



**YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES**

Consolidated Financial Statements  
and Supplementary Information

September 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

# YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

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**KPMG LLP**  
345 Park Avenue  
New York, NY 10154-0102

## **Independent Auditors' Report**

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, 2016 and 2015, 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 consolidated 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 from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 financial position of Yale-New Haven Hospital and Subsidiaries as of September 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



***Other Matter***

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

**KPMG LLP**

December 22, 2016

**YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES**

Consolidated Balance Sheets

September 30, 2016 and 2015

(In thousands)

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Current assets:		
Cash and cash equivalents	\$ 74,073	103,628
Short-term investments	1,121,276	980,087
Accounts receivable for services to patients, less allowance for uncollectible accounts of approximately \$230,098 in 2016 and \$196,203 in 2015	260,416	293,352
Other receivables	42,934	35,074
Professional liabilities insurance recoveries receivable	21,003	19,852
Other assets	77,614	75,554
Assets limited as to use – debt service fund	4,913	4,786
	<hr/>	<hr/>
Total current assets	1,602,229	1,512,333
Assets limited as to use	102,373	96,888
Long-term investments	392,424	289,434
Professional liabilities insurance recoveries receivable	56,000	57,025
Other assets	154,885	169,842
Property, plant and equipment:		
Land and land improvements	55,229	50,200
Buildings and fixtures	1,249,188	1,158,500
Equipment	495,553	473,907
	<hr/>	<hr/>
	1,799,970	1,682,607
Less accumulated depreciation	899,707	817,100
	<hr/>	<hr/>
	900,263	865,507
Construction in progress	83,869	80,774
	<hr/>	<hr/>
	984,132	946,281
Goodwill	44,767	44,774
	<hr/>	<hr/>
Total assets	\$ 3,336,810	3,116,577
	<hr/> <hr/>	<hr/> <hr/>

**YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES**

Consolidated Balance Sheets, continued

September 30, 2016 and 2015

(In thousands)

<b>Liabilities and Net Assets</b>	<b>2016</b>	<b>2015</b>
Current liabilities:		
Accounts payable	\$ 183,896	150,298
Accrued expenses	219,874	202,062
Professional liabilities	21,003	19,852
Other liabilities	53,114	59,087
Current portion capital lease obligation	2,126	2,003
Current portion of debt	16,363	8,083
	<hr/>	<hr/>
Total current liabilities	496,376	441,385
Long-term debt, net of current portion and deferred financing costs	773,528	791,439
Long-term capital lease obligation, net of current portion	44,724	46,850
Accrued pension and postretirement benefit obligations	258,936	228,810
Professional liabilities	96,479	96,778
Other liabilities	285,901	246,389
Deferred revenue	41,482	42,720
	<hr/>	<hr/>
Total liabilities	1,997,426	1,894,371
Net assets:		
Unrestricted – Yale New Haven Hospital and Subsidiaries	1,234,179	1,102,351
Unrestricted – noncontrolling interest	1,769	2,028
Temporarily restricted	56,203	70,941
Permanently restricted	47,233	46,886
	<hr/>	<hr/>
Total net assets	1,339,384	1,222,206
Commitments and contingencies		
Total liabilities and net assets	<hr/> <hr/>	<hr/> <hr/>
	\$ 3,336,810	3,116,577

See accompanying notes to consolidated financial statements.

**YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES**  
Consolidated Statements of Operations and Changes in Net Assets  
Years ended September 30, 2016 and 2015  
(In thousands)

	<b>2016</b>	<b>2015</b>
Operating revenue:		
Net patient service revenue	\$ 2,610,532	2,502,894
Less provision for bad debts, net	(63,352)	(50,382)
Net patient service revenue, less provision for bad debts, net	2,547,180	2,452,512
Other revenue	145,705	102,646
Total operating revenue	2,692,885	2,555,158
Operating expenses:		
Salaries and benefits	1,096,282	1,070,626
Supplies and other	1,335,988	1,214,194
Depreciation	126,391	120,235
Insurance	25,111	17,162
Interest	22,464	20,826
Total operating expenses	2,606,236	2,443,043
Income from operations	86,649	112,115
Nonoperating gains (losses), net:		
Income from investments, donations and other, net	102,283	23,623
Change in fair value of swap, including counterparty payments	(29,091)	(28,248)
Excess of revenue over expenses, before noncontrolling interest	159,841	107,490
Less income attributable to noncontrolling interest	(1,296)	(1,674)
Excess of revenue over expenses	158,545	105,816
Other changes in unrestricted net assets:		
Other changes in net assets	255	(516)
Transfer to Yale-New Haven Health Services Corporation – Mission Support	(9,244)	(12,516)
Net assets released from restrictions for purchases of fixed assets	45,588	4,515
Pension related changes other than net periodic benefit cost	(63,316)	(12,372)
Increase in unrestricted net assets – Yale New Haven Hospital and Subsidiaries	131,828	84,927
Noncontrolling interest:		
Income attributable to noncontrolling interest	1,296	1,674
Distributions to noncontrolling interest	(1,555)	(1,528)
(Decrease) increase in unrestricted net assets - non controlling interest	(259)	146
Total increase in unrestricted net assets	\$ 131,569	85,073

**YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES**

Consolidated Statements of Operations and Changes in Net Assets, continued

Years ended September 30, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Temporarily restricted net assets:		
Income from investments	\$ 265	298
Net realized gains on investments	781	297
Change in net unrealized gains and losses on investments	6,450	2,354
Bequests and contributions	38,724	17,989
Net assets released from restrictions for purchases of fixed assets	(45,588)	(3,123)
Net assets released from restrictions for free care	(600)	(596)
Net assets released from restrictions for operations	(8,992)	(9,854)
Net assets released from restrictions for clinical programs	(5,778)	(881)
Other	—	139
	<u>(14,738)</u>	<u>6,623</u>
(Decrease) increase in temporarily restricted net assets		
Permanently restricted net assets:		
Bequests and contributions	125	13,654
Change in beneficial interest in perpetual trusts	291	(1,282)
Net assets released from restrictions for operations	(69)	(1,392)
	<u>347</u>	<u>10,980</u>
Increase in permanently restricted net assets		
Increase in net assets	117,178	102,676
Net assets at beginning of year	<u>1,222,206</u>	<u>1,119,530</u>
Net assets at end of year	<u>\$ 1,339,384</u>	<u>1,222,206</u>

See accompanying notes to consolidated financial statements.



**YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended September 30, 2016 and 2015

(In thousands)

