

FINANCIAL STATEMENTS

Bridgeport Hospital Years Ended September 30, 2013 and 2012 With Report of Independent Auditors

Ernst & Young LLP



Financial Statements

Years Ended September 30, 2013 and 2012

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Report of Independent Auditors

The Board of Directors Bridgeport Hospital

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Change in Presentation of the Provision for Bad Debts

As discussed in Note 1 to the accompanying financial statements, in 2013, the Hospital adopted the provisions of Accounting Standards Update No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which resulted in a change to the presentation of the provision for bad debts in the accompanying statements of operations and changes in net assets effective October 1, 2011. Our opinion is not modified with respect to this matter.

December 23, 2013

Balance Sheets

	September 30			
	2013 2012			
		(In The	ousai	nds)
Assets				
Current assets:				
Cash and cash equivalents	\$	30,127	\$	15,511
Short term investments		33,642		41,452
Accounts receivable for services to patients, less allowance for				
uncollectible accounts, charity and free care of approximately				
\$29,300 in 2013 and \$19,025 in 2012		51,432		42,983
Professional liabilities insurance recoveries receivable –				
current portion		10,552		11,424
Other current assets		17,710		15,781
Assets limited as to use		_		1,875
Total current assets		143,463		129,026
Long-term investments		24,082		21,778
Interest in Bridgeport Hospital Foundation, Inc.		60,014		55,179
Professional liabilities insurance recoveries receivable –		00,017		33,177
noncurrent		22,167		31,106
Other assets		30,658		21,058
Goodwill		17,217		3,701
Property, plant, and equipment:				
Land and land improvements		3,532		3,532
Buildings and fixtures		119,309		121,717
Equipment		285,792		269,245
		408,633		394,494
Less accumulated depreciation		285,402		283,721
		123,231		110,773
Construction in progress		19,477		17,163
		142,708		127,936
Total assets	\$	440,309	\$	389,784

	September 30				
		2013	2012		
Liabilities and not assets	(In Thousands)				
Liabilities and net assets Current liabilities:					
Accounts payable	\$	16,363 \$	10,208		
Accrued expenses	Ψ	49,185	48,554		
Current portion of long-term debt		32,205	3,809		
Professional liabilities – current portion		10,552	11,424		
Other current liabilities		5,306	6,775		
Total current liabilities		113,611	80,770		
Long-term debt, net of current portion		49,202	47,436		
Accrued pension obligation		36,720	60,816		
Professional liabilities		34,291	43,247		
Other long-term liabilities		30,625	34,257		
Total liabilities		264,449	266,526		
Commitments and contingencies					
Net assets:					
Unrestricted		123,039	74,554		
Temporarily restricted		32,033	28,832		
Permanently restricted		20,788	19,872		
Total net assets		175,860	123,258		
Total liabilities and net assets	\$	440,309 \$	389,784		

See accompanying notes.

Statements of Operations and Changes in Net Assets

	Year Ended September 30			
		2013	2012	
	(In Thousands)			
Operating revenue:				
Net patient service revenue	\$	433,811 \$	420,616	
Less: Provision for bad debts		(14,984)	(16,623)	
Net patient service revenue, less provision for bad debts		418,827	403,993	
Other revenue		22,885	16,075	
Total operating revenue		441,712	420,068	
Operating expenses:				
Salaries and benefits		195,993	191,568	
Supplies and other expenses		187,754	170,007	
Depreciation and amortization		22,794	20,175	
Insurance		1,028	2,890	
Interest		1,665	2,724	
Total operating expenses		409,234	387,364	
Income from operations		32,478	32,704	
Non-operating gains and losses, net		3,969	2,164	
Excess of revenue over expenses		36,447	34,868	

Statements of Operations and Changes in Net Assets (continued)

