

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

The Hospital of Central Connecticut  
Years Ended September 30, 2013 and 2012  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

The Hospital of Central Connecticut

Consolidated Financial Statements  
and Supplementary Information

Years Ended September 30, 2013 and 2012

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## Report of Independent Auditors

The Board of Directors  
Hartford HealthCare Corporation and Subsidiaries

We have audited the accompanying consolidated financial statements of The Hospital of Central Connecticut (the Hospital), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Grand Indemnity Company, Ltd., a wholly-owned subsidiary, which statements reflect total assets of \$28,004,120 in 2013, and \$39,558,288 in 2012, and total revenues of \$795,380 in 2013, and \$2,981,081 in 2012. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Grand Indemnity Company, Ltd., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital of Central Connecticut at September 30, 2013 and 2012, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

### **Supplementary Information**

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet and 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, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Ernst & Young LLP*

January 31, 2014

# The Hospital of Central Connecticut

## Consolidated Balance Sheets

	September 30	
	2013	2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 39,433,385	\$ 32,572,707
Accounts receivable, less allowance for doubtful accounts of \$18,330,159 in 2013 and \$16,017,904 in 2012	45,274,226	48,473,300
Premiums receivable	75,002	35,686
Reinsurance recoverable	3,675,000	7,505,995
Other receivables	7,955,738	6,782,147
Due from affiliates	5,024,941	84,758
Inventories of supplies	5,420,384	5,943,030
Prepaid expenses and other assets	3,466,789	3,613,869
Current portion of assets whose use is limited – related to GIC	–	2,000,000
Total current assets	<u>110,325,465</u>	<u>107,011,492</u>
Assets whose use is limited:		
Investments related to GIC	8,549,662	24,593,682
Board-designated interest in investments held by Endowment LLC	109,829,752	–
Board-designated investments	–	99,205,579
Donor-restricted interest in investments held by Endowment LLC	28,172,961	–
Donor-restricted investments	1,383,135	26,605,513
Funds designated for debt services	2,532,172	2,397,202
	<u>150,467,682</u>	<u>152,801,976</u>
Funds held in trust by others	15,974,359	15,192,304
Other assets	13,023,091	8,606,885
Property, plant, and equipment, net	<u>163,810,215</u>	<u>150,430,294</u>
	<u>\$ 453,600,812</u>	<u>\$ 434,042,951</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 12,557,820	\$ 15,593,544
Salaries, wages, payroll taxes, and amounts withheld from employees	14,042,968	14,266,850
Accrued expenses	11,653,287	9,234,729
Estimated third-party payor settlements	11,976,659	19,307,101
Due to affiliates	1,174,351	1,644,937
Unearned premiums	–	26,654
Reserve for losses and loss adjustment expenses	–	2,000,000
Deferred revenue	596,339	572,719
Current portion of long-term debt and capital leases	2,329,243	2,165,699
Current portion of accrued pension liability	10,416,398	14,577,542
Current portion of other liabilities	909,496	–
Total current liabilities	<u>65,656,561</u>	<u>79,389,775</u>
Reserve for losses and loss adjustment expenses	8,103,682	14,961,027
Long-term debt and capital leases	38,405,050	37,700,355
Estimated third-party settlements		
Accrued pension liability	71,510,689	141,985,877
Self-insurance and other long-term liabilities	13,734,696	7,802,605
Total liabilities	<u>197,410,678</u>	<u>281,839,639</u>
Net assets:		
Unrestricted	209,046,453	110,395,439
Temporarily restricted	24,361,771	20,015,125
Permanently restricted	22,781,910	21,792,748
Total net assets	<u>256,190,134</u>	<u>152,203,312</u>
Total liabilities and net assets	<u>\$ 453,600,812</u>	<u>\$ 434,042,951</u>

See accompanying notes.

The Hospital of Central Connecticut

Consolidated Statements of Operations and Changes in Net Assets

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 381,649,799	\$ 393,528,986
Provision for bad debts	9,742,308	17,293,190
Net patient service revenue less provision for bad debts	371,907,491	376,235,796
Other operating revenues	12,233,898	13,861,784
Net premiums earned	35,380	194,081
Net assets released from restrictions for operations	1,885,094	1,559,503
	<b>386,061,863</b>	<b>391,851,164</b>
Operating expenses		
Salaries and wages	168,706,840	165,293,135
Employee benefits	51,728,525	42,901,786
Supplies and other	52,640,973	49,742,804
Purchased services	81,019,311	90,400,652
Depreciation and amortization	19,479,333	19,353,058
Losses and loss adjustment expenses	(868,854)	(2,868,187)
Interest	1,563,598	1,957,216
	<b>374,269,726</b>	<b>366,780,464</b>
Operating income	<b>11,792,137</b>	<b>25,070,700</b>
Nonoperating income:		
Income from investments, gifts, and bequests, net	8,675,997	2,502,596
Excess of revenues over expenses before change in unrealized gains and losses on investments	20,468,134	27,573,296
Change in unrealized gains and losses on investments	2,962,485	7,462,766
Excess of revenues over expenses	<b>23,430,619</b>	<b>35,036,062</b>

*Continued on next page.*

The Hospital of Central Connecticut

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

	<b>Year End September 30</b>	
	<b>2013</b>	<b>2012</b>
	<hr/>	<hr/>
Unrestricted net assets:		
Excess of revenues over expenses (continued)	\$ 23,430,619	\$ 35,036,062
Change in pension funding obligation	76,581,478	(65,083,998)
Loss on investment in affiliate entities	–	(133,499)
Transfer to affiliate	(2,056,097)	–
Other	325,544	–
Change in net unrealized (loss) gain on investments	(926,615)	1,795,750
Net assets released from restrictions for the purchase of capital	<u>1,296,085</u>	<u>399,160</u>
Increase (decrease) in unrestricted net assets	<b>98,651,014</b>	<b>(27,986,525)</b>
Temporarily restricted net assets:		
Net realized and unrealized gain on investments	1,805,832	3,780,256
Income from investments	106,093	584,048
Return on interest in investments held by Endowment LLC	2,387,951	–
Restricted contributions	3,227,949	882,819
Net assets released from restrictions for operations	(1,885,094)	(1,559,503)
Net assets released from restrictions for the purchase of capital	<u>(1,296,085)</u>	<u>(399,160)</u>
Increase in temporarily restricted net assets	<b>4,346,646</b>	<b>3,228,360</b>
Permanently restricted net assets		
Change in unrealized gains and losses on funds held in trust by others	<u>989,162</u>	<u>1,703,710</u>
Increase in permanently restricted net assets	<b>989,162</b>	<b>1,703,710</b>
Increase (decrease) in net assets	<b>103,986,822</b>	<b>(22,994,455)</b>
Net assets at beginning of year	<u>152,203,312</u>	<u>175,197,767</u>
Net assets at end of year	<b><u>\$ 256,190,134</u></b>	<b><u>\$ 152,203,312</u></b>

See accompanying notes.

