

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Yale-New Haven Hospital and Subsidiaries
Years Ended September 30, 2014 and 2013
with Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Yale-New Haven Hospital and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2014 and 2013

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Report of Independent Auditors

The Board of Trustees
Yale-New Haven Hospital and Subsidiaries

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

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

Ernst + Young LLP

December 23, 2014

Yale-New Haven Hospital and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2014	2013
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 69,250	\$ 46,312
Short-term investments	926,024	709,453
Accounts receivable for services to patients, less allowance for uncollectible accounts, charity and free care of approximately \$171,491,000 in 2014 and \$168,364,000 in 2013	264,671	238,901
Other receivables	33,771	47,794
Professional liabilities insurance recoveries receivable – current portion	18,968	21,142
Other current assets	72,597	63,933
Amounts on deposit with trustee in debt service fund	4,394	7,176
Total current assets	1,389,675	1,134,711
Assets limited as to use	124,869	84,095
Long-term investments	263,938	214,382
Deferred financing costs, less accumulated amortization	9,285	8,079
Professional liabilities insurance recoveries receivable – non-current	49,433	60,199
Goodwill	44,818	38,955
Other assets	172,823	186,969
Property, plant and equipment:		
Land and land improvements	42,308	37,109
Buildings and fixtures	1,151,698	1,122,751
Equipment	458,802	465,434
	1,652,808	1,625,294
Less accumulated depreciation	754,130	695,193
	898,678	930,101
Construction in progress	27,576	23,639
	926,254	953,740
Total assets	\$ 2,981,095	\$ 2,681,130

	September 30	
	2014	2013
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 153,601	\$ 155,485
Accrued expenses	199,923	171,831
Professional liabilities – current portion	18,968	21,142
Other current liabilities	17,922	15,488
Current portion capital lease obligation	2,963	2,598
Current portion of debt	7,626	11,070
Total current liabilities	<u>401,003</u>	377,614
Long-term debt, net of current portion	802,124	677,492
Long-term capital lease obligation, net of current portion	50,838	53,801
Accrued pension and postretirement benefit obligations	231,477	197,950
Professional liabilities	115,868	128,720
Other long-term liabilities	215,877	169,893
Deferred revenue	44,378	47,297
Total liabilities	<u>1,861,565</u>	1,652,767
Commitments and contingencies		
Net assets:		
Unrestricted	1,017,424	938,843
Temporarily restricted	64,318	59,982
Permanently restricted	35,906	27,155
Total Yale-New Haven Hospital & Subsidiaries net assets	<u>1,117,648</u>	1,025,980
Non-controlling interest	1,882	2,383
Total net assets including non-controlling interest	<u>1,119,530</u>	1,028,363
Total liabilities and net assets	<u><u>\$ 2,981,095</u></u>	<u><u>\$ 2,681,130</u></u>

See accompanying notes.

Yale-New Haven Hospital and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2014	2013
	<i>(In Thousands)</i>	
Operating revenue:		
Net patient service revenue	\$ 2,448,983	\$ 2,399,630
Less: Provision for bad debts	(72,829)	(82,200)
Net patient service revenue, less provision for bad debts	2,376,154	2,317,430
Other revenue	60,453	60,720
Total operating revenue	2,436,607	2,378,150
Operating expenses:		
Salaries and benefits	1,050,746	1,041,586
Supplies and other expenses	1,096,590	1,075,383
Depreciation	124,012	109,616
Insurance	8,275	16,811
Interest	24,002	24,246
Total operating expenses	2,303,625	2,267,642
Income from operations	132,982	110,508
Non-operating gains (losses), net:		
Income from investments, donations and other, net	79,111	57,953
Change in fair value of swap, including counterparty payments	(16,357)	16,586
Loss on refunding of long-term debt	(32,631)	-
Discontinued operations	-	(1,844)
Excess of revenue over expenses, before non-controlling interest	163,105	183,203
Less: Income attributable to non-controlling interest	(2,320)	(2,750)
Excess of revenue over expenses	160,785	180,453

Yale-New Haven Hospital and Subsidiaries

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

	Year Ended September 30	
	2014	2013
	<i>(In Thousands)</i>	
Other changes in unrestricted net assets:		
Excess of revenue over expenses (continued)	\$ 160,785	\$ 180,453
Other changes in net assets	135	343
Transfer to Yale-New Haven Health Services Corporation – Clinical Development Fund	–	(6,000)
Transfer to Yale-New Haven Health Services Corporation – Mission Support	(14,042)	(11,793)
Transfer (to) from Yale-New Haven Health Services Corporation	(25,000)	2,900
Net assets released from restrictions for purchases of fixed assets	1,502	152
Pension and other postretirement liability adjustments	(44,799)	88,656
Increase in unrestricted net assets	<u>78,581</u>	<u>254,711</u>
Temporarily restricted net assets:		
Income from investments	\$ 298	\$ 241
Net realized gains on investments	583	768
Change in net unrealized gains and losses on investments	6,481	5,421
Bequests and contributions	7,457	20,777
Net assets released from restrictions for purchases of fixed assets	(1,502)	(152)
Net assets released from restrictions for free care	(613)	(779)
Net assets released from restrictions for operations	(3,099)	(2,822)
Net assets released from restrictions for clinical programs	(5,269)	(9,498)
Increase in temporarily restricted net assets	<u>4,336</u>	<u>13,956</u>
Permanently restricted net assets:		
Bequests and contributions	3,492	–
Change in beneficial interest in perpetual trusts	5,259	411
Increase in permanently restricted net assets	<u>8,751</u>	<u>411</u>
Non-controlling interest:		
Income attributable to non-controlling interest	2,320	2,750
Distributions to non-controlling interest	(2,821)	(2,764)
	<u>(501)</u>	<u>(14)</u>
Increase in net assets	<u>91,167</u>	<u>269,064</u>
Net assets at beginning of year	<u>1,028,363</u>	<u>759,299</u>
Net assets at end of year	<u><u>\$ 1,119,530</u></u>	<u><u>\$ 1,028,363</u></u>

See accompanying notes.

Yale-New Haven Hospital and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2014	2013
	<i>(In Thousands)</i>	
Operating activities		
Increase in net assets	\$ 91,167	\$ 269,064
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	124,012	109,616
Net realized and change in net unrealized gains and losses on investments	(87,505)	(63,635)
Change in fair value of interest rate swap agreements	1,803	(16,946)
Amortization of long-term debt premium	(1,192)	(965)
Amortization of deferred financing costs	329	333
Bad debts	72,829	65,535
Loss on refunding of long-term debt	32,631	–
Change in perpetual trusts	(5,258)	(411)
Transfer to Yale-New Haven Health Services Corporation – Clinical Development Fund	–	6,000
Transfer to from Yale-New Haven Health Services Corporation	39,042	8,893
Bequests, and contributions, net of pledges	(10,949)	(14,717)
Pension and other postretirement liability adjustments	44,799	(88,656)
Changes in operating assets and liabilities:		
Accounts receivable, net	(98,599)	(98,732)
Other receivables	14,023	1,413
Other assets	(381)	(29,658)
Accounts payable	(1,884)	18,513
Accrued expenses	28,092	1,587
Professional insurance recoveries and liabilities	(2,086)	3,479
Other current liabilities, accrued pension and postretirement benefit obligations, other long-term liabilities, and deferred revenue	32,424	17,844
Net cash provided by operating activities	<u>273,297</u>	<u>188,557</u>
Investing activities		
Net acquisitions of property, plant and equipment	(96,716)	(113,786)
Sale of property	–	53,605
Capitalized interest	190	146
Net change in investments	(178,622)	(82,602)
Increase in debt service fund	2,782	(557)
Assets limited as to use	(35,516)	22,004
Transfer to Yale-New Haven Health Services Corporation – Clinical Development Fund	–	(6,000)
Transfer to Yale-New Haven Health Services Corporation	(39,042)	(8,893)
Net cash used in investing activities	<u>(346,924)</u>	<u>(136,083)</u>
Financing activities		
Proceeds from issuance of long-term debt	578,670	232,000
Payments on capital lease obligations	(2,598)	(56,237)
Payments of long-term debt	(484,157)	(10,865)
Payments of bank line of credit payable	–	(212,000)
Payments of notes payable	–	(40,000)
Cost of issuance of long-term debt	(6,299)	(3,230)
Bequests, and contributions, net of pledges	10,949	14,717
Net cash provided by (used in) by financing activities	<u>96,565</u>	<u>(75,615)</u>
Net increase (decrease) in cash and cash equivalents	22,938	(23,141)
Cash and cash equivalents at beginning of year	46,312	69,453
Cash and cash equivalents at end of year	<u>\$ 69,250</u>	<u>\$ 46,312</u>

See accompanying notes.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2014

1. Organization and Significant Accounting Policies

Organization

YNH Network Corporation and Subsidiaries (YNHNC) was a Connecticut not-for-profit, non-stock corporation established to promote and carry out charitable, scientific and educational activities. YNHNC was the sole member of Yale-New Haven Hospital, Inc. (the Hospital or Y-NHH), Yale-New Haven Care Continuum Corporation (YNHCCC), and the parent organization of Yale-New Haven Ambulatory Services Corporation and Subsidiaries (ASC) and York Enterprises, Inc. and Subsidiaries (York). YNHNC controlled, through contractual agreements, Quinnipiac Medical P.C. (QMPC) and Community Healthcare Physicians (CHCP). YNHNC had an affiliation agreement with Yale-New Haven Health Services Corporation (YNHHSC) in which YNHHSC was the sole member of YNHNC.

The Hospital is a voluntary association incorporated under the General Statutes of the State of Connecticut.

In fiscal year 2014, the Hospital and its parent company, YNHNC, were merged in connection with the formation of an Obligated Group and are now referred to as Yale-New Haven Hospital and Subsidiaries. As a result, the Hospital's financial statement reporting entity changed to include YNHCCC, ASC and York previously reported in the consolidated financial statements of YNHNC, retrospective to October 1, 2012. The change in reporting entity was retrospectively applied to the consolidated financial statements of the Hospital for all years presented. The Hospital controls, through contractual agreements, QMPC and CHCP.

YNHHSC is the sole member of two similar organizations, Bridgeport Hospital (BH) and Greenwich Health Care Services, Inc. (GHCS). Each of these three tax-exempt organizations serves as the sole member/parent for its respective delivery network of regional health care providers and related entities. YNHHSC is also the sole member of Northeast Medical Group, Inc. (NEMG).

Concurrent with the issuance of the Connecticut Health and Educational Facilities Authority (CHEFA) Revenue Bonds, Yale-New Haven Health Obligated Group Issue, Series A, B, C, D and E dated May 20, 2014, six members of the Yale New Haven Health System and Subsidiaries were combined to form an Obligated Group. The Obligated Group comprises YNHHSC, Y-NHH, Yale-New Haven Care Continuum Corporation, Bridgeport Hospital, the Bridgeport Hospital Foundation and NEMG (the Obligated Group). YNHHSC serves as agent of the Obligated Group. The members of the Obligated Group have adopted certain governance

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

provisions in their certificates of incorporation and by-laws pursuant to which YNHHS retains the authority to directly take certain actions on behalf of each Obligated Group member without the approval of the Board of Trustees (the Board) of the applicable Obligated Group member, including the incurrence of indebtedness on behalf of each Obligated Group member, the management and control of the liquid assets of each, and the appointment of the president and chief executive officer of each Obligated Group member.