Unrestricted net assetts: Excess of revenue over expenses \$ 36,447 \$ 34,868 Transfer from Bridgeport Hospital Foundation, Inc. 444 1,119 Net assets released from restrictions used for capital acquisitions 879 522 Pension liability adjustment (12,995) (13,487) Transfers to Bridgeport Hospital and Healthcare Service, Inc. (12,995) (13,487) Transfers from Yale-New Haven Health Services Corporation 900 900 Increase (decrease) in unrestricted net assets 888 (182) Temporarily restricted net assets: 8600 714 Net changes in the interest in Bridgeport Hospital Foundation, Inc.: 600 714 Change in unrealized gains on investments 6,057 6,536 Net assets released from restrictions used for operations 3,064 (2,659) Bequests, contributions, and grants 6,057 6,536 Net realized investment gains and losses 374 771 Net realized investment gains and losses 475 688 Transfers to Bridgeport Hospital Foundation, Inc. 1,659 2,843 Net ass		Yea	ar Ended S 2013	Sept	tember 30 2012
Excess of revenue over expenses 36,447 \$ 34,868 Transfer from Bridgeport Hospital Foundation, Inc. 444 1,119 Net assets released from restrictions used for capital acquisitions 22,810 (24,104) Pension liability adjustment 22,810 (24,104) Transfers to Bridgeport Hospital and Healthcare Service, Inc. (12,995) (13,487) Transfers from Yale-New Haven Health Services Corporation 900 900 Increase (decrease) in unrestricted net assets 48,485 (182) Temporarily restricted net assets: Net changes in the interest in Bridgeport Hospital Foundation, Inc.: Change in unrealized gains on investments 600 714 Net assets released from restrictions used for operations (3,064) (2,659) Bequests, contributions, and grants 6,057 6,536 Net realized investment gains and losses 374 771 Net assets released from restrictions used for capital (1,018) (1,641) Other changes in net assets 475 688 Transfers to Bridgeport Hospital 1,659 2,843 Net assets released from restrictions used for operations (3,282)			(In Tho	usa	nds)
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Change in unrealized gains on investments600714Net assets released from restrictions used for operations(3,064)(2,659)Bequests, contributions, and grants6,0576,536Net realized investment gains and losses374771Net assets released from restrictions used for capital(1,018)(1,641)Other changes in net assets475688Transfers to Bridgeport Hospital(1,765)(1,566)Net change in interest in Bridgeport Hospital Foundation, Inc.1,6592,843Net assets released from restrictions used for operations(3,282)(2,316)Change in unrealized gains and losses on investments1,7301,218Bequests and contributions81-Net realized investment gains and losses668828Net assets released from restriction used for capital acquisition(879)(522)Transfers from Bridgeport Hospital Foundation1,7652,088Other changes in net assets1,459(304)Increase in temporarily restricted net assetsNet change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions916791Increase in permanently restricted net assets52,6024,444Net assets at beginning of year123,258118,814					
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Net assets released from restrictions used for capital Other changes in net assets Transfers to Bridgeport Hospital Other change in interest in Bridgeport Hospital Foundation, Inc. Net change in interest in Bridgeport Hospital Foundation, Inc. Net assets released from restrictions used for operations Change in unrealized gains and losses on investments Pequests and contributions Bequests and contributions Bequests and contributions Sequests released from restriction used for capital acquisition Net realized investment gains and losses Net assets released from restriction used for capital acquisition Net realized investment gains and losses Net assets released from restriction used for capital acquisition Net changes in net assets Net changes in net assets Net changes in net assets Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions Permanently restricted net assets: Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions Permanently restricted net assets Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions Permanently restricted net assets Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions Permanently restricted net assets Net assets at beginning of year Net assets at beginning of year	Bequests, contributions, and grants		6,057		6,536
Other changes in net assets Transfers to Bridgeport Hospital Net change in interest in Bridgeport Hospital Foundation, Inc. Net assets released from restrictions used for operations Change in unrealized gains and losses on investments Change in unrealized gains and losses on investments Requests and contributions Requests and contributions Requests and contributions Reguests and contributions Reguests and contributions Reguests and contributions Reguests released from restriction used for capital acquisition Reguests and contributions Reguests in temporarily restricted net assets Ret change in the interest in Bridgeport Hospital Foundation, Inc.: Requests and contributions Requests and contributions Requests and contributions Requests and contributions Reguests and contributions Requests and contributions Reguests	Net realized investment gains and losses		374		771
Transfers to Bridgeport Hospital Net change in interest in Bridgeport Hospital Foundation, Inc. 1,659 2,843 Net assets released from restrictions used for operations Change in unrealized gains and losses on investments Bequests and contributions Net realized investment gains and losses Net assets released from restriction used for capital acquisition Net realized investment gains and losses Net assets released from restriction used for capital acquisition (879) Transfers from Bridgeport Hospital Foundation 1,765 2,088 Other changes in net assets 1,459 (304) Increase in temporarily restricted net assets Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions Permanently restricted net assets: Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions 916 791 Increase in permanently restricted net assets 916 791 Increase in net assets 52,602 4,444 Net assets at beginning of year 113,258 118,814	Net assets released from restrictions used for capital				(1,641)
