Benefits (continued)

	Pension Benefits		Other Postretirement Benefits	
	2015	**2014**	**2015**	**2014**
Change in plans' assets				
Fair value of assets at beginning of year	**$ 1,503,239**	$ 1,408,635	**$ –**	$ –
Actual return on plans' assets	**(30,482)**	121,837	**–**	–
Benefits paid	**(92,440)**	(88,184)	**(11,328)**	(9,278)
Employer contributions	**39,680**	60,951	**7,838**	5,991
Employee contributions	**–**	–	**3,490**	3,287
Fair value of plans' assets at end of year	**1,419,997**	1,503,239	**–**	–
Underfunded status of the plans	**$ (450,138)**	$ (410,274)	**$ (35,819)**	$ (87,604)
Components of net periodic benefit cost				
Service cost	**$ 39,317**	$ 41,303	**$ 476**	$ 1,550
Interest cost	**78,020**	80,625	**1,984**	3,881
Expected return on plans' assets	**(105,737)**	(97,281)	**–**	–
Curtailment	**882**	–	**(2,659)**	–
Settlement loss	**154**	213	**–**	–
Net amortization and deferral	**25,664**	17,651	**(21,482)**	(751)
Cost (income) included in the consolidated statements of operations and changes in net assets	**$ 38,300**	$ 42,511	**$ (21,681)**	$ 4,680

The actuarial loss in 2015 primarily relates to changes in demographic experience, discount rate and the mortality table used to measure the benefit obligation, and the actuarial loss in 2014 primarily relates to changes in the discount rate and the mortality table used to measure the benefit obligation.

The accumulated benefit obligation for the Corporation's plans was approximately $1,866,100 and $1,818,296 as of September 30, 2015 and 2014, respectively.

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

	Pension Benefits		Other Post-Retirement Benefits	
	2015	**2014**	**2015**	**2014**
Discount rate for determining benefit obligation at year-end	**3.75 –4.65%**	3.75 – 4.55%	**3.00 –4.20%**	3.80 – 4.20%
Discount rate for net periodic benefit cost	**3.75 –4.55%**	4.10 – 5.20%	**3.00 –4.20%**	4.05 – 4.70%
Expected rate of return on plan	**4.00 –7.50%**	4.75 – 7.50%	**–**	–
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%

(In Thousands)

7. Pensions and Other Postretirement Benefits (continued)

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

The Corporation has three postretirement benefit plans. The weighted-average annual assumed rates of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) are assumed to be 6.5% to 7.0%. Rates are assumed to decline to 5% through 2023 for Hartford Hospital and 2018 for Windham Hospital. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the service and interest costs and accumulated postretirement benefit obligations by approximately $147 and $316 at September 30, 2015 and 2014, respectively. A one percentage point decrease in the assumed health care cost trend rate would decrease the service and interest cost and accumulated postretirement benefit obligation by approximately $126 and $273 at September 30, 2015 and 2014, respectively.

Plan Assets

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

	Target	2015	2014
Equity securities	51%	**60%**	59%
Fixed income/debt securities	25	**16**	22
Commodities/inflation/real assets	10	**8**	6
Other	14	**16**	13
Total	100%	**100%**	100%

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

(In Thousands)

7. Pensions and Other Postretirement Benefits (continued)

Contributions

The Corporation expects to make contributions of approximately $3,730 and $4,484 in fiscal year 2016 related to its Plans and its other postretirement benefit plans, respectively.

Estimated Future Benefit Payments

Future benefit payments are expected to be paid as follows:

Fiscal Year	Pension Benefits	Other Postretirement Benefits
2016	$ 101,777	$ 4,484
2017	102,599	4,081
2018	102,621	3,971
2019	105,347	3,639
2020	105,312	3,325
2021–2025	556,171	14,234

(In Thousands)

8. Long-Term Debt

Details of long-term debt are as follows:

