

CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION

Bridgeport Hospital & Healthcare Services, Inc. and
Subsidiaries
Years Ended September 30, 2010 and 2009
with Report of Independent Auditors

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidated Financial Statements and Other Financial Information

Years Ended September 30, 2010 and 2009

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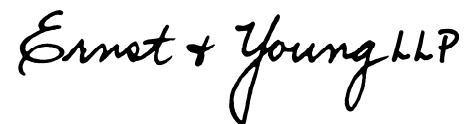
Report of Independent Auditors

The Board of Directors
Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries (“BHHS”) as of September 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of BHHS’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of BHHS’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BHHS’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries as of September 30, 2010 and 2009, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

January 27, 2011

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 45,152	\$ 35,088
Short term investments	42,391	29,607
Accounts receivable for services to patients, less allowances for uncollectible accounts, charity and free care of approximately \$17,020 in 2010 and \$28,105 in 2009	29,146	34,835
Other receivables	2,851	1,977
Prepaid expenses and other current assets	5,747	5,082
Third-party payor receivables	1,411	1,281
Amounts on deposit with trustee in debt service fund	1,446	1,503
Total current assets	<u>128,144</u>	<u>109,373</u>
Assets limited as to use:		
Escrow funds for long-term debt	7,234	7,348
Trustee assets — other	548	580
	<u>7,782</u>	<u>7,928</u>
Less assets limited as to use — required for current liabilities	<u>(1,446)</u>	<u>(1,503)</u>
	6,336	6,425
Long-term investments	40,789	38,162
Other assets	8,933	9,337
Property, plant and equipment:		
Land, buildings and improvements	127,420	128,119
Equipment	235,460	242,444
	<u>362,880</u>	<u>370,563</u>
Less accumulated depreciation and amortization	<u>(249,254)</u>	<u>(261,403)</u>
	113,626	109,160
Construction in progress	4,946	12,497
	<u>118,572</u>	<u>121,657</u>
Total assets	<u>\$ 302,774</u>	<u>\$ 284,954</u>

	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 11,470	\$ 8,968
Accrued expenses	34,734	37,350
Current portion of long-term debt	2,945	2,785
Third party payor liabilities	2,857	–
Total current liabilities	<u>52,006</u>	49,103
Long-term debt, net of current portion	47,145	50,090
Professional and general insurance liabilities	13,400	16,423
Long-term third-party payor liabilities	14,960	9,990
Accrued pension obligation	55,462	54,221
Other long-term liabilities	19,209	18,436
Total liabilities	<u>202,182</u>	198,263
Commitments and contingencies		
Net assets:		
Unrestricted	60,022	47,837
Temporarily restricted	23,262	26,622
Permanently restricted	17,308	12,232
Total net assets	<u>100,592</u>	86,691
Total liabilities and net assets	<u><u>\$ 302,774</u></u>	<u><u>\$ 284,954</u></u>

See accompanying notes.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets

	Years Ended September 30	
	2010	2009
	<i>(In Thousands)</i>	
Operating revenue:		
Net patient service revenue	\$ 369,432	\$ 371,280
Other revenue	6,446	5,322
Net assets released from restrictions used for operations	4,135	4,386
Total operating revenue	380,013	380,988
Operating expenses:		
Salaries and benefits	184,024	195,289
Supplies and other expenses	147,469	145,108
Depreciation and amortization	17,942	19,468
Bad debts	13,505	14,535
Interest	3,059	3,200
Total operating expenses	365,999	377,600
Income from operations	14,014	3,388
Non-operating gains and losses:		
Income (loss) from investments, donations, and other, net	269	(4,987)
Changes in unrealized gains and losses on investments	1,497	1,442
Excess (deficiency) of revenue and gains over expenses and losses	15,780	(157)

(Continued on next page.)

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

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

	Years Ended	
	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Unrestricted net assets:		
Excess (deficiency) of revenue and gains over expenses and losses	\$ 15,780	\$ (157)
Net assets released from restrictions used for capital acquisitions	3,407	957
Other transfers	19	-
Changes in unrealized losses on Century Financial Services investments	-	(47)
Pension liability adjustment	(7,021)	(63,019)
Increase (decrease) in unrestricted net assets	<u>12,185</u>	<u>(62,266)</u>
Temporarily restricted net assets:		
Net assets released from restrictions used for operations	(4,135)	(4,386)
Net assets released from restrictions used for capital acquisitions	(3,407)	(957)
Change in unrealized gains and losses on investments	1,235	445
Restricted contributions	2,267	5,844
Net realized investment gains (losses)	680	(3,451)
Decrease in temporarily restricted net assets	<u>(3,360)</u>	<u>(2,505)</u>
Permanently restricted net assets:		
Restricted contributions	5,076	1,551
Increase in permanently restricted net assets	<u>5,076</u>	<u>1,551</u>
Increase (decrease) in net assets	<u>13,901</u>	<u>(63,220)</u>
Net assets at beginning of year	<u>86,691</u>	149,911
Net assets at end of year	<u>\$ 100,592</u>	<u>\$ 86,691</u>

See accompanying notes.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended	
	September 30	
	2010	2009
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 13,901	\$ (63,220)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,942	19,468
Bad debts	13,505	14,535
Change in unrealized gains and losses on investments	(2,733)	(1,887)
Net assets released from restrictions used for capital acquisitions	(3,407)	(957)
Restricted contributions	(7,343)	(7,395)
(Loss) income from investments, donations, and other, net	(962)	8,438
Change in pension obligation	7,021	63,019
Changes in operating assets and liabilities:		
Accounts receivable, net	(7,816)	(13,202)
Other receivables	(874)	764
Prepaid expenses and other current assets	(665)	3,573
Other assets	(744)	(3,848)
Accounts payable	2,502	(7,500)
Accrued expenses	(2,616)	4,967
Pension obligation	(5,780)	(1,316)
Third party payor receivables and liabilities	7,697	4,240
Other current liabilities, professional and general insurance liabilities and other long-term liabilities	(2,250)	(705)
Net cash provided by operating activities	<u>27,378</u>	<u>18,974</u>
Cash flows from investing activities		
Amounts on deposit with trustee in debt service fund	57	(105)
Net (purchase) sale of investments	(12,706)	1,947
Net sale of assets whose use is limited or restricted	89	1,608
Acquisitions of property, plant and equipment, net	(13,667)	(14,075)
(Gain) loss on sale of assets	(14)	15
Income (loss) from investments, donations, and other, net	962	(8,438)
Net cash used in investing activities	<u>(25,279)</u>	<u>(19,048)</u>
Cash flows from financing activities		
Repayments of long-term debt	(2,785)	(2,795)
Restricted contributions	7,343	7,395
Net assets released from restrictions used for capital acquisitions	3,407	957
Net cash provided by financing activities	<u>7,965</u>	<u>5,557</u>
Net increase in cash and cash equivalents	<u>10,064</u>	<u>5,483</u>
Cash and cash equivalents at beginning of year	<u>35,088</u>	<u>29,605</u>
Cash and cash equivalents at end of year	<u>\$ 45,152</u>	<u>\$ 35,088</u>