The Hospital is the parent of:

YNHCCC, a Connecticut non-stock corporation, is a wholly owned subsidiary of the Hospital. YNHCCC provides long-term care for those unable to live independently and short-term rehabilitation for patients who have experienced elective surgery, an injury, or a traumatic major illness. Its services include respite care for family members and caregivers, recovery for victims of strokes, orthopedic recovery services, medications and diagnostic services (such as radiological services).

ASC, a Connecticut non-stock, taxable corporation, is a wholly owned subsidiary of Y-NHH, and is 51% owner of Shoreline Surgery Center, LLC (SSC) and SSC II, LLC.

York, a Connecticut corporation formed for the purpose of initiating or acquiring business entities. Currently, York has two subsidiaries: Medical Center Pharmacy and Home Care, Inc. (MCP) and Medical Center Realty, Inc. (MCR). MCP is a Connecticut stock, for-profit company, which operated a retail pharmacy with multiple locations until February 2011. MCR is a Connecticut stock, for-profit company, which owns or holds leases on YNHHS's affiliated commercial space. York is the sole shareholder of MCP and MCR.

QMPC and CHCP are Connecticut stock, for-profit, professional corporations formed in 1994 and 1996, respectively, to employ New Haven area primary care physicians. All of the stock of QMPC and CHCP is owned by the Chief of Staff of the Hospital, who has assigned his rights in QMPC and CHCP to the Hospital. QMPC and CHCP were dissolved effective September 27, 2013.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Caritas Insurance Company, Ltd. (Caritas) is a Vermont-domiciled, captive insurance company licensed under Chapter 141 of Title 8 of the Vermont Statutes Annotated. Caritas is a tax-exempt supporting organization having the Hospital as its sole shareholder. Caritas provides excess professional liability coverage and general liability coverage. Prior to the 2012 acquisition of the stock of Caritas by Y-NHH from the Hospital of Saint Raphael (HSR), Caritas was a wholly-owned subsidiary of HSR.

Lukan Indemnity Company, Ltd. (Lukan) is a Bermuda-domiciled captive insurance company that provides primary professional liability coverage. Prior to the 2012 acquisition of the stock of Lukan by Y-NHH from HSR, Lukan was a wholly owned subsidiary of HSR.

The Hospital and subsidiaries operate with a separate Board of Trustees, management staff and medical staff; however, YNHSC must approve the strategic plans, operating and capital budgets, and Board of Trustees appointments of the Hospital.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Change in Reporting Entity

The impact of the change in reporting entity on selected previously reported financial statement line items is as follows:

	Amounts Previously Reported	Adjustments	As Adjusted
Balance sheet – September 30, 2013			
Total current assets	\$ 1,120,755	\$ 13,956	\$ 1,134,711
Total assets	2,657,547	23,583	2,681,130
Total current liabilities	367,966	9,648	377,614
Total liabilities	1,639,422	13,345	1,652,767
Total net assets	1,018,125	10,238	1,028,363
Total liabilities and net assets	2,657,547	23,583	2,681,130
 Statement of operations and changes in net assets – year ended September 30, 2013			
Total operating revenue	\$ 2,341,549	\$ 36,601	\$ 2,378,150
Total operating expenses	2,236,673	30,969	2,267,642
Income from operations	104,876	5,632	110,508
Excess of revenue over expenses before non-controlling interest	178,722	4,481	183,203
Net assets, October 1, 2012	\$ 748,778	\$ 10,521	\$ 759,299
Increase in net assets	269,347	(283)	269,064
Net assets, September 30, 2013	1,018,125	10,238	1,028,363
 Statement of cash flows – year ended September 30, 2013			
Net cash provided by operating activities	\$ 183,259	\$ 5,298	\$ 188,557
Net cash used in investing activities	(133,017)	(3,066)	(136,083)
Net cash used in financing activities	(74,444)	(1,171)	(75,615)
Net decrease in cash and cash equivalents	(24,202)	1,061	(23,141)

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Acquisitions

On June 1, 2014, NEMG and YNHHSAC acquired certain assets of PriMed, LLC (PriMed), a physician practice for approximately \$54.2 million. YNHHSAC contributed the entire purchase price, of which \$25 million was transferred from the Hospital to YNHHSAC. PriMed is a multi-specialty group of approximately 120 providers in 36 locations across Fairfield County and New Haven County, Connecticut. PriMed also is the sole member of a gastroenterology surgery center, the Fairfield County Endoscopy Center, and offers a number of ancillary services, such as a sleep laboratory, cardiac diagnostic testing, physical therapy and nutritional counseling. Under the terms of the transaction, NEMG and YNHHSAC acquired substantially all the assets of PriMed and a 40% interest in the gastroenterology surgery center.

On October 11, 2013, the Hospital purchased 100% controlling interest of Saint Raphael Magnetic Resonance Center (SRMP) for approximately \$7.4 million. Prior to the purchase of this practice by the Hospital, the controlling interest in SRMP was owned through a 50/50 joint venture between ASC and Medical Imaging Associates, P.C. ASC transferred its 50% ownership to the Hospital. In connection with this transaction, the Hospital recorded goodwill in the amount of \$5.9 million.

Disposal

In August 2013, ASC discontinued the operations of Temple Recovery Care Center, a ten-bed rehabilitation center, located at the New Haven Hotel. The following table summarizes the disposal group (in thousands).

	<u>September 2013</u>
Carrying value of disposed assets	\$ 136
Revenue	1,084
Loss of disposed group	(1,844)

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Principles of Consolidation

The accompanying consolidated financial statements present the accounts and transactions of the Hospital and its wholly owned subsidiaries. All significant intercompany revenue and expenses and intercompany balance sheet accounts have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated 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, including estimated uncollectibles for accounts receivable for services to patients, and liabilities, including estimated net settlements with third-party payors and professional liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the 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.

During the years ended September 30, 2014 and 2013, the Hospital recorded a change in estimate of approximately \$8.9 million and \$3.6 million, respectively. Included in the change are amounts related to favorable third-party payor settlements.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose and appreciation on permanently restricted net assets. Permanently restricted net assets have been restricted by donors to be 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 unrestricted and the assets are classified as permanently restricted.

The restricted funds investments are pooled with unrestricted investments to facilitate their management. Investment income is allocated to the restricted funds using the market value unit method. The Board approves spending for certain pooled funds based on total return. Realized gains and losses from the sale of securities are computed using the average cost method.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (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. Contributions receivable to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of the discount is recognized as revenue and is classified as either unrestricted or temporarily restricted in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions receivable, included in other receivables and other assets in the accompanying consolidated balance sheets at September 30, 2014 and 2013, are expected to be received as follows (in thousands):

	September 30	
	2014	2013
Less than one year	\$ 3,979	\$ 8,691
One to five years	<u>1,285</u>	<u>1,158</u>
	5,264	9,849
Less unamortized discount on contributions receivable (0.2% to 3.7%)	<u>(52)</u>	<u>(60)</u>
	5,212	9,789
Allowance for uncollectible contributions	<u>(156)</u>	<u>(294)</u>
	<u>\$ 5,056</u>	<u>\$ 9,495</u>

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All 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.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less when purchased, which are not classified as assets limited as to use and which are not maintained in the short- or long-term investment portfolios.

Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Hospital's policy to monitor the financial strength of these institutions.

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.

Loan Receivable

On September 2014, the Hospital entered into a term loan agreement as part of a transaction with a health care provider more fully described in Note 10. The term-loan agreement has a term that coincides with an agreement for the Hospital to lease an Inpatient Rehabilitation Unit (IRU). The term of the IRU Lease Agreement is five years and provides the Hospital with two five-year renewal options at the end of each term.

The term loan bears interest of 6.5% annually that is payable monthly. The loan is collateralized by certain property owned by a subsidiary of the health care provider.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Investments

The Hospital has designated its investment portfolio as trading. Investment income or loss (including realized gains and losses on investments, interest and dividends) and the change in net unrealized gains and losses are included in the excess of revenue over expenses unless the income or loss is restricted by donor or law.

Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value (quoted market prices) in the accompanying consolidated balance sheets.

Certain alternative investments (non-traditional, not-readily-marketable assets) are structured such that the Hospital holds limited partnership interests or pooled units and are accounted for under the equity method and utilizing Yale University's (the University) reported net asset value per unit for measurement of the units' fair value for the Yale University investment. Individual investment holdings within the alternative investments may, in turn, include investments in both non-marketable and market-traded securities. Valuations of those investments and, therefore, the Hospital's holdings may be determined by the investment manager or general partner. 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 equity method reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Hospital to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, the Hospital's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors. Future funding commitments for alternative investments aggregated approximately \$2.5 million at September 30, 2014.

The Hospital participates in the Yale New Haven Health System Investment Trust (the Trust), a unitized Delaware Investment Trust created to pool assets for investment by the Health System non-profit entities. The Trust is comprised of two pools: the Long-Term Investment Pool (L-TIP) and the Intermediate-Term Investment Pool (I-TIP). Governance of the Trust is performed by the Yale New Haven Health System Investment Committee.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Under the terms of the investment management agreement with the Trust, withdrawals of the Hospital's investment in the L-TIP can be made annually by the Hospital on July 1. Amounts withdrawn are subject to a schedule that allows larger withdrawals with longer notice periods. As of September 30, 2014, the Hospital can withdraw 100% of its investment in the L-TIP on July 1, 2015. Withdrawals of the Hospital's investment in the I-TIP in any amount can be made quarterly with 30 days advance notice.

The Trust has an agreement with the University's investment office (the Investment Management Agreement) which allows the University to manage a portion of the Trust's investments as part of the University's Endowment Pool (the Pool). For each of the years ended September 30, 2014 and 2013, the Trust transferred \$100.0 million to the University in exchange for units in the Pool. The Trust's interest in the Pool is reported at fair value based on the net asset value per units held. The Pool invests in domestic equity, foreign equity, absolute return, private equity, real assets, fixed income and cash.

Under the terms of the investment management agreement with the University, withdrawals of the Trust's investment in the Pool can be made annually by the Trust on July 1. For withdrawals of amounts less than \$150.0 million or 75% of the Trust's investment in the Pool, \$100.0 million or 50% of the Trust's investment in the Pool, and \$50.0 million or 25% of the Trust's investment in the Pool, the advance notice period is set to a maximum of 180 days, 90 days, and 30 days, respectively, prior to the University's fiscal year ending June 30. For withdrawals greater than \$150.0 million or more than 75% of the Trust's investment in the Pool, the advance notice period is set to a maximum of 270 days prior to the University's fiscal year end of June 30.

In March 2006, the Hospital entered into an arrangement with the University whereby the University will manage certain Board-designated assets of the Hospital. These Board-designated assets are commingled in the University's endowment pool. At September 30, 2014 and 2013, the carrying value of assets managed by the University under this arrangement was approximately \$10.4 million and \$9.4 million, respectively. Because of the limitations on their use, the assets are separately classified from assets invested under the Investment Management Agreement.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

In 2011, the investment management agreement between the Trust and the University was modified to allow the Trust to obtain a cash advance, up to a maximum of \$75 million, on a monthly basis. For these advances interest of U.S. Prime rate, plus 2% will be paid by the Trust. Repayments on the advances are made by the Trust by way of redemptions of a sufficient number of Trust's units in the Endowment using the June 30 unit valuation. No advances have been requested or taken by the Trust.