	September 30 2015	September 30 2014
HHC Revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA):		
Series A, consisting of a tax-exempt serial bond and term bonds; interest at rates ranging from 4.00% to 5.00%	**$ 248,829**	$ 251,960
Series B, tax-exempt variable rate term bond; interest at rates ranging from 0.07% to 0.09%	**71,085**	71,085
Series C, taxable variable rate term bond; interest at rates ranging from 0.12% to 0.14%	**50,000**	50,000
Series D, taxable, fixed rate at 5.75%	**163,180**	163,180
Series E, tax-exempt; interest rates ranging from 4.00% to 5.00%	**83,790**	83,790
Series F, tax-exempt; interest rates ranging from 3.00% to 5.85%	**71,965**	–
Series G, tax-exempt; variable interest based upon one-month LIBOR rate through June 30, 2020	**50,665**	–
Revolving line of credit	**28,184**	16,941
Capital lease obligations (HHC, Backus, HOCC, Hartford) due in monthly installments, at varying rates of imputed interest from 1.94% to 7.16%	**26,812**	29,134
Term loan (HHC), at a variable rate of 0.95% as of September, 30, 2015	**70,713**	28,030
Master financing agreement with CHEFA (Hartford) due in monthly installments with a fixed rate of 2.75% through September 17, 2015	**–**	4,223
Commercial notes (Natchaug), at varying rates of imputed interest to 9.44%	**2,335**	2,483
Mortgage (Backus) due in monthly installments with fixed rate of 6.125% through May 1, 2025	**1,395**	1,464
Other loans and notes, at varying rates of imputed interest	**712**	1,455
Premium on bonds	**10,850**	6,913
	880,515	710,658
Less current portion	**44,207**	56,638
	$ 836,308	$ 654,020

On September 29, 2011, HHC issued approximately $375,815 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, 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 of Taxable Bonds Series D (the HHC Series D Bonds) and approximately $83,790 of CHEFA Revenue Bonds Series E (the HHC Series E Bonds) concurrently (collectively referred to as the HHC 2014 Bonds). On May 12, 2015, HHC concurrently issued approximately $71,965 and $50,665 of CHEFA

8. Long-Term Debt (continued)

Revenue Bonds Series F (the HHC Series F Bonds) and G (the HHC Series G Bonds), respectively, (collectively referred to as the HHC 2015 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. The HHC 2011, 2014, and 2015 Bonds were also issued to obtain funds for future capital needs. The HHC Series A Revenue Bonds consist of serial bonds that mature annually from July 1, 2014 through July 1, 2023, and term bonds that mature from July 1, 2024 through July 1, 2041. The HHC Series B Revenue Bonds consist of term bonds that mature from July 1, 2042 through July 1, 2049. The HHC Series B Revenue Bonds are secured by an irrevocable letter of credit issued by Bank of America which expires on September 29, 2018. The HHC Series C Revenue Bonds consist of term bonds that mature from July 1, 2042 through July 1, 2049. The HHC Series C Revenue Bonds are secured by an irrevocable letter of credit issued by JP Morgan Chase Bank that expires on October 1, 2016. The reimbursement terms of the letters of credit for the HHC Series B and C Revenue Bonds are such that in the event a letter of credit is drawn upon due to a failed remarketing, the components available shall equal the aggregate principal and interest amount of bonds outstanding. The HHC Series D Bonds consist of term bonds that mature on April 1, 2044. The HHC Series E Bonds consist of term bonds that mature from July 1, 2025 through July 1, 2042. The HHC Series F Bonds consist of term bonds that mature on July 1, 2045. The HHC Series G Bonds consist of term bonds that mature on July 1, 2049.

The MTI and Supplemental MTI provide for the potential establishment and maintenance of a debt service reserve fund, a pledge of gross receipts, as defined, and parity with the HHC Series A and E Revenue Bonds that remain outstanding**.** The MTI and loan agreements establish certain restrictive covenants, including a debt service coverage ratio and days cash on hand requirement. No violations of covenants existed as of and for the fiscal years ended September 30, 2015 and 2014.

The fair value of the HHC 2011, 2014 and 2015 Bonds was approximately $813,414 at September 30, 2015 and fair value of the HHC 2011 and 2014 Bonds was approximately $680,006 at September 30, 2014. The fair value of the HHC 2011, 2014, and 2015 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.

8. Long-Term Debt (continued)

As part of the HHC 2011 Bonds, the Obligated Group entered into a new line of credit for $20,000. This line expires in March 2016. As of September 30, 2015 and 2014, HHC had not drawn upon this line of credit. In 2012, HHC obtained a $60,000 line of credit. In August 2013, the Obligated Group entered into an amendment increasing this line of credit to $100,000. As of September 30, 2015 and 2014, the Corporation had drawn $28,184 and $16,941, respectively, on this line of credit, with a variable rate of 0.90% and 0.85%, respectively, and is also included in the current portion of long-term debt. This line of credit expires in April 2017.