Net change in interest in Bridgeport Hospital Foundation, Inc.1,6592,843Net assets released from restrictions used for operations Change in unrealized gains and losses on investments(3,282)(2,316)Change in unrealized gains and losses on investments1,7301,218Bequests and contributions81-Net realized investment gains and losses668828Net assets released from restriction used for capital acquisition(879)(522)Transfers from Bridgeport Hospital Foundation1,7652,088Other changes in net assets1,459(304)Increase in temporarily restricted net assets3,2013,835Permanently restricted net assets:916791Increase in permanently restricted net assets916791Increase in permanently restricted net assets52,6024,444Net assets at beginning of year123,258118,814	Other changes in net assets		475		688
Net assets released from restrictions used for operations Change in unrealized gains and losses on investments 1,730 1,218 Bequests and contributions 81 - Net realized investment gains and losses Net assets released from restriction used for capital acquisition (879) (522) Transfers from Bridgeport Hospital Foundation 1,765 2,088 Other changes in net assets 1,459 (304) Increase in temporarily restricted net assets Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions Permanently restricted net assets: Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions 916 791 Increase in permanently restricted net assets 52,602 4,444 Net assets at beginning of year 123,258 118,814	Transfers to Bridgeport Hospital		(1,765)		(1,566)
Change in unrealized gains and losses on investments1,7301,218Bequests and contributions81-Net realized investment gains and losses668828Net assets released from restriction used for capital acquisition(879)(522)Transfers from Bridgeport Hospital Foundation1,7652,088Other changes in net assets1,459(304)Increase in temporarily restricted net assets3,2013,835Permanently restricted net assets:Sequests and contributions916791Increase in permanently restricted net assets916791Increase in net assets52,6024,444Net assets at beginning of year123,258118,814	Net change in interest in Bridgeport Hospital Foundation, Inc.		1,659		2,843
Bequests and contributions81-Net realized investment gains and losses668828Net assets released from restriction used for capital acquisition(879)(522)Transfers from Bridgeport Hospital Foundation1,7652,088Other changes in net assets1,459(304)Increase in temporarily restricted net assets3,2013,835Permanently restricted net assets: Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions916791Increase in permanently restricted net assets916791Increase in net assets52,6024,444Net assets at beginning of year123,258118,814	Net assets released from restrictions used for operations		(3,282)		(2,316)
Net realized investment gains and losses Net assets released from restriction used for capital acquisition (879) (522) Transfers from Bridgeport Hospital Foundation 1,765 2,088 Other changes in net assets Increase in temporarily restricted net assets Permanently restricted net assets: Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions Increase in permanently restricted net assets 916 791 Increase in net assets Net assets at beginning of year 123,258 118,814	Change in unrealized gains and losses on investments		1,730		1,218
Net assets released from restriction used for capital acquisition Transfers from Bridgeport Hospital Foundation Other changes in net assets Increase in temporarily restricted net assets Permanently restricted net assets: Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions Bequests and contributions Increase in permanently restricted net assets Page 16 791 Increase in net assets Sequests and contributions Page 16 Test 18 Test 2,088 (304) 3,835	Bequests and contributions		81		_
Transfers from Bridgeport Hospital Foundation Other changes in net assets Increase in temporarily restricted net assets Permanently restricted net assets: Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions Increase in permanently restricted net assets Increase in net assets 916 791 Increase in net assets 52,602 4,444 Net assets at beginning of year 123,258 118,814	Net realized investment gains and losses		668		828
Other changes in net assets Increase in temporarily restricted net assets Permanently restricted net assets: Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions Permanently restricted net assets: Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions 916 791 Increase in permanently restricted net assets 916 791 Increase in net assets 52,602 4,444 Net assets at beginning of year 123,258 118,814	Net assets released from restriction used for capital acquisition		(879)		(522)
Other changes in net assets Increase in temporarily restricted net assets Permanently restricted net assets: Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions Permanently restricted net assets: Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions 916 791 Increase in permanently restricted net assets 916 791 Increase in net assets 52,602 4,444 Net assets at beginning of year 123,258 118,814	Transfers from Bridgeport Hospital Foundation		1,765		2,088
Increase in temporarily restricted net assets Permanently restricted net assets: Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions Increase in permanently restricted net assets Increase in net assets Net assets at beginning of year 3,835 3,835 3,835 4916 791 1017 1018 10			1,459		(304)
Net change in the interest in Bridgeport Hospital Foundation, Inc.: Bequests and contributions Increase in permanently restricted net assets Increase in net assets 52,602 4,444 Net assets at beginning of year 123,258 118,814	Increase in temporarily restricted net assets		3,201		3,835
Bequests and contributions916791Increase in permanently restricted net assets916791Increase in net assets52,6024,444Net assets at beginning of year123,258118,814	Permanently restricted net assets:				
Increase in permanently restricted net assets Increase in net assets 52,602 4,444 Net assets at beginning of year 123,258 118,814	Net change in the interest in Bridgeport Hospital Foundation, Inc.:				
Increase in net assets 52,602 4,444 Net assets at beginning of year 123,258 118,814	Bequests and contributions		916		791
Increase in net assets 52,602 4,444 Net assets at beginning of year 123,258 118,814	Increase in permanently restricted net assets		916		791
			52,602		4,444
Net assets at end of year \$ 175,860 \$ 123,258	Net assets at beginning of year		123,258		118,814
	Net assets at end of year	\$	175,860	\$	123,258