Short-term investments represent those securities that are available for the Hospital's operations and can be converted to cash within one year.

Inventories

Inventories are stated at the lower of cost or market. The Hospital values its inventories using the first-in, first-out method with the exception of pharmacy inventories, which are valued at average cost.

Assets Limited as to Use

Assets so classified represent assets held by trustees under indenture agreements, beneficial interest in perpetual trusts and designated assets set aside by the Board for future capital improvements and other Board approved uses. The Board retains control and, at its discretion, may use for other purposes assets limited as to use for plant improvements and expansion. Amounts required to meet current liabilities are reported as current assets. These funds consist primarily of U.S. Government securities, mutual funds and money market funds.

Perpetual Trusts

The Hospital is the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts, which are measured based on the fair value of the assets held by the trust, are recognized as assets and contribution revenue at the dates the trusts are established. Distributions from the trusts related to earnings and investment income are recorded as contributions and the carrying value of the assets is adjusted for changes in the fair value.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Interest Rate Swap Agreements

The Hospital utilizes interest rate swap agreements to reduce risks associated with changes in interest rates. Interest rate swap agreements are reported at fair value. The Hospital is exposed to credit loss in the event of non-performance by the counterparties to its interest rate swap agreements. The Hospital is also exposed to the risk that the swap receipts may not offset its variable rate debt service. To the extent these variable rate payments do not equal variable interest payments on the bonds, there will be a net loss or net benefit to the Hospital.

Benefits and Insurance

The Hospital is effectively self-insured for medical, hospitalization, dental and prescription drug benefits provided to employees. The Hospital makes annual contributions to the YNHHS Voluntary Employee Beneficiary Association (VEBA) plan to fund medical, dental, hospitalization, group term life insurance and prescription drug benefits. Annually, premiums are set to reflect the estimated cost of benefits. During the years ended September 30, 2014 and 2013, the Hospital made actuarially determined contributions, net of premium adjustments, to the VEBA plan of approximately \$138.7 million and \$138.6 million, respectively.

The Hospital is self-insured for workers' compensation claims. Estimated amounts are accrued for claims, including claims incurred but not reported (IBNR) and are based on the Hospital specific experience. At September 30, 2014 and 2013, the estimated discounted liabilities for self-insured workers' compensation claims and IBNR aggregated approximately \$21.3 million, discounted at 2.5%, and \$21.1 million, discounted at 2.5%, respectively, and are included in accrued expenses in the accompanying balance sheets.

Professional Liability Insurance

The Hospital participates in the YNHHS coordinated professional liability program. Based on the terms of the agreement with YNHHS, the Hospital records the actuarially determined liabilities for incurred but not reported professional and general liabilities and has recorded a deposit (asset) for liabilities transferred in the year ended September 30, 1998.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in income from operations. Depreciation of property, plant and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives ranging from 3 to 50 years. The cost of additions and improvements are capitalized and expenditures for repairs and maintenance, including the cost of replacing minor items not considered substantial enhancements, are expensed as incurred.

The Hospital and the Housing Authority of New Haven (HANH) entered into an agreement to swap parcels of land on the Legion/Howard/Sylvan/Ward block located in New Haven, Connecticut. As part of the key terms of the agreement, HANH pledged an account to the Hospital in the amount of \$5.7 million. The pledged account was established at the time the Hospital conveyed the land to HANH in July 2010. If HANH failed to meet certain requirements of the agreement, including conveying its land parcel to the Hospital, the Hospital had the right to withdraw from the pledged account in the amount of \$5.2 million. On November 21, 2013, all criteria was met and HANH conveyed its land parcel to the Hospital in the amount of \$5.2 million.

Goodwill

Goodwill is not amortized but instead tested at least annually for impairment or more frequently when events or changes in circumstances indicate that the assets might be impaired. This impairment test is performed annually at the reporting unit level. The Hospital evaluates goodwill at the entity level as management has determined that the Hospital's operation comprise a single reporting entity. Goodwill is considered to be impaired if the carrying value of the reporting unit, including goodwill, exceeds the reporting unit's fair value. Reporting unit fair value is estimated using both income (discounted cash flows) and market approaches.

The discounted cash flow approach requires the use of assumptions and judgments including estimates of future cash flows and the selection of discount rates. The market approach relies on comparisons to publicly traded stocks or to sales of similar companies. The Hospital has determined that no goodwill impairment exists at September 30, 2014.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Deferred Revenue

Deferred revenue includes amounts which have been received that relate to future years. Amounts will be reduced as revenue is earned.

Excess of Revenue over Expenses

In the accompanying consolidated statements of operations and changes in net assets, excess of revenue over expenses is the performance indicator. Peripheral or incidental transactions are included in excess of revenue over expenses. Those gains and losses deemed by management to be closely related to ongoing operations are included in other revenue; other gains and losses are classified as non-operating.

Contributions of, or restricted to, property, plant and equipment, transfers of assets to and from affiliates for other than goods and services, and pension and other post-retirement liability adjustments are excluded from the performance indicator but are included in the change in net assets.

Income Taxes

YNHCCC and the Hospital 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. YNHCCC and the Hospital are also exempt from state income tax.

ASC and York are subject to federal and state corporate income taxes. Deferred income taxes are provided on temporary differences between financial statement and tax reporting. The provision for income taxes and deferred taxes are not material to the consolidated financial statements.

Operating Expenses

The Hospital records amounts received from the University, area hospitals and other local healthcare providers for costs incurred on behalf of those organizations as reductions to expenses. For the years ended September 30, 2014 and 2013, the Hospital recorded approximately \$60.5 million and \$67.3 million, respectively, as reductions to expenses.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Deferred Financing Costs

The Hospital capitalizes costs incurred in connection with the issuance of long-term debt and amortizes these costs over the life of the respective obligations using the effective interest method. The accumulated deferred financing cost was approximately \$0.2 million and \$1.5 million at September 30, 2014 and 2013, respectively.

Impairment of Assets

The Hospital reviews property, equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such impairment indicators are present, the Hospital recognizes a loss on the basis of whether these amounts are fully recoverable.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2013, balances previously reported in the consolidated financial statements in order to conform with the year ended September 30, 2014, presentation. Approximately \$16.7 million reported as a reduction to gross accounts receivable are now classified as allowances for uncollectible accounts, charity care, and free care on the accompanying consolidated balance sheet to conform with current year presentation. See Note 3 for additional information relative to the amendment of Y-NHH's Charity Care policy.

New Accounting Pronouncement

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

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue

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, includes premium revenue and is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations.

Third-party payor receivables included in other receivables were \$0.9 million and \$5.7 million at September 30, 2014 and 2013, respectively. Third-party payor receivables included in other long-term assets were \$7.9 million at September 30, 2013. Third-party payor liabilities included in other current liabilities were \$36.2 and \$15.1 million at September 30, 2014 and 2013, respectively. Third-party payor liabilities included in other long-term liabilities were \$47.4 million and \$40.1 million at September 30, 2014 and 2013, respectively.

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 the 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 Y-NHH. If the appeals are successful, additional income applicable to those years might be realized. In April, 2014, YNHHS began participation in the Centers for Medicare & Medicaid Services Bundled Payments for Care Improvement initiative. Under the Bundled Payments for Care Improvement initiative, YNHHS has entered into payment arrangements that include financial and performance accountability for episodes of care.

Revenue from Medicare and Medicaid programs accounted for approximately 33% and 11%, respectively, of Y-NHH's net patient service revenue for the year ended September 30, 2014, and approximately 32% and 14%, respectively, of Y-NHH's net patient service revenue for the year ended September 30, 2013. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 36% and 28% for the years ended September 30, 2014, and 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are 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.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

Y-NHH 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 except as disclosed in Note 10. 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 Y-NHH. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement for various years ranging through 2010 for Medicare and through 2009 for Medicaid. Other years remain open for settlement.

The significant concentrations of accounts receivable for services to patients include 36% from Medicare, 14% from Medicaid, and 50% from non-governmental payors at September 30, 2014, and 34% from Medicare, 14% from Medicaid, and 52% from non-governmental payors at September 30, 2013.

Net patient service revenue is comprised of the following for the years ended September 30, 2014 and 2013 (in thousands):

	2014	2013
Gross revenue from patients	\$ 8,501,209	\$ 8,355,658
Deductions:		
Contractual allowances	5,922,235	5,868,328
Charity and free care (at charges)	129,991	87,700
Provision for doubtful accounts	72,829	82,200
Net patient service revenue	<u>\$ 2,376,154</u>	<u>\$ 2,317,430</u>

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Accounts Receivable for Services to Patients and Net Patient Service Revenue (continued)

Patient service revenue for the years ended September 30, 2014 and 2013, net of contractual allowances and discounts (but before the provision for bad debts), recognized from these major payor sources based on primary insurance designation, is as follows, in thousands:

	<u>2014</u>	<u>2013</u>
Third party	\$ 2,350,870	\$ 2,282,412
Self-pay	98,113	117,218
Total all payors	<u>\$ 2,448,983</u>	<u>\$ 2,399,630</u>

Deductibles and copayments under third-party payment programs within the third-party payor amount above are the patient's responsibility and Y-NHH considers these amounts in its determination of the provision for bad debts based on collection experience. Accounts receivable are also reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, Y-NHH analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

Y-NHH's allowance for doubtful accounts totaled approximately \$171.5 million and \$168.4 million at September 30, 2014 and 2013, respectively. The allowance for doubtful accounts for self-pay patients was approximately 88.5% and 88.8% of self-pay accounts receivable as of September 30, 2014 and 2013, respectively.

3. Uncompensated Care and Community Benefit Expense

Y-NHH's commitment to community service is evidenced by services provided to the indigent and benefits provided to the broader community. Services provided to the indigent include services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Uncompensated Care and Community Benefit Expense (continued)

Y-NHH makes available free care programs for qualifying patients. In accordance with the established policies of Y-NHH, during the registration, billing and collection process a patient's eligibility for free care funds is determined. For patients who were determined by Y-NHH to have the ability to pay but did not, the uncollected amounts are bad debt expense. For patients who do not avail themselves of any free care program and whose ability to pay cannot be determined by Y-NHH, care given but not paid for, is classified as charity care. During the year ended September 30, 2014, Y-NHH amended its Charity Care policy. Based upon the policy change, Y-NHH experienced increased charity care write-offs during the year.

Together, charity care and bad debt expense represent uncompensated care. The estimated cost of total uncompensated care is approximately \$132.4 million and \$115.0 million for the years ended September 30, 2014 and 2013, respectively. The estimated cost of uncompensated care is based on the ratio of cost to charges, as determined by claims activity.

The estimated cost of charity care provided was \$85.3 million and \$54.3 million for the years ended September 30, 2014 and 2013, respectively. The estimated cost of charity care is based on the ratio of cost to charges. The allocation between bad debt and charity care is determined based on management's analysis on the previous 12 months of hospital data. This analysis calculates the actual percentage of accounts written off or designated as bad debt versus charity care while taking into account the total costs incurred by the hospital for each account analyzed.

For the years ended September 30, 2014 and 2013, bad debt expense, at charges, was \$72.8 million and \$82.2 million, respectively. For the years ended September 30, 2014 and 2013, bad debt expense, at cost, was \$47.1 million and \$60.7 million, respectively. The bad debt expense is multiplied by the ratio of cost to charges for purposes of inclusion in the total uncompensated care amount identified above.