See accompanying notes.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2010

1. Organization and Significant Accounting Policies

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries (“BHHS”) is a Connecticut not-for-profit, nonstock corporation established to promote and carry out charitable, scientific, and educational activities. BHHS is the sole member of the following not-for-profit, nonstock corporations: Bridgeport Hospital (the “Hospital”), Bridgeport Hospital Foundation, Inc. (the “Foundation”), Southern Connecticut Health System Properties, Inc. (“Properties”), and Ahlbin Centers for Rehabilitation Medicine, Inc. (“Ahlbin”). BHHS had a controlling interest in Mill Hill Medical Consultants, Inc. (“Mill Hill”), a not-for-profit, nonstock organization through its elected representatives on the Mill Hill Board of Directors.

BHHS currently conducts no significant business activities and has no employees. Yale-New Haven Health Services Corporation (“YNHHSC”) is the sole member of BHHS and two similar organizations. Each of these three tax-exempt organizations serves as the sole member/parent for its respective delivery network of regional health care providers and related entities. Under the terms of an agreement with YNHHSC, BHHS continues to operate autonomously with separate boards, management and medical staff; however, YNHHSC approves the strategic plans, operating and capital budgets, and board appointments.

The Hospital, the largest entity among BHHS’s subsidiaries, provides health care services to the Fairfield County community. The Foundation solicits contributions for the benefit of BHHS, and all other tax-exempt healthcare organizations associated with BHHS. Properties is a real estate holding company. Ahlbin’s sole business line is audiology services. Ahlbin purchases certain services from the Hospital as they pertain to the Ahlbin’s Audiology services. Mill Hill provides physician-related services such as patient care, medical education, medical research and administration to the Hospital, in order to promote and enhance the quality of health care.

Effective April 1, 2010, the operations of Mill Hill was assumed by YNHHSC and began operating as Northeast Medical Group, Inc. (“NEMG”). YNHHSC is the sole member of NEMG. The operations of Mill Hill for the six months ended March 31, 2010 are included in the accompanying consolidated financial statements.

The accounting policies that affect significant elements of BHHS’s consolidated financial statements are summarized below.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Principles of Consolidation

The accompanying consolidated financial statements present BHHS and its subsidiaries. In consolidating the financial statements of the parent company and its subsidiaries, all significant intercompany revenues and expenses and intercompany balance sheet amounts have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients, and liabilities, including estimated receivables and payables to third-party payors, and professional liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue and expenses during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by BHHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by BHHS in perpetuity. See Notes 5 and 6 for additional information relative to temporarily and permanently restricted net assets.

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value on 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.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Pledges receivable are included in other receivables (\$0.4 million and \$0.8 million at September 30, 2010 and 2009, respectively) and other assets (\$0.1 million and \$0.4 million at September 30, 2010 and 2009, respectively) in the accompanying consolidated balance sheets. Pledges receivable are anticipated to be received as follows at September 30:

	2010	2009
	<i>(In Thousands)</i>	
Due in one year or less	\$ 448	\$ 887
Due after one year through five years	52	415
Total pledges receivable	500	1,302
 Deferred pledge revenue representing interest	 –	 (6)
	500	1,296
 Less allowance for doubtful pledges	 31	 79
Pledges receivable, net	\$ 469	\$ 1,217

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 or held in the long-term investment portfolio.

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

Accounts Receivable

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The amount of the allowances for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Investments and Investment Income

BHHS has designated all investments reported in the accompanying consolidated balance sheets as trading securities. As such, unrealized gains and losses are included in the excess (deficiency) of revenue and gains over expenses and losses.

Investments in marketable equity securities with readily determinable fair market values and all investment in debt securities (marketable investments) are measured at fair value based on quoted market prices.

Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that BHHS holds limited partnership interests, are accounted for under the equity method. Individual investment holdings with the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments, and therefore BHHS's holdings, may be determined by the investment manager or general partner and for "fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose BHHS 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, BHHS'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.

Realized gains and losses on investments, and interest and dividends are included in excess (deficiency) of revenue and gains over expenses and losses unless the income or loss is restricted by donor or law. The change in unrealized gains and losses on all investments is included in the excess (deficiency) of revenue and gains over expenses and losses unless the income or loss is restricted by the donor.

Assets Limited as to Use

Assets limited as to use include assets held by trustee under bond indenture agreements and Mill Hill's nonqualified deferred compensation plan. Amounts required to meet current liabilities are reported as current assets. These funds primarily consist of equities, corporate obligations, U.S. Government obligations, mutual funds, marketable securities, and money market funds. Changes in unrealized gains and losses are recorded in the excess (deficiency) of revenue and gains over expenses and losses.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Inventories

Inventories, included in prepaid expenses and other current assets, are stated at the lower of cost or market. The BHHS values its inventories using the first-in, first-out method.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of the costs is provided using a method that approximates the interest method over the remaining term of the applicable indebtedness. See Note 7 for additional information relative to debt-related matters.

Benefits and Insurance

BHHS provides medical, dental, hospitalization and prescription drug benefits to employees for which it is self-insured. Liabilities have been accrued for claims, including claims incurred but not reported (“IBNRs”), which are based on specific experience. At September 30, 2010 and 2009, the estimated liability for self-insured employee medical, prescriptions and other benefit claims and IBNRs aggregated approximately \$1.3 million and \$1.4 million, respectively, and is included in accrued expenses in the accompanying consolidated balance sheets.