The Hospital of Central Connecticut  
Consolidated Statements of Cash Flows

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Increase (decrease) in net assets	\$ 103,986,822	\$ (22,994,455)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	19,479,333	19,353,058
Provision for patient bad debts	9,742,308	17,293,190
Change in pension funding obligation	(76,581,478)	65,083,998
Net realized and unrealized gains on investments and assets whose use is limited	(9,850,503)	(13,038,772)
Change in investments held by Endowment LLC	(6,044,309)	–
Other changes in net assets:		
Restricted contributions and investment income	(3,334,042)	(3,170,477)
Changes in operating assets and liabilities, net ( <i>Note 13</i> )	(21,383,165)	(31,286,185)
Net cash provided by operating activities	16,014,966	31,240,357
<b>Investing activities</b>		
Purchases of property, plant, and equipment	(32,859,254)	(17,018,282)
Net decrease (increase) in assets whose use is limited	19,582,021	(3,370,720)
Net (increase) decrease in investments in affiliates	(79,336)	1,112,291
Net cash used in investing activities	(13,356,569)	(19,276,711)
<b>Financing activities</b>		
Payments on long-term debt, capital leases and line of credit	(2,235,150)	(2,860,803)
Proceeds from borrowings of long-term debt	3,103,389	–
Restricted contributions and investment income	3,334,042	3,170,477
Net cash provided by financing activities	4,202,281	309,674
Increase in cash and cash equivalents	6,860,678	12,273,320
Cash and cash equivalents at beginning of year	32,572,707	20,299,387
Cash and cash equivalents at end of year	\$ 39,433,385	\$ 32,572,707

*See accompanying notes.*

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements

For the Years Ended September 30, 2013 and 2012

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

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

#### **Organization**

The Hospital, a voluntary, tax-exempt association incorporated under the General Statutes of the State of Connecticut is a wholly owned subsidiary of Central Connecticut Health Alliance (CCHA or the Alliance) and is a subsidiary of Hartford Healthcare Corporation (HHC). The Board of Directors is appointed by CCHA and oversees the operations of the Hospital. The Hospital has a wholly owned subsidiary, Grand Indemnity Company, Ltd. (GIC), which was incorporated under the laws of Bermuda, as a Class 2 insurer, on January 6, 2009. GIC underwrites claims-made hospital medical professional liability and general liability insurance on behalf of the Hospital. GIC also underwrites provider medical insurance for the individual physicians in private practice who support the Hospital.

The accompanying consolidated financial statements have been prepared in conformity with GAAP, as promulgated by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The consolidated financial statements include the accounts of the Hospital and GIC. All significant inter-company balances and transactions have been eliminated in consolidation.

#### **Use of Estimates**

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

#### **Regulatory Matters**

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

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

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

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

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

Cash and cash equivalents include cash and money market funds, which are available to be converted to liquid assets within three months. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Hospital's policy to monitor the financial strength of those institutions.

#### **Patient Accounts Receivable**

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

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

The Hospital's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies, and private patients. The Hospital manages the receivables by regularly reviewing its patient accounts and contracts, and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable include 39% and 17%, and 42% and 19%, for Medicare and Medicaid, respectively, for the fiscal years ending September 30, 2013 and 2012, respectively.

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

#### Interest in Investments Held by Hartford Healthcare Endowment LLC

Effective August 29, 2011, Hartford HealthCare Endowment LLC (Endowment LLC) was created to maintain and manage, on a pooled basis, the endowment funds of the Hospital; Windham Community Memorial Hospital, Inc.; Hartford Hospital; MidState Medical Center; HHC; and Hartford HealthCare at Home, Inc. Endowment LLC, a wholly owned subsidiary of HHC, acts as manager, and is named fiduciary for HHC within established investment guidelines. As of April 1, 2013, \$131,830,710 of the Hospital's investments were sold to Endowment LLC, at which time all previously unrealized gains and losses on the sold investments were realized. As of September 30, 2013, the Hospital has an interest in investments held by Endowment LLC, which is reflected in the accompanying consolidated balance sheet and represents the Hospital's pro rata share of Endowment LLC.

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

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

#### **Investments**

The Hospital's investment portfolio is classified as trading, excluding the interest in Endowment LLC, with unrealized gains and losses included in the excess of revenues over expenses. GIC's investments have been classified as available for sale with unrealized gains and losses excluded from excess of revenues over expenses. Unrealized gains and losses are included in unrestricted net assets on the statement of changes in net assets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations at the balance sheet date. Alternative investments, those assets whose market value is not readily determinable, are stated at fair value as estimated in an unquoted market. Valuations of those investments, and therefore the Hospital's holdings, may be determined by the investment manager and are primarily based on the underlying securities. Assets temporarily and permanently restricted (by donor) are recorded at fair value at the date of donation, which is then considered cost. Investment income (including realized gains and losses on investments, interest and dividends, and the change in unrealized gains and losses) is included in nonoperating income unless the income or loss is restricted by the donor or law. The cost of securities sold is based on the specific identification method.

The Hospital has invested in several joint ventures and limited liability companies, which are accounted for under the equity method of accounting. As of September 30, 2013 and 2012, the Hospital owned 43% of the New Britain MRI Limited Partnership. The Hospital withdrew from membership with Total Laundry Collaborative, LLC and recognized a loss of \$925,289 in January 2012. Central Connecticut Sports Medicine was dissolved as a separate company and the assets were transferred to the Hospital in 2011. In 2012, New Britain Alliance Occupational Health was dissolved as a separate company and the assets were transferred to the Hospital.

#### **Inventories**

Inventories, used in general operations of the Hospital, are stated using the average cost method.

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

#### Property, Plant, and Equipment

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

Conditional asset retirement obligations recorded under the provisions of ASC 410-20, *Asset Retirement Obligations*, amounted to \$1,370,379 as of September 30, 2013 and 2012. These obligations are recorded in self-insurance and other long-term liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2013 and 2012, asset retirement obligations incurred and settled were not significant. In addition, accretion expense was immaterial for the years ended September 30, 2013 and 2012.

#### Assets Whose Use is Limited

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

#### Temporarily and Permanently Restricted Net Assets

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

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

#### **Temporarily and Permanently Restricted Net Assets (continued)**

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

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

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

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and 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 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 \$513,282 and \$505,402 are recorded in other assets in the consolidated balance sheets as of September 30, 2013 and 2012, respectively.