The Connecticut Disproportionate Share Hospital Program (CDSHP) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by an assessment on hospital net patient service revenue. During the years ended September 30, 2014 and 2013, the Hospital received \$26.6 million and \$58.0 million, respectively, in CDSHP distributions, of which approximately \$17.1 million and \$33.3 million, respectively was related to charity care. Y-NHH made payments into the CDSHP of \$73.5 million for the years ended September 30, 2014 and 2013, respectively, for the assessment.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Uncompensated Care and Community Benefit Expense (continued)

Additionally, Y-NHH provides benefits for the broader community which includes services provided to other needy populations that may not qualify as indigent but need special services and support. Benefits include the cost of health promotion and education of the general community, interns and residents, health screenings, and medical research. The benefits are provided through the community health centers, some of which service non-English speaking residents, disabled children, and various community support groups. Y-NHH voluntarily assists with the direct funding of several City of New Haven programs, including an economic development program and a youth initiative program.

In addition to the quantifiable services defined above, Y-NHH provides additional benefits to the community through its advocacy of community service by employees. Y-NHH's employees serve numerous organizations through board representation, membership in associations and other related activities. Y-NHH also solicits the assistance of other healthcare professionals to provide their services at no charge through participation in various community seminars and training programs.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Investments and Assets Limited as to Use

The composition of investments, including investments held by the Trust, amounts on deposit with trustee in debt service fund and assets limited as to use is set forth in the following table (in thousands):

	September 30	
	2014	2013
Money market funds	\$ 129,823	\$ 123,249
U.S. equity securities	47,912	43,594
U.S. equity securities –common collective trusts	11,274	13,789
International equity securities ^(a)	70,671	64,313
Fixed income:		
U.S. government	120,702	80,472
U.S. government – common collective trusts	137,425	82,103
International government ^(b)	77,706	63,960
Commodities	122	396
Hedge funds:		
Absolute return ^(c)	10,304	9,383
Real estate ^(d)	9,628	9,590
Interest in Yale University endowment pool ^(e)	685,862	511,719
Perpetual trusts ^(f)	17,796	12,538
Total	\$ 1,319,225	\$ 1,015,106

(a) Investments with external international equity and bond managers that are domiciled in the United States. Investment managers may invest in American or Global Depository Receipts (ADR,GDR) or in direct foreign securities.

(b) Investments with external commodities futures manager.

(c) Investment with external multi-strategy fund of funds manager investing in publicly traded equity and credit holdings which may be long or short positions.

(d) Investments with external direct real estate managers and fund of funds managers. Investment vehicles include both closed end REITs and limited partnerships.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Investments and Assets Limited as to Use (continued)

- (e) Yale University Endowment Pool maintains a diversified investment portfolio, through the use of external investment managers operating in a variety of investment vehicles, including separate accounts, limited partnerships and commingled funds. The pool combines an orientation to equity investments with an allocation to non-traditional asset classes such as an absolute return, private equity, and real assets.
- (f) Investments consist of several domestic and international equity and fixed income mutual funds, REITs, commodities and money market funds. There is also an investment in a hedge fund of funds.

Y-NHH's ownership percentage of the Trust was approximately 90.5% and 89.1% as of September 30, 2014 and 2013, respectively. Y-NHH's prorata portion of the Trust's investments are included above in the table.

5. Endowment

Y-NHH's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Y-NHH has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CUPMIFA) 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, Y-NHH classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment related to Y-NHH's beneficial interest in perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time of 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 Y-NHH in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, Y-NHH considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of Y-NHH and

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

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 Y-NHH; and (7) the investment and spending policies of Y-NHH.

Changes in endowment net assets for the years ended September 30, 2014, are as follows (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 36,106	\$ 27,155	\$ 63,261
Investment return:			
Investment income	213	–	213
Net appreciation (realized and unrealized)	5,818	–	5,818
Total investment return	6,031	–	6,031
Contributions	–	3,493	3,493
Appropriation of endowment assets for expenditure	(5,898)	–	(5,898)
Other changes:			
Change in value of beneficial interest trusts	–	5,258	5,258
Endowment net assets, end of year	<u>\$ 36,239</u>	<u>\$ 35,906</u>	<u>\$ 72,145</u>

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

Changes in endowment net assets for the years ended September 30, 2013, are as follows (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 36,678	\$ 26,744	\$ 63,422
Investment return:			
Investment income	200	–	200
Net appreciation (realized and unrealized)	5,570	–	5,570
Total investment return	5,770	–	5,770
Contributions:			
Appropriation of endowment assets for expenditure	(6,342)	–	(6,342)
Other changes:			
Change in value of beneficial interest trusts	–	411	411
Endowment net assets, end of year	<u>\$ 36,106</u>	<u>\$ 27,155</u>	<u>\$ 63,261</u>

	September 30	
	2014	2013
	<i>(In Thousands)</i>	
The portion of perpetual endowment funds subject to a time restriction under CUPMIFA:		
Without purpose restrictions	\$ 8,357	\$ 8,199
With purpose restrictions	27,882	27,907
Total endowment funds classified as temporarily restricted net assets	<u>\$ 36,239</u>	<u>\$ 36,106</u>

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

Return Objectives and Risk Parameters

Y-NHH has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under these policies, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that over time provide a rate of return that meets the spending policy objectives adjusted for inflation. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Y-NHH 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). Y-NHH 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Y-NHH has a policy of appropriating for distribution each year based on a combination of the weighted average of the prior year spending adjusted for inflation and the amount that would have been spent using a predetermined percentage of the current market value of the endowment fund. In establishing this policy, Y-NHH considered the long-term expected return on its endowment.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes (in thousands):

	September 30	
	2014	2013
Plant improvement and expansion	\$ 13,005	\$ 6,938
Specific hospital operations, teaching, research, free care and training	51,313	53,044
	\$ 64,318	\$ 59,982

Permanently restricted net assets of approximately \$35.9 million and \$27.2 million at September 30, 2014 and 2013, respectively, consist of donor restricted endowment principal and beneficial interests in perpetual trusts. The income generated from permanently restricted funds is expendable for purposes designated by donors, including research, free care, health care and other services.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Debt

A summary of long-term debt and capital lease obligations is as follows (in thousands):

	September 30	
	2014	2013
Intercompany debt with YNHHS:		
Series J, 5.12% effective interest rate	\$ —	\$ 156,120
Series K, 3.11% effective interest rate	—	89,005
Series L, 3.68% effective interest rate	—	107,460
Series M, 5.24% effective interest rate	—	98,475
Series N, 4.27% effective interest rate	44,815	44,815
Series O, 2.84% effective interest rate	50,000	50,000
Series A, 3.77% effective interest rate	102,300	—
Series B, 2.30% effective interest rate	168,275	—
Series C, 3.11% effective interest rate	83,625	—
Series D, 3.68% effective interest rate	108,275	—
Series E, 3.47% effective interest rate	44,963	—
Series 2013 taxable bonds – 4.13% effective rate	132,000	132,000
Series 2014 taxable bonds – 4.37% effective rate	50,725	—
Capital lease obligation at an imputed interest of 6.0%, (Y-NHH)	50,682	52,237
Capital lease obligations at varying rates of imputed interest rate of 6.25% collateralized by leased equipment (York)	3,119	4,162
	838,779	734,274
Add premium	24,772	10,687
Less current portion	(10,589)	(13,668)
	\$ 852,962	\$ 731,293

In September 2006, the Hospital issued Series J revenue bonds totaling approximately \$280.9 million. The proceeds, including a premium of approximately \$10.1 million, were used to finance a portion of the construction costs of a Cancer Hospital. The bond premium was being amortized and was included in capitalized interest through March 2010. As of the opening of the Cancer Hospital, the bond premium was amortized in the statement of operations. The Series J revenue bonds were issued in three sub-series as follows: (1) Series J-1, approximately

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

\$174.4 million, consisting of approximately \$83.7 million of serial bonds and approximately \$90.7 million in term bonds bearing interest at 5% per annum; (2) Series J-2, approximately \$40.0 million of revenue bonds bearing interest at 3.65% at September 30, 2007; (3) Series J-3, approximately \$66.5 million of revenue bonds bearing interest 3.70% at September 30, 2007. The series J-2 and J-3 revenue bonds were refunded during the year ended September 30, 2008, by the issuance of Series L revenue bonds.

In May 2008, the Hospital issued Series K and Series L revenue bonds totaling approximately \$216.6 million. The Series K revenue bonds were issued as Variable Rate Demand Bonds (VRDBs) in two sub-series, Series K-1 and K-2, of approximately \$54.6 million each, with an effective rate of 3.11%. The proceeds from the Series K issuance were used to refund the Series I revenue bonds. The Series L revenue bonds were issued as VRDBs in two sub-series, Series L-1 and L-2, of approximately \$53.7 million each, with an effective rate of 3.68%. The proceeds from the Series L issuance were used to refund the Series J-2 and J-3 revenue bonds.

In December 2010, the Hospital issued Series M revenue bonds totaling approximately \$104.4 million. The proceeds, including a premium of approximately \$1.0 million, were used to finance costs for the expansion and renovations to the Adult Emergency Department, the purchase and installation of machinery and equipment, various renovations and improvements to the Hospital's infrastructure. The premium was being amortized and included in capitalized interest through December 2012. As of the completion of these projects, the bond premium was amortized in the consolidated statement of operations. The Series M revenue bonds were issued as one series consisting of approximately \$33.9 million of serial bonds bearing interest at 4.69%, and approximately \$17.6 million, \$17.8 million, and \$35.1 million in term bonds bearing interest at 5.25%, 5.75%, and 5.50%, respectively, per annum.

On August 30, 2011, the Hospital entered into a loan agreement with a bank for \$40.0 million. The Hospital agreed to repay the aggregate principal amount in five equal annual payments of \$8.0 million, beginning on October 1, 2012. The loan bore interest at a rate equal to London Interbank Offered Rate (LIBOR) plus 0.50% per annum with an option to convert to a fixed rate loan upon formal notification to the bank, which may include a portion of or the total outstanding loan balance at the time notification is made. The loan was fully repaid by the issuance of the Series N, Series O, and Series 2013 bonds.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

In July 2012, the Hospital entered into a line of credit with a bank in the amount of \$27.0 million which was subsequently increased to \$187.0 million. In July 2012, the Hospital drew the unconditional loan of \$27.0 million to outfit a new facility. In September 2012, the Hospital drew the remaining \$160.0 million. The line of credit required the Hospital to repay the bank in 24 equal monthly installments commencing on August 1, 2013. The full amount of the remaining balance was due on July 12, 2015. This obligation bore interest at a rate equal to LIBOR plus 0.45% per annum. The line of credit was fully repaid and cancelled by the issuance of the Series N, Series O, and Series 2013 bonds.

In September 2012, the Hospital drew on its \$50.0 million line of credit with a bank, established in January 2012, in the amount of \$25.0 million. This line of credit required repayment of the aggregate principal amount on the 364th day subsequent to the advance. This obligation bore interest at a rate equal to LIBOR plus 0.50% per annum. The line of credit was repaid in December 2012.

In January 2013, the Hospital issued Series N and Series O revenue bonds totaling approximately \$100.0 million. The Series N revenue bonds were issued as fixed rate bonds with an effective interest rate of 4.27%. The Series O revenue bonds were issued as VRDBs with an effective interest rate of 2.84%. The proceeds, including a premium of approximately \$5.2 million for the Series N revenue bonds, were used to refinance a line credit. The bond premium is being amortized as interest expense in the statement of operations and changes in net assets.