In April 2014, the Obligated Group entered into a new loan agreement in the amount of $85,000. Under this agreement, a line of credit will be provided for borrowings up to a maximum aggregate amount outstanding of $85,000 until April 2016, with an interest rate equal to the LIBOR Rate plus the Applicable Margin, as defined in the loan agreement. On June 30, 2015 the line converted to a term loan, to be repaid in 36 equal quarterly installments of principal until April 2024. As of September 30, 2015 and 2014, the ending balance of this term loan is $70,713 and $28,030, respectively, with a variable rate of 0.95% and 0.90%, respectively.

MidState and Windham entered into interest rate swap agreements in connection with debt instruments that have subsequently been terminated. MidState entered into an interest rate swap agreement with a financial institution, with an original notional amount of $47,594. MidState receives a variable rate equal to 67% of one month LIBOR and pays a fixed rate of 3.78%. This agreement terminates on July 1, 2026. Windham entered into two interest rate swap agreements with a financial institution, with an original notional amount of $19,745. Windham receives a variable rate equal to 67% of one month LIBOR and pays a fixed rate of 3.38%. These agreements terminate on July 1, 2037. The changes in the fair value of these agreements are reported in the accompanying consolidated statements of operations and changes in net assets as a component of income from investments along with the net cash receipts on the swap agreement. The fair value of the swap agreements were $8,155 and $7,222 at September 30, 2015 and 2014, respectively, and are recorded in other liabilities in the accompanying consolidated balance sheets. Although the swap agreements represent an economic hedge of the interest rate, they do not qualify for hedge accounting. The changes in fair value of these agreements is reported in the accompanying consolidated statements of operations and changes in net assets as a component of other nonoperating income (loss) along with the net cash receipts on the swap agreement.

8. Long-Term Debt (continued)

Backus held Series E, Series F and Series G bonds (Backus Bonds) through a Master Indenture, as amended and supplemented by Supplemental Master Indenture No.4 (Prior MTI), which provided for among other things, a pledge of the gross receipts, restrictions on the incurrence of certain indebtedness of Backus, and covenants regarding Backus's debt service coverage ratios, sale and lease of assets, and other covenants similar in financings of this type. The bonds were secured by the real property of Backus, including all buildings and equipment. Pursuant to the loan agreements, Backus was obligated to provide amounts which would be sufficient to enable the Authority to pay the principal and interest on the Backus Bonds. Series E consisted of term maturities ($6,920) with due dates from 2017 to 2022 and at an interest rate of 5%. Series F consisted of serial maturities ($4,350) with due dates from 2014 to 2018, with interest rates of 4.00% to 4.25% and term maturities ($22,125) from 2023 to 2035 with interest rates of 5.00% to 5.25%. Series G consisted of serial maturities ($16,405) from 2014 to 2026, with interest rates of 3.60% to 5.00% and term maturities ($7,420) in 2035 at an interest rate of 5%. Series E and Series F Bonds were subject to optional redemption prior to maturity. Series G bonds maturing after July 1, 2015, were subject to optional redemption prior to maturity. The Backus Bonds were defeased in conjunction with the HHC 2014 Bonds.

On January 27, 2014, the Obligated Group entered into a bridge loan (the Bridge Loan) in the amount of $80,902, part of which was used to defease the Backus Bonds prior to the closing of the HHC 2014 Bonds. A portion of the proceeds of the HHC 2014 Bonds were used to pay off the outstanding balance of the Bridge Loan prior to September 30, 2014. During 2014, Backus placed $57,512 in an escrow refunding trust relating to Series F and G bonds. Series F will be redeemed as of July 1, 2018. Series G was redeemed on July 1, 2015. The Backus Series E Bonds were extinguished during 2014.