BHHS is effectively self-insured for workers’ compensation claims. Estimated amounts are accrued for claims, including IBNRs, which are based on specific experience. At September 30, 2010 and 2009, the estimated liability for self-insured workers’ compensation claims and IBNRs aggregated approximately \$3.8 million and \$3.5 million, respectively, discounted at 4.0% in 2010 and 5.0% in 2009, and is included in other long-term liabilities in the accompanying consolidated balance sheets.

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 and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in 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 40 years.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Goodwill

In 2009, the Hospital acquired a medical practice (the “Acquisition”) for \$3.0 million based on the fair market value of the practice. The Acquisition resulted in goodwill of approximately \$2.9 million. The Hospital is required to perform an annual review of its goodwill for impairment. Based on the Hospital’s review at September 30, 2010 and 2009, goodwill was determined not to be impaired.

Excess (Deficiency) of Revenue and Gains over Expenses and Losses

The accompanying consolidated statements of operations and changes in net assets include excess (deficiency) of revenue and gains over expenses and losses. Activities, other than those connected with providing health care services, are considered to be nonoperating. Nonoperating gains primarily consist of other income. Changes in unrestricted net assets, which are excluded from excess (deficiency) of revenue and gains over expenses and losses, consistent with industry practice, includes contributions for, or restricted to, property, plant and equipment, transfers of assets to and from affiliates for other than goods and services and changes in pension liability adjustments.

Income Taxes

BHHS, the Hospital, the Foundation, Ahlbin and Mill Hill are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the “Code”) and are exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code. Properties is a tax-exempt organization pursuant to Section 501(c)(2) of the Code and also is not subject to federal and state income taxes.

Professional and General Insurance

The Hospital accesses modified claims made insurance for professional and comprehensive general risk through Yale-New Haven Hospital (“YNHH”) owned captive insurance company. The Hospital has no ownership interest in the captive insurance company and records the actuarially determined liabilities for incurred but not reported professional and comprehensive general liabilities on a discounted basis.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Asset Retirement Obligation

The Hospital maintains an asset retirement obligation liability related to the estimated future costs to remediate environmental liabilities in certain buildings. The asset and asset retirement obligation liability were approximately \$.6 million and \$13.2 million, respectively, at September 30, 2010 and approximately \$.6 million and \$12.8 million, respectively, at September 30, 2009.

New Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update 2010-24, “Topic 954 – Presentation of Insurance Claims and Related Insurance Recoveries” (“ASU 2010-24”). The amendments in this update clarify that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The amendments in this update permit retrospective application and are effective for fiscal years beginning after December 15, 2010. The Hospital has not yet determined the effect that the adoption of ASU 2010-24 will have on its financial statements

Reclassifications

Certain reclassifications have been made to the balances previously reported in the September 30, 2009 consolidated balance sheet in order to conform with the September 30, 2010 presentation. In the accompanying September 30, 2009 consolidated balance sheets, such reclassifications consist of an increase in short-term investments of \$29.6 million and a decrease of long-term investments of \$29.6 million.

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

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

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

Revenue from Medicare and Medicaid programs accounted for approximately 37% and 19%, respectively, of the BHHS net patient service revenue for the year ended September 30, 2010 and 38% and 19%, respectively, of the BHHS's net patient service revenue for the year ended September 30, 2009. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 37% and 30% respectively, for the year ended September 30, 2010 and 36% and 28%, respectively, for the year ended September 30, 2009.

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. BHHS believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement through 2005 for Medicare and 1994 for Medicaid. Other years remain open for settlement.

For the year ended 2010, the Hospital recorded approximately \$5.5 million as a decrease to net patient service revenue in connection with lower than expected settlements and adjustments to accruals recorded in prior years. For the year ended September 30, 2009 the net change in estimates increased net patient service revenue by approximately \$0.1 million.

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party agreements. The significant concentrations of accounts receivable for services to patients include 32% from Medicare, 23% from Medicaid, 5% from commercial insurance carriers, and 40% from managed care companies and others at September 30, 2010 (27%, 20%, 13%, and 40%, respectively, at September 30, 2009).

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Net patient service revenue is comprised of the following for the years ended September 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Gross revenue from patients	\$ 1,211,791	\$ 1,155,983
Deductions:		
Contractual allowances	817,020	748,742
Charity and free care (at charges)	25,339	35,961
Net patient service revenue	<u>\$ 369,432</u>	<u>\$ 371,280</u>

3. Uncompensated Care and Community Benefit Expense

The BHHS commitment to community service is evidenced by services provided to the poor and benefits provided to the broader community. Services provided to the poor include services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured.

For financial reporting purposes, BHHS reports care provided for which no payment was received from the patient or insurer as uncompensated care. Uncompensated care is the sum of BHHS free care provided, charity care provided and bad debt expense. In determining uncompensated care, BHHS excludes contractual allowances. The Hospital's cost of uncompensated care amounted to approximately \$15.5 million and \$19.6 million in 2010 and 2009, respectively. Additionally, the Hospital incurred losses related to the State Medicaid program of approximately \$21.4 million and \$25.4 million in 2010 and 2009, respectively. The estimated cost of uncompensated care and Medicaid losses were determined using Hospital-specific data.

BHHS makes available free care programs for qualifying patients. In accordance with the established policies of BHHS, during the registration, billing and collection process a patient's eligibility for free care funds is determined. For patients who were determined by BHHS to have the ability to pay but did not, the uncollected amounts are bad debt expense. For patients who do not avail themselves of any free care program and whose ability to pay cannot be determined by BHHS, care given but not paid for, is classified as charity care.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Uncompensated Care and Community Benefit Expense (continued)

Annually, BHHS accrues for the potential losses related to its uncollectible accounts and the amounts that meet the definition of charity and free care allowances. At September 30, 2010 and 2009, the amount estimated by management to represent the BHHS uncollectible and charity and free care allowance, which is included in the accompanying balance sheet as a reduction of accounts receivable for services to patients, was approximately \$17.0 million and \$28.1 million, respectively.