In January 2013, the Hospital issued Series 2013 taxable bonds totaling approximately \$132.0 million. The Series 2013 taxable bonds were issued as fixed rate bonds with an effective interest rate of 4.13%. The proceeds were used to finance and refinance the costs of certain projects and activities in furtherance of the Hospital's tax-exempt purpose, including the refinancing of certain existing indebtedness.

In June 2014, the Obligated Group issued Series A revenue bonds totaling approximately \$102.3 million and Series B revenue bonds totaling approximately \$168.3 million. The Series A revenue bonds were issued as fixed rate bonds with an effective interest rate of 3.77%. The Series B revenue bonds were issued as floating rate notes with an effective interest rate of 2.30%. The proceeds from the Series A revenue bonds, including a premium of approximately \$14.8 million, and the proceeds from the Series B revenue bonds, were used to defease Y-NHH's Series J-1 and M revenue bonds. The bond premium is being amortized as interest expense using the effective interest method in the consolidated statement of operations and changes in net assets.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

In June 2014, the Obligated Group issued Series C revenue bonds totaling approximately \$83.6 million and Series D revenue bonds totaling approximately \$108.3 million. The Series C revenue bonds were issued as VRDBs with an effective interest rate of 3.11%. The proceeds from the Series C issuance were used to refund Y-NHH's Series K revenue bonds. The Series D revenue bonds were issued as VRDBs with an effective interest rate of 3.68%. The proceeds from the Series D issuance were used to refund Y-NHH's Series L revenue bonds.

As a result of the above transactions, the Hospital incurred a loss on extinguishment of debt totaling approximately \$32.6 million during the fiscal year ended September 30, 2014.

The Series C, Series D and Series O VRDBs are required to be supported by letter of credit facilities (LOCs) which have been executed with three financial institutions. These LOCs are scheduled to expire on May 2, 2016, June 23, 2017 and February 14, 2018, respectively.

In June 2014, the Obligated Group issued Series E revenue bonds totaling approximately \$80.9 million. The Series E revenue bonds were issued as fixed rate bonds with an effective interest rate of 3.47%. The proceeds included a premium of approximately \$10.1 million. Of the proceeds, \$50 million were used to finance costs for the installation of machinery and equipment and various renovations and improvements to the Hospitals' infrastructure. The remaining proceeds were used by BH. The premium is being amortized and included in capitalized interest. Upon completion of these projects, the bond premium will be amortized as interest expense in the consolidated statement of operations and changes in net assets.

In June 2014, the Obligated Group issued Series 2014 taxable bonds totaling approximately \$50.7 million. The Series 2014 taxable bonds were issued as fixed rate bonds with an effective interest rate of 4.37%. The proceeds were used to finance the costs of certain projects and activities in furtherance of the System's tax-exempt purpose.

The terms of the various financing arrangements between CHEFA, the Obligated Group, and the financial institutions providing the LOCs and the Obligated Group provide for financial covenants regarding the Obligated Group's debt service coverage ratio and liquidity ratio. As of September 30, 2014, the Obligated Group was in compliance with such covenants.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

Sinking fund installment amounts are to be made in accordance with the Series A, B, C, D, E, N and O financing agreements. Required monthly payments on the revenue bonds by the Hospital to a trustee are in amounts sufficient to provide for the payments of principal, interest and sinking fund installments, in accordance with the terms of the agreements and certain other annual costs of CHEFA.

Arbitrage rules apply for Series J-1, Series M and Series E tax-exempt debt. The rules require that, in specified circumstances, earnings from the investment of tax-exempt bond proceeds which exceed the yield on the bonds must be remitted to the Federal government.

In connection with the formation of the Obligated Group the Series A, B, C, D, E, N and O tax-exempt bonds and the Series 2013 and 2014 taxable bonds became an obligation of the Obligated Group and as such are reflected as intercompany debt with YNHHS. Under the terms of the Master Indenture all members of the Obligated Group are jointly and severally liable for debt issued by YNHHS on behalf of the Obligated Group.

Scheduled principal payments on all debt, including capital lease obligations, are as follows (in thousands):

	Debt	Capital Lease Obligations
2015	\$ 7,626	\$ 6,150
2016	7,930	6,235
2017	8,207	5,680
2018	8,493	4,879
2019	9,957	4,880
Thereafter	742,765	54,051
	\$ 784,978	81,875
Less interest		(28,074)
Total capital lease obligations		\$ 53,801

Capitalized interest at September 30, 2014 and 2013, totaled \$29.9 million and \$27.0 million, respectively.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

YNHHSC, on behalf of the Obligated Group, has entered into interest rate swap agreements with financial institutions related to the Obligated Group's Series B, Series C and Series D debt. The Series C and Series D swaps were carried over as part of the refunding of the Series K and Series L debt.

The swap agreements fix the interest rate at a level viewed as desirable by the Hospital. Such agreements expose the Hospital to credit risk in the event of non-performance by the counterparties, some of which is collateralized. At September 30, 2014 and 2013, the fair value of all swap agreements based on current interest rates was approximately \$32.3 million and \$22.3 million, respectively, representing a payable to the counterparties (recorded in other long-term liabilities).

The following table summarizes the interest rate swap agreements (in thousands):

Swap Type	Expiration Date	Hospital Receives	Hospital Pays	Notional Amount at	
				September 30 2014	September 30 2013
Series K – Fixed to Floating	July 1, 2025	LIBOR	3.11%	\$ –	\$ 59,987
Series L – Fixed to Floating	July 1, 2036	LIBOR	3.68	–	44,505
Series O – Fixed to Floating	July 1, 2053	67% of LIBOR	2.84	50,000	50,000
Series B – Fixed to Floating	July 1, 2049	67% of LIBOR	2.31	100,965	–
Series B – Fixed to Floating	July 1, 2049	LIBOR	2.29	67,310	–
Series C – Fixed to Floating	July 1, 2025	LIBOR	3.11	55,861	–
Series D – Fixed to Floating	July 1, 2036	LIBOR	3.68	44,505	–
				\$ 318,641	\$ 154,492

On September 20, 2012, the Hospital entered into a Forward Starting Interest Rate swap (the Series O swap), a LIBOR Swap Rate Lock and a Security Industry and Financing Markets Association (SIFMA) Rate Lock swap with two different counterparties. The agreements require the Hospital to pay a fixed rate and receive a floating rate based on LIBOR or SIFMA. The change in market value, as well as the net interest paid or received under the swap agreement, for the Series L swap was capitalized as part of the interest costs related to construction of the Cancer Hospital until construction was complete. Once the Cancer Hospital became operational these amounts were recorded in the consolidated statements of operations and changes in net assets.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

In June 2014, YNHHSC, on behalf of the Obligated Group, entered into LIBOR swap rate locks with two counter parties (the Series B swaps). For the Series B swaps, there was an unfavorable change in fair value of \$7.1 million for the year ended September 30, 2014, which was recorded in excess of revenue over expenses. No collateral was required under the Series B swap agreements for the year ended September 30, 2014.

For the Series K/C swap, there was a favorable change in fair value of approximately \$1.0 million and \$4.5 million, respectively, for the years ended September 30, 2014 and 2013, which was recorded in the excess of revenue over expenses. No collateral was required under the Series K/C swap agreement for the years ended September 30, 2014 and 2013.

For the Series L/D swap, there was an unfavorable change in fair value of approximately \$2.2 million for the year ended September 30, 2014, and a favorable change in fair value of approximately \$7.5 million for the year ended September 30, 2013, which was recorded in the excess of revenue over expenses. No collateral was required under the Series L/D swap agreement for the years ended September 30, 2014 and 2013.

For the Series O swap, there was an unfavorable change in fair value of \$0.6 million for the year ended September 30, 2014, which was recorded in excess of revenue over expenses. For the Series O swap and the LIBOR Swap Rate Lock swap, there was a favorable change in fair value of \$2.5 million and \$1.0 million, respectively, for the year ended September 30, 2013, which was recorded in excess of revenue over expenses. No collateral was required under the Series O swap agreement for the years ended September 30, 2014 and 2013.

In February 2013, the SIFMA Rate Lock Swap and the LIBOR Swap Rate Lock were terminated. Upon termination, gains of \$0.8 million and \$4.5 million, respectively, were recorded in non-operating gains and losses, net.

For the years ended September 30, 2014 and 2013, the Hospital paid approximately \$22.8 million and \$23.2 million, respectively, for interest related to long-term debt, exclusive of the swap agreements.

In September 2008, SSC obtained a line of credit in the amount of \$1,000,000. The interest was payable at the bank's prime rate through March 31, 2009. On April 1, 2009, the line of credit converted to a fixed-term loan due in equal monthly installments through August 31, 2013. The loan was repaid on August 13, 2013.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Debt (continued)

The debt agreements of SSC included the pledging as collateral SSC's owned equipment and fixtures, inventory and receivables. The debt agreements contained covenants related to the maintenance of financial ratios, including debt service coverage and days cash on hand. At September 30, 2013, SSC was in compliance with the financial ratio covenants.

The Hospital entered into a contract to lease space in a building adjacent to the Hospital. The Hospital's rental obligation commenced in December 2009. This capital lease has a term of twenty years from the commencement date with the option to extend the lease for four successive terms of ten years. Rental payments increase by 5% every five years. The Hospital is also subject to additional rent for its share of expenses, as defined in the contract. The Hospital has the option to purchase the property at the end of the fifth, tenth or twentieth year or at the end of each of the first three ten-year extension periods.

In January 2013, the Hospital entered into a transaction in connection with a building at 2 Howe Street, New Haven, Connecticut which was previously accounted for by the Hospital as a capital lease. Under the terms of the capital lease, the Hospital was obligated to purchase the building after an initial lease term of 3 years. In satisfaction of that obligation, the Hospital purchased the building and immediately sold the building to a third-party investor. The Hospital currently leases the building from the investor under a long-term operating lease. The Hospital owns the land on which the building is located and has entered into a prepaid long-term ground lease with the investor.

Assets recorded under the capital lease obligations totaled \$70.2 million as of September 30, 2014 and 2013. Accumulated depreciation for the capital lease obligations totaled \$19.0 million and \$16.5 million at September 30, 2014 and 2013, respectively.

8. Pensions and Postretirement Benefits

Y-NHH has qualified and non-qualified defined benefit pension plans covering substantially all employees and executives. The benefits provided are based on age, years of service and compensation. Y-NHH's policy is to fund the pension benefits with at least the minimum amounts required by the Employee Retirement Income Security Act of 1974.

Y-NHH also sponsors contributory 403(b) and 401(k) plans covering substantially all employees. YNHNC's contributions for the 403(b) plan are made to a matching 401(a) plan and are determined based on employee contributions and years of service. The Hospital expensed

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

approximately \$32.9 million and \$16.6 million relating to the defined contribution plan for the years ended September 30, 2014 and 2013, respectively. Amounts due to the defined contribution plan amounted to \$16.5 million at September 30, 2014, and is included in accrued expenses in the accompanying balance sheets. Y-NHH maintains a Section 457 non-qualified deferred compensation plan. Contributions are made on a pre-tax basis. The balances recorded at September 30, 2014 and 2013, in other assets and other long-term liabilities were \$32.5 million and \$27.3 million, respectively.