	<u>2016</u>	<u>2015</u>
Operating activities:		
Increase in net assets	\$ 117,178	102,676
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	126,391	120,235
Net realized and change in net unrealized gains and losses on investments	(109,779)	(25,530)
Change in fair value of interest rate swap agreements	19,933	18,283
Amortization of long-term debt premium	(1,931)	(2,002)
Amortization of deferred financing costs	383	376
Provision for bad debts, net	63,352	50,382
Change in perpetual trusts	(291)	(255)
Transfer to Yale-New Haven Health Services Corporation	9,244	12,516
Bequests and contributions	(31,825)	(30,557)
Pension related changes other than net periodic benefit cost	63,316	12,372
Distribution to noncontrolling members	1,555	—
Changes in operating assets and liabilities:		
Accounts receivable	(30,416)	(79,063)
Other receivables	(7,860)	(1,303)
Other assets	(4,459)	(18,932)
Accounts payable	33,598	(3,303)
Accrued expenses	5,812	15,607
Professional insurance recoveries and liabilities	726	(26,682)
Other current liabilities, accrued pension and postretirement benefit obligations, other long-term liabilities, and deferred revenue	(20,816)	18,329
Net cash provided by operating activities	<u>234,111</u>	<u>163,149</u>
Investing activities:		
Acquisitions of property, plant and equipment	(134,886)	(116,362)
Purchases of investments	(134,399)	(135,862)
Sales of investments	—	81,833
Assets limited as to use- debt service fund	(127)	(392)
Assets limited as to use, net	(5,194)	28,236
Transfer to Yale-New Haven Health Services Corporation	—	(12,516)
Net cash used in investing activities	<u>(274,606)</u>	<u>(155,063)</u>
Financing activities:		
Transfer to Yale-New Haven Health Services Corporation	(9,244)	—
Distribution to noncontrolling members	(1,555)	—
Proceeds from notes payable	—	8,345
Payments on capital lease obligations	(2,003)	(4,948)
Payments of long-term debt	(8,083)	(7,662)
Bequests and contributions	31,825	30,557
Net cash provided by financing activities	<u>10,940</u>	<u>26,292</u>
Net (decrease) increase in cash and cash equivalents	(29,555)	34,378
Cash and cash equivalents at beginning of year	<u>103,628</u>	<u>69,250</u>
Cash and cash equivalents at end of year	\$ <u>74,073</u>	<u>103,628</u>

See accompanying notes to consolidated financial statements.

## YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

### (1) Organization and Significant Accounting Policies

#### (a) Organization

Yale-New Haven Hospital, Inc. (the Hospital or Y-NHH) is a voluntary association incorporated under the General Statutes of the State of Connecticut.

Y-NHH is the parent of the following and together form Yale-New Haven Hospital and Subsidiaries:

Yale-New Haven Care Continuum Corporation (YNHCCC), a Connecticut nonstock 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).

Yale-New Haven Ambulatory Services Corporation and Subsidiaries (ASC), a Connecticut nonstock, 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 Enterprises Inc. and Subsidiaries (York), a Connecticut corporation was 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 YNHHC's affiliated commercial space. York is the sole shareholder of MCP and MCR. On October 1, 2016 York and MCR were dissolved and MCP became a subsidiary of Y-NHH with all real property and holdings transferred to Y-NHH.

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. Caritas was dissolved on December 15, 2014 and the insurance liabilities were transferred to Medical Centre Insurance Company, Ltd (see note 9).

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. Lukan was dissolved on March 31, 2015 and the insurance liabilities were transferred to Medical Centre Insurance Company, Ltd (see note 9).

Yale-New Haven Health Services Corporation (YNHHC) is the sole member of Y-NHH. Y-NHH and subsidiaries operate with a separate Board of Trustees, management staff and medical staff;

## YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2016 and 2015

however, YNHHS must approve the strategic plans, operating and capital budgets, and Board of Trustees appointments of the Hospital.

YNHHS is the sole member of two similar organizations, Bridgeport Hospital and subsidiaries (BH) and Greenwich Hospital and subsidiaries (GH). Effective September 8, 2016, YNHHS is also the sole member of Lawrence + Memorial Corporation and Subsidiaries (LMC). Each of these four tax-exempt organizations serves as the sole member/parent for its respective delivery network of regional health care providers and related entities. YNHHS 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 System were combined to form an Obligated Group. The Obligated Group comprises YNHHS, YNHH, Yale-New Haven Care Continuum Corporation, Bridgeport Hospital, the Bridgeport Hospital Foundation and NEMG (the Obligated Group). YNHHS serves as agent of the Obligated Group. The members of the Obligated Group have adopted certain governance 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.

**(b) *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.

**(c) *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 uncollectible accounts 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 reporting period. Actual results could differ from those estimates.

During the years ended September 30, 2016 and 2015, the Hospital recorded a change in estimate of approximately \$3.6 million and \$17.6 million, respectively, related to favorable third-party payor settlements, which increased net patient service.

**(d) *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.

**YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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 temporarily restricted and the assets are classified as permanently restricted by the donor.

Certain restricted funds investments are pooled with certain unrestricted investments to facilitate their management. Investment income is allocated to both restricted and unrestricted funds participating in the investment pool on pro rata basis based on the market value of the fund. The Board of Trustees approves spending for certain pooled funds based on the spending policy. Realized gains and losses from the sale of securities are computed using the average cost method and the first-in, first-out method.

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 are reduced by an allowance for uncollectible contributions. The amount of the allowances for uncollectible contributions is based upon management's assessment of historical and expected net collections.

Contributions receivable, included in other receivables and other assets in the accompanying consolidated balance sheets at September 30, 2016 and 2015, are expected to be received as follows (in thousands):

	<b>September 30</b>	
	<b>2016</b>	<b>2015</b>
Less than one year	\$ 528	3,182
One to five years	776	947
	<u>1,304</u>	<u>4,129</u>
Less unamortized discount on contributions receivable (0.1% to 4.2%)	(19)	(38)
	<u>1,285</u>	<u>4,091</u>
Allowance for uncollectible contributions	(39)	(123)
	<u>\$ 1,246</u>	<u>3,968</u>

**(e) 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

September 30, 2016 and 2015

**(f) 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.

**(g) Accounts Receivable**

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

The amount of the allowances for uncollectible 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. Management periodically assesses the adequacy of this allowance based upon historical collection and write-off experience by payor category. The results of these reviews are used to modify, as necessary, the provision for bad debts and to establish appropriate allowances for uncollectible patient accounts receivable. After satisfaction of amounts due from insurance, The System follows established guidelines for placing certain patient balances with collection agencies, subject to certain restrictions on collection efforts as determined by the System policy. See note 2 for additional information relative to third-party payor programs.

Net patient accounts receivable has been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third-party payors. Such receivables do not bear interest.

**(h) 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 (nontraditional, not-readily marketable assets) are structured such that the Hospital holds limited partnership interests or pooled units and are accounted for utilizing net asset value per unit for measurement of the units' fair value. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. 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

## YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2016 and 2015

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 \$2.3 million at September 30, 2016.

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's nonprofit entities. The Trust comprises 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.

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, 2016, the Hospital can withdraw 100% of its investment in the L-TIP on July 1, 2017. 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 (the Investment Management Agreement) with Yale University (the University) investment office which allows the University to manage a portion of the Trust's investments as part of the University's Endowment Pool (the Pool). The Trust transferred \$50.0 million to the University in exchange for units in the Pool for the year ended September 30, 2015, and did not make any transfers for the year ended September 30, 2016. 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, 2016 and 2015, the carrying value of assets managed by the University under this arrangement was approximately \$11.0 million and \$10.6 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

September 30, 2016 and 2015

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 in 2015 or 2016.

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

**(i) Inventories**

Inventories are stated at the lower of cost or market and are recorded in other current assets at approximately \$39.8 million for both the years ended September 30, 2016 and 2015. The Hospital values its inventories using the first-in, first-out method with the exception of pharmacy inventories, which are valued at average cost.

**(j) Assets Limited as to Use**

Assets limited as to use 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 of board designated funds and, at its discretion, may use for other purposes 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.

**(k) 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. Beneficial interest in perpetual trusts is recorded as permanently restricted net assets and is adjusted for any changes in the fair value of the trusts. Income distributions received from the trusts are recorded as temporarily restricted contributions when received.

**(l) 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 with changes in fair value recorded as nonoperating gains (losses), net. The Hospital is exposed to credit risk in the event of nonperformance 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 swap receipts do not equal variable interest payments on the bonds, there will be a net loss or net benefit to the Hospital.

## YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2016 and 2015

**(m) Benefits and Insurance**

The Hospital is self-insured for medical, hospitalization, dental and prescription drug benefits provided to employees and has a stop loss arrangement to limit exposure for these self-insured benefits. 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, 2016 and 2015, the Hospital made actuarially determined contributions, net of premium adjustments, to the VEBA plan of approximately \$137.0 million and \$135.3 million, respectively, and are included in salaries and benefits expense.

The Hospital is self-insured for workers' compensation claims. The Hospital has a stop loss arrangement to limit exposure 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, 2016 and 2015, the estimated discounted liabilities for self-insured workers' compensation claims and IBNR aggregated approximately \$24.1 million and \$23.5 million, respectively, discounted at 2.0% and are included in other long-term liabilities in the accompanying balance sheets.

**(n) 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.

**(o) 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.

Leases are classified as capital leases or operating leases in accordance with the terms of the underlying lease agreements. Lease payments under operating leases are charged directly to rental expense, and are included in supplies and other expenses in the accompanying consolidated statements of operations.

**(p) Goodwill**

Goodwill is evaluated 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 operations comprise a single reporting entity. Goodwill is considered to be impaired if the carrying value of the reporting unit, including goodwill, exceeds the reporting



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### Notes to Consolidated Financial Statements

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unit's fair value. The Hospital has determined that no goodwill impairment exists at September 30, 2016 or 2015.

**(q) *Deferred Revenue***

Deferred revenue includes amounts which have been received that relate to future years. Amounts will be reduced as revenue is earned (See note 10 for further details).

**(r) *Derivative Contracts***

The Hospital procures fuel and has entered into forward delivery agreements and commodity contracts. Substantially all of the Hospital's contracts to procure fuel are designated as, and qualify as, normal purchases; accordingly, such contracts are not accounted for as derivative contracts.

**(s) *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. Those gains and losses deemed by management to be closely related to ongoing operations are included in other revenue; other gains and losses from peripheral or incidental transactions, are classified as nonoperating.

Contributions of, or restricted to, property, plant and equipment, transfers of assets to and from affiliates for other than goods and services, and pension related changes other than net periodic benefit cost are excluded from the performance indicator but are included in the change in net assets.

**(t) *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 generally exempt from Federal income taxes pursuant to Section 501(a) of the Code.

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.

U.S. GAAP requires YNHCCC and the Hospital to evaluate tax positions taken or expected to be taken in the course of preparing YNHCCC's and the Hospital's tax returns to determine whether the tax positions are "more-likely than-not" of being sustained by the applicable tax authority based upon the technical merits of the position. YNHCCC and the Hospital recognize the effect of tax positions only if they are more-likely than-not of being sustained. This evaluation had no impact on the operations of YNHCCC or the Hospital as of and for the year ended September 30, 2016 and 2015.

**(u) *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. These costs consist mainly of salaries and benefits. For the years ended September 30, 2016 and 2015, the

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Hospital recorded approximately \$67.9 million and \$55.0 million, respectively, as reductions to expenses.

(v) ***Impairment of Assets***

The Hospital reviews property, plant and equipment for impairment at least annually, and more frequently 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. No impairment charge was recorded for the years ended September 30, 2016 or 2015.

(w) ***New Accounting Pronouncements***

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 is intended to simplify the presentation of debt issuance costs, requiring them to be presented as a direct reduction from the carrying value of the related debt liability. This guidance is effective for fiscal years beginning after December 15, 2015. Management has adopted and applied ASU 2015-03 retrospectively to all periods presented.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 will require a lessee to report most leases on their balance sheet, but recognize expenses on their income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. This guidance is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of ASU No. 2016-02 on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 is intended to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. This guidance is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of ASU No. 2016-14 on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Management is currently evaluating the impact of ASU 2014-09 on the financial statements.

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(x) ***Reclassifications***

Certain reclassifications have been made to the year ended September 30, 2015, balances previously reported in the consolidated financial statements in order to conform with the year ended September 30, 2016, presentation.

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

Third-party payor receivables included in other receivables were \$2.4 million and \$2.9 million and at September 30, 2016 and 2015, respectively. Third-party payor liabilities included in other current liabilities were \$53.1 and \$52.3 million at September 30, 2016 and 2015, respectively. Third-party payor liabilities included in other long-term liabilities were \$53.5 million and \$44.1 million at September 30, 2016 and 2015, 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 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.

Revenue from Medicare and Medicaid programs accounted for approximately 29% and 10%, respectively, of Y-NHH's net patient service revenue for the year ended September 30, 2016, and approximately 30% and 11%, respectively, of Y-NHH's net patient service revenue for the year ended September 30, 2015. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 36% and 29%, respectively for the year ended September 30, 2016 and inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 36% and 28%, respectively for the year ended September 30, 2015. 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.

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

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ranging through 2013 for Medicare and through 2015 for Medicaid. Other years remain open for settlement.

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

	<u>2016</u>	<u>2015</u>
Commercial – Anthem Blue Cross	\$ 704,011	667,355
Commercial – other	60,665	94,067
Managed care	648,956	639,796
Medicaid	258,301	266,600
Medicare	581,258	558,960
Medicare managed care	187,331	182,635
Self-pay/other	<u>170,010</u>	<u>93,481</u>
Total all payors	\$ <u>2,610,532</u>	<u>2,502,894</u>

The significant concentrations of accounts receivable for services to patients include 35% from Medicare, 13% from Medicaid, and 52% from nongovernmental payors at September 30, 2016, and 37% from Medicare, 17% from Medicaid, and 46% from nongovernmental payors at September 30, 2015.

Net patient service revenue is comprised of the following for the years ended September 30, 2016 and 2015 (in thousands):

	<u>2016</u>	<u>2015</u>
Gross revenue from patients	\$ 9,004,923	8,795,413
Deductions:		
Contractual allowances	6,262,409	6,165,563
Charity and free care (at charges)	131,982	126,956
Provision for bad debts	<u>63,352</u>	<u>50,382</u>
Net patient service revenue	\$ <u>2,547,180</u>	<u>2,452,512</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 uncollectible 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 uncollectible 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 uncollectible accounts.

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Y-NHH's allowance for uncollectible accounts totaled approximately \$230.1 million and \$196.2 million and at September 30, 2016 and 2015, respectively. The allowance for uncollectible accounts for self-pay patients was approximately 55% and 65% of self-pay accounts receivable as of September 30, 2016 and 2015, respectively. Substantially all write-offs are related to self-pay patients.

#### **(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.

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 the provision for bad debts. 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.

Together, charity care and the provision for bad debts represent uncompensated care. The estimated cost of total uncompensated care is approximately \$129.9 million and \$114.4 million for the years ended September 30, 2016 and 2015, 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 and free care provided was approximately \$88.0 million and \$82.4 million for the years ended September 30, 2016 and 2015, respectively. The estimated cost of charity care is based on the ratio of cost to charges. The allocation between the provision for bad debts 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, 2016 and 2015, the provision for bad debts, at charges, was approximately \$63.4 million and \$50.4 million, respectively. For the years ended September 30, 2016 and 2015, the provision for bad debts, at cost, was approximately \$41.9 million and \$32.0 million, respectively. The provision for bad debts 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, 2016 and 2015, the Hospital received approximately \$17.9 million and \$9.3 million, respectively, in CDSHP distributions, of which approximately \$12.1 million and \$6.7 million, respectively was related to charity care. Y-NHH made payments into the CDSHP of \$136.8 million and \$89.3 million for the years ended September 30, 2016 and 2015, respectively, for the assessment. These are recorded in net patient service revenue.

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

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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 nonEnglish 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.