HHC has entered into several capital lease obligations. The leases are due in monthly installments with varying interest rates. HHC entered into three capital leases for equipment in 2013 with options to purchase, with imputed interest rates from 1.94% to 3.53%. The total monthly installments due for the three lease obligations are $216 with an outstanding balance of $6,030 and $8,352 as of September 30, 2015 and 2014, respectively. Hartford has capital leases for satellite locations entered into in 2010 and 2012. Both leases are twenty year leases with an option to purchase. One lease has monthly installments of $72 with an interest rate of 6.25% and the second lease has monthly installments of $34 with an interest rate of 7.16%. The outstanding Hartford capital lease obligations were $13,044 and $13,287 as of September 30, 2015 and 2014, respectively. Backus leases include a twenty-year capital lease of $5,108 with

(In Thousands)

8. Long-Term Debt (continued)

an interest rate of 6.06% for a building entered into in 2012. Under the terms of the lease, Backus has the option for two additional five year terms as well as an option to purchase the property. The outstanding balance on this capital lease at September 30, 2015 and 2014, was $4,898 and $4,772, respectively. The remaining capital leases recorded total approximately $2,840 and $2,723 with interest rates ranging from 2.25% to 5.90% as of September 30, 2015 and 2014, respectively.

In September 2010, Hartford entered into a master financing agreement with CHEFA, for funds to be used to purchase all or a portion of the costs of various capital expenditures. The interest rate is 2.75% and amounts are payable in monthly installments of $357 for a period of five years. The outstanding balance related to the master financing agreement as of September 30, 2015 and 2014, was $0 and $4,223, respectively.

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

Fiscal year ending September 30:	
2016	$ 44,207
2017	15,428
2018	14,326
2019	15,223
2020	13,764
Thereafter	766,717
	$ 869,665

Interest paid for the fiscal years ended September 30, 2015 and 2014, was approximately $25,114 and $22,519, respectively.

9. Professional Liability and Workers' Compensation Insurance

The Corporation's primary medical professional and general liability coverage is with HHCISL for the majority of its subsidiaries. As discussed in Note 1, HHCISL is a wholly-owned subsidiary of the Corporation. Hartford, MidState, HOCC and Windham were insured by HHCISL for the years ended September 30, 2015 and 2014. Effective October 1, 2013, HHCISL also began providing primary coverage for Backus. Prior to being covered by HHCISL, primary coverage for Backus was through a self-insured trust. In fiscal year 2015, Backus transferred the reserves related to its legacy malpractice claims to HHCISL.

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

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

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

In addition, HHCISL provides primary layer coverage, on a claims-made basis, for employee benefits coverage with limits of $2,000 for each employee benefits wrongful act, with an aggregate limit of $6,000. HHCISL also provides primary layer coverage, on an occurrence basis, general liability with limits of $2,000 per occurrence, with an aggregate limit of $4,000. Effective January 1, 2013, HHCISL provided employee medical stop loss coverage to the Corporation with a limit of $650 in excess of $350 per employee. A select number of employees in 2015 were given higher limits due to their expected higher expenses. In 2014, HHCISL issued a separate policy for employed lawyers' legal liability with coverage for $3,000 per claim and in aggregate.

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

Coverage for professional liability insurance is provided on a claims-made basis at HHCISL. As such, the subsidiaries of the Corporation that are insured by HHCISL have also recorded a liability for estimated incurred but not reported claims. Professional liability claims are discounted at 1.47% and 1.72% for the incurred-but-not-reported liability, which was approximately $20,804 and $19,181 at September 30, 2015 and 2014, respectively.

(In Thousands)

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

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

	2015	2014
Net reserve, beginning of year	**$ 112,240**	$ 107,446
Transfer in of Backus reserves	**3,038**	–
Incurred related to:		
Current year	**32,032**	32,710
Prior years	**(4,714)**	(10,786)
Total incurred	**27,318**	21,924
Paid related to:		
Current year	**(2,028)**	(588)
Prior years	**(13,986)**	(16,542)
Total paid	**(16,014)**	(17,130)
Net reserve, end of year	**126,582**	112,240
Plus: reinsurance recoverable	**4,301**	4,349
Plus: CCMC reserves	**35,208**	31,783
Gross balance, end of the year	**$ 166,091**	$ 148,372

As a result of changes in estimates of insured events in prior years, the reserve for losses and loss adjustment expenses decreased by $4,714 and $10,786 in 2015 and 2014, respectively.