See accompanying notes.

Statements of Cash Flows

Operating activities (In Thousands) Increase in net assets \$ 52,602 \$ 4,444 Adjustments to reconcile increase in net assets to net cash provided by operating activities: Change in net interest in Bridgeport Hospital Foundation, Inc. (4,835) (6,591) Depreciation and amortization 22,794 20,175 Bad debts 14,984 16,623 Changes in unrealized gains and losses on investments (2,765) (2,553) Transfer to Bridgeport Hospital and Healthcare Services, Inc. 12,995 13,487 Loss on refunding and refinancing of long-term debt 2 1,799 Pension liability adjustment (22,810) 24,104 Changes in operating assets and liabilities: (23,433) (17,787) Accounts receivable, net (23,433) (17,787) Other assets (11,529) (15,455) Accounts payable 6,155 (3,086) Accrued expenses 6,155 (3,086) Professional insurance recoverable and liabilities (17) (1,110) Other current liabilities, accrued pension obligation, and other long-term liabilities (6,387) (10,440)
Increase in net assets
Adjustments to reconcile increase in net assets to net cash provided by operating activities: Change in net interest in Bridgeport Hospital Foundation, Inc. (4,835) (6,591) Depreciation and amortization 22,794 20,175 Bad debts 14,984 16,623 Changes in unrealized gains and losses on investments (2,765) (2,553) Transfer to Bridgeport Hospital and Healthcare Services, Inc. 12,995 13,487 Loss on refunding and refinancing of long-term debt - 1,799 Pension liability adjustment (22,810) 24,104 Changes in operating assets and liabilities: (23,433) (17,787) Other assets (11,529) (15,455) Accounts payable 6,155 (3,086) Accrued expenses 631 7,256 Professional insurance recoverable and liabilities (17) (1,110) Other current liabilities, accrued pension obligation, and other long-term liabilities (6,387) (10,440) Net cash provided by operating activities 8,271 (21,537) Assets limited as to use 1,875 7,529 Cash paid for acquisition, net of cash acquired (13,516) <td< th=""></td<>
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Acquisitions of property, plant, and equipment, net (37,566) (22,641)
Financing activities
Proceeds from line of credit 25,000 –
Proceeds from note payable 14,000 –
Proceeds from issuance of long-term debt – 40,468
Proceeds from issuance of term loan – 5,500
Refunding of long-term debt – (47,145)
Payment of financing fees – (780)
Payments of note payable (4,525)
Payments of long-term debt (4,313) (385)
Transfer to Bridgeport Hospital and Healthcare Service, Inc. (12,995) (13,487)
Net cash provided by (used in) financing activities 17,167 (15,829)
Net increase (decrease) in cash and cash equivalents 14,616 (21,612)
Cash and cash equivalents, beginning of year 15,511 37,123
Cash and cash equivalents, end of year \$ 30,127 \$ 15,511

See accompanying notes.

Notes to Financial Statements

September 30, 2013

1. Organization and Significant Accounting Policies

Bridgeport Hospital (the Hospital) is a voluntary association incorporated under the General Statutes of the State of Connecticut. Bridgeport Hospital & Healthcare Services, Inc. (BHHS), a Connecticut not-for-profit corporation, is the sole member of the following not-for-profit, non-stock corporations: the Hospital, Bridgeport Hospital Foundation, Inc. (the Foundation), Southern Connecticut Health System Properties, Inc. (Properties).

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 and the Hospital continue to operate autonomously with separate boards, management and medical staff; however, YNHHSC approves the Hospital's strategic plans, operating and capital budgets, and Board appointments.

Use of Estimates

The preparation of the 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.

During fiscal 2013, the Hospital recorded a change in estimate of approximately \$6.4 million related to favorable third-party settlements and during fiscal 2012 recorded a change in estimate of approximately \$4.1 million related to favorable third-party settlements.

Temporarily and Permanently Restricted Net Assets

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

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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.

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 restricted 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 the Hospital's policy to monitor the financial strength of these institutions.

Accounts Receivable

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

The amount of the 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.

Investments

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

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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.