#### (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	
	2016	2015
Money market funds	\$ 34,822	50,943
U.S. equity securities	145,242	70,490
U.S. equity securities – common collective trusts		—
International equity securities <sup>(a)</sup>	156,678	64,440
Fixed income:		
U.S. government	309,819	296,416
U.S. government – common collective trusts		—
International government <sup>(a)</sup>	71,628	84,944
Commodities <sup>(b)</sup>	81	82
Hedge funds:		
Absolute return <sup>(c)</sup>	11,172	10,554
Real estate <sup>(d)</sup>	6,449	6,781
Interest in Yale University endowment pool <sup>(e)</sup>	866,753	768,495
Perpetual trusts <sup>(f)</sup>	18,342	18,050
Total	\$ 1,620,986	1,371,195

(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 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.

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- (d) Investments with external direct real estate managers and fund of funds managers. Investment vehicles include both closed end REITs and limited partnerships.
- (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 nontraditional 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 88.5%, or \$1.6 billion, and 88.6%, or \$1.3 billion, as of September 30, 2016 and 2015, respectively. Y-NHH's prorata portion of the Trust's investments are included in the above table. The remaining 11.5% of the Trust is with YNHHSC, BH, and GH.

#### **(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 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.

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Changes in endowment net assets for the years ended September 30, 2016 are as follows (in thousands):

	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 38,546	46,886	85,432
Investment return:			
Investment income	198	—	198
Net appreciation (realized and unrealized)	6,103	—	6,103
Total investment return	6,301	—	6,301
Contributions	2	125	127
Appropriation of endowment assets for expenditure	(4,443)	(69)	(4,512)
Other changes:			
Change in value of beneficial interest trusts	—	291	291
Endowment net assets, end of year	\$ 40,406	47,233	87,639

Changes in endowment net assets for the years ended September 30, 2015 are as follows (in thousands):

	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 36,239	35,906	72,145
Investment return:			
Investment income	248	—	248
Net appreciation (realized and unrealized)	2,306	—	2,306
Total investment return	2,554	—	2,554
Contributions	4,976	13,654	18,630
Appropriation of endowment assets for expenditure	(5,223)	(1,392)	(6,615)
Other changes:			
Change in value of beneficial interest trusts	—	(1,282)	(1,282)
Endowment net assets, end of year	\$ 38,546	46,886	85,432



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	<b>September 30</b>	
	<b>2016</b>	<b>2015</b>
	(In thousands)	
The portion of perpetual endowment funds subject to a time restriction under CUPMIFA:		
Without purpose restrictions	\$ 8,779	8,666
With purpose restrictions	<u>31,627</u>	<u>29,880</u>
Total endowment funds classified as temporarily restricted net assets	<u>\$ 40,406</u>	<u>38,546</u>

**(a) 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.

**(b) 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.

**(c) 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 5.25% of the current market value of the endowment fund. In establishing this policy, Y-NHH considered the long-term expected return on its endowment.

From time to time, the fair value of assets associated with permanently restricted endowment funds may fall below the level determined under Connecticut UPMIFA.

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**(6) Temporarily and Permanently Restricted Net Assets**

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

	<b>September 30</b>	
	<b>2016</b>	<b>2015</b>
Plant improvement and expansion	\$ 4,453	17,712
Specific hospital operations, teaching, research, free care and training	51,750	53,229
	<u>\$ 56,203</u>	<u>70,941</u>

Permanently restricted net assets of approximately \$47.2 million and \$46.9 million at September 30, 2016 and 2015, 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.

During 2015, the Attorney General approved the transfer of certain philanthropic funds to Y-NHH from the Hospital of Saint Raphael and its Foundation related to Y-NHH's acquisition of the Hospital of Saint Raphael in FY 2012. The funds approved for transfer are included as contributions to temporarily restricted net assets totaling \$0.1 million and \$8.8 million for the years ended September 30, 2016 and 2015, respectively, and permanently restricted net assets totaling \$11.5 million for the year ended September 30, 2015. There were no permanently restricted net assets transferred for the year ended September 30, 2016.

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**(7) Debt**

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

	<b>September 30</b>	
	<b>2016</b>	<b>2015</b>
Series N, 4.27% effective interest rate (a)	\$ 44,815	44,815
Series O, 2.84% effective interest rate (a)	50,000	50,000
Series A, 3.77% effective interest rate (c)	102,300	102,300
Series B, 2.30% effective interest rate (c)	168,275	168,275
Series C, 3.11% effective interest rate (d)	70,625	77,235
Series D, 3.68% effective interest rate (d)	108,275	108,275
Series E, 3.47% effective interest rate (e)	42,408	43,728
Series 2013 taxable bonds – 4.37% effective rate (b)	132,000	132,000
Series 2014 taxable bonds – 4.37% effective rate (f)	50,725	50,725
Note payable, 5.46% effective interest rate (g)	8,156	8,309
Capital lease obligation at an imputed interest of 6.0% (h)	46,850	48,853
	<u>824,429</u>	<u>834,515</u>
Add premium	20,838	22,769
Less:		
Current portion	(18,489)	(10,086)
Deferred costs of issuance, less accumulated amortization	(8,526)	(8,909)
	<u>\$ 818,252</u>	<u>838,289</u>

- (a) In January 2013, the Hospital issued Series N and Series O revenue bonds totaling approximately \$100.0 million through CHEFA. 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 variable rate demand bonds (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 of credit. The bond premium is being amortized as interest expense in the consolidated statement of operations and changes in net assets. The Series N revenue bonds maturing on July 1, 2036 are payable in installments from 2019 to 2036 and the Series N revenue bonds maturing on July 1, 2048 are payable in installments from 2044 to 2048. The Series O revenue bonds maturing on July 1, 2053 are payable in installments from 2049 to 2053. Additionally, the Hospital has granted a collateral interest to CHEFA on its gross receipts.
- (b) 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 4.37%. 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. The Series 2013 taxable bonds maturing on July 1, 2043 are payable in installments from 2037 to 2043. This obligation is collateralized by a lien on the gross receipts of the Obligated Group.

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- (c) 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% at September 30, 2016. 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 certain existing indebtedness. 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. The Series A revenue bonds maturing on July 1, 2034 are payable in installments from 2026 to 2034. The Series B revenue bonds maturing on July 1, 2049 are payable in installments from 2037 to 2040 and from 2044 to 2049. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.
- (d) 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. The Series C revenue bonds maturing on July 1, 2025 are payable in installments from 2016 to 2025. The Series D revenue bonds maturing on July 1, 2048 are payable in installments from 2032 to 2036 and 2044 to 2048. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.
- (e) 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. Until completion of these projects, the premium was being amortized and included in capitalized interest. Upon completion, the bond premium is being amortized as interest expense in the consolidated statement of operations and changes in net assets. The Series E revenue bonds maturing on July 1, 2037 are payable in installments from 2016 to 2034 and July 1, 2037. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.
- (f) 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 Series 2014 taxable bonds maturing on July 1, 2044 are payable in installments from 2038 to 2044. The Series 2014 taxable bonds maturing on July 1, 2044 are payable in installments from 2038 to 2044. This obligation is collateralized by a lien on the gross receipts of the Obligated Group.

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 December 31, 2017, June 23, 2019 and February 14, 2018, respectively.

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### Notes to Consolidated Financial Statements

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The Hospital maintains the bank letters of credit to ensure the availability of funds to purchase any bonds tendered by bondholders that the remarketing agents are unable to remarket to new bondholders. Draws related to such tenders under the letters of credit will become Bank Bonds. As Bank Bonds, they can still be remarketed by the remarketing agents. If not remarketed successfully as Bank Bonds, the Hospital will have the opportunity to refinance them, depending upon which bond series, during a period of from 180 to 367 days from initial draw date. If the Bank Bonds are not refunded and remain outstanding exceeding such period from initial draw date, the Hospital will be required to make quarterly payments over five years. There were no draws under the letters of credit as of September 30, 2016.