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

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

(In Thousands)

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

The Corporation's workers' compensation reserve, as estimated by management in conjunction with its independent actuaries is $31,144 and $26,707 as of September 30, 2015 and 2014, respectively, is included in accrued expenses on the consolidated balance sheets and is discounted at 3.0% in 2015 and 2014.

A significant portion of the Corporation has established a policy of self-insuring the deductible portion of its workers' compensation insurance. The deductible limits are $1,000 per claim for fiscal years ended September 30, 2015 and 2014. 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 at both September 30, 2015 and 2014.

10. Commitments and Contingencies

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

The Corporation has several operating lease agreements for certain real estate, medical equipment, and computer equipment. Certain of these leases have renewal options for periods up to five years and escalation clauses. Rent is payable in equal monthly installments. Rent expense was approximately $36,047 and $36,276 for the fiscal years ended September 30, 2015 and 2014, respectively.

The future minimum lease payments are as follows:

2016	$ 21,672
2017	20,431
2018	18,315
2019	16,421
2020	12,796
Thereafter	39,548
	$ 129,183

(In Thousands)

11. Other Operating Revenue

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

	2015	2014
Services to others	**$ 74,257**	$ 82,050
Grant revenue	**29,364**	39,409
Rental income	**15,579**	13,598
Investment income	**15,533**	7,076
Tuition revenue	**8,994**	9,914
Contributions	**7,691**	4,110
Cafeteria income	**6,905**	6,146
Joint ventures	**6,470**	5,686
EHR revenue	**1,500**	3,465
Other	**26,572**	28,138
	$ 192,865	$ 199,592

12. Functional Expenses

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

	Year Ended September 30	
	2015	2014
Health care services	**$ 1,829,433**	$ 1,828,359
Support services	**587,155**	601,037
	$ 2,416,588	$ 2,429,396

(In Thousands)

13. Supplemental Cash Flow Information

The changes in assets and liabilities are as follows:

	September 30	
	2015	**2014**
Increase in accounts receivable	**$ (54,139)**	$ (44,167)
Decrease in other receivables	**237**	30,141
(Increase) decrease in inventories of supplies and prepaid expenses and other assets	**(3,252)**	714
Increase in other assets	**(13,030)**	(29,135)
Increase in accounts payable and accrued expenses	**32,512**	2,042
Increase in estimated third-party payor settlements	**9,285**	11,659
(Decrease) increase in salaries, wages, payroll taxes, and amounts withheld from employees	**(3,730)**	13,692
Decrease in accrued pension liabilities, self-insurance liabilities and other liabilities	**(7,401)**	(22,921)
	$ (39,518)	$ (37,975)

14. Subsequent Events

The Corporation evaluated subsequent events through January 28, 2016, 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, 2015.

In November 2015, an asset purchase agreement was entered into for the Corporation's outreach laboratory service business, CLP. The agreement may be subject to regulatory approvals. The purchase price of the cash transaction is approximately $135,000. Management is in the process of evaluating the impact to the consolidated financial statements, including any potential gain on sale. The transaction is expected to close on February 29, 2016.

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

Supplementary Information

Hartford Health Care Corporation and Subsidiaries

Consolidating Balance Sheet

September 30, 2015
(In Thousands)