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

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, 2013, the Hospital can withdraw 100% of its investment in the L-TIP on July 1, 2012. Withdrawals of the Hospital's investment in the I-TIP in any amount can be made quarterly with 30 days advance notice.

Certain alternative investments (non-traditional, not-readily-marketable assets) are structured such that the Hospital holds limited partnership interests or pooled units and are accounted for under the equity method and utilizing Yale University's (the University) reported net asset value per unit for measurement of the units' fair value for the Yale University investment.

Individual investment holdings within the alternative investments may, in turn, include investments in both non-marketable and market-traded securities. Valuations of those investments and, therefore, the Hospital's holdings may be determined by the investment manager or general partner. Fund of funds investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The equity method reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Hospital to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, the Hospital's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors.

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The Trust has an agreement with the University's investment office (the Investment Management Agreement) which allows the University to manage a portion of the Trust's investments as part of the University's Endowment Pool (the Pool). Under the terms of the agreement for the year ended September 30, 2012, the Trust transferred \$50.0 million to the University in exchange for units in the Pool. The Trust's interest in the Pool is reported at fair value based on the net asset value per units held. The Pool invests in domestic equity, foreign equity, absolute return, private equity, real estate, 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 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, an interest charge of Prime plus two percent (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 the Trust's units in the Endowment using the June 30th unit valuation. No advances have been requested or taken by the Trust.

Net realized gains and losses on investments, interest and dividends are included in excess of revenue over expenses 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 of revenue over expenses 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. Amounts required to meet current liabilities are reported as current assets. These funds primarily consist of U.S. Government obligations, corporate obligations, mutual funds and money market funds. Changes in unrealized gains and losses are recorded in the excess of revenue over expenses.

Notes to 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 Hospital 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. The accumulated amortization of deferred financing costs was approximately \$0.1 million at September 30, 2013 and 2012. See Note 7 for additional information relative to debt-related matters.

Benefits and Insurance

The Hospital 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 Hospital-specific experience. At September 30, 2013 and 2012, the estimated liability for self-insured employee medical, prescription and other benefit claims and IBNRs aggregated approximately \$0.9 million and \$1.0 million, respectively, and is included in accrued expenses in the accompanying balance sheets.

The Hospital is effectively self-insured for workers' compensation claims. Estimated amounts are accrued for claims, including IBNRs, which are based on Hospital-specific experience. At September 30, 2013 and 2012, the estimated liability for self-insured workers' compensation claims and IBNRs, discounted at 2.5% in 2013 and 3.0% in 2012, aggregated approximately \$5.6 million and \$5.2 million, respectively, and is included in other long-term liabilities in the accompanying balance sheets.

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Property, Plant, and Equipment

Property, plant, and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation 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 50 years.

Goodwill

During 2013, the Hospital acquired substantially all of the business, assets, and operations of Robert D. Russo and Associates Radiology P.C. ("Russo Radiology"). The acquisition includes installment payments totaling \$15 million, including interest, ranging from approximately \$1.5 million to \$3.9 million due from May 2013 through June 2017. At September 30, 2013, the Hospital has a liability of approximately \$9.5 million remaining. The Hospital has accounted for the business combination by applying the acquisition method of accounting in accordance with Accounting Standards Codification Topic 805, *Business Combinations*. The purchase price in excess of the fair value of identified assets aggregated approximately \$13.5 million which has been recorded as goodwill. There were no liabilities assumed at the acquisition date.

In 2011, the Hospital acquired certain tangible and intangible assets of Cardiac Specialists, P.C. for \$1.6 million. As a result of the transaction, goodwill in the amount of approximately \$0.8 million was recorded and is included in other assets at September 30, 2013 and 2012.

The Hospital is required to perform an annual review of its goodwill for impairment. Based on the Hospital's review at September 30, 2013 and 2012, goodwill was determined not to be impaired.

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Excess of Revenue Over Expenses

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

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

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal or state income taxes on related income pursuant to Section 501(a) of the Code.

Interest in Bridgeport Hospital Foundation, Inc.

The Hospital recognizes its accumulated interest in the net assets held by the Foundation as interest in Bridgeport Hospital Foundation, Inc. The Hospital recognizes the periodic change in such interest in its statements of operations and changes in net assets (net change in interest in Bridgeport Hospital Foundation, Inc.).

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 \$0.4 million and \$12.1 million, respectively, at September 30, 2013, and approximately \$0.4 million and \$12.8 million, respectively, at September 30, 2012.

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2012 balances previously reported in the financial statements in order to conform with the year ended September 30, 2013 presentation, including the reclassification of provision for doubtful accounts on the statements of operations related to the adoption of ASU 2011-07.