#### **Other Operating Revenues**

Other operating revenues include services to other institutions, electronic health record incentive program revenue, rental income, grant income, research income, cafeteria income and income from investments accounted for under the equity method.

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

#### **Non-operating Income**

Non-operating income includes income on investments including the return on Endowment LLC, realized and unrealized gains and losses on trading investments, unrestricted gifts and bequests.

#### **Excess of Revenues Over Expenses**

The consolidated statements of operations and changes in net assets include excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from 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

#### **Professional Liability Insurance**

Coverage for medical malpractice insurance is provided on a claims-made basis. As of January 1, 2013, the primary coverage is with CHS Insurance Limited, a captive insurance company that, effective October 1, 2012, became a wholly owned subsidiary of HHC. See also Note 9.

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

The reserve for losses and loss adjustment expenses and related reinsurance recoverable includes case basis estimates of reported losses, plus supplemental amounts calculated based upon loss projections utilizing actuarial studies, the Hospital's own historical data and industry data. In establishing this reserve and the related reinsurance recoverable, GIC 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

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

#### **Unpaid Losses and Loss Adjustment Expenses (continued)**

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.

#### **Recognition of Premium Revenues**

Premiums written for GIC are earned on a pro-rata basis over the related policy period. The portion of premiums that will be earned in the future is deferred and reported as unearned premiums.

#### **Reinsurance**

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

#### **Income Taxes**

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. At times, the Hospital is involved with activities that subject minor amounts of unrelated business income to federal income tax, which are paid as they come due in accordance with the Code and the regulations thereunder. Such amounts are not material to the Hospital's consolidated financial statements. Certain net operating loss carry forwards of \$1,099,000 from unrelated business activities generate a potential deferred tax asset of approximately \$439,600 at September 30, 2013. No deferred tax asset has been recorded as this amount is offset by a valuation allowance of the same amount.

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

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

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

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The Hospital uses a grant accounting model to recognize EHR incentive revenues. EHR incentive revenues are recognized ratably over the relevant cost report period to determine the amount of reimbursement. The Hospital recognized \$3,173,235 and \$4,861,354 of EHR revenues during the fiscal years ended September 30, 2013 and 2012, respectively. Correspondingly, the Medicare and Medicaid components, respectively, of EHR revenues are \$2,383,378 and \$3,544,926, and \$789,857 and \$1,316,428 for 2013 and 2012, respectively. EHR incentive revenues are included in other operating revenues in the accompanying consolidated statements of operations and changes in net assets.

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

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

#### **New Accounting Pronouncement**

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, to amend the requirement for measuring and disclosing information about fair value that results in common principles between GAAP and International Financial Reporting Standards (IFRSs). The amendments clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements and change particular principles and requirements for measuring or disclosing information about fair value. Principles changed include measuring fair value of financial instruments that are managed within a portfolio, application of premiums and discounts in the fair value measurement, and additional disclosures about fair value measurements. The standard became effective for the Hospital for annual reporting periods beginning after December 15, 2011. The Hospital adopted the provisions of this standard on October 1, 2012. The adoption had no effect on previously reported excess of revenues over expenses or net assets.

#### **Reclassifications**

Certain reclassifications have been made to the year ended September 30, 2012, 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, 2013, presentation. Certain immaterial classifications to amounts and other presentation and disclosure changes were made to conform with HHC's financial reporting and disclosure policies.

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

Revenues from the Medicare and Medicaid programs, respectively, accounted for approximately 36% and 16%, and 36% and 15% of the Hospital's net patient service revenue for the fiscal years ended September 30, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

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

The following table summarizes net patient service revenue:

	<b>Year Ended September 30</b>	
	<b>2013</b>	<b>2012</b>
Gross revenue from patients:		
Inpatients	\$ 410,328,218	\$ 411,455,119
Outpatients	484,233,051	458,962,515
	<b>894,561,269</b>	870,417,634
Deductions:		
Allowances and discounts	496,600,768	470,097,067
Charity Care	16,310,702	6,791,581
Net patient service revenue	<b>381,649,799</b>	393,528,986
Provision for bad debts	9,742,308	17,293,190
Net patient service revenue less provision for bad debts	<b>\$ 371,907,491</b>	\$ 376,235,796

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges, and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Estimates of revenue are recorded in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. During 2013 and 2012, the Hospital recorded net changes in estimates of approximately \$7,100,000 and \$7,200,000, respectively, which primarily related to better than previously estimated third-party payor settlements.

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

The Hospital 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 Hospital for certain covered services based upon discounted fee schedules.

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

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

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

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

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

The Hospital provides services without charge or at amounts less than its established rates, to patients who meet the criteria of its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such services are not reported as revenue. For patients who were determined by the Hospital to have the ability to pay but did not, 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 fiscal 2013, the Hospital changed its financial assistance policy to process self-pay patients as charity care prior to collections being pursued. This resulted in additional patients qualifying for charity care in the current fiscal year.

The Hospital of Central Connecticut

Notes to the Consolidated Financial Statements (continued)

**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, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Medicare	36%	36%
Medicaid	16	15
Self pay	5	4
All other	43	45
	<u>100%</u>	<u>100%</u>

The estimated cost of charity care provided was \$6,965,012, and \$2,900,148 for the years ended September 30, 2013 and 2012, 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:

	<u>2013</u>	<u>2012</u>
Free beds	<b>\$ 1,039,438</b>	\$ 911,759
Research	<b>282,914</b>	253,757
Education	<b>1,065,889</b>	924,123
Capital replacement	<b>10,621,866</b>	8,975,147
Other health care services	<b>11,351,664</b>	8,950,339
	<u><b>\$ 24,361,771</b></u>	<u>\$ 20,015,125</u>

The Hospital of Central Connecticut

Notes to the Consolidated Financial Statements (continued)

**3. Net Assets (continued)**

Permanently restricted net assets at September 30 are restricted for:

	<u>2013</u>	<u>2012</u>
Investments to be held in perpetuity, the income from which is expendable to support health care services	\$ 6,807,551	\$ 6,600,444
Restricted funds held in trust by others, the income from which is expendable to support health care services	<u>15,974,359</u>	<u>15,192,304</u>
	<u>\$ 22,781,910</u>	<u>\$ 21,792,748</u>

The Hospital's endowment consists of various 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 Hospital has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently 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

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

### 3. Net Assets (continued)

organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Hospital and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Hospital
- 7) The investment policies of the Hospital.