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.

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 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. There were no arbitrage liabilities at September 30, 2016 and 2015.

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. 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 based on bond maturities and capital lease obligations, are as follows (in thousands):

	<b>Debt</b>	<b>Capital lease obligations</b>
2017	\$ 16,363	4,879
2018	8,493	4,879
2019	9,957	4,880
2020	10,332	5,062
2021	10,713	5,123
Thereafter	721,720	43,865
	\$ 777,578	68,688
Less interest		(21,838)
Total capital lease obligations		\$ 46,850

Capitalized interest at September 30, 2016 and 2015, totaled \$29.5 million and \$30.9 million, respectively.

## YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

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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 swap agreements set the interest rate at a level viewed as desirable by the Hospital. Such agreements expose the Hospital to credit risk in the event of nonperformance by the counterparties, some of which is collateralized. At September 30, 2016 and 2015, the fair value of all swap agreements based on current interest rates was approximately \$70.5 million and \$50.6 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	
				2016	2015
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	100,965
Series B – Fixed to Floating	July 1, 2049	LIBOR	2.29	67,310	67,310
Series C – Fixed to Floating	July 1, 2025	LIBOR	3.11	47,178	51,592
Series D – Fixed to Floating	July 1, 2036	LIBOR	3.68	44,505	44,505
				\$ 309,958	314,372

For the Series O swap, there was a favorable change in fair value of \$0.03 million and \$0.7 million for the years ended September 30, 2016 and 2015, respectively, 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, 2016 and 2015.

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 \$14.9 million and \$13.2 million for the years ended September 30, 2016 and 2015, respectively, which was recorded in excess of revenue over expenses. No collateral was required under the Series B swap agreements for the years ended September 30, 2016 and 2015.

For the Series C swap, there was a favorable change in fair value of approximately \$0.1 million and \$0.5 million, respectively, for the years ended September 30, 2016 and 2015, which was recorded in the excess of revenue over expenses. No collateral was required under the Series C swap agreement for the years ended September 30, 2016 and 2015.

For the Series D swap, there was an unfavorable change in fair value of approximately \$5.3 million and \$4.2 million for the years ended September 30, 2016 and 2015, respectively, 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, 2016 and 2015.

For the years ended September 30, 2016 and 2015, the Hospital paid approximately \$22.9 million and \$20.3 million, respectively, for interest related to long-term debt, exclusive of the swap agreements.

## YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

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- (g) In connection with the May 2015 purchase of a parcel of real estate, the Hospital assumed a note payable with an effective interest rate of 5.46%. The note payable had an original term of three years and matures in May 2017.
- (h) The Hospital entered into a contract to lease space in a building adjacent to the Hospital. The Hospital's rental obligation commenced in November 2010. 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.

Assets recorded under the capital lease obligations totaled \$57.3 million as of September 30, 2016 and 2015. Accumulated depreciation for the capital lease obligations totaled \$11.7 million and \$9.7 million at September 30, 2016 and 2015, respectively.

#### **(8) Pensions and Postretirement Benefits**

Y-NHH has qualified and nonqualified 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 approximately \$41.8 million and \$40.4 million and relating to the defined contribution plan for the years ended September 30, 2016 and 2015, respectively. Amounts due to the defined contribution plan amounted to \$23.9 million and \$23.5 million at September 30, 2016 and 2015, respectively, and is included in accrued expenses in the accompanying consolidated balance sheets. Y-NHH maintains a Section 457 nonqualified deferred compensation plan. Contributions are made on a pre-tax basis. The balances recorded at September 30, 2016 and 2015, in other assets and other long-term liabilities were \$39.3 million and \$34.4 million, respectively.

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, 2016 and 2015, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credit of \$18.5 million and \$20.4 million, respectively, and unrecognized actuarial losses of \$233.8 million and \$172.4 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, 2017, are \$1.9 million and \$11.1 million, respectively.

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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 and postretirement benefits plan as of September 30, 2016 and 2015 (in thousands):

	Defined benefit pension plans		Postretirement benefit plans	
	2016	2015	2016	2015
Change in benefit obligation:				
Benefit obligation at prior measurement date	\$ 502,032	502,711	69,581	78,136
Service cost	19,847	20,895	3,135	3,789
Interest cost	21,122	20,652	3,084	3,393
Actuarial loss (gain)	54,889	(15,213)	9,635	(14,067)
Benefits paid	(25,499)	(27,013)	(1,664)	(1,670)
Benefit obligation at current measurement date	572,391	502,032	83,771	69,581
Change in plan assets:				
Fair value of assets at prior measurement date	340,669	347,238	—	—
Actual return on plan assets	25,926	(19,519)	—	—
Employer contributions	53,995	39,963	1,664	1,670
Benefits paid	(25,499)	(27,013)	(1,664)	(1,670)
Fair value of assets at current measurement date	395,091	340,669	—	—
Accrued benefit cost	\$ 177,300	161,363	83,771	69,581

**(a) Benefit Obligation and Assumptions**

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

	2016	2015
Projected benefit obligation	\$ (572,390)	(502,032)
Accumulated benefit obligation	(501,291)	(443,165)
Fair value of plan assets	395,091	340,669

At September 30, 2016 and 2015, the underfunded status of the qualified defined benefit pension plan was approximately \$123.0 million and \$111.1 million, respectively, and that of the nonqualified defined benefit pension plan was approximately \$54.3 million and \$50.2 million, respectively. Additionally, there are assets limited as to use of approximately \$84.0 million and \$78.8 million,



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which are available to satisfy the obligations of the nonqualified defined benefit pension plan at September 30, 2016 and 2015, respectively.

The net periodic benefit cost for the years ended September 30, 2016 and 2015, is as follows (in thousands):

	<b>Defined benefit pension plans</b>		<b>Postretirement benefit plans</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Service cost	\$ 19,847	20,895	3,135	3,789
Interest cost	21,122	20,652	3,084	3,392
Expected return on plan assets	(29,811)	(27,952)	—	—
Amortization of prior service cost	(1,907)	(1,951)	(37)	(37)
Recognized net actuarial loss (gain)	7,524	7,806	(488)	—
Net periodic benefit cost	<u>\$ 16,775</u>	<u>19,450</u>	<u>5,694</u>	<u>7,144</u>

Accumulated other comprehensive (income) loss (AOCI) for the years ended September 30, 2016 and 2015 is as follows (in thousands):

	<b>Defined benefit pension plans</b>		<b>Postretirement benefit plans</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
AOCI at Prior Fiscal year end	\$ 165,177	138,775	(13,135)	895
Amounts amortized during the year				
Net prior service credit	1,706	1,706	37	37
Net (gain) loss	(5,895)	(6,691)	488	—
Occurring during the year				
Net prior service cost	(100)	—	—	—
Net loss	57,445	31,387	9,635	(14,067)
AOCI at current fiscal year end	<u>\$ 218,333</u>	<u>165,177</u>	<u>(2,975)</u>	<u>(13,135)</u>

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Weighted average assumptions and dates used to determine benefit obligations at September 30, 2016 and 2015 are as follows:

	<b>Defined Benefit pension plans</b>		<b>Postretirement benefit plans</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Discount rate, qualified plan	3.50%	4.30%	3.60 %	4.50%
Discount rate, nonqualified plans	3.60	4.50	—	—
Rate of compensation increase, qualified plans	4.00	5.00	—	—
Rate of compensation increase, nonqualified plans	5.00	5.00	—	—

Weighted average assumptions used to determine net periodic benefit cost for the years ended September 30, 2016 and 2015, are as follows:

	<b>Defined benefit pension plans</b>		<b>Postretirement benefit plans</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Discount rate, qualified plan	4.30 %	4.20 %	4.50%	4.40%
Discount rate, nonqualified	4.50	4.40	—	—
Expected rate of return on plan assets	7.75	7.75	—	—
Rate of compensation increase qualified plan	4.00	5.00	—	—
Rate of compensation increase nonqualified plan	5.00	5.00	—	—

For measurement purposes relating to the postretirement benefits plan, a 4.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal years 2016 and 2015.