Additionally, BHHS provides benefits for the broader community, which include services to other needy populations that may not qualify as poor but need special services and support. Benefits include the cost of health promotion and education of the general community, interns and residents, health screenings, and medical research. The benefits are provided through the community health centers, some of which service non-English speaking residents, disabled children, and various community support groups.

In addition to the quantifiable services defined above, BHHS provides other benefits to the community through its advocacy of community service by employees. BHHS employees serve numerous organizations through board representation, membership in associations and other related activities. BHHS also solicit 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

Effective January 1, 2010, the Hospital transferred some of its investments into the newly formed Yale New Haven Health System Investment Trust (the "Trust"), a unitized Delaware Investment Trust created to pool assets for investment by the Health System non-profit entities. The Trust is comprised of two pools: the Long-Term Investment Pool ("L-TIP") and the Intermediate-Term Investment Pool ("I-TIP"). Governance of the Trust is performed by the Yale New Haven Health System Investment Committee.

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, 2010, the Hospital can withdraw 100% of its investment in the L-TIP on July 1, 2011. Withdrawals of the Hospital's investment in the I-TIP in any amount can be made quarterly with 30 days advance notice.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Investments are stated at fair value. The composition of assets limited as to use as of September 30 is set forth in the following table:

	<u>2010</u>	<u>2009</u>
	<i>(In Thousands)</i>	
Assets limited as to use:		
Escrow funds for long-term debt:		
U.S. government obligations	\$ 1,442	\$ 3,646
Corporate debt and other securities	<u>5,792</u>	<u>3,702</u>
	<u>\$ 7,234</u>	<u>\$ 7,348</u>
Trustee assets—other:		
Cash and money market funds	\$ 34	\$ 64
Corporate debt and other securities	166	155
Marketable equity securities and other	<u>348</u>	<u>361</u>
	<u>\$ 548</u>	<u>\$ 580</u>

The composition of investments is set forth in the following table at September 30:

	<u>2010</u>	<u>2009</u>
	<i>(In Thousands)</i>	
U.S. government agency obligations	\$ 9,982	\$ 14,716
Equity securities	27,129	13,686
Cash and money market funds	14,867	26,638
Corporate debt and other securities	5,018	7,916
Limited partnerships	11,375	4,813
Interest in Yale University Endowment Pool	14,809	—
	<u>\$ 83,180</u>	<u>\$ 67,769</u>

BHHS ownership percentage of the Trust was approximately 7.4% as of September 30, 2010. BHHS's prorata portion of the Trust's investments are represented above in the table.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

The composition and presentation of investment income, gains from investments and the net change in unrealized gains and losses, are as follows for the years ended September 30, 2010 and 2009 (in thousands):

	<u>2010</u>	<u>2009</u>
Interest and dividend income, net	\$ 1,075	\$ 1,785
Realized gains on investments, net	940	(9,482)
Change in unrealized gains and losses investments	2,737	1,887
	<u>\$ 4,752</u>	<u>\$ (5,810)</u>

BHHS has a 47.6% equity interest in Century Collection Agency, Inc. (“Century”). At September 30, 2010 and 2009, the investment is included in other assets in the accompanying consolidated balance sheets. The investment in Century is carried on the equity basis of accounting and is adjusted for BHHS’s proportionate share of undistributed earnings or losses. Dividends received are deducted from the carrying value of the investment. Century declared dividends of approximately \$0.9 million in 2009.

5. Endowment

The Hospital’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.

The Hospital 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, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and direction of the applicable donor gift instrument at the time of the accumulation is added to the fund.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, the Hospital 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 the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Hospital; and (7) the investment and spending policies of the Hospital.

Changes in endowment net asset for the fiscal year ended September 30, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 71	\$ 13,623	\$ 12,232	\$ 25,926
Investment returns:				
Investment income	6	776	-	782
Net appreciation (realized and unrealized)	3	475	-	478
Total investment return	9	1,251	-	1,260
Appropriation of endowment:				
Assets for expenditure	-	(179)	-	(179)
Other changes:				
Contributions	-	-	5,076	5,076
Endowment net assets, end of year	<u>\$ 80</u>	<u>\$ 14,695</u>	<u>\$ 17,308</u>	<u>\$ 32,083</u>

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

Changes in endowment net asset for the fiscal year ended September 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 377	\$ 16,974	\$ 10,681	\$ 28,032
Investment returns:				
Investment income	45	569	–	614
Net depreciation (realized and unrealized)	(302)	(2,920)	–	(3,222)
Total investment return	(257)	(2,351)	–	(2,608)
Appropriation of endowment:				
Assets for expenditure	(49)	(1,000)	–	(1,049)
Other changes:				
Contributions		–	1,551	1,551
Endowment net assets, end of year	<u>\$ 71</u>	<u>\$ 13,623</u>	<u>\$ 12,232</u>	<u>\$ 25,926</u>

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

6. Temporarily and Permanently Restricted Net Assets

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

	<u>2010</u>	<u>2009</u>
	<i>(In Thousands)</i>	
Indigent care	\$ 12,855	\$ 12,739
Capital campaign	75	1,051
Other health care services	10,332	12,832
	<u>\$ 23,262</u>	<u>\$ 26,622</u>

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets of approximately \$17.3 million and \$12.2 million at September 30, 2010 and 2009, respectively, are donor-restricted endowment principal. The income generated from permanently restricted funds is expendable for purposes designated by donors, including the support of various health care services.

7. Long-term Debt and Line of Credit

Details of long-term debt are as follows at September 30:

	<u>2010</u>	<u>2009</u>
	<i>(In Thousands)</i>	
Tax-exempt revenue bonds:		
Series A, fixed interest rates ranging from 3.5% to 6.625%	\$ 12,640	\$ 13,815
Series C, fixed interest rates ranging from 3.75% to 5.375%	37,450	39,060
	<u>50,090</u>	<u>52,875</u>
Less current portion	2,945	2,785
	<u>\$ 47,145</u>	<u>\$ 50,090</u>

The Hospital's Series A and C tax-exempt revenue bonds were issued through the State of Connecticut Health and Educational Facilities Authority ("CHEFA") under a Master Trust Indenture. These bonds are due serially or via mandatory sinking fund redemptions through July 1, 2025. The bonds are collateralized by a pledge of the gross receipts of the Hospital and the Foundation (the "Obligated Group") and a first mortgage on substantially all property, plant and equipment of the Hospital. The Master Trust Indenture also places certain limits on the incurrence of additional borrowings of the Obligated Group and requires the Obligated Group to satisfy certain measures of financial performance while the revenue bonds are outstanding. The Series A and C bonds are insured by commercial bond insurers to maturity.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Long-term Debt and Line of Credit (continued)

Principal payments on long-term debt for each of the five years subsequent to September 30, 2010 are as follows (in thousands):

2011	\$ 2,945
2012	3,115
2013	3,300
2014	3,495
2015	3,695
Thereafter	33,540
	<u>\$ 50,090</u>

Cash paid on interest for the years ended September 30, 2010 and 2009 approximated \$3.0 million and \$3.2 million, respectively.