Effective September 30, 2013, the qualified defined benefit pension plan and the 401(a) plan were amended to reduce the percentage of employee compensation contributed by the Hospital to the qualified defined benefit pension and to increase the percentage of employee compensation contributed by the Hospital to the 401(a) plan for plan years commencing after December 31, 2013. The amendment to the qualified defined benefit pension plan resulted in a decrease to the projected benefit obligation at September 30, 2013, of approximately \$23.9 million.

Y-NHH also provides certain health care and life insurance benefits upon retirement to substantially all its employees. Y-NHH's policy is to fund these annual costs as they are incurred from the general assets of Y-NHH. The estimated cost of these postretirement benefits is actuarially determined and accrued over the employees' service periods.

Included in unrestricted net assets at September 30, 2014 and 2013, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credit of \$22.4 million and \$23.8 million, respectively, and unrecognized actuarial losses of \$162.0 million and \$118.6 million, respectively. The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2015, are \$2.0 million and \$7.8 million, respectively.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

The following table sets forth the change in benefit obligation, change in plan assets, and the reconciliation of underfunded status of Y-NHH's defined benefit plans as of September 30, 2014 and 2013 (in thousands):

	Defined Benefit 2014	Pension Plans 2013	Postretirement 2014	Benefits Plan 2013
Change in benefit obligation:				
Benefit obligation at prior measurement date	\$ 445,908	\$ 475,473	\$ 67,904	\$ 79,630
Service cost	22,532	36,264	3,617	5,080
Interest cost	20,896	16,676	3,270	3,135
Plan amendments	–	(23,836)	(577)	–
Actuarial loss (gain)	37,881	(38,302)	5,413	(18,428)
Benefits paid	<u>(24,506)</u>	<u>(20,367)</u>	<u>(1,491)</u>	<u>(1,513)</u>
Benefit obligation at current measurement date	502,711	445,908	78,136	67,904
Change in plan assets:				
Fair value of assets at prior measurement date	313,730	271,952	–	–
Actual return on plan assets	19,950	19,906	–	–
Employer contributions	38,064	42,239	1,491	1,513
Benefits paid	<u>(24,506)</u>	<u>(20,367)</u>	<u>(1,491)</u>	<u>(1,513)</u>
Fair value of assets at current measurement date	347,238	313,730	–	–
Accrued benefit cost	<u>\$ (155,473)</u>	<u>\$ (132,178)</u>	<u>\$ (78,136)</u>	<u>\$ (67,904)</u>

Benefit Obligation and Assumptions

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

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the defined benefit plans were as follows (in thousands):

	2014	2013
Projected benefit obligation	\$ (502,711)	\$ (445,908)
Accumulated benefit obligation	(428,547)	(380,566)
Fair value of plan assets	347,238	313,730

At September 30, 2014 and 2013, the underfunded status of the qualified defined benefit pension plan was approximately \$107.6 million and \$87.9 million, respectively, and that of the non-qualified defined benefit pension plan was approximately \$47.9 million and \$44.3 million, respectively. Additionally, there are assets limited as to use of approximately \$77.9 million and \$69.4 million, which are available to satisfy the obligations of the non-qualified defined benefit pension plan at September 30, 2014 and 2013, respectively.

The net periodic benefit cost for the years ended September 30, 2014 and 2013, is as follows (in thousands):

	Defined Benefit 2014	Pension Plans 2013	Postretirement 2014	Benefits Plan 2013
Service cost	\$ 22,532	\$ 36,264	\$ 3,617	\$ 5,080
Interest cost	20,896	16,676	3,270	3,135
Expected return on plan assets	(25,377)	(21,932)	-	-
Amortization of prior service cost	(2,035)	(293)	86	85
Recognized net actuarial loss	5,294	9,619	-	703
Net periodic benefit cost	\$ 21,310	\$ 40,334	\$ 6,973	\$ 9,003

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

Weighted-average assumptions and dates used to determine benefit obligations at September 30, 2014 and 2013 are as follows:

	Defined Benefit	Pension Plans	Postretirement	Benefits Plan
	2014	2013	2014	2013
Discount rate for determining benefit obligations at year-end, qualified plan	4.20%	4.80%	4.40%	4.90%
Discount rate for determining benefit obligations at year end, non-qualified plan	4.40	4.90	—	—
Rate of compensation increase	5.00	5.00	—	—

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2014 and 2013, are as follows:

	Defined Benefit	Pension Plans	Postretirement	Benefits Plan
	2014	2013	2014	2013
Discount rate for determining net periodic benefit cost at year-end, qualified plan	4.80%	3.60%	4.90%	4.00%
Discount rate for determining net periodic benefit cost at year end, non-qualified plan	4.90	4.00	—	—
Expected rate of return on plan assets	7.75	7.75	—	—
Rate of compensation increase	5.00	5.00	—	—

For measurement purposes relating to the postretirement benefits plan, a 5.0% and 6.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 2014 and fiscal 2013, respectively. Rates are assumed to decline to 4.9% through fiscal 2015.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

Assumed health care cost trend rate assumptions have a significant effect on the amounts reported. A 1% change in the assumed healthcare cost trend rate would have the following effects (in thousands):

	<u>1%</u> <u>Increase</u>	<u>1%</u> <u>Decrease</u>
Effect on total of service and interest cost components	\$ 14	\$ (17)
Effect on postretirement benefit obligation	325	(368)

The asset allocation of Y-NHH's qualified pension plan at September 30, 2014 and 2013, was as follows:

<u>Asset Category</u>	<u>Target</u> <u>Allocation</u>	<u>Percentage of</u> <u>Plan Assets</u>	
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Equity securities	38%	39%	41%
Debt securities	21	18	24
Real assets	10	5	12
All other assets	31	38	23
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

Pension assets carried at fair value, as of September 30, 2014 and 2013, are classified in the following tables (see FootNote 14 for description) (in thousands):

	September 30, 2014			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 14,428	\$ —	\$ —	\$ 14,428
U.S. equity securities	59,995	—	—	59,995
International equity securities	73,808	—	—	73,808
Fixed income:				
U.S. government	42,900	—	—	42,900
International government	20,607	9,489	—	30,096
Commodities	12,667	—	10,842	23,509
Private equity	—	—	3,417	3,417
Hedge funds:				
Multi strategy/other	—	341	—	341
Long/short equity	—	55,681	23,619	79,300
Real estate	—	—	19,444	19,444
Total investments	\$ 224,405	\$ 65,511	\$ 57,322	\$ 347,238

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Money market funds	\$ 11,839	\$ —	\$ —	\$ 11,839
U.S. equity securities	58,636	—	—	58,636
International equity securities	68,604	—	—	68,604
Fixed income:				
U.S. government	48,655	—	—	48,655
International government	17,426	8,297	—	25,723
Commodities	13,396	—	6,227	19,623
Private equity	—	—	1,143	1,143
Hedge funds:				
Multi strategy/other	—	44,905	—	44,905
Long/short equity	—	16,539	—	16,539
Real estate	—	—	18,063	18,063
Total investments	\$ 218,556	\$ 69,741	\$ 25,433	\$ 313,730

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

The following is a rollforward of the pension assets classified as Level 3 of the valuation hierarchy as described in Note 15:

	Commodities	Private Equity	Real Estate	Hedge Funds	Total
Fair value at September 30, 2012	\$ 6,127	\$ 509	\$ 16,784	\$ –	\$ 23,420
2013 realized and unrealized gains and losses	(160)	(7)	1,058	–	891
2013 purchases	748	688	2,334	–	3,770
2013 sales	(488)	(47)	(2,113)	–	(2,648)
Fair value at September 30, 2013	6,227	1,143	18,063	–	25,433
2014 realized and unrealized gains	1,536	217	1,461	619	3,833
2014 purchases	3,963	2,149	2,932	23,000	32,044
2014 sales	(884)	(92)	(3,012)	–	(3,988)
Fair value at September 30, 2014	\$ 10,842	\$ 3,417	\$ 19,444	\$ 23,619	\$ 57,322

Y-NHH's investment strategy for its pension assets balances the liquidity needs of the pension plan with the long-term return goals necessary to satisfy future pension obligations. The target asset allocation seeks to capture the equity premium granted by the capital markets over the long-term, while ensuring security of principal to meet near-term expenses and obligations through the fixed income allocation. The allocation of the investment pool to various sectors of the markets is designed to reduce volatility in the portfolio. Y-NHH's pension portfolio return assumption of 7.75% is based on the targeted weighted-average return of comparative market indices for the asset classes represented in the portfolio and discounted for pension expenses. The actual return on assets of the pension plan was 7.4% for the years ended September 30, 2014 and 2013.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Pensions and Postretirement Benefits (continued)

The future cash flows of Y-NHH relative to retirement benefits are expected to be as follows (in thousands):

	Defined Benefit Pension Plans	Postretirement Benefits Plan
Estimated benefit payments related to years ending September 30:		
2015	\$ 26,684	\$ 2,088
2016	26,260	2,400
2017	28,075	2,640
2018	30,573	2,914
2019	31,788	3,231
2020 to 2024	187,937	22,055

Y-NHH expects to contribute approximately \$40.0 million for pension benefits and \$2.1 million for postretirement benefits payments in fiscal 2015.

9. Professional Liability Insurance

In 1978, the Hospital and a number of other academic medical centers formed the Medical Centre Insurance Company, Ltd (the Captive) to insure for professional and comprehensive general liability risks. In 1997, the Captive formed MCIC Vermont, Inc. to write direct insurance for the professional and general liability risks of the shareholders. Since 1997, the Captive has acted as a reinsurer for varying levels of per claim limit exposure. MCIC Vermont, Inc. has reinsurance coverage from outside reinsurers for amounts above the per claim limits. Premiums are based on modified claims made coverage and are actuarially determined based on actual experience of the Hospital, the Captive and MCIC Vermont, Inc.

In fiscal 1998, the Hospital entered into a purchase and sales management agreement with YNHHSC that transferred the Hospital's participation in the Captive to YNHHSC for its book value as calculated by the Captive. Under the terms of the agreement, the Hospital retains certain elements of control and assumes limited risk associated with the ongoing operation of the Captive. The Hospital pays insurance premiums to YNHHSC.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Professional Liability Insurance (continued)

Additionally, because the purchase and sales management agreement entered into with YNHHS in 1998 meet criteria for deposit accounting, the Hospital recorded an actuarially determined liability for IBNR professional and general liabilities with an offsetting deposit (asset) of an equal amount (approximately \$11.8 million).

The estimate for modified claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$105.2 million and \$111.2 million at September 30, 2014 and 2013, respectively for the Hospital. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately \$40.6 million and \$33.3 million for the Hospital at September 30, 2014 and 2013, respectively, and is included in professional insurance liabilities in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately \$36.8 million and \$29.9 million, respectively, based on a discount rate 2.5% for the years ended September 30, 2014 and 2013, respectively.

The Hospital has recorded related insurance recoveries receivable of approximately \$68.4 million and \$81.3 million at September 30, 2014 and 2013, respectively, in consideration of the expected insurance recoveries for the total discounted modified claims-made insurance. The current portion of professional liabilities and the related insurance receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

Lukan, the Hospital sponsored professional liability program, continues to manage all incidents and claims reported to Lukan prior to the 2012 acquisition of the Saint Raphael Healthcare System Inc. (SRHS), as well as extending professional liability coverage for post acquisition risks to certain affiliated community clinicians.