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):

	<b>1% Increase</b>	<b>1% Decrease</b>
Effect on total of service and interest cost components	\$ 51	(60)
Effect on postretirement benefit obligation	361	(419)

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The asset allocation of Y-NHH's qualified pension plan at September 30, 2016 and 2015 was as follows:

<u>Asset category</u>	<b>Target allocation</b>	<b>Percentage of plan assets</b>	
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Equity securities	42%	45%	47%
Debt securities	18	21	17
Alternative investments	40	34	36
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Pension assets carried at fair value, as of September 30, 2016 and 2015, are classified in the following tables (see note 14 for description) (in thousands):

	<b>Investments measured at NAV</b>	<b>Investments classified in the fair value hierarchy level 1</b>	<b>Total</b>
Money market funds	\$ —	20,352	20,352
U.S. equity securities	—	85,077	85,077
International equity securities	41,257	50,515	91,772
Fixed income funds:			
U.S. government	—	32,166	32,166
International government	10,822	21,372	32,194
Commodities	5,835	—	5,835
Private equity	7,739	—	7,739
Hedge funds: absolute Return	98,854	—	98,854
Real estate	21,102	—	21,102
Beneficial interest in remainder trusts	—	—	—
	<u>\$ 185,609</u>	<u>209,482</u>	<u>395,091</u>

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### Notes to Consolidated Financial Statements

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	Investments measured at NAV	Investments classified in the fair value hierarchy Level 1	Total
Money market funds	\$ —	5,136	5,136
U.S. equity securities	—	78,335	78,335
International equity securities	35,119	44,182	79,301
Fixed income funds:			
U.S. government	—	28,183	28,183
International government	10,776	19,975	30,751
Commodities	7,951	—	7,951
Private equity	6,238	—	6,238
Hedge funds: absolute Return	87,681	—	87,681
Real estate	17,093	—	17,093
	\$ 164,858	175,811	340,669

There are no pension investments that are measured at fair value based on Level 2 or 3 inputs at September 30, 2016 or 2015.

The following table is a summary of total investments as of September 30, 2016, 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
International equity securities	\$ 41,257	—	Daily/monthly	1–30 Days
Fixed income funds:				
International government	10,822	—	Daily/Monthly	10–10 Days
Commodities	5,835		None	None
Private equity	7,739		None	None
Hedge funds absolute return	98,854	—	Monthly/Annual	30–90 days
Real estate	21,102		None	None

The Hospital participates in the Yale New Haven Health System Master Pension Trust, a unitized investment trust created to pool pension assets for investment by the Health System nonprofit entities. Governance of the Trust is performed by the Yale New Haven Health System Investment Committee.

**(b) Description of Investment Policies and Strategies**

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,

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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.

**(c) Cash Flows**

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

	<b>Defined benefit pension plans</b>	<b>Postretirement benefits plan</b>
Estimated benefit payments related to years ending September 30:		
2017	\$ 28,337	2,272
2018	29,378	2,606
2019	30,484	2,786
2020	33,390	3,020
2021	35,399	3,298
2022 to 2026	198,924	22,007

Y-NHH expects to contribute approximately \$37.3 million for pension benefits and \$2.3 million for postretirement benefits payments in fiscal year 2017.

**(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. In addition, the insurance structure includes a layer where the Hospital is self-insured for claims. Premiums are based on claims made coverage and are actuarially determined based on actual experience of the Hospital, the Captive and MCIC Vermont, Inc.

The estimate for claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$117.5 million and \$116.6 million at September 30, 2016 and 2015, respectively for the Hospital. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately \$44.4 million and \$43.5 million for the Hospital at September 30, 2016 and 2015, respectively, and is included in professional insurance liabilities in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately

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\$40.5 million and \$39.9 million, respectively, based on a discount rate of 2.0% for the years ended September 30, 2016 and 2015.

The Hospital has recorded related insurance recoveries receivable of approximately \$77.0 million and \$76.9 million at September 30, 2016 and 2015, respectively, in consideration of the expected insurance recoveries for the total discounted 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 continued to manage all incidents and claims reported prior to the acquisition of SRHS and are included in the amounts above.

In October 2014, the Hospital disposed of its interest in Caritas and Lukan (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 dissolved the Captives during fiscal year ended September 30, 2015.

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

##### (a) Leases

YNHH leases certain office, clinical and parking spaces under noncancelable operating leases that range in terms ending in 2017 through 2040. Future minimum lease payments under these leases are as follows (in thousands):

2017	\$	21,789
2018		19,888
2019		19,272
2020		14,205
2021		12,424
Thereafter		103,019
	\$	<u>190,597</u>

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Y-NHH incurred net rent expense under these leases of approximately \$26.8 million for the year ended September 30, 2016, and \$23.5 million for the year ended 2015.

**(b) Cancer Hospital**

The Hospital has a shared facilities and services agreement with the University in connection with the Cancer Hospital. The Hospital and the University both contributed to the development of a comprehensive cancer treatment facility. Funds contributed by the University to the Hospital and were recorded as deferred revenue at the Hospital. Deferred revenue, from this agreement, at September 30, 2016 and 2015, was \$41.5 million and \$42.7 million, respectively and is amortized over the life of the agreement.

**(c) 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. The term of lease agreement is five years and provides the Hospital with two five year renewal options at the end of each term. In addition, Y-NHH furnished an \$8.0 million term loan to the health care provider which is recorded in other long term assets. 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.

**(d) 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.

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**(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):

	<b>Year ended September 30</b>	
	<b>2016</b>	<b>2015</b>
Health care services	\$ 2,101,147	1,980,819
General and administrative	505,089	462,224
	<u>\$ 2,606,236</u>	<u>2,443,043</u>

**(12) Related-Party Transactions**

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

	<b>Year ended September 30</b>	
	<b>2016</b>	<b>2015</b>
Recovery of expenses:		
YNHHSC:		
Facility rental	\$ 3,278	3,214
	<u>\$ 3,278</u>	<u>3,214</u>
Bridgeport Hospital:		
Resident fees	\$ 3,834	2,897
Other	1,501	1,157
	<u>\$ 5,335</u>	<u>4,054</u>

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

	<b>Year ended September 30</b>	
	<b>2016</b>	<b>2015</b>
Operating expenses:		
Professional and general liability insurance	\$ 24,526	20,470
Information systems	78,592	69,769
System business office	65,971	65,421
Other business services	100,549	74,620
	<u>\$ 269,638</u>	<u>230,280</u>



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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):

	<b>Year ended September 30</b>	
	<b>2016</b>	<b>2015</b>
Other receivables:		
YNHHSC	\$ 16,583	6,889
Greenwich Hospital	1,264	—
	\$ 17,847	6,889
Accounts payable:		
YNHHSC	\$ 4,038	19,236
Bridgeport Hospital	6,244	484
Northeast Medical Group, Inc.	9,488	7,985
Greenwich Hospital	—	428
Other long-term liabilities:		
YNHHSC	51,257	54,380
	\$ 71,027	82,513

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 other current assets and other long term assets were approximately \$32.4 million and \$36.5 million, respectively, at September 30, 2016, and approximately \$30.2 million and \$53.7 million, respectively, at September 30, 2015.