In connection with the Series A and C bonds, the Hospital is required to maintain certain financial covenants. At September 30, 2010 and 2009, the Hospital was in compliance with its financial debt covenants.

On November 4, 2010, the Hospital obtained a \$6.6 million term loan from CHEFA. The loan is to be paid in 10 years at a fixed rate of 3.22%.

Line of Credit

As of September 30, 2010, the Hospital had an unsecured revolving line of credit of \$5.0 million with a local bank. The annual interest rate for this line of credit is variable and is based on the bank's prime rate or LIBOR plus 1%. The Hospital had no amounts outstanding under this line of credit as of September 30, 2010 and 2009.

8. Retirement Benefit Plans

The Hospital and certain other affiliates of BHHS have a defined benefit pension plan covering substantially all employees. The benefits are based on years of service and employees' average compensation as defined by the plan documents. The Hospital and affiliates of BHHS make contributions in amounts sufficient to meet the required benefits to be paid to plan participants as they become due as required under the Employee Retirement Income Security Act of 1974.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

On June 30, 2006, the Hospital and certain other affiliates of BHHS froze their defined benefit plan. On October 1, 2006 the Hospital and certain other affiliates of BHHS instituted a defined contribution plan covering substantially all employees. The Hospital and certain other affiliates of BHHS match employee 403(b) contributions on a bi-weekly basis, as defined by the defined contribution plan documents, and provides an annual contribution to the employees' accounts based on each employee's year of service and compensation. The Hospital and Mill Hill expensed approximately \$10.5 million and \$10.1 million relating to the defined contribution plan for the years ended September 30, 2010 and 2009, respectively. Amounts due to the defined contribution plan amounted to \$5.5 million and \$5.6 million at September 30, 2010 and 2009, respectively, and are included in accrued expenses.

On September 30, 2007, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit and Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (hereafter referred to as ASC No. 715). In 2009, the Hospital adopted the measurement date provisions of ASC No. 715. ASC No. 715 required the Hospital to measure defined benefit plan assets and obligations as of September 30, the date of its fiscal year-end statement of financial position. Prior to the implementation of this change, the measurement date for the BHHS pension and postretirement benefit plans was June 30. The adjustment to unrestricted net assets at adoption represents a decrease to net assets of \$.3 million and an increase to accrued pension obligation. The adoption of the measurement date provision of ASC No. 715 had no effect on the BHHS financial results for fiscal 2010, 2009 or any prior period presented. It will not affect the BHHS operating results in future periods.

The following table sets forth the funded status of the Hospital and affiliates of BHHS's plans as of September 30:

	Pension Benefits	
	2010	2009
	<i>(In Thousands)</i>	
Change in benefit obligation		
Benefit obligation, beginning of year	\$ (149,498)	\$ (123,444)
Interest cost	(8,348)	(10,488)
Actuarial (loss) gain	(6,630)	(21,893)
Benefits paid	5,281	6,327
Benefit obligation, end of year	<u>\$ (159,195)</u>	<u>\$ (149,498)</u>

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

	Pension Benefits	
	2010	2009
	<i>(In Thousands)</i>	
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 95,277	\$ 130,926
Actual return on plan assets	8,737	(29,322)
Employer contribution	5,000	–
Benefits paid	(5,281)	(6,327)
Fair value of plan assets, end of year	<u>\$ 103,733</u>	<u>\$ 95,277</u>
Accrued obligation	<u>\$ (55,462)</u>	<u>\$ (54,221)</u>

The actuarial loss in 2010 and 2009 primarily relates to a decrease in the discount rate used to measure the benefit obligation.

Accumulated Benefit Obligation

The projected benefit obligation, accumulated benefit obligations and fair value of plan assets were as follows for September 30:

	2010	2009
	<i>(In Thousands)</i>	
Projected benefit obligation	\$ 159,195	\$ 149,498
Accumulated benefit obligation	159,195	149,498
Fair value of plan assets	103,733	95,277

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

The following table provides the components of the net periodic benefit cost for the plan for the years ended September 30:

	Pension Benefits	
	2010	2009
	<i>(In Thousands)</i>	
Components of net periodic benefit cost		
Interest cost	\$ 8,348	\$ 10,488
Expected rate of return on plan assets	(9,575)	(12,133)
Recognized net actuarial loss	447	–
Periodic benefit credit for measurement period	(780)	(1,645)
Adjustment for change in measurement date	–	329
	<u>\$ (780)</u>	<u>\$ (1,316)</u>

Assumptions

Weighted-average assumptions used to determine benefit obligations at September 30 are as follows:

	Pension Benefits	
	2010	2009
Discount rate	5.4%	5.70%

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

	Pension Benefits	
	2010	2009
Discount rate	5.7%	7.00%
Expected long-term return on plan assets	7.75	7.75

Measurement Date

The measurement date used to determine pension benefits is September 30 in 2010 and 2009.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

Plan Assets

The asset allocations of the Hospital's pension plan at September 30 are as follows:

Asset category:	Target Allocation 2011	Percentage of Plan Assets	
		2010	2009
Equity securities	10%	11%	12%
Debt securities	75	77	76
Alternative investments	15	12	12
Total	100%	100%	100%

Financial assets carried at fair value as of September 30, 2010 and 2009 are classified in the following table in one of the three categories described in footnote 13 (in thousands):