Change in Accounting Principle

In July 2011, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2011-07, Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities ("ASU No. 2011-07"). In accordance with ASU No. 2011-07, the Hospital changed the presentation of its statement of operations and changes in net assets by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue, similar to contractual allowances and discounts. Additionally, the Hospital has provided enhanced disclosures about its policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The Hospital adopted this accounting standard update as of October 1, 2012, and retrospectively applied the presentation of the provision for bad debts in the accompanying statements of operations and changes in net assets to all periods presented. The enhanced disclosure requirements are required in the period of adoption and subsequent reporting periods (see Note 2). The Hospital's adoption of this update has no effect on the previously reported excess of revenue over expenses or on net assets.

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

The Hospital has agreements with third party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the Connecticut Disproportionate Share Hospital 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

Notes to Financial Statements (continued)

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

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 \$2.7 million and \$5.3 million at September 30, 2013 and 2012, respectively. Third-party payor receivables included in other long-term assets were \$3.4 million and \$2.8 million at September 30, 2013 and 2012, respectively. Third-party payor liabilities included in other current liabilities were \$4.5 million and \$6.1 million at September 30, 2013 and 2012, respectively. Third-party payor liabilities included in other long-term liabilities were \$13.4 million and \$14.9 million at September 30, 2013 and 2012, respectively.

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

Revenue from Medicare and Medicaid programs accounted for approximately 38% and 18%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2013 and 36% and 18% for the year ended September 30, 2012. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 39% and 31%, respectively, for the year ended September 30, 2013, and approximately 39% and 32%, respectively, for the year ended September 30, 2012. 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.

The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement through 2009 for Medicare and 2008 for Medicaid. Other years remain open for settlement.

Notes to Financial Statements (continued)

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

The significant concentrations of accounts receivable for services to patients include 21% from Medicare, 13% from Medicaid, and 66% from non-governmental payors at September 30, 2013 and 2012.

Net patient service revenue is comprised of the following for the years ended September 30, 2013 and 2012 (in thousands):

	2013	2012
Gross revenue from patients	\$ 1,512,520	\$ 1,390,798
Deductions:		
Contractual allowances	1,041,542	942,001
Charity and free care (at charges)	37,167	28,181
Provision for doubtful accounts	14,984	16,623
Net patient service revenue	\$ 418,827	\$ 403,993

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

	Third-Party	Self-Pay	Total All Payors
Patient service revenue (net of			
contractual allowances and			
discounts)	\$418,510	\$15,301	\$433,811

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

Notes to Financial Statements (continued)

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

The Hospital's allowance for doubtful accounts totaled approximately \$29.3 million and \$19.0 million at September 30, 2013 and 2012, respectively. The allowance for doubtful accounts for self-pay patients was approximately 78.5% and 77.0% of self-pay accounts receivable as of September 30, 2013 and 2012, respectively. Overall, the total of self-pay discounts and write-offs did not change significantly in 2013. The Hospital did not experience significant changes in write-off trends and did not change its charity care policy in 2013.

3. Uncompensated Care and Community Benefit Expense

The Hospital's 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.

The Hospital makes available free care programs for qualifying patients. In accordance with the established policies of the Hospital, during the registration, billing and collection process a patient's eligibility for free care funds is determined. For patients who were determined by the Hospital 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 the Hospital, care given but not paid for, is classified as charity care.

Together, charity care and bad debt expense represent uncompensated care. The estimated cost of total uncompensated care is approximately \$22.3 million and \$17.7 million for the years ended September 30, 2013 and 2012, respectively. The estimated cost of uncompensated care is based on the ratio of cost to charges, as determined by claims activity. The allocation between bad debt and charity care is determined based on management's analysis on the previous 12 months of hospital data. This analysis calculates the actual percentage of accounts written off or designated as bad debt vs. charity care while taking into account the total costs incurred by the hospital for each account analyzed.

The estimated cost of charity care provided was \$16.4 million and \$11.2 million for the years ended September 30, 2013 and 2012, respectively. The estimated cost of charity care is estimated using the ratio of cost to gross charges applied to the gross uncompensated cost associated with providing charity care.

Notes to Financial Statements (continued)

3. Uncompensated Care and Community Benefit Expense (continued)

For the years ended September 30, 2013 and 2012, bad debt expense, at charges, was \$15.0 million and \$16.6 million, respectively. For the years ended September 30, 2013 and 2012, bad debt expense, at cost, was \$5.9 million and \$6.6 million, respectively. The bad debt expense is multiplied by the ratio of cost to charges for purposes of inclusion in the total uncompensated care amount identified above.