For the year ended 2016, YNHH funded approximately \$30.0 million as part of its participation in the New Clinical Program Development Corporation (NCPDC) which is included in supplies and other expenses in the accompanying consolidated statement of operations and changes in net assets. The NCPDC is a separate corporation established by YNHH and Yale University (the University) for the purpose of funding and supporting clinical research and clinical programs. The NCPDC Board of Directors approves the funding of initiatives and consists of equal representative from both YNHH and the University. YNHH also received \$30.0 million during the year ended September 30, 2016 from NCPDC which was recorded as temporarily restricted and released the same year for capital expenditures. There were no funding or receipts for the year ended September 30, 2015.

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 \$9.2 million and \$12.5 million for the years ended September 30, 2016 and 2015, respectively.

**YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

**(13) Other Revenue**

Other revenue consisted of the following (in thousands):

	<b>Year ended September 30</b>	
	<b>2016</b>	<b>2015</b>
Cafeteria and vending	\$ 12,235	11,433
Contributions	2,817	3,406
Parking income	8,562	7,768
Net assets released from restrictions for operations	9,061	9,854
Net assets released from restrictions for free care	600	596
Net assets released from restrictions for medical research and clinical programs	5,778	881
Grants	22,532	18,175
Rental income	2,604	1,196
Electronic health records incentive payment	847	981
Pharmacy sales	72,589	37,959
Other	8,080	10,387
	<u>\$ 145,705</u>	<u>102,636</u>

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. 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.

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 \$0.8 million and \$1.0 million, respectively, for the years ended September 30, 2016 and 2015. The Hospital did not receive Medicaid EHR incentive payments for the year ended September 30, 2015 or 2016. 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.

## YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2016 and 2015

#### (14) Nonoperating Gains (Losses)

Nonoperating gains and losses, net consisted of the following (in thousands):

	Year ended September 30	
	2016	2015
Income from investments, donations and other, net	\$ 14,043	4,219
Discontinued operations	—	(725)
Income attributable to noncontrolling interest	(1,296)	(1,674)
Change in unrealized gains and losses on investments	88,240	20,129
Change in fair value of swaps, including counterparty payments	(29,091)	(28,248)
	<u>\$ 71,896</u>	<u>(6,299)</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 - Overall*, establishes a valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The levels are defined as follows:

- Net Asset Value: Determined by the respective external investment managers, including general partners, if market values are not readily ascertainable.
- 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

September 30, 2016 and 2015

Financial assets carried at fair value as of September 30, 2016 are classified in the following table by level within the fair value hierarchy as described above (in thousands):

	Investments measured at NAV	Investments classified in the fair value hierarchy		Total
		Level 1	Level 2	
Cash and cash equivalents	\$ —	74,072	—	74,072
Money market funds	—	34,822	—	34,822
U.S. equity securities	—	145,242	—	145,242
International equity securities	52,087	104,592	—	156,679
Fixed income funds:				
U.S. government	—	309,819	—	309,819
Corporate debt				—
International government	22,722	48,906	—	71,628
Commodities	81	—	—	81
Real estate	6,377	72	—	6,449
Hedge funds:				
Absolute return	11,172	—	—	11,172
Long/short equity				—
Private equity				—
Perpetual trusts	18,342	—	—	18,342
Interest in Yale University endowment pool	866,753	—	—	866,753
Total investments as of September 30, 2016	\$ 977,534	717,525	—	1,695,059
Liabilities:				
Interest rate swap	\$ —	—	70,532	70,532

## YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

September 30, 2016 and 2015

Financial assets carried at fair value as of September 30, 2015 are classified in the following table by level within the fair value hierarchy as described above (in thousands):

	Investments measured at NAV	Investments classified in the fair value hierarchy		Total
		Level 1	Level 2	
Cash and cash equivalents	\$ —	103,628	—	103,628
Money market funds	—	50,943	—	50,943
U.S. equity securities	—	70,490	—	70,490
International equity securities	18,420	46,020	—	64,440
Fixed income funds:				
U.S. government	—	296,416	—	296,416
Corporate debt	—	48,187	—	48,187
International government	36,757	—	—	36,757
Commodities	82	—	—	82
Real estate	6,781	—	—	6,781
Hedge funds:				
Absolute return	10,554	—	—	10,554
Long/short equity	—	—	—	—
Private equity	—	—	—	—
Perpetual trusts	18,050	—	—	18,050
Interest in Yale University endowment pool	768,495	—	—	768,495
Total investments as of September 30, 2015	\$ 859,139	615,684	—	1,474,823
Liabilities:				
Interest rate swap	\$ —	—	(50,599)	(50,599)

The fair value of debt was approximately \$824.8 million and \$829.7 million at September 30, 2016 and 2015, respectively. The fair value of the capital leases was approximately \$47.8 million and \$51.7 million at September 30, 2016 and 2015, 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 carrying value of all other financial instruments approximates fair value.

There are no assets or liabilities that are measured at fair value based on Level 3 inputs at September 30, 2016 or 2015.

The interest rate swaps listed above are classified in the accompanying consolidated balance sheets as other long-term liabilities at September 30, 2016 and 2015.

**YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

The following is a summary of total investments as of September 30, 2016, with restrictions to redeem the investments at the measurement date, any unfunded capital commitments and investment strategies of the investees (in thousands):

<b>Description of investment</b>	<b>Carrying value</b>	<b>Unfunded commitment</b>	<b>Redemption frequency</b>	<b>Notice period</b>	<b>Funds availability</b>
International equity securities	52,087	—	Daily/Monthly	1-30 Days	1-30 Days
Fixed income funds:					
International government	22,722	—	Daily/Monthly	1-10 Days	1-10 Days
Commodities	81	—	None	None	None
Real estate	6,377	2,267	None	None	None
Hedge funds:					
Absolute return	11,172	—	None	None	None
Perpetual trusts	18,342	—	*	*	*
Interest in Yale University endowment pool	866,753	—	*	*	*

\* See note 1 for descriptions

**(16) Subsequent Events**

Subsequent events have been evaluated through December 22, 2016, which is the date the consolidated financial statements were issued. No events, except as noted above, have occurred that require disclosure or adjustment of the consolidated financial statements.

## **SUPPLEMENTARY INFORMATION**

**YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES**

Consolidating Balance Sheet

September 30, 2016

(In thousands)

<b>Assets</b>	<b>Hospital</b>	<b>York</b>	<b>ASC</b>	<b>YNHCCC</b>	<b>Eliminations</b>	<b>Total</b>
Current assets:						
Cash and cash equivalents	\$ 72,250	766	1,039	18	—	74,073
Short-term investments	1,121,276	—	—	—	—	1,121,276
Accounts receivable for services to patients, net	254,009	3,504	1,429	1,474	—	260,416
Other receivables	39,257	5,914	6,651	—	(8,888)	42,934
Professional liabilities insurance recoveries receivable	21,003	—	—	—	—	21,003
Other assets	75,982	163	1,469	—	—	77,614
Assets limited as to use – debt service fund	4,913	—	—	—	—	4,913
<b>Total current assets</b>	<b>1,588,690</b>	<b>10,347</b>	<b>10,588</b>	<b>1,492</b>	<b>(8,888)</b>	<b>1,602,229</b>
Assets limited as to use	102,373	—	—	—	—	102,373
Long-term investments	392,424	—	—	—	—	392,424
Professional liabilities insurance recoveries receivable	56,000	—	—	—	—	56,000
Other assets	174,248	942	10,653	723	(31,681)	154,885
Property, plant and equipment:						
Land and land improvements	50,503	3,146	—	1,580	—	55,229
Buildings and fixtures	1,241,509	169	4,646	2,864	—	1,249,188
Equipment	491,043	64	4,056	390	—	495,553
	1,783,055	3,379	8,702	4,834	—	1,799,970
Less accumulated depreciation	890,952	1,341	6,451	963	—	899,707
	892,103	2,038	2,251	3,871	—	900,263
Construction in progress	83,869	—	—	—	—	83,869
	975,972	2,038	2,251	3,871	—	984,132
Goodwill	44,767	—	—	—	—	44,767
<b>Total assets</b>	<b>\$ 3,334,474</b>	<b>13,327</b>	<b>23,492</b>	<b>6,086</b>	<b>(40,569)</b>	<b>3,336,810</b>



**YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES**

Consolidating Balance Sheet, continued

September 30, 2016

(In thousands)

<b>Liabilities and Net Assets</b>	<b>Hospital</b>	<b>York</b>	<b>ASC</b>	<b>YNHCCC</b>	<b>Eliminations</b>	<b>Total</b>
Current liabilities:						
Accounts payable	\$ 183,079	4,134	427	5,353	(9,097)	183,896
Accrued expenses	216,899	794	923	1,258	—	219,874
Professional liabilities	21,003	—	—	—	—	21,003
Other liabilities	52,701	—	—	413	—	53,114
Current portion of capital lease obligation	2,126	—	—	—	—	2,126
Current portion of long-term debt	16,363	—	—	—	—	16,363
Total current liabilities	492,171	4,928	1,350	7,024	(9,097)	496,376
Long-term debt, net of current portion and deferred financing costs	773,528	—	—	—	—	773,528
Long-term capital lease obligation, net of current portion	44,724	—	—	—	—	44,724
Accrued pension and postretirement benefit obligations	258,936	—	—	—	—	258,936
Professional liabilities – noncurrent	96,479	—	—	—	—	96,479
Other long-term liabilities	284,210	198	9,703	4,390	(12,600)	285,901
Deferred revenue	41,482	—	—	—	—	41,482
Total liabilities	1,991,530	5,126	11,053	11,414	(21,697)	1,997,426
Net assets (deficiency):						
Unrestricted – Yale New Haven Hospital and Subsidiaries	1,239,508	8,201	10,670	(5,328)	(18,872)	1,234,179
Unrestricted – noncontrolling interest	—	—	1,769	—	—	1,769
Temporarily restricted	56,203	—	—	—	—	56,203
Permanently restricted	47,233	—	—	—	—	47,233
Total Yale-New Haven Hospital & Subsidiaries net assets (deficiency)	1,342,944	8,201	12,439	(5,328)	(18,872)	1,339,384
Total liabilities and net assets	\$ 3,334,474	13,327	23,492	6,086	(40,569)	3,336,810

See accompanying independent auditors' report.

**YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES**  
Consolidating Statement of Operations and Changes in Net Assets  
September 30, 2016  
(In thousands)

	<u>Hospital</u>	<u>York</u>	<u>ASC</u>	<u>YNHCCC</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenue:						
Net patient service revenue	\$ 2,580,183	—	16,370	13,979	—	2,610,532
Less provision for bad debts	(62,869)	—	(201)	(282)	—	(63,352)
Net patient service revenue, less provision for bad debts	2,517,314	—	16,169	13,697	—	2,547,180
Other revenue	148,970	7,796	1,280	17	(12,358)	145,705
Total operating revenue	2,666,284	7,796	17,449	13,714	(12,358)	2,692,885
Operating expenses:						
Salaries and benefits	1,077,073	3,011	5,750	10,448	—	1,096,282
Supplies and other expenses	1,330,179	1,750	7,395	3,445	(6,781)	1,335,988
Depreciation	125,736	44	351	260	—	126,391
Insurance	24,892	12	134	73	—	25,111
Interest	22,464	—	—	—	—	22,464
Total operating expenses	2,580,344	4,817	13,630	14,226	(6,781)	2,606,236
Income (loss) from operations	85,940	2,979	3,819	(512)	(5,577)	86,649
Nonoperating gains (losses), net:						
Income from investments, donations and other, net	103,506	(1,223)	(971)	—	971	102,283
Change in fair value of swap, including counterparty payments	(29,091)	—	—	—	—	(29,091)
Excess (deficiency) of revenue over expenses, before noncontrolling interest	160,355	1,756	2,848	(512)	(4,606)	159,841
Less income attributable to noncontrolling interest	—	—	(1,296)	—	—	(1,296)
Excess (deficiency) of revenue over expenses	160,355	1,756	1,552	(512)	(4,606)	158,545
Unrestricted net assets:						
Other changes in net assets	255	—	—	—	—	255
Transfer to Yale-New Haven Health Services Corporation – Mission Support	(9,244)	—	—	—	—	(9,244)
Net assets released from restrictions for purchases of fixed asset	45,588	—	—	—	—	45,588
Pension related changes other than net periodic benefit cost	(63,316)	—	—	—	—	(63,316)
Increase (decrease) in unrestricted net assets – Yale New Haven Hospital and Subsidiaries	133,638	1,756	1,552	(512)	(4,606)	131,828
Noncontrolling interest:						
Income attributable to noncontrolling interest	(1,296)	—	1,296	—	1,296	1,296
Distributions to noncontrolling interest	—	—	(1,555)	—	—	(1,555)
Decrease in unrestricted net assets – noncontrolling interest	(1,296)	—	(259)	—	1,296	(259)
Total Increase in unrestricted net assets	132,342	1,756	1,293	(512)	(3,310)	131,569

**YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES**  
 Consolidating Statement of Operations and Changes in Net Assets, continued

September 30, 2016

(In thousands)

	<u>Hospital</u>	<u>York</u>	<u>ASC</u>	<u>YNHCCC</u>	<u>Eliminations</u>	<u>Total</u>
Temporarily restricted net assets:						
Income from investments	\$ 265	—	—	—	—	265
Net realized gains on investments	781	—	—	—	—	781
Change in net unrealized gains and losses on investments	6,450	—	—	—	—	6,450
Bequests and contributions	38,724	—	—	—	—	38,724
Net assets released from restrictions for purchases of fixed assets	(45,588)	—	—	—	—	(45,588)
Net assets released from restrictions for free care	(600)	—	—	—	—	(600)
Net assets released from restrictions for operations	(8,992)	—	—	—	—	(8,992)
Net assets released from restrictions for clinical programs	(5,778)	—	—	—	—	(5,778)
Decrease in temporarily restricted net assets	<u>(14,738)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(14,738)</u>
Permanently restricted net assets:						
Bequests, contributions, and grants	125	—	—	—	—	125
Change in beneficial interest in perpetual trusts	291	—	—	—	—	291
Net assets released from restrictions for capital	(69)	—	—	—	—	(69)
Increase in permanently restricted net assets	<u>347</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>347</u>
Increase (decrease) in net assets	117,951	1,756	1,293	(512)	(3,310)	117,178
Net assets (deficiency) at beginning of year	<u>1,224,993</u>	<u>6,445</u>	<u>11,146</u>	<u>(4,816)</u>	<u>(15,562)</u>	<u>1,222,206</u>
Net assets (deficiency) at end of year	<u>\$ 1,342,944</u>	<u>8,201</u>	<u>12,439</u>	<u>(5,328)</u>	<u>(18,872)</u>	<u>1,339,384</u>

See accompanying independent auditors' report.