	FY 10			Total
	Level 1	Level 2	Level 3	
Equity securities	\$ 11,964			\$ 11,964
U.S. government obligations	21,854	–	–	21,854
Corporate debt and other securities	57,592	–	–	57,592
Investments at fair value	91,410	–	–	91,410
Alternative investments (equity method)				12,323
Total investments				<u>\$103,733</u>

	FY 09			Total
	Level 1	Level 2	Level 3	
Equity securities	\$ 10,944			\$ 10,944
U.S. government obligations	30,901	–	–	30,901
Corporate debt and other securities	41,210	–	–	41,210
Investments at fair value	83,055	–	–	83,055
Alternative investments (equity method)				12,222
Total investments				<u>\$ 95,277</u>

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

The Hospital's investment strategy for its pension assets balances the liquidity needs of the pension plan with the long-term return goals necessary to satisfy future pension obligations. The target asset allocation seeks to capture the equity premium granted by the capital markets over the long-term while ensuring security of principal to meet near term expenses and obligations through the fixed income allocation. The allocations of the investment pool to various sectors of the markets are designed to reduce volatility in the portfolio.

The Hospital'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.

Cash Flows

Contributions: The Hospital and its affiliates expected contribution to the defined benefit pension plan in fiscal year 2011 is \$1,959.

Estimated future benefit payments: The Hospital and its affiliates expect to pay the following benefit payments as appropriate in thousands:

2011	\$ 6,416
2012	6,617
2013	6,779
2014	7,126
2015	7,418
2016 to 2019	45,301

In addition, certain employees participate in a nonqualified pension benefit program sponsored by the Hospital and Mill Hill. Included in other long-term liabilities in the accompanying balance sheets at September 30, 2010 and 2009 is approximately \$1.3 million, respectively, related to the obligation for the nonqualified benefits. The Hospital and Mill Hill have established a trust with fair values of approximately \$.8 million at September 30, 2010 and 2009, respectively, to fund the obligation. Such amounts are included in other assets in the accompanying balance sheets.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Professional Liability and Self-Insurance Arrangements

YNHH and a number of academic medical centers are shareholders in The Medical Center Insurance Company, Ltd. (the “Captive”). The Captive was formed to insure for professional and comprehensive general liability risks of its shareholders and certain affiliated entities of the shareholders. On October 1, 1997, the Hospital was added to the YNHH program as an additional insured. The Captive and its wholly-owned subsidiary write direct insurance and reinsurance for varying levels of per claim limit exposure. The Captive has reinsurance coverage from outside reinsurers for amounts above the per claim limits. Premiums are based on modified claims made coverage and are actuarially determined based on actual experience of the Hospital, and the Captive. The Hospital pays insurance premiums to YNHHSC.

The estimated undiscounted professional liabilities for incurred but not reported professional and comprehensive general liabilities as of September 30, 2010 and 2009 was approximately \$16.6 million and \$18.8 million, respectively, and are reflected at the actuarially determined present value of approximately \$13.8 million and \$15.1 million, respectively, based on a discount rate of 4.0% in 2010 and 4.5% in 2009.

10. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance as explained in Note 9 or are deemed immaterial. While the outcome of these lawsuits 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 results of operations of BHHS.

BHHS and its subsidiaries have various lease agreements, some of which provide for adjustments to future lease payments. Lease expense was \$3.7 million and \$3.6 million respectively, for each of the fiscal years ended 2010 and 2009.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Commitments and Contingencies (continued)

At September 30, 2010, the future minimum rental commitments under these noncancellable operating leases were:

	Total Future Minimum Rental Commitments
	<i>(In Thousands)</i>
Fiscal year:	
2011	\$ 2,750
2012	2,494
2013	2,176
2014	1,835
2015	579
Thereafter	9,520

On September 30, 2010, the Hospital entered into an operating lease with a real estate developer for an initial term of 17 years to lease a building. Payments under the lease are to commence once the building is completed. On the commencement date, a single installment of \$.7 million is due under the agreement. The annual lease payments for years 1 to 5 is \$.3 million.

The Hospital has an irrevocable letter of credit with a bank to provide coverage to the State of Connecticut for workers' compensation claims. There were no amounts outstanding under this letter of credit during fiscal years 2010 and 2009.

The Hospital has obtained a surety bond to provide coverage to the State of Connecticut for unemployment compensation in 2010. There were no amounts outstanding in 2010 or 2009.

11. Functional Expenses

BHHS and its subsidiaries provide general health care services to residents within their geographic location, including pediatric care, cardiac catheterization and outpatient surgery. Net expenses related to providing these services for the years ended September 30 are as follows:

	2010	2009
	<i>(In Thousands)</i>	
Health care services	\$ 282,777	\$ 293,305
General and administrative	83,222	84,295
	\$ 365,999	\$ 377,600

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Related Party Transactions

Under the affiliation agreement with YNHHSC, the Hospital and Mill Hill purchased certain support and management services and participates in service contracts, lease agreements, and other consulting contracts. The aggregate amount incurred by the Hospital and Mill Hill was approximately \$37.8 million and \$37.0 million in fiscal 2010 and 2009, respectively, pertaining to YNHHSC and approximately \$2.5 million and \$2.8 million in fiscal 2010 and 2009, respectively, pertaining to YNHH.

The Hospital and Mill Hill purchased certain services for the year ended September 30 from YNHHSC as follows:

	2010	2009
	<i>(In Thousands)</i>	
Operating expenses:		
Professional and general liability insurance	\$ 11,712	\$ 12,986
Information systems	2,952	2,866
Management fees	3,044	3,034
System business office	6,164	6,172
All other	13,913	11,910

Included in depreciation and amortization expense for each of the years ended September 30, 2010 and 2009 is approximately \$0.4 million of costs allocated from YNHHSC for shared capital projects.

Accounts payable to related organizations is included in accrued expenses in the accompanying consolidated balance sheets for the year ended September 30 as follows:

	2010	2009
	<i>(In Thousands)</i>	
Accounts payable:		
YNHHSC	\$ 7,076	\$ 2,642
YNHH	433	605
	\$ 7,509	\$ 3,247
Accounts receivable:		
NEMG	\$ 964	\$ —
	\$ 964	\$ —

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Fair Values Measurements

BHHS has adopted the methods of calculating fair value as defined in FASB ASC No. 820 to value its financial assets and liabilities, where applicable. FASB ASC No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

FASB ASC No. 820 establishes a three tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.