The Connecticut Disproportionate Share Hospital Program (CDSHP) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. During the years ended September 30, 2013 and 2012, the Hospital received \$17.7 million and \$20.0 million, respectively, in distributions from CDSHP, of which approximately \$12.6 million was related to charity care. The Hospital made payments into CDSHP of \$16.9 million and \$16.9 million for the years ended September 30, 2013 and 2012, respectively, for the 1% assessment.

Additionally, the Hospital provides benefits for the broader community which includes services provided 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. The Hospital voluntarily assists with the direct funding of several City of Bridgeport programs, including an economic development program and a youth initiative program.

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

Notes to Financial Statements (continued)

4. Investments and Assets Limited as to Use

The composition of investments, including investments held by the Trust, and assets limited as to use is set forth in the following table (in thousands):

	-	2012		
Money market funds	\$	5,025 \$	5,458	
Mutual funds	Ψ	3,023 ψ	145	
		4 500	3,872	
U.S. equity securities		4,500	•	
U.S. equity securities – common collective trusts		791	428	
International equity securities (a)		3,689	2,702	
Fixed income:				
U.S. government		4,473	10,623	
U.S. government – common collective trusts		5,001	8,897	
Corporate debt		419	285	
International government ^(b)		3,764	3,960	
Commodities		135	45	
Hedge funds:				
Absolute return ^(c)		_	2,702	
Long/short equity ^(d)		9	880	
Real estate ^(e)		550	669	
Interest in Yale University endowment pool ^(f)		29,368	24,439	
Total	\$	57,724 \$	65,105	

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

⁽b) Investments with external commodities futures manager.

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

⁽d) Investment with an external long-short equity fund of funds manager with underlying portfolio investments consisting of publicly traded equity positions.

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

⁽f) Yale University Endowment Pool maintains a diversified investment portfolio, through the use of external investment managers operating in a variety of investment vehicles, including separate accounts, limited partnerships and commingled funds. The pool combines an orientation to equity investments with an allocation to non-traditional asset classes such as an absolute return, private equity, and real assets.

Notes to Financial Statements (continued)

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

The Hospital's ownership percentage of the Trust was approximately 5.2% and 7.0% as of September 30, 2013, and 2012, respectively. The Hospital's prorata portion of the Trust's investments are included in the above table. Primarily all of the above investments are deemed to be available for satisfying donor restrictions as they become due.

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. 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.

Notes to Financial Statements (continued)

5. Endowment (continued)

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

	Unre	1 3		2 0		Total
Endowment net assets, beginning						
of year	\$	104	\$ 17,630	\$	19,872	\$ 37,606
Investment returns:						
Investment income		_	858		_	858
Net appreciation (realized and						
unrealized)		_	1,239		_	1,239
Total investment return		_	2,097		_	2,097
Appropriation of endowment assets						
for expenditure		(104)	(1,243)		_	(1,347)
Other changes:						
Contribution bequests		-	2,588		916	3,504
Endowment net assets, end of year	\$	_	\$ 21,072	\$	20,788	\$ 41,860

Changes in endowment net assets for the fiscal year ended September 30, 2012, are as follows (in thousands):

	Unre	stricted	Temporarily Restricted	manently estricted	Total
Endowment net assets, beginning					
of year	\$	87	\$ 15,274	\$ 19,081	\$ 34,442
Investment returns:					
Investment income		8	1,131	_	1,139
Net appreciation (realized and					
unrealized)		9	1,246	_	1,255
Total investment return		17	2,377	_	2,394
Appropriation of endowment assets					
for expenditure		_	(104)	_	(104)
Other changes:					
Contribution bequests		_	83	791	874
Endowment net assets, end of year	\$	104	\$ 17,630	\$ 19,872	\$ 37,606

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

Notes to Financial Statements (continued)

6. Temporarily and Permanently Restricted Net Assets

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

	 2013		2012	
	(In Thousands)			
Indigent care	\$ 19,373	\$	17,945	
Other health care services	12,660		10,887	
	\$ 32,033	\$	28,832	

Permanently restricted net assets of approximately \$20.8 million and \$19.9 million for the years ended September 30, 2013 and 2012, respectively, consists of 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. Debt

A summary of debt at September 30 is as follows:

	2	2013		2012
	<u></u>	(In The	ousa	inds)
Tax-exempt revenue bonds:				
Series D (fixed interest rates ranging from				
2.00% to 5.00%)	\$	34,350	\$	36,415
Line of credit (1.71% interest rate)		25,000		_
2010 term loan (3.22% fixed interest rate)		4,940		5,543
2012 term loan (1.66% fixed interest rate)		4,167		5,235
Note payable (6.90% fixed interest rate)		9,463		_
Capital lease obligation		95		168
		78,015		47,361
Add: premium		3,392		3,884
Less: current portion	(32,205)		(3,809)
	\$	49,202	\$	47,436

Notes to Financial Statements (continued)

7. Debt (continued)

In November 2010, the Hospital obtained a \$6.6 million term loan from the State of Connecticut Health and Educational Facilities Authority (CHEFA). The proceeds of the loan are to be used for the purchase and installation of energy savings equipment and various renovations and improvements to the Hospital's infrastructure. The loan is to be paid in monthly installments over 10 years at a fixed interest rate of 3.22%.