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 4,574,678	\$ 6,807,551	\$ 11,382,229
Board-designated endowment funds	109,829,752	—	—	109,829,752
	\$ 109,829,752	\$ 4,574,678	\$ 6,807,551	\$ 121,211,981

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

### 3. Net Assets (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 99,205,579	\$ 3,639,981	\$ 6,600,444	\$ 109,446,004
Investment return:				
Investment income	1,166,241	159,556		1,325,797
Net appreciation (realized and unrealized)	9,454,688	992,678		10,447,366
Total investment return	10,620,929	1,152,234	-	11,773,163
Contributions	37,730	4,198		41,928
Transfer of funds held in trust by others to donor-restricted investments			207,107	207,107
Appropriation of endowment assets for expenditure	(34,486)	(221,735)		(256,221)
Endowment net assets, end of year	\$ 109,829,752	\$ 4,574,678	\$ 6,807,551	\$ 121,211,981

Endowment net asset composition by type (excluding funds held in trust by others) of fund as of September 30, 2012, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 3,639,981	\$ 6,600,444	\$ 10,240,425
Board-designated endowment funds	99,205,579	-	-	99,205,579
	\$ 99,205,579	\$ 3,639,981	\$ 6,600,444	\$ 109,446,004

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

### 3. Net Assets (continued)

Changes in endowment funds for the fiscal year ended September 30, 2012, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 89,632,017	\$ 2,764,282	\$ 6,600,444	\$ 98,996,743
Investment return:				
Investment income	1,241,168	134,146	–	1,375,314
Net appreciation (realized and unrealized)	8,208,041	1,046,246	–	9,254,287
Total investment return	9,449,209	1,180,392	–	10,629,601
Contributions	124,353	4,082	–	128,435
Appropriation of endowment assets for expenditure	–	(308,775)	–	(308,775)
Endowment net assets, end of year	<u>\$ 99,205,579</u>	<u>\$ 3,639,981</u>	<u>\$ 6,600,444</u>	<u>\$ 109,446,004</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor, as stipulated by UPMIFA, requires the Hospital to retain as a fund of perpetual duration. These deficiencies periodically result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions, in which case the Board of Directors may deem imprudent the continuation of appropriation for a limited period. There were no material deficiencies as of September 30, 2013 and 2012.

The Hospital of Central Connecticut

Notes to the Consolidated Financial Statements (continued)

**4. Assets Whose Use is Limited**

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

	September 30	
	2013	2012
Cash and cash equivalents	\$ 306,029	\$ 189,030
Money market funds	2,532,172	2,397,202
Interest in investments held by Endowment LLC	138,002,713	–
Equity securities:		
U.S.	450,342	332,981
International	197,780	131,441
Fixed income bonds:		
U.S.	126,207	168,840
International	41,439	59,734
Mutual funds:		
U.S.	–	113,322,769
Common collective funds:		
International	–	8,195,000
Alternative investments and other	8,811,000	30,004,979
	<u>\$ 150,467,682</u>	<u>\$ 154,801,976</u>

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

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

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

	Year Ended September 30	
	2013	2012
	<i>(In Thousands)</i>	
Interest and dividend income	\$ 1,076,638	\$ 1,837,455
Realized gain on investments, net	4,554,612	542,071
Return on interest in investments held by Endowment LLC	3,003,140	—
Other	41,607	123,070
	<u>\$ 8,675,997</u>	<u>\$ 2,502,596</u>

### 5. Fair Values of Financial Instruments

As defined in Accounting Standards Codification 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.

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

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

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

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 39,433,385	\$	\$	\$ 39,433,385
Assets whose use is limited:				-
Cash and cash equivalents	306,029			306,029
Funds designated for debt services	2,532,172			2,532,172
Equity securities:				
U.S.	450,342			450,342
International	197,780			197,780
Fixed income bonds:				
U.S.	-	126,207		126,207
International		41,439		41,439
Alternative investments:				
U.S.		261,339		261,339
International		2,789,942	5,759,720	8,549,662
Other assets:				
Mutual funds:				
U.S.	2,752,496	515,005		3,267,501
International	1,850,594			1,850,594
Funds held in trust by others		15,974,359		15,974,359
<b>Total</b>	<b>\$ 47,522,798</b>	<b>\$ 19,708,291</b>	<b>\$ 5,759,720</b>	<b>\$ 72,990,809</b>

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

The Hospital has \$138,002,713 of financial assets as of September 30, 2013 that are held by Endowment LLC (refer to Note 1). Financial assets classified within the trust are 63.8% Level 1 and 36.2% Level 2.

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 32,572,707	\$ —	\$ —	\$ 32,572,707
Assets whose use is limited:				
Cash and cash equivalents	189,030	—	—	189,030
Money market funds	2,397,202	—	—	2,397,202
Equity securities:				
U.S.	332,981	—	—	332,981
International	131,441	—	—	131,441
Fixed income bonds:				
U.S.	—	168,840	—	168,840
International	—	59,734	—	59,734
Mutual funds:				
U.S.	—	113,322,769	—	113,322,769
Common collective funds:				
U.S.	—	—	—	—
International	—	8,195,000	—	8,195,000
Alternative investments:				
U.S.	—	250,209	—	250,209
International	—	2,517,075	27,237,695	29,754,770
Other assets:				
Mutual funds:				
U.S.	2,283,001	329,371	—	2,612,372
International	1,117,601	—	—	1,117,601
Funds held in trust by others	—	14,936,843	255,461	15,192,304
<b>Total</b>	<b>\$ 39,023,963</b>	<b>\$ 139,779,841</b>	<b>\$ 27,493,156</b>	<b>\$ 206,296,960</b>

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

Financial assets carried at fair value included in the cash balance retirement plan are held in an HHC master trust. The Hospital owns participant units in the trust. Financial assets classified within the trust are 53.4% Level 1, 34.4% Level 2, and 12.2% Level 3 as of September 30, 2013, and 43.3% Level 1, 45.4% Level 2, and 11.3% for Level 3 as of September 30, 2012.

Fair value for Level 1 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.

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

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

	<b>2013</b>	<b>2012</b>	
Beginning balance at October 1	\$ 27,493,156	\$ 31,703,004	
Change in unrealized gains and losses	457,473	1,694,777	
Realized gains		40,644	
Purchases		144,300	
Pension assets released to master trust		(6,089,569)	
Transfer of assets to Endowment LLC	<b>(22,190,909)</b>		
Ending balance at September 30	<b>\$ 5,759,720</b>	<b>\$ 27,493,156</b>	

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

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

### 6. Property, Plant, and Equipment

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

	<u>2013</u>	<u>2012</u>
Land and land improvements	\$ 6,065,007	\$ 6,095,226
Buildings and building improvements	245,286,683	241,334,780
Equipment	123,388,103	175,097,766
	<u>374,739,793</u>	<u>422,527,772</u>
Less accumulated depreciation	(230,869,746)	(274,632,798)
	<u>143,870,047</u>	<u>147,894,974</u>
Construction in progress (estimated cost to complete – \$34,817,000)	19,940,168	2,535,320
	<u>\$ 163,810,215</u>	<u>\$ 150,430,294</u>

The Hospital capitalized interest expense of \$445,536 for the year ended September 30, 2013.