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

Level 3: Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

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

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Fair Values Measurements (continued)

Financial assets carried at fair value as of September 30, 2010 are classified in the following table in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 45,152	\$ –	\$ –	\$ 45,152
Money market funds	14,901	–	–	14,901
U.S. government obligations	11,424	–	–	11,424
Corporate debt and other securities	10,976	–	–	10,976
Interest in Yale University Endowment Pool	–	14,809	–	14,809
Equity securities	27,477	–	–	27,477
Investments at fair value	\$ 109,930	\$ 14,809	\$ –	124,739
Alternative investments (equity method)				11,375
Investments not at fair value				11,375
Total investments				\$ 136,114

Financial assets carried at fair value as of September 30, 2009 are classified in the following table in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 35,088	\$ –	\$ –	\$ 35,088
Money market funds	26,702	–	–	26,702
U.S. government obligations	18,362	–	–	18,362
Corporate debt and other securities	24,348	–	–	24,348
Equity securities	1,472	–	–	1,472
Investments at fair value	\$ 105,972	\$ –	\$ –	105,972
Alternative investments (equity method)				4,813
Investments not at fair value				4,813
Total investments				\$ 110,785

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Fair Values Measurements (continued)

Fair values of the BHHS's long-term debt are based on current borrowing rates for similar types of debt using undiscounted cash flow analyses. The fair value of the long-term debt at September 30, 2010 and 2009 is \$53.0 million and \$53.2 million, respectively.

14. Subsequent Events

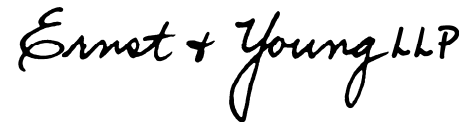
BHHS adopted ASC 855-10, which requires BHHS to disclose the date through which subsequent events have been evaluated. Management has evaluated subsequent events through January 27, 2011, which is the date the consolidated financial statements were available to be issued. No events other than those disclosed in Note 7 have occurred that require consolidated disclosure or adjustment to the consolidated financial statements.

Other Financial Information

Report of Independent Auditors on Other Financial Information

Board of Directors
Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following consolidating balance sheet and consolidating statement of operations and changes in net assets of Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

January 27, 2011

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2010

(In Thousands)

	BH	BHF	Eliminating Entries	Obligated Group	BHHS	Ahlbin	Properties	Mill Hill	Eliminations	Total
Assets										
Current assets:										
Cash and cash equivalents	\$ 44,477	\$ 260	\$ -	\$ 44,737	\$ 400	\$ -	\$ 15	\$ -	\$ -	\$ 45,152
Short term investments	17,550	24,841	-	42,391	-	-	-	-	-	42,391
Accounts receivable	29,146	-	-	29,146	-	-	-	-	-	29,146
Other receivables	1,231	425	-	1,656	1,195	-	-	-	-	2,851
Prepaid expenses and other current assets	5,734	5	-	5,739	-	-	8	-	-	5,747
Third party payor receivables	1,411	-	-	1,411	-	-	-	-	-	1,411
Due from affiliates	424	-	(325)	99	1,022	-	-	-	(1,121)	-
Amts deposited with trustee in debt service fund	1,446	-	-	1,446	-	-	-	-	-	1,446
Total current assets	101,419	25,531	(325)	126,625	2,617	-	23	-	(1,121)	128,144
Assets whose use is limited or restricted:										
Escrow funds for long-term debt	7,234	-	-	7,234	-	-	-	-	-	7,234
Trustee assets—self insurance and other	-	548	-	548	-	-	-	-	-	548
	7,234	548	-	7,782	-	-	-	-	-	7,782
Less assets whose use is limited or restricted	(1,446)	-	-	(1,446)	-	-	-	-	-	(1,446)
	5,788	548	-	6,336	-	-	-	-	-	6,336
Long-term investments	20,564	20,225	-	40,789	-	-	-	-	-	40,789
Interest in Bridgeport Hospital Foundation, Inc.	45,642	-	(45,642)	-	-	-	-	-	-	-
Other assets	7,995	174	-	8,169	764	-	-	-	-	8,933
Property, plant and equipment:										
Land, buildings and improvements	125,320	664	-	125,984	-	-	1,436	-	-	127,420
Equipment	235,427	33	-	235,460	-	-	-	-	-	235,460
	360,747	697	-	361,444	-	-	1,436	-	-	362,880
Less accumulated depreciation and amortization	(248,840)	(199)	-	(249,039)	-	-	(215)	-	-	(249,254)
	111,907	498	-	112,405	-	-	1,221	-	-	113,626
Construction in progress	4,946	-	-	4,946	-	-	-	-	-	4,946
	116,853	498	-	117,351	-	-	1,221	-	-	118,572
Total assets	\$ 298,261	\$ 46,976	\$ (45,967)	\$ 299,270	\$ 3,381	\$ -	\$ 1,244	\$ -	\$ (1,121)	\$ 302,774

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2010

(In Thousands)

	BH	BHF	Eliminating Entries	Obligated Group	BHHS	Ahlbin	Properties	Mill Hill	Eliminations	Total
Liabilities and net assets										
Current liabilities:										
Accounts payable	\$ 11,257	\$ 213	\$ -	\$ 11,470	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,470
Accrued expenses	33,922	4	-	33,926	788	-	20	-	-	34,734
Due to affiliates	1,022	325	(325)	1,022	-	-	99	-	(1,121)	-
Current portion of long-term debt	2,945	-	-	2,945	-	-	-	-	-	2,945
Third-party payor liabilities	2,857	-	-	2,857	-	-	-	-	-	2,857
Total current liabilities	52,003	542	(325)	52,220	788	-	119	-	(1,121)	52,006
Long-term debt, net of current portion	47,145	-	-	47,145	-	-	-	-	-	47,145
Professional and general insurance liabilities	13,400	-	-	13,400	-	-	-	-	-	13,400
Long-term third-party payor liabilities	14,960	-	-	14,960	-	-	-	-	-	14,960
Accrued pension liability	49,237	-	-	49,237	6,225	-	-	-	-	55,462
Other long-term liabilities	18,417	792	-	19,209	-	-	-	-	-	19,209
Total liabilities	195,162	1,334	(325)	196,171	7,013	-	119	-	(1,121)	202,182
Net assets:										
Unrestricted	62,529	25,306	(25,306)	62,529	(3,632)	-	1,125	-	-	60,022
Temporarily restricted	23,262	8,426	(8,426)	23,262	-	-	-	-	-	23,262
Permanently restricted	17,308	11,910	(11,910)	17,308	-	-	-	-	-	17,308
Total net assets	103,099	45,642	(45,642)	103,099	(3,632)	-	1,125	-	-	100,592
Total liabilities and net assets	\$ 298,261	\$ 46,976	\$ (45,967)	\$ 299,270	\$ 3,381	\$ -	\$ 1,244	\$ -	\$ (1,121)	\$ 302,774