	Hartford HealthCare	Consolidated Hartford Hospital	Consolidated MidState Medical Center	Windham Hospital	The Hospital of Central Connecticut	Backus Hospital	Consolidated H.H.M.O.B.	Consolidated Hartford HealthCare at Home, Inc.	Natchaug Hospital	Rushford Center, Inc.	Clinical Laboratory Partners	Practice Central	Hartford HealthCare Senior Services	Hartford HealthCare Endowment LLC	Hartford HealthCare Medical Group	Hartford HealhCare Indemnity Services, Ltd.	Backus Corporation and Other Subsidiaries	Integrated Care Partners	Eliminations	Total
Assets																				
Current assets:																				
Cash and cash equivalents	$ 48,720	$ 39,369	$ 12,664	$ 5,138	$ 15,228	$ 192,740	$ 3,144	$ 2,262	$ 3,220	$ 1,449	$ 2,369	$ 341	$ 10,750	$ –	$ 8,428	$ 19,035	$ 589	$ 10,652	$ –	$ 376,098
Accounts receivable, less allowances	–	131,104	23,491	8,372	41,580	36,077	10	17,656	10,599	4,157	9,921	–	2,135	–	10,450	–	1,080	–	–	296,632
Other receivables	3,117	21,984	4,103	1,758	19,518	965	1,136	–	1,787	648	2,654	–	299	3,030	2,211	4,438	4	63	(33,900)	33,815
Interest in investments held by Endowment, LLC	–	3,030	–	–	–	–	–	–	–	–	–	–	–		–	–	–	–	(3,030)	–
Due from affiliates	24,039	25,283	–	–	–	375	2,428	–	–	–	–	–	–	–	–	–	323	–	(52,448)	–
Inventories of supplies	–	14,407	3,847	991	6,194	3,621	–	–	174	–	1,441	–	34	–	252	–	–	–	–	30,961
Prepaid expenses and other assets	8,672	5,518	1,676	963	2,692	3,041	(4)	200	33	476	518	–	223	–	486	719	–	18	–	25,231
Current portion of assets whose is limited	–	–	–	–	–	5,448	–	–	–	–	–	–	–	–	–	–	–	–	–	5,448
Total current assets	84,548	240,695	45,781	17,222	85,212	242,267	6,714	20,118	15,813	6,730	16,903	341	13,441	3,030	21,827	24,192	1,996	10,733	(89,378)	768,185
Assets whose use is limited:																				
Interest in investments held by Endowment, LLC	–	291,792	14,865	77	137,656	84,458	–	14,030	–	–	–	–	–	–	–	–	–	–	(542,878)	–
Donor restricted interest in investments held by Endowment, LLC	–	213,610	1,580	1,940	27,084	7,965	–	16,308	–	–	–	–	–	–	–	–	–	–	(268,487)	–
Investments and other assets	–	415	–	462	–	42,282	–	–	–	–	–	–		542,878	–	–	–	–	–	586,037
Investments for restricted purposes	–	7,437	–	606	1,172	19,015	–	–	–	–	–	–	–	268,487	–	–	–	–	–	296,717
Escrow funds for long term debt	5,071	115,106	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	120,177
Funds designated for debt service	487	8,998	6,308	1,440	3,592	–	–	–	–	–	–	–	–	–	–	–	–	–	–	20,825
Investments held by HHCISL	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	223,799	–	–	–	223,799
	5,558	637,358	22,753	4,525	169,504	153,720	–	30,338	–	–	–	–	–	811,365	–	223,799		–	(811,365)	1,247,555
Funds held in trust by others	–	130,201	13,638	2,962	14,823	2,386	–	5,481	50	–	–	–	5	–	–	–	–	–	–	169,546
Interest in investments held by Endowment, LLC	–	–	66,103	–	–	–	–	–	–	–	–	–	2,706	–	–	–	–	–	(68,809)	–
Investment in subsidiaries	563,909	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(563,909)	–
Investments	–	–	–	–	–	–	–	–	–	–	–	–	–	68,809	–	–	–	–	–	68,809
Other assets	21,295	87,425	13,543	2,867	26,569	13,785	667	–	1,642	31	97	–	210	–	4,578	–	717	–	(74,549)	98,877