### 7. Pensions and Other Postretirement Benefits

The Hospital has two noncontributory, defined benefit pension plans (New Britain and Bradley campuses) covering substantially all of its employees hired prior to January 1, 2006 (collectively, the pension plans). The benefits are based on years of service and the employees' compensation during the last five years of employment. Employees hired after January 1, 2006, are eligible to participate in a defined contribution plan, as the defined benefit plans are closed to employees hired after January 1, 2006.

## The Hospital of Central Connecticut

### Notes to the Consolidated Financial Statements (continued)

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

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

The Hospital makes contributions in amounts sufficient to fund the pension plans' current service cost, and the funding policy is to contribute amounts to these plans sufficient to meet the minimum funding requirements set forth by federal government regulations.

The Hospital has a defined contribution benefit plan, which became effective January 1, 2006. Substantially all full-time employees hired after January 1, 2006, are eligible to participate in the new plan. Employees may contribute a percentage of their annual contribution subject to IRS limitations and the Hospital contributes up to 4% of annual compensation for employees that work greater than 20 hours a week and 3% of annual compensation for employees that work less than 20 hours a week. The Hospital has made employer contributions to this plan totaling \$2,210,871 and \$2,079,175 for 2013 and 2012, respectively. Employees become vested in the Hospital's contributions over three years. The portion of the employer contributions unvested upon termination of an employee are forfeited and used to reduce future contributions made by the Hospital on a dollar-for-dollar basis.

In addition, the Hospital has a Supplementary Executive Retirement Plan (SERP) under Section 457(b) and 457(f) of the Internal Revenue Code of 1986, as amended. The SERP has been established to supplement the retirement benefits of eligible employees designated by the Hospital's Board of Directors. The fair value of the assets relating to the SERP are \$5,118,094 and \$3,730,003 as of September 30, 2013 and 2012. The accrued liability relating to the SERP, amounted to \$7,813,034 and \$6,414,692 as of September 30, 2013 and 2012, respectively. The expenses incurred related to the SERP amounted to \$1,150,059 and \$672,556 for 2013 and 2012, respectively.

Included in unrestricted net assets at September 30, 2013 and 2012, is \$40,958,262 and \$117,539,740, respectively, of unamortized actuarial loss that has not yet been recognized in net periodic benefit cost. The amortization of these items expected to be recognized in net periodic benefit costs for the fiscal year ending September 30, 2014, is \$1,224,597.

The Hospital of Central Connecticut

Notes to the Consolidated Financial Statements (continued)

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

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

	<u>2013</u>	<u>2012</u>
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year	\$ (401,999,473)	\$ (318,339,758)
Service cost	(10,283,701)	(8,437,909)
Interest cost	(16,874,732)	(17,056,650)
Benefits paid	10,372,864	9,135,207
Actuarial loss	52,748,309	(67,300,363)
Benefit obligation at end of year	<u>(366,036,733)</u>	<u>(401,999,473)</u>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	251,847,745	224,989,589
Actual return on plan assets	36,297,801	22,593,363
Employer contribution	14,150,000	13,400,000
Benefits paid	(10,372,864)	(9,135,207)
Fair value of plan assets at end of year	<u>291,922,682</u>	<u>251,847,745</u>
Underfunded status of the plans	<u>\$ (74,114,051)</u>	<u>\$ (150,151,728)</u>

	<u>2013</u>	<u>2012</u>
<b>Components of net periodic benefit cost</b>		
Service cost	\$ 10,283,701	\$ 8,437,909
Interest cost	16,874,732	17,056,650
Expected return on plan assets	(19,971,366)	(19,659,309)
Net amortization and deferral	6,793,736	252,655
Net Periodic benefit cost	<u>\$ 13,980,803</u>	<u>\$ 6,087,905</u>

## The Hospital of Central Connecticut

### Notes to the Consolidated Financial Statements (continued)

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

The accumulated benefit obligation for the pension plans was \$325,434,897 and \$354,019,117 as of September 30, 2013 and 2012, respectively.

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

	<b>2013</b>	<b>2012</b>
Discount rate for determining benefit obligation at year-end	5.00–5.10%	4.10–4.15%
Rate of compensation increase	3.50%	3.50%
Discount rate for net periodic benefit cost	4.10–4.15%	5.25–5.30%
Expected rate of return on plan assets	7.50%	8.00%
Rate of compensation increase	3.50%	3.50%

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

#### Plan Assets

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

	<b>Target</b>	<b>2013</b>	<b>2012</b>
Equity securities	<b>57%</b>	<b>60%</b>	41%
Fixed income/debt securities	<b>25</b>	<b>24</b>	14
Commodities/inflation/real assets	<b>8</b>	<b>6</b>	34
Other	<b>10</b>	<b>10</b>	11
Total	<b>100%</b>	<b>100%</b>	100%

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

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

#### Contributions

The Hospital expects to make contributions of approximately \$8,220,000 and \$900,000 in fiscal year 2014, related to its pension plans and its SERP, respectively.

#### Estimated Future Benefit Payments

Future benefit payments are expected to be paid as follows:

<b>Fiscal Year</b>	<b>Pension Benefits</b>
2014	\$ 11,433,561
2015	12,314,680
2016	13,338,383
2017	14,606,450
2018	15,951,200
Years 2019–2023	105,211,073

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

### 8. Long-Term Debt

Details of long-term debt are as follows:

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
Intercompany debt with HHC:		
Series A, consisting of a tax-exempt serial bond and term bonds; interest at rates ranging from 4.4% to 5.0%	<b>\$ 32,866,281</b>	\$ 31,199,642
Series C, taxable variable rate term bond	<b>4,544,163</b>	4,544,163
Capital lease obligations for medical equipment, subject to liens, due in monthly installments, at varying rates of imputed interest from 2.25% to 4.27%	<b>1,367,288</b>	3,512,827
Revolving line of credit	<b>1,325,511</b>	–
Premium on bonds	<b>631,050</b>	609,422
	<b>40,734,293</b>	39,866,054
Less current portion	<b>(2,329,243)</b>	(2,165,699)
	<b>\$ 38,405,050</b>	\$ 37,700,355

On September 29, 2011, HHC issued approximately \$375,815,000 of CHEFA Revenue Bonds Series A, B, and C (the HHC 2011 Bonds). In conjunction with the issuance of the HHC 2011 Bonds, an obligated group was formed. The members of the obligated group are HHC, Hartford Hospital, The Hospital of Central Connecticut, Windham Community Memorial Hospital, and MidState Medical Center (collectively referred to as the Obligated Group). 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. Though designated affiliates are not obligated to make debt service payments on the obligations under the MTI, each designated affiliate has an independent designated affiliate agreement and promissory note with HHC with stipulated repayment terms and conditions, each subject to the governing law of the Obligated Groups' state of incorporation. In addition, HHC may cause each designated affiliate to transfer such amounts as necessary to enable the Obligated Group members to comply with the terms of the MTI, including payment of the outstanding obligations.