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

For the Year Ended September 30, 2010

(In Thousands)

	BH	BHF	Eliminating Entries	Obligated Group	BHHS	Ahlbin	Properties	Mill Hill	Eliminations	Total
Operating revenue:										
Net patient service revenue	\$ 359,062	\$ -	\$ -	\$ 359,062	\$ -	\$ -	\$ -	\$ 10,370	\$ -	\$ 369,432
Other revenue	5,877	-	-	5,877	210	1	284	6,052	(5,978)	6,446
Net assets released from restrictions used for operations	1,077	3,058	-	4,135	-	-	-	-	-	4,135
Total operating revenue	366,016	3,058	-	369,074	210	1	284	16,422	(5,978)	380,013
Operating expenses:										
Salaries and benefits	170,691	-	-	170,691	-	-	-	13,333	-	184,024
Supplies and other expenses	145,192	3,058	-	148,250	820	(7)	299	4,085	(5,978)	147,469
Depreciation and amortization	17,768	-	-	17,768	-	-	78	96	-	17,942
Bad debts	13,505	-	-	13,505	-	-	-	-	-	13,505
Interest	3,059	-	-	3,059	-	-	-	-	-	3,059
Total operating expenses	350,215	3,058	-	353,273	820	(7)	377	17,514	(5,978)	365,999
Income from operations	15,801	-	-	15,801	(610)	8	(93)	(1,092)	-	14,014
Nonoperating gains (losses):										
Net changes in interest in Bridgeport Hospital Foundation, Inc.	741	-	(741)	-	-	-	-	-	-	-
Income from investments, donations, and other, net	485	(217)	-	269	-	-	-	-	-	269
Change in unrealized gains (losses) and investments	540	958	-	1,497	-	-	-	-	-	1,497
Excess (deficiency) excess of revenue and gains over expenses and losses	17,567	741	(741)	17,567	(610)	8	(93)	(1,092)	-	15,780

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

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

For the Year Ended September 30, 2010

(In Thousands)

	BH	BHF	Eliminating Entries	Obligated Group	BHHS	Ahlbin	Properties	Mill Hill	Eliminations	Total
Unrestricted net assets:										
Excess (deficiency) of revenue and gains over expenses and losses	\$ 17,567	\$ 741	\$ (741)	\$ 17,567	\$ (610)	\$ 8	\$ (93)	\$ (1,092)	\$ -	\$ 15,780
Net changes in interest in Bridgeport Hospital Foundation, Inc. – change in unrealized gains and losses on investments and other	1,279	-	(1,279)	-	-	-	-	-	-	-
Net assets released from restrictions used for capital acquisitions and other	2,151	1,256	-	3,407	-	-	-	-	-	3,407
Transfers from (to) other	(1,847)	23	-	(1,824)	1,620	-	264	(41)	-	19
Change in unrealized gains and losses on investments - CFS	-	-	-	-	-	-	-	-	-	-
Additional minimum pension liability	(6,619)	-	-	(6,619)	(6,225)	-	-	5,823	-	(7,021)
(Decrease) increase in unrestricted net assets	12,531	2,020	(2,020)	12,531	(5,215)	8	171	4,690	-	12,185
Temporarily restricted net assets:										
Net changes in interest in Bridgeport Hospital Foundation, Inc.:										
Change in unrealized gains and losses on investments	384	-	(384)	-	-	-	-	-	-	-
Net assets released from restrictions used for operations—Bridgeport Hospital Foundation, Inc.	(3,058)	-	3,058	-	-	-	-	-	-	-
Restricted contributions	2,238	-	(2,238)	-	-	-	-	-	-	-
Other changes in net assets	(1,256)	-	1,256	-	-	-	-	-	-	-
Net realized investment gains and losses	312	-	(312)	-	-	-	-	-	-	-
Transfer to Bridgeport Hospital Foundation, Inc. from Bridgeport Hospital	(3,153)	-	3,153	-	-	-	-	-	-	-
Net assets from restrictions used for operations	(1,077)	(3,058)	-	(4,135)	-	-	-	-	-	(4,135)
Change in unrealized gains and losses on investments	851	384	-	1,235	-	-	-	-	-	1,235
Net assets released from restrictions used for capital acquisitions	(2,151)	(1,256)	-	(3,407)	-	-	-	-	-	(3,407)
Restricted contributions	29	2,238	-	2,267	-	-	-	-	-	2,267
Net realized investment gains and losses	368	312	-	680	-	-	-	-	-	680
Transfer from Bridgeport Hospital Foundation, Inc. and other transfers	3,153	(3,153)	-	-	-	-	-	-	-	-
(Decrease) increase in temporarily restricted net assets	(3,360)	(4,533)	4,533	(3,360)	-	-	-	-	-	(3,360)
Permanently restricted net assets:										
Permanently restricted contributions	5,076	5,076	(5,076)	5,076	-	-	-	-	-	5,076
Decrease in permanently restricted net assets	5,076	5,076	(5,076)	5,076	-	-	-	-	-	5,076
Increase (decrease) in net assets	14,247	2,563	(2,563)	14,247	(5,215)	8	171	4,690	-	13,901
Net assets at beginning of year	88,852	43,079	(43,079)	88,852	1,583	(8)	954	(4,690)	-	86,691
Net assets at end of year	\$ 103,099	\$ 45,642	\$ (45,642)	\$ 103,099	\$ (3,632)	\$ -	\$ 1,125	\$ -	\$ -	\$ 100,592