In May 2012, the Hospital's Series D tax-exempt revenue bonds were issued through CHEFA under a Master Trust Indenture for approximately \$36.4 million, with coupons ranging from 2.0% to 5.0%, and a final maturity of July 2025. The proceeds, including a premium of approximately \$4.1 million, were held in an escrow account and used for the retirement of the outstanding Series A and C tax-exempt revenue bonds and to pay for certain bond issuance costs of approximately \$0.8 million. The bond premium is being amortized using the effective interest method and is included in interest expense in the accompanying statement of operations and changes in net assets. In connection with the refunding and refinancing, the Hospital recognized a loss in 2012 of approximately \$1.8 million principally related to the write-off of deferred financing costs.

In June 2012, the Hospital obtained a \$5.5 million term loan from CHEFA. The loan is to be paid in monthly installments over five years at a fixed rate of 1.66% with the proceeds to be used for medical and cafeteria equipment. The loan is secured by the equipment purchased with the proceeds of the loan.

In December 2012, in connection with the purchase of Russo Radiology practice, the Hospital entered into a note payable with the seller in the amount of \$14 million. The note is to be repaid in monthly installments over five years as discussed in footNote 1.

In September 2013, the Hospital entered into and drew in full its \$25 million line of credit with a bank. The bank line of credit requires payment of the outstanding principal amount twelve months subsequent to the initial advance. The obligation bears interest at a rate equal to one month LIBOR plus 1.50% per annum.

Notes to Financial Statements (continued)

7. Debt (continued)

Scheduled principal payments on all debt are as follows (in thousands):

	 Debt		tal Lease igations
2014	\$ 32,162	\$	47
2015	8,227		47
2016	4,657		8
2017	5,646		_
2018	3,323		_
Thereafter	23,905		_
	\$ 77,920		102
Less: interest		=	(7)
Total capital lease obligation		\$	95

Cash paid for interest for the years ended September 30, 2013 and 2012, approximated \$1.7 million and \$2.7 million, respectively.

In connection with the Series D bonds, the Hospital is required to maintain certain financial covenants. At September 30, 2013 and 2012, the Hospital was in compliance with its financial debt covenants.

Assets recorded under the capital lease obligations totaled \$0.3 million and \$0.2 million as of September 30, 2013 and 2012, respectively. Accumulated depreciation for the capital lease obligations totaled \$0.3 million and \$0.1 million for September 30, 2013 and 2012, respectively.

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.

Notes to 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 matches 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 expensed approximately \$9.5 million and \$9.6 million relating to the defined contribution plan for the years ended September 30, 2013 and 2012, respectively. Amounts due to the defined contribution plan amounted to \$5.2 million and \$4.8 million at September 30, 2013 and 2012, respectively, and are included in accrued expenses in the accompanying balance sheets.

The Hospital is required to measure plan assets and benefit obligations at a date consistent with its fiscal year-end balance sheet. Included in unrestricted net assets at September 30, 2013 and 2012, are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

The actuarial loss included in unrestricted net assets at September 30, 2013 is \$2.7 million and is expected to be recognized in net periodic benefit cost during the year ending September 30, 2014.

Notes to Financial Statements (continued)

8. Retirement Benefit Plans (continued)

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

		Pension Benefits		
		2013	2012	
		(In Thouse	ands)	
Change in benefit obligation				
Benefit obligation, beginning of year	\$	(199,526) \$	(166,112)	
Interest cost		(7,841)	(8,464)	
Actuarial gain (loss)		21,397	(30,864)	
Benefits paid		6,365	5,914	
Benefit obligation, end of year	\$	(179,605) \$	(199,526)	
Change in plan assets				
Fair value of plan assets, beginning of year	\$	132,485 \$	107,905	
Actual return on plan assets		8,020	14,665	
Employer contribution		2,520	15,829	
Benefits paid		(6,365)	(5,914)	
Fair value of plan assets, end of year	\$	136,660 \$	132,485	
Accrued obligation	\$	(42,945) \$	(67,041)	
Net amounts allocated to Parent	Ψ	6,