Property, plant, and equipment, net	201,934	391,257	110,517	38,871	194,934	119,579	25,586	3,653	11,686	6,100	8,538	1,228	14,571	–	17,484	–	952	–	–	1,146,890
Total assets	$ 877,244	$ 1,486,936	$ 272,335	$ 66,447	$ 491,042	$ 531,737	$ 32,967	$ 59,590	$ 29,191	$ 12,861	$ 25,538	$ 1,569	$ 30,933	$ 883,204	$ 43,889	$ 247,991	$ 3,665	$ 10,733	$ (1,608,010)	$ 3,499,862
Liabilities and net assets																				
Current liabilities:																				
Accounts payable	$ 17,795	$ 37,588	$ 8,055	$ 3,112	$ 5,363	$ 6,818	$ 482	$ 656	$ 958	$ 400	$ 2,339	$ –	$ 444	$ –	$ 2,285	$ 487	$ 101	$ 224	$ –	$ 87,107
Salaries, wages, payroll taxes, and amounts withheld from employees	15,806	26,473	4,209	2,285	8,494	6,081	45	2,479	1,483	591	1,867	–	1,007	–	11,674	–	720	966	–	84,180
Accrued expenses	31,043	24,035	3,118	3,313	13,983	5,445	1,285	2,077	(13)	2,016	528	2	1,767	–	2,665	288	–	5,551	–	97,103
Due to affiliates	–	–	2,547	6,298	4,142	–	–	13,498	5,780	928	2,434	3,596	723	–	7,154	–	–	4,927	(52,027)	–
Estimated third-party payor settlements	–	32,919	7,240	2,773	10,957	9,211	–	932	(75)	192	1,804	–	–	–	–	–	538	–	–	66,491
Current portion of long-term debt and capital leases	34,531	1,873	1,192	4,449	549	400	–	–	207	1,006	–	–	–	–	–	–	–	–	–	44,207
Current portion of accrued pension liabilities	–	2,987	3,184	1,199	–	4,083	–	–	–	–	–	–	–	–	–	–	–	–	–	11,453
Current portion of other liabilities	1,242	12,032	3,484	398	4,550	2,415	–	–	470	–	–	–	–	–	1,031	43,169	–	–	(34,321)	34,470
Total current liabilities	100,417	137,907	33,029	23,827	48,038	34,453	1,812	19,642	8,810	5,133	8,972	3,598	3,941	–	24,809	43,944	1,359	11,668	(86,348)	425,011
Long-term debt and capital leases, less current portion	145,698	411,427	85,514	31,165	62,561	68,373	8,972	–	2,128	45	–	–	20,425	–	–	–	–	–	–	836,308
Accrued pension liabilities, less current portion	2,091	229,351	46,123	47,069	118,489	49,998	762	742	4,202	–	–	–	–	–	664	–	–	–	–	499,491
Other liabilities, less current portion	1,242	47,033	18,481	13,630	29,071	11,817	575	–	1,706	–	–	–	491	–	7,346	–	201	–	(74,549)	57,044
Self insurance liabilities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	140,854	–	–	–	140,854
Total liabilities	249,448	825,718	183,147	115,691	258,159	164,641	12,121	20,384	16,846	5,178	8,972	3,598	24,857	–	32,819	184,798	1,560	11,668	(160,897)	1,958,708
Net assets:																				
Unrestricted	577,440	306,591	72,282	(55,317)	187,369	355,083	20,846	28,545	11,966	7,530	16,566	(2,029)	5,696	614,717	11,070	63,193	2,105	(935)	(1,128,270)	1,094,448
Temporarily restricted	20,916	138,904	2,488	1,935	23,883	3,908	–	2,134	329	153	–	–	375	268,487	–	–	–	–	(289,403)	174,109
Permanently restricted	29,440	215,723	14,418	4,138	21,631	8,105	–	8,527	50	–	–	–	5	–	–	–	–	–	(29,440)	272,597
Total net assets	627,796	661,218	89,188	(49,244)	232,883	367,096	20,846	39,206	12,345	7,683	16,566	(2,029)	6,076	883,204	11,070	63,193	2,105	(935)	(1,447,113)	1,541,154
Total liabilities and net assets	$ 877,244	$ 1,486,936	$ 272,335	$ 66,447	$ 491,042	$ 531,737	$ 32,967	$ 59,590	$ 29,191	$ 12,861	$ 25,538	$ 1,569	$ 30,933	$ 883,204	$ 43,889	$ 247,991	$ 3,665	$ 10,733	$ (1,608,010)	$ 3,499,862