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

The HHC 2011 Bonds were issued to refund portions of existing debt under HHC and to obtain funds for future capital needs. As such, the HHC 2011 Bonds are reflected as intercompany debt in the preceding schedule. The Hospital is party to the HHC Series A and Series C Revenue Bonds. During 2013, the Hospital was allocated an additional \$1,756,248 of previously unallocated Series A Revenue Bonds. The HHC Series A Revenue Bonds consist of serial bonds that mature annually from July 1, 2014 through July 1, 2023, and the term bonds mature from July 1, 2024 through July 1, 2041. During 2013, the Hospital made advance payments of \$89,609 to HHC for the bonds maturing in 2014. The HHC 2011 Series C Revenue Bonds consist of term bonds that mature from July 1, 2042 through July 1, 2049. The HHC 2011 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 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 MTI and Supplemental MTI provide for the potential establishment and maintenance of a debt service reserve fund, a pledge of gross receipts, as defined, and parity with the HHC Series A Revenue Bonds that remain outstanding. The MTI and loan agreements establish certain restrictive covenants, including a debt service coverage ratio and days cash on hand requirement. No violations of covenants existed as of or for the fiscal years ended September 30, 2013 or 2012.

The fair value of the HHC 2011 Bonds was approximately \$377,884,663 and \$396,836,000 at September 30, 2013 and 2012, respectively. The carrying value of the HHC 2011 Bonds was \$375,815,000 as of September 30, 2013 and 2012. The fair value of the HHC 2011 Bonds was determined by HHC's investment advisor using a market approach that uses prices and other relevant information generated by market transactions involving identical or comparable liabilities and categorized as Level 2 in the fair value hierarchy described in Note 5. The carrying value of the Hospital's other long-term debt approximates fair value as of September 30, 2013 and 2012.

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

As part of the HHC 2011 Bonds, the Obligated Group entered into a line of credit for \$20,000,000 from Bank of America. This line expires in March 2014. As of September 30, 2013 and 2012, the Hospital had not drawn on this line of credit. In 2012, the Obligated Group obtained an additional \$60,000,000 line of credit with another bank. In August 2013, the Obligated Group entered into an amendment increasing this line of credit to \$100,000,000. As of September 30, 2013, and 2012, the Hospital had drawn \$1,325,511 and \$0, respectively, on this line of credit, with a variable rate of 0.88% and 0.92%, respectively, and which is also included in the current portion of long-term debt. This line of credit expires in March 2014.

In May 2008, the Hospital entered into a five-year, \$4,950,000 capital lease agreement with CHEFA for Novalis medical equipment. This lease has an interest rate of 3.75%. The bank has a lien on the Novalis medical equipment. The outstanding balance on this lease as of September 30, 2013 and 2012, was \$0 and \$714,747, and the net book value of the leased equipment was \$2,200,426 and \$2,533,627, respectively.

In August 2008, the Hospital entered into a five-year, \$3,690,000 capital lease agreement with CHEFA for pet scan equipment. This lease has an interest rate of 4.27%. The bank has a lien on the pet scan equipment. The outstanding balance on this lease as of September 30, 2013 and 2012, was \$0 and \$736,662 and the net book value of the leased equipment was \$1,394,880 and \$1,864,223, respectively.

In February 2010, the Hospital entered into a five-year, \$1,450,000 capital lease agreement with CHEFA for MRI equipment. This lease has an interest rate of 3.84%. The bank has a lien on the MRI equipment. The outstanding balance on this lease as of September 30, 2013 and 2012, was \$439,426 and \$735,535 and the net book value of the leased equipment was \$610,256 and \$876,132, respectively.

In December 2010, the Hospital entered into a five-year, \$2,000,000 capital lease agreement with CHEFA for DaVinci Robotic equipment. This lease has an interest rate of 2.25%. The bank has a lien on the DaVinci equipment. The outstanding balance on this lease as of September 30, 2013 and 2012, was \$927,863 and \$1,325,872 and the net book value of the leased equipment was \$1,436,297 and \$1,755,474, respectively.

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

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

Fiscal year ending September 30:	
2014	\$ 2,398,243
2015	953,237
2016	590,678
2017	522,776
2018	579,712
Thereafter	35,148,206
	<u>\$ 40,192,852</u>

Interest paid for the fiscal years ended September 30, 2013 and 2012, was \$2,006,550 and \$1,957,216, respectively.

### 9. Professional Liability and Worker's Compensation Insurance

Coverage for medical malpractice insurance is provided on a claims-made basis. As of January 1, 2013, the primary coverage is with CHS Insurance Limited, a captive insurance company which, effective October 1, 2012, became a wholly-owned subsidiary of HHC.

The primary coverage is \$7,500,000 per claim and \$35,000,000 in the aggregate. The primary layer of \$20,000,000 is shared with two insurance carriers. The secondary layer is \$20,000,000 with a single insurance carrier. The third and fourth layers are \$10,000,000 each with two other insurance carriers, for a total excess coverage of \$60,000,000.

Prior to January 1, 2013, GIC, which is a wholly owned subsidiary of the Hospital, provided professional and general liability coverage on a claims-made basis to the Hospital. The Hospital does not self-insure any malpractice risks other than exposures greater than its excess coverages. However, as of September 30, 2013 and 2012, the Hospital has recorded a liability for estimated incurred but not reported claims, as it currently has a claims-made policy with GIC.

Coverage provided in the attending physician program is on a claims-made basis and is based on each physician's retroactive coverage date. The limits of coverage per physician are \$1 million per claim and \$4 million in aggregate. In 2013 and 2012, the Hospital purchased excess insurance limits of \$35 million, above the insured retention noted above.