Prior to the acquisition of SRHS, Caritas provided excess professional liability and general liability insurance to SRHS and their employed clinicians. Caritas continues to manage all incidents and claims reported prior to the acquisition of SRHS.

Caritas and Lukan have recorded the undiscounted estimate for claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated of approximately \$29.6 million and \$38.7 million at September 30, 2014 and 2013, respectively, and are included in professional liabilities in the accompanying consolidated statements of financial position.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Professional Liability Insurance (continued)

The estimates for professional insurance liabilities are based upon complex actuarial calculations which utilize factors such as historical claims experience for Y-NHH and related industry factors, trending models, estimates for the payment patterns of future claims and present value discount factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

10. Commitments and Contingencies

Leases

YNHH leases certain office, clinical and parking spaces under non-cancelable operating leases that range in terms ending in 2015 through 2039. Future minimum lease payments under these leases are as follows (in thousands):

2015	\$	18,589
2016		16,049
2017		14,697
2018		14,200
2019		11,988
Thereafter		95,631
	\$	<u>171,154</u>

Y-NHH incurred net rent expense under these leases of approximately \$18.7 million for the year ended September 30, 2014, and \$16.6 million for the year ended 2013.

Cancer Hospital

The Hospital has a shared facilities and services agreement with the University in connection with the Cancer Hospital which is recorded as deferred revenue. Deferred revenue, from this agreement, at September 30, 2014 and 2013, was \$44.0 million and \$45.2 million, respectively.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Commitments and Contingencies (continued)

Inpatient Rehabilitation Unit Agreement

During September 2014, the Hospital entered into an agreement with another health care provider to provide a framework for implementing programs in a manner that is consistent with the charitable mission of each organization and the communities they serve. Under the terms of the agreement the Hospital will utilize beds at the health care provider's location under a lease arrangement to provide inpatient rehabilitation services to its patients and will furnish an \$8.0 million term loan.

Litigation

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 9 or are deemed to be immaterial. While the outcomes of the lawsuits and claims cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the consolidated financial position or changes in net assets of the Hospital.

The Hospital has received requests for information from certain governmental agencies relating to, among other things, patient billings. These requests cover several prior years relating to compliance with certain laws and regulations. Management is cooperating with those governmental agencies in their information requests and ongoing investigations. The ultimate results of those investigations, including the impact on the Hospital, cannot be determined at this time.

11. Functional Expenses

The Hospital provides general acute health care services to residents within its geographic area. Net expenses related to providing these services are as follows (in thousands):

	Year Ended September 30	
	2014	2013
Health care services	\$ 1,796,828	\$ 1,972,849
General and administrative	506,797	294,793
	<u>\$ 2,303,625</u>	<u>\$ 2,267,642</u>

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Related-Party Transactions

The Hospital provided facility space and certain services to related parties as follows (in thousands):

	Year Ended September 30	
	2014	2013
Recovery of expenses:		
YNHHSC:		
Facility rental	\$ 3,066	\$ 3,028
Shared services	2	-
	\$ 3,068	\$ 3,028
Bridgeport Hospital:		
Resident fees	\$ 2,477	\$ 1,977
Other	999	753
	\$ 3,476	\$ 2,730

YNHHSC is the sole member Bridgeport Hospital.

The Hospital purchased certain services from YNHHSC as follows (in thousands):

	Year Ended	
	September 30	
	2014	2013
Operating expenses:		
Professional and general liability insurance	\$ 26,887	\$ 26,928
Information systems	62,472	44,896
System business office	31,189	23,518
Other business services	99,886	88,409
	\$ 220,434	\$ 183,751

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Related-Party Transactions (continued)

Amounts receivable from and payable to related organizations included in other receivables, accounts payable and other long-term liabilities, respectively, in the consolidated balance sheets are as follows (in thousands):

	September 30	
	2014	2013
Other receivables:		
YNHHSC	\$ 5,875	\$ 6,226
Greenwich Hospital	–	809
Northeast Medical Group, Inc.	–	548
	\$ 5,875	\$ 7,583
Accounts payable:		
YNHHSC	\$ 41,038	\$ 36,761
Bridgeport Hospital	890	837
Northeast Medical Group, Inc.	2,610	–
Greenwich Hospital	85	–
Other long-term liabilities:		
YNHHSC	52,486	48,307
	\$ 97,109	\$ 85,905

The Hospital maintains certain investments for YNHHSC employees that participate in YNHH's sponsored benefit plans. The costs associated with the YNHHSC employees that participate in benefit plans are recovered by the Hospital.

The Hospital funds certain capital assets purchased by YNHHSC. Included in prepaid expenses and other assets were approximately \$30.3 million and \$72.2 million, respectively, at September 30, 2014, and approximately \$28.4 million and \$85.2 million, respectively, at September 30, 2013.

Additionally, for the years ended September 30, 2014 and 2013, the Hospital funded YNHHSC approximately \$2.1 million and \$6.0 million, respectively, as part of its participation in the New Clinical Program Development Corporation (NCPDC). The NCPDC was established for the purpose of funding and supporting clinical research and clinical programs. The NCPDC Board approves the funding of initiatives.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Related-Party Transactions (continued)

Included in the consolidated statement of changes in net assets are amounts funded by the Hospital for physician related strategic mission support for NEMG of approximately \$14.0 million and \$11.8 million for the years ended September 30, 2014 and 2013, respectively.

13. Other Revenue

Other revenue consisted of the following (in thousands):

	Year Ended September 30	
	2014	2013
Cafeteria and vending	\$ 10,605	\$ 10,564
Contributions	5,495	3,924
Parking income	6,485	6,507
Net assets released from restrictions for operations	3,099	2,822
Net assets released from restrictions for free care	613	779
Net assets released from restrictions for medical research and clinical programs	5,269	9,498
Grants	13,574	13,051
Rental income	1,704	1,649
Electronic health records incentive payment	3,037	4,210
Other	10,571	7,716
	\$ 60,453	\$ 60,720

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Other Revenue (continued)

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. Medicare EHR incentive payment revenue was approximately \$2.0 million and \$2.6 million, respectively, and Medicaid EHR incentive payment revenue was approximately \$1.0 million and \$1.6 million, respectively, for the years ended September 30, 2014 and 2013. EHR incentive payment revenue is included in other revenue in the accompanying consolidated statement of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

14. Non-Operating Gains (Losses)

Non-operating gains and losses, net consisted of the following (in thousands):

	Year Ended September 30	
	2014	2013
Income from investments, donations and other, net	\$ 3,162	\$ 7,670
Discontinued operations	–	(1,844)
Income attributable to non-controlling interest	(2,320)	(2,750)
Change in unrealized gains and losses on investments	75,949	50,283
Change in fair value of swaps, including counterparty payments	(16,357)	16,586
Loss on refunding of long-term debt	(32,631)	–
	\$ 27,803	\$ 69,945

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Non-Operating Gains (Losses) (continued)

Contributions received consisted of the following (in thousands):

	Year Ended	
	September 30	
	2014	2013
Unrestricted	\$ 840	\$ 902
Temporarily restricted	12,827	21,877
Permanently restricted	3,492	—
Total contributions	<u>17,159</u>	<u>22,779</u>
Less: fundraising expenses	<u>(4,704)</u>	<u>(4,230)</u>
Contributions, net	<u>\$ 12,455</u>	<u>\$ 18,549</u>

15. Fair Value Measurements

In determining fair value, the Hospital utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Hospital also considers nonperformance risk in the overall assessment of fair value.

ASC 820-10, *Fair Value Measurements and Disclosures*, establishes a three tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

- Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.
- Level 2: Observable inputs that are based on data not quoted in active markets, but corroborated by market data.
- Level 3: Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Fair Value Measurements (continued)

Financial assets carried at fair value as of September 30, 2014, are classified in the following table by level within the fair value hierarchy as described above (in thousands):

	September 30, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 69,250	\$ –	\$ –	\$ 69,250
Money market funds	129,823	–	–	129,823
U.S. equity securities	47,912	–	–	47,912
International equity securities	70,671	–	–	70,671
Fixed income:				
U.S. government	120,702	–	–	120,702
International government	46,833	30,873	–	77,706
Interest in Yale University endowment pool	–	–	685,862	685,862
Investments at fair value	\$ 485,191	\$ 30,873	\$ 685,682	1,201,926
Common collective trusts				148,699
Alternative investments				20,054
Perpetual trusts				17,796
Investments not at fair value				186,549
Total investments				\$ 1,388,475
Liabilities:				
Interest rate swaps	\$ –	\$ (32,316)	\$ –	\$ (32,316)

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Fair Value Measurements (continued)

Financial assets carried at fair value as of September 30, 2013, are classified in the following table by level within the fair value hierarchy as described above (in thousands):

	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 46,312	\$ –	\$ –	\$ 46,312
Money market funds	123,249	–	–	123,249
U.S. equity securities	43,594	–	–	43,594
International equity securities	64,313	–	–	64,313
Fixed income:				
U.S. government	80,472	–	–	80,472
International government	38,789	25,171	–	63,960
Interest in Yale University endowment pool	–	–	511,719	511,719
Investments at fair value	<u>\$ 396,729</u>	<u>\$ 25,171</u>	<u>\$ 511,719</u>	<u>933,619</u>
Common collective trusts				95,892
Alternative investments				19,369
Perpetual trusts				12,538
Investments not at fair value				<u>127,799</u>
Total investments				<u>\$ 1,061,418</u>
Liabilities:				
Interest rate swaps	<u>\$ –</u>	<u>\$ (22,323)</u>	<u>\$ –</u>	<u>\$ (22,323)</u>

The following is a rollforward of assets classified as Level 3 of the valuation hierarchy:

Interest in Yale University Endowment Pool:	
Fair value at September 30, 2012	\$ 361,550
2013 Unrealized gains	50,169
2013 Purchases	100,000
Fair value at September 30, 2013	511,719
2014 Unrealized gains	74,143
2014 Purchases	100,000
Fair value at September 30, 2014	<u>\$ 685,862</u>

Yale-New Haven Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Fair Value Measurements (continued)

The fair value of debt was approximately \$808.5 million and \$674.6 million at September 30, 2014 and 2013, respectively. The fair value of the capital leases was approximately \$54.5 million and \$55.5 million at September 30, 2014 and 2013, respectively. The fair value of long-term debt is classified as Level 2 in the fair value hierarchy as it uses a combination of quoted market prices and valuation based on current market rates.

The amounts reported in the table as detailed above do not include assets invested in the Hospital's defined benefit pension plan (see Note 8). In addition, included in the table above are investments at September 30, 2014 and 2013, in common collective trusts totaling approximately \$148.7 million and \$95.9 million, respectively, other alternative investments totaling approximately \$20.0 million and \$19.4 million, respectively, and perpetual trusts totaling approximately \$17.8 million and \$12.5 million, respectively, that are accounted for under the equity method of accounting (see Note 1). The interest rate swaps listed above are classified in the accompanying balance sheets as other long-term liabilities at September 30, 2014 and 2013.