Hartford Health Care Corporation and Subsidiaries

Consolidating Statement of Operations

For the Year Ended September 30, 2015

(In Thousands)

	Hartford HealthCare	Consolidated Hartford Hospital	Consolidated MidState Medical Center	Windham Hospital	The Hospital of Central Connecticut	Backus Hospital	Consolidated H.H.M.O.B.	Consolidated Hartford HealthCare at Home, Inc.	Natchaug Hospital	Rushford Center, Inc.	Clinical Laboratory Partners	Practice Central	Hartford HealthCare Senior Services	Hartford HealthCare Endowment LLC	Hartford HealthCare Medical Group	Hartford HealhCare Indemnity Services, Ltd.	Central Connecticut Health Alliance, Inc. and Other Subsidiaries	Backus Corporation and other subsidiaries	Integrated Care Partners	Eliminations	Total
Unrestricted revenues, gains and other support:																					
Net patient service revenue	$ –	$ 994,571	$ 216,816	$ 82,277	$ 344,244	$ 294,015	$ –	$ 83,144	$ 49,929	$ 19,834	$ 85,179	$ –	$ 18,080	$ –	$ 104,269	$ –	$ (7)	$ 11,801	$	$ (14,730)	$ 2,289,422
Provision for bad debts	–	14,136	4,424	4,675	5,092	8,487	–	3,610	1,172	892	3,803	–	87	–	2,854	–	–	810	–	–	50,042
Net patient service revenue less provision for bad debts	–	980,435	212,392	77,602	339,152	285,528	–	79,534	48,757	18,942	81,376	–	17,993	–	101,415	–	(7)	10,991	–	(14,730)	2,239,380
Other operating revenue	192,905	102,492	14,305	4,764	12,860	6,785	33,194	2,147	1,538	11,047	23,585	120	11,989	–	10,057	39,865	1,567	1,524	4,566	(282,445)	192,865
Net assets released from restrictions for operations	–	12,326	102	–	1,129	218	–	84	37	143	–	–	311	–	–	–	–	–	–	–	14,350
	192,905	1,095,253	226,799	82,366	353,141	292,531	33,194	81,765	50,332	30,132	104,961	120	30,293	–	111,472	39,865	1,560	12,515	4,566	(297,175)	2,446,595
Salaries and wages	81,429	424,423	66,714	35,993	143,128	108,507	1,088	38,045	28,495	17,755	43,984	3	16,823	–	97,911	–	717	11,055	5,951	–	1,122,021
Employee benefits	23,967	100,251	17,327	10,835	44,904	23,770	560	8,144	8,869	4,512	12,600	1	4,672	–	19,406	–	186	2,201	1,746	(60)	283,891
Supplies and other	32,328	206,254	43,862	10,989	50,093	46,074	3,030	9,954	2,202	1,600	25,335	21	2,631	–	16,568	31,408	212	2,078	181	(7,317)	477,503
Purchased services	65,824	242,686	65,799	23,002	96,426	54,809	25,264	26,250	8,995	6,187	17,290	2,743	3,964	–	24,030	473	36	3,144	1,443	(291,847)	376,518
Depreciation and amortization	15,710	48,493	12,594	4,243	19,771	15,041	1,946	834	1,090	437	1,515	129	991	–	2,106	–	204	226	–	–	125,330
Provision for non-patient bad debts	5,929	18	–	–	–	–	50	–	–	–	–	–	–	–	–	–	–	–	–	–	5,997
Interest	2,583	11,550	3,968	1,699	1,839	3,380	69	16	136	26	–	–	201	–	–	–	4	–	–	(143)	25,328
	227,770	1,033,675	210,264	86,761	356,161	251,581	32,007	83,243	49,787	30,517	100,724	2,897	29,282	–	160,021	31,881	1,359	18,704	9,321	(299,367)	2,416,588
(Loss) income on operations	(34,865)	61,578	16,535	(4,395)	(3,020)	40,950	1,187	(1,478)	545	(385)	4,237	(2,777)	1,011	–	(48,549)	7,984	201	(6,189)	(4,755)	2,192	30,007
Nonoperating income (loss):																					
(Loss) income from investments, net	1,360	(8,291)	(1,492)	184	(1,143)	(881)	45	(920)	9	12	–	–	(72)	(25,151)	–	–	67	2,678	–	22,959	(10,636)
Other	–	1,001	(1,111)	(1,342)	–	56	–	–	–	–	(1,279)	–	(56)	–	–	–	–	(1)	–	–	(2,732)
	1,360	(7,290)	(2,603)	(1,158)	(1,143)	(825)	45	(920)	9	12	(1,279)	–	(128)	(25,151)	–	–	67	2,677	–	22,959	(13,368)
Excess (deficiency) of revenues over expenses	$ (33,505)	$ 54,288	$ 13,932	$ (5,553)	$ (4,163)	$ 40,125	$ 1,232	$ (2,398)	$ 554	$ (373)	$ 2,958	$ (2,777)	$ 883	$ (25,151)	$ (48,549)	$ 7,984	$ 268	$ (3,512)	$ (4,755)	$ 25,151	$ 16,639

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