The Hospital of Central Connecticut

Notes to the Consolidated Financial Statements (continued)

**9. Professional Liability and Worker's Compensation Insurance (continued)**

A reconciliation of direct to net premiums on a written and earned basis is summarized as follows for the year ended September 30, 2013:

	<u>Written</u>	<u>Earned</u>
Direct	\$ 1,381,927	\$ 1,408,581
Ceded	(613,201)	(613,201)
	<u>\$ 768,726</u>	<u>\$ 795,380</u>

Activity in the reserve for losses and loss adjustment expenses is summarized as follows for the year ended September 30, 2013:

	<u>2013</u>	<u>2012</u>
Net reserve, beginning of year	\$ 9,455,032	\$ 12,654,212
Incurred related to:		
Current year	600,000	2,796,500
Prior years	(1,468,854)	(5,664,687)
Total incurred	<u>(868,854)</u>	<u>(2,868,187)</u>
Paid related to:		
Current year	-	(30,708)
Prior years	(4,157,496)	(300,285)
Total paid	<u>(4,157,496)</u>	<u>(330,993)</u>
Net reserve, end of year	4,428,682	9,455,032
Plus: reinsurance recoverable	3,675,000	7,505,995
Gross balance, end of the year	<u>\$ 8,103,682</u>	<u>\$ 16,961,027</u>

As a result of changes in estimates of insured events in prior years, the reserve for losses and loss adjustment expenses decreased by \$1,468,854 and \$5,664,687 in 2013 and 2012, respectively.

The Hospital also maintains an incurred-but-not-reported reserve for claims made policies prior to the movement to the captive. The reserve is discounted at 3% and has a balance of \$1,987,071 \$2,704,130 as of September 30, 2013 and 2012, respectively.

# The Hospital of Central Connecticut

## Notes to the Consolidated Financial Statements (continued)

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

The ultimate settlement of losses may vary significantly from the reserves recorded. In particular, ultimate settlements on medical malpractice 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.

The Hospital self-insures workers' compensation claims with retention on the first \$350,000 per claim. The Hospital has also purchased excess liability insurance, which provides coverage for workers' compensation claims in excess of \$350,000, and up to aggregate limits of \$1,000,000 per employers' liability claim. The self-insurance plan is unfunded.

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

The Hospital's year-end workers' compensation reserve, as estimated by Hospital management in conjunction with its independent actuaries, is included in self-insurance and other long-term liabilities on the consolidated balance sheets and is discounted at 0.5% in 2013 and 2012. The balances as of September 30, 2013 and 2012, are \$3,564,039 and \$3,728,097, respectively.

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

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

The Hospital has several operating lease agreements for certain real estate, medical equipment, and computer equipment. Certain of these leases have renewal options for periods up to five years and escalation clauses. Rent is payable in equal monthly installments. Rent expense was \$3,817,405 and \$4,450,006 for the years ended September 30, 2013 and 2012, respectively.

The Hospital of Central Connecticut

Notes to the Consolidated Financial Statements (continued)

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

The future minimum lease payments are as follows:

<b>Year</b>	<b>Operating Leases</b>
2014	\$ 2,637,331
2015	2,057,567
2016	1,485,232
2017	808,304
2018	714,188
Thereafter	1,246,606
	<u>\$ 8,949,228</u>

**11. Related-Party Transactions**

The Hospital obtains services from various HHC affiliates that are recorded at cost that represent an allocation of shared expenditures. Services provided by affiliates for the years ended September 30, 2013 and 2012, were \$16,093,221 and \$6,498,066, respectively. Other inter-company activity with subsidiaries of the Hospital include recurring transactions associated with operations which have been eliminated in consolidation.

The Hospital of Central Connecticut

Notes to the Consolidated Financial Statements (continued)

**11. Related-Party Transactions (continued)**

Amounts due from (to) affiliates related to these services as of September 30, are as follows:

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
Due from HHC	\$ 4,794,973	\$ —
Due from Practice Central	93,907	—
Other	136,061	84,758
	<u>\$ 5,024,941</u>	<u>\$ 84,758</u>
Due to HHC	(597,436)	(1,219,116)
Due to Hartford Hospital	(428,618)	(381,961)
Due to Hartford HealthCare Medical Group	(112,384)	—
Due to Eastern Rehabilitation Network	(35,913)	—
Other	—	(43,860)
	<u>\$ (1,174,351)</u>	<u>\$ (1,644,937)</u>

**12. Functional Expenses**

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

	<b>2013</b>	<b>2012</b>
Health care services	\$ 313,030,883	\$ 328,506,982
Support services	61,238,843	38,273,482
	<u>\$ 374,269,726</u>	<u>\$ 366,780,464</u>

The Hospital of Central Connecticut

Notes to the Consolidated Financial Statements (continued)

**13. Supplemental Cash Flow Information**

The changes in assets and liabilities are as follows:

	<b>September 30</b>	
	<b>2013</b>	<b>2012</b>
	<hr/>	<hr/>
Increase in accounts receivable	\$ (6,543,234)	\$ (16,821,472)
(Increase) decrease in premiums receivable	(39,316)	60,041
Decrease (increase) in reinsurance recoverable	3,830,995	(150,000)
Increase in other receivables	(1,173,591)	(5,364,926)
(Increase) decrease in due from affiliates	(4,940,183)	294,878
Decrease (increase) in inventories of supplies	522,646	(356,720)
(Increase) decrease in debt service	(134,970)	4
Decrease in prepaid expenses and other assets	147,080	677,943
Increase in other assets	(4,336,870)	(960,079)
(Decrease) increase in accounts payable and accrued expenses	(617,166)	1,380,007
(Decrease) increase in salaries, wages, payroll taxes, and amounts withheld from employees	(223,882)	1,965,838
Decrease in estimated third-party settlements	(7,330,442)	(4,531,451)
(Decrease) increase in due to affiliates	(470,586)	1,270,916
(Decrease) increase in unearned premium	(26,654)	26,654
Decrease in reserve for losses and loss adjustment expenses	(8,857,345)	(3,049,180)
Increase in deferred revenue	23,620	122,465
Increase (decrease) in pension, self-insurance and other long-term liabilities	8,786,733	(5,851,103)
	<hr/> <b>\$ (21,383,165)</b> <hr/>	<hr/> <b>\$ (31,286,185)</b> <hr/>

## The Hospital of Central Connecticut

### Notes to the Consolidated Financial Statements (continued)

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

The Hospital evaluated subsequent events through January 31, 2014, 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 year ended September 30, 2013.

Effective October 1, 2013, GIC merged with Hartford HealthCare Indemnity Services, Ltd. (HHCISL), an insurance company incorporated in Bermuda. HHCISL is wholly owned by HHC. This subsequent event did not require an adjustment to the consolidated financials as of September 30, 2013.