The following is a summary of total investments as of September 30, 2014, with restrictions to redeem the investments at the measurement date, any unfunded capital commitments and investment strategies of the investees (in thousands):

Description of Investment	Carrying Value	Unfunded Commitment	Redemption Frequency	Notice Period	Funds Availability
Real estate	\$ 9,628	\$ 2,526	N/A	N/A	N/A
Commodities	121	–	N/A	N/A	N/A

16. Subsequent Events

In October 2014, the Hospital disposed of its interest in the Captives through a novation agreement with Medical Centre Insurance Company, Ltd (MCIC) for a total price of approximately \$40.2 million. The novation agreement assigns and transfers all of the Captives' past, present and future rights, risks, liabilities and obligations, and transfers substantially all of the assets of the Captives to MCIC. The Hospital will dissolve the Captives during fiscal year 2015.

Subsequent events have been evaluated through December 23, 2014, which is the date the consolidated financial statements were available to be issued. No events, except as noted above, have occurred that require disclosure or adjustment of the consolidated financial statements.

Supplementary Information



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Report of Independent Auditors on Supplementary Information

The Board of Trustees
Yale-New Haven Hospital and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Yale-New Haven Hospital and Subsidiaries as of and for the year ended September 30, 2014, and have issued an unmodified report thereon dated December 23, 2014. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheets and consolidating statement of operations and changes in net assets are presented for 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 consolidated 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 statement as a whole.

Ernst & Young LLP

December 23, 2014

Yale-New Haven Hospital and Subsidiaries

Consolidating Balance Sheet (In Thousands)

September 30, 2014

	Hospital	Lukan	Caritas	York	ASC	YNHCCC	Eliminations	Total
Assets								
Current assets:								
Cash and cash equivalents	\$ 20,955	\$ 28,917	\$ 15,493	\$ 3,163	\$ 689	\$ 33	\$ –	\$ 69,250
Short-term investments	926,009	5	10	–	–	–	–	926,024
Accounts receivable for services to patients, net	259,581	–	–	869	1,285	2,936	–	264,671
Other receivables	33,789	44	–	673	3,964	–	(4,699)	33,771
Professional liabilities insurance recoveries receivable – current portion	18,968	–	–	–	–	–	–	18,968
Other current assets	68,883	6	–	1,246	2,462	–	–	72,597
Amounts on deposit with trustee in debt service fund	4,394	–	–	–	–	–	–	4,394
Total current assets	1,332,579	28,972	15,503	5,951	8,400	2,969	(4,699)	1,389,675
Assets limited as to use	124,869	–	–	–	–	–	–	124,869
Long-term investments	263,938	–	–	–	–	–	–	263,938
Deferred financing costs, less accumulated amortization	9,285	–	–	–	–	–	–	9,285
Professional liabilities insurance recoveries receivable – non-current portion	49,433	–	–	–	–	–	–	49,433
Goodwill	44,818	–	–	–	–	–	–	44,818
Other assets	201,392	–	661	938	9,367	726	(40,261)	172,823
Property, plant and equipment:								
Land and land improvements	38,391	–	–	2,337	–	1,580	–	42,308
Buildings and fixtures	1,129,407	–	–	14,860	4,590	2,841	–	1,151,698
Equipment	454,528	–	–	64	3,821	389	–	458,802
	1,622,326	–	–	17,261	8,411	4,810	–	1,652,808
Less accumulated depreciation	735,391	–	–	12,582	5,707	450	–	754,130
	886,935	–	–	4,679	2,704	4,360	–	898,678
Construction in progress	27,576	–	–	–	–	–	–	27,576
	914,511	–	–	4,679	2,704	4,360	–	926,254
Total assets	\$ 2,940,825	\$ 28,972	\$ 16,164	\$ 11,568	\$ 20,471	\$ 8,055	\$ (44,960)	\$ 2,981,095

Yale-New Haven Hospital and Subsidiaries

Consolidating Balance Sheet (continued) (In Thousands)

September 30, 2014

	Hospital	Lukan	Caritas	York	ASC	YNHCCC	Eliminations	Total
Liabilities and net assets (deficiency)								
Current liabilities:								
Accounts payable	\$ 147,526	\$ 190	\$ 56	\$ 4,684	\$ 318	\$ 5,736	\$ (4,909)	\$ 153,601
Accrued expenses	197,946	–	–	331	810	836	–	199,923
Professional liabilities – current portion	18,968	–	–	–	–	–	–	18,968
Other current liabilities	17,897	–	–	–	–	25	–	17,922
Current portion of capital lease obligation	1,829	–	–	1,134	–	–	–	2,963
Current portion of long term debt	7,626	–	–	–	–	–	–	7,626
Total current liabilities	391,792	190	56	6,149	1,128	6,597	(4,909)	401,003
Long-term debt, net of current portion	802,124	–	–	–	–	–	–	802,124
Long-term capital lease obligation, net of current portion	48,853	–	–	1,985	–	–	–	50,838
Accrued pension and postretirement benefit obligations	231,477	–	–	–	–	–	–	231,477
Professional liabilities	86,261	18,564	11,043	–	–	–	–	115,868
Other long-term liabilities	215,338	–	–	68	8,658	4,413	(12,600)	215,877
Deferred revenue	44,378	–	–	–	–	–	–	44,378
Total liabilities	1,820,223	18,754	11,099	8,202	9,786	11,010	(17,509)	1,861,565
Net assets (deficiency):								
Unrestricted	1,020,378	10,218	5,065	3,366	8,803	(2,955)	(27,451)	1,017,424
Temporarily restricted	64,318	–	–	–	–	–	–	64,318
Permanently restricted	35,906	–	–	–	–	–	–	35,906
Total Yale-New Haven Hospital & Subsidiaries net assets (deficiency)	1,120,602	10,218	5,065	3,366	8,803	(2,955)	(27,451)	1,117,648
Non-controlling interest	–	–	–	–	1,882	–	–	1,882
Total net assets (deficiency) including non-controlling interest	1,120,602	10,218	5,065	3,366	10,685	(2,955)	(27,451)	1,119,530
Total liabilities and net assets (deficiency)	\$ 2,940,825	\$ 28,972	\$ 16,164	\$ 11,568	\$ 20,471	\$ 8,055	\$ (44,960)	\$ 2,981,095

Yale-New Haven Hospital and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (In Thousands)

Year Ended September 30, 2014

	YNHNC	Hospital	Lukan	Caritas	York	ASC	YNHCCC	Eliminations	Total
Operating revenue:									
Net patient service revenue	\$ -	\$ 2,410,117	\$ -	\$ -	\$ 8,554	\$ 18,067	\$ 12,374	\$ (129)	\$ 2,448,983
Less: Provision for bad debts	-	(71,764)	-	-	-	(136)	(929)	-	(72,829)
Net patient service revenue, less provision for bad debts	-	2,338,353	-	-	8,554	17,931	11,445	(129)	2,376,154
Other revenue	-	63,551	1,166	356	1,737	1,240	46	(7,643)	60,453
Total operating revenue	-	2,401,904	1,166	356	10,291	19,171	11,491	(7,772)	2,436,607
Operating expenses:									
Salaries and benefits	-	1,034,645	-	-	876	5,864	9,361	-	1,050,746
Supplies and other expenses	-	1,071,619	-	-	8,220	6,726	3,431	6,594	1,096,590
Depreciation	-	122,543	-	-	705	520	244	-	124,012
Insurance	-	14,809	(4,021)	(950)	12	124	53	(1,752)	8,275
Interest	-	23,742	-	-	260	-	-	-	24,002
Total operating expenses	-	2,267,358	(4,021)	(950)	10,073	13,234	13,089	4,842	2,303,625
Income (loss) from operations	-	134,546	5,187	1,306	218	5,937	(1,598)	(12,614)	132,982
Nonoperating gains (losses), net:									
Income from investments, donations and other, net	-	79,144	238	(8)	(13)	(255)	-	5	79,111
Change in fair value of swap, including counterparty payments	-	(16,357)	-	-	-	-	-	-	(16,357)
Loss on refunding of long-term debt	-	(32,631)	-	-	-	-	-	-	(32,631)
Excess of revenue over expenses, before non-controlling interest	-	164,702	5,425	1,298	205	5,682	(1,598)	(12,609)	163,105
Less: Income attributable to non-controlling interest	-	-	-	-	-	(2,320)	-	-	(2,320)
Excess of revenue over expenses	-	164,702	5,425	1,298	205	3,362	(1,598)	(12,609)	160,785

Yale-New Haven Hospital and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets (continued) (In Thousands)

Year Ended September 30, 2014

	YNHNC	Hospital	Lukan	Caritas	York	ASC	YNHCCC	Eliminations	Total	
Unrestricted net assets:										
Excess (deficiency) of revenue over expenses (continued)	\$	–	\$ 164,702	\$ 5,425	\$ 1,298	\$ 205	\$ 3,362	\$ (1,598)	\$ (12,609)	\$ 160,785
Other changes in net assets		–	135	–	–	–	–	–	–	135
Transfer (to) from YNH Network Corporation		(9,212)	9,212	–	–	–	–	–	–	–
Transfer to Yale-New Haven Health Services Corporation- Mission Support		–	(14,042)	–	–	–	–	–	–	(14,042)
Transfer from Yale-New Haven Health Services Corporation		–	(25,000)	–	–	–	–	–	–	(25,000)
Net assets released from restrictions for purchases of fixed assets		–	1,502	–	–	–	–	–	–	1,502
Pension and other postretirement liability adjustments		–	(44,799)	–	–	–	–	–	–	(44,799)
Increase (decrease) in unrestricted net assets		(9,212)	91,710	5,425	1,298	205	3,362	(1,598)	(12,609)	78,581
Temporarily restricted net assets:										
Income from investments		–	298	–	–	–	–	–	–	298
Net realized gains on investments		–	583	–	–	–	–	–	–	583
Change in net unrealized gains and losses on investments		–	6,481	–	–	–	–	–	–	6,481
Bequests and contributions		–	7,457	–	–	–	–	–	–	7,457
Net assets released from restrictions for purchases of fixed assets		–	(1,502)	–	–	–	–	–	–	(1,502)
Net assets released from restrictions for free care		–	(613)	–	–	–	–	–	–	(613)
Net assets released from restrictions for operations		–	(3,099)	–	–	–	–	–	–	(3,099)
Net assets released from restrictions for clinical programs		–	(5,269)	–	–	–	–	–	–	(5,269)
Increase in temporarily restricted net assets		–	4,336	–	–	–	–	–	–	4,336
Permanently restricted net assets:										
Bequests, contributions, and grants		–	3,492	–	–	–	–	–	–	3,492
Change in beneficial interest in perpetual trusts		–	5,259	–	–	–	–	–	–	5,259
Increase in permanently restricted net assets		–	8,751	–	–	–	–	–	–	8,751
Non-controlling interest										
Income attributable to non-controlling interest		–	(2,320)	–	–	–	2,320	–	2,320	2,320
Distributions to non-controlling interest		–	–	–	–	–	(2,821)	–	–	(2,821)
		–	(2,320)	–	–	–	(501)	–	2,320	(501)
(Decrease) increase in net assets		(9,212)	102,477	5,425	1,298	205	2,861	(1,598)	(10,289)	91,167
Net assets (deficiency) at beginning of year		9,212	1,018,125	4,793	3,767	3,161	7,824	(1,357)	(17,162)	1,028,363
Net assets (deficiency) at end of year	\$	–	\$ 1,107,515	\$ 10,218	\$ 5,065	\$ 3,366	\$ 10,685	\$ (2,955)	\$ (27,451)	\$ 1,119,530

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