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

## Supplementary Information

The Hospital of Central Connecticut

Consolidating Balance Sheets

September 30, 2013

	The Hospital of Central Connecticut	Grand Indemnity Company, LTD.	Total	Eliminations	Total
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 23,728,929	\$ 15,704,456	\$ 39,433,385	\$ —	\$ 39,433,385
Accounts receivable, less allowance for bad debts of \$18,330,159	45,274,226	—	45,274,226	—	45,274,226
Premiums receivable	—	75,002	75,002	—	75,002
Reinsurance recoverable	—	3,675,000	3,675,000	—	3,675,000
Other receivables	8,075,041	—	8,075,041	(119,303)	7,955,738
Due from affiliates	5,024,941	—	5,024,941	—	5,024,941
Inventories of supplies	5,420,384	—	5,420,384	—	5,420,384
Prepaid expenses and other assets	3,466,789	—	3,466,789	—	3,466,789
Total current assets	90,990,310	19,454,458	110,444,768	(119,303)	110,325,465
Assets whose use is limited:					
Investments for GIC	—	8,549,662	8,549,662	—	8,549,662
Board-designated interest in investments held by Endowment, LLC	109,829,752	—	109,829,752	—	109,829,752
Donor-restricted interest in investments held by Endowment, LLC	28,172,961	—	28,172,961	—	28,172,961
Donor-restricted investments	1,383,135	—	1,383,135	—	1,383,135
Funds designated for debt service	2,532,172	—	2,532,172	—	2,532,172
	141,918,020	8,549,662	150,467,682	—	150,467,682
Funds held in trust by others	15,974,359	—	15,974,359	—	15,974,359
Unrestricted interest in investments held by Endowments, LLC	—	—	—	—	—
Other assets	18,290,966	—	18,290,966	(5,267,875)	13,023,091
Property, plant and equipment, net	163,810,215	—	163,810,215	—	163,810,215
Total assets	<u>\$ 430,983,870</u>	<u>\$ 28,004,120</u>	<u>\$ 458,987,990</u>	<u>\$ (5,387,178)</u>	<u>\$ 453,600,812</u>
<b>Liabilities and net assets</b>					
Current liabilities:					
Accounts payable	\$ 12,557,820	\$ —	\$ 12,557,820	\$ —	\$ 12,557,820
Salaries, wages, payroll taxes, and amounts withheld from employees	14,042,968	—	14,042,968	—	14,042,968
Accrued expenses	11,618,598	34,689	11,653,287	—	11,653,287
Estimated third-party payor settlements	11,976,659	—	11,976,659	—	11,976,659
Due to affiliates	1,174,351	119,303	1,293,654	(119,303)	1,174,351
Deferred revenue	596,339	—	596,339	—	596,339
Current portion of accrued pension liability	10,416,398	—	10,416,398	—	10,416,398
Current portion of long-term debt	2,329,243	—	2,329,243	—	2,329,243
Current portion of other liabilities	909,496	—	909,496	—	909,496
Total current liabilities	65,621,872	153,992	65,775,864	(119,303)	65,656,561
Reserve for losses and loss adjustment expenses	—	8,103,682	8,103,682	—	8,103,682
Long-term debt	38,405,050	—	38,405,050	—	38,405,050
Accrued pension liability	65,894,053	—	65,894,053	—	65,894,053
Self-insurance and other long-term liabilities	19,351,332	—	19,351,332	—	19,351,332
Total liabilities	189,272,307	8,257,674	197,529,981	(119,303)	197,410,678
Net assets:					
Share capital	—	120,000	120,000	(120,000)	—
Contributed surplus	—	5,147,875	5,147,875	(5,147,875)	—
Unrestricted	194,567,882	14,478,571	209,046,453	—	209,046,453
Temporarily restricted	24,361,771	—	24,361,771	—	24,361,771
Permanently restricted	22,781,910	—	22,781,910	—	22,781,910
Total net assets	241,711,563	19,746,446	261,458,009	(5,267,875)	256,190,134
Total liabilities and net assets	<u>\$ 430,983,870</u>	<u>\$ 28,004,120</u>	<u>\$ 458,987,990</u>	<u>\$ (5,387,178)</u>	<u>\$ 453,600,812</u>

The Hospital of Central Connecticut

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

For the Year Ended September 30, 2013

	The Hospital of Central Connecticut	Grand Indemnity Company, LTD.	Total	Eliminations	Total
Gross revenue from patients	\$ 894,561,269	\$ -	\$ 894,561,269	\$ -	\$ 894,561,269
Deductions:					
Allowances	496,600,768	-	496,600,768	-	496,600,768
Charity care	16,310,702	-	16,310,702	-	16,310,702
Provision for bad debts	9,742,308	-	9,742,308	-	9,742,308
Net patient service revenue	371,907,491	-	371,907,491	-	371,907,491
					-
Other operating revenues	17,233,898	-	17,233,898	(5,000,000)	12,233,898
Net premiums earned	-	795,380	795,380	(760,000)	35,380
Net assets released from restrictions for operations	1,885,094	-	1,885,094	-	1,885,094
	391,026,483	795,380	391,821,863	(5,760,000)	386,061,863
Operating expenses:					
Salaries and wages	168,706,840	-	168,706,840	-	168,706,840
Employee benefits	51,728,525	-	51,728,525	-	51,728,525
Supplies and other	54,189,600	(1,548,627)	52,640,973	-	52,640,973
Purchased services	81,779,311	-	81,779,311	(760,000)	81,019,311
Depreciation and amortization	19,479,333	-	19,479,333	-	19,479,333
Losses and loss adjustment expenses	-	(868,854)	(868,854)	-	(868,854)
Interest	1,563,598	-	1,563,598	-	1,563,598
	377,447,207	(2,417,481)	375,029,726	(760,000)	374,269,726
Operating Income	13,579,276	3,212,861	16,792,137	(5,000,000)	11,792,137
Nonoperating income:					
Income from investments, gifts, and bequests, net	5,672,857	-	5,672,857	-	5,672,857
Return on Investments in Endowment, LLC	3,003,140	-	3,003,140	-	3,003,140
Total non-operating gains	8,675,997	-	8,675,997	-	8,675,997
Excess of revenues over expenses before unrealized gain on investments	22,255,273	3,212,861	25,468,134	(5,000,000)	20,468,134
Change in unrealized gains and losses on investments	2,962,485	-	2,962,485	-	2,962,485
Excess of revenue over expenses	25,217,758	3,212,861	28,430,619	(5,000,000)	23,430,619
Changes in unrestricted net assets:					
Pension changes other than net periodic benefit costs	76,581,478	-	76,581,478	-	76,581,478
Transfer to affiliate	(2,056,097)	-	(2,056,097)	-	(2,056,097)
Other	325,544	-	325,544	-	325,544
Unrealized gain on investments	-	(2,667,979)	(2,667,979)	-	(2,667,979)
Reclassification adjustment - net realized gain	-	1,741,364	1,741,364	-	1,741,364
Net assets released from restrictions for capital	1,296,085	-	1,296,085	-	1,296,085
	\$ 101,364,768	\$ 2,286,246	\$ 103,651,014	\$ (5,000,000)	\$ 98,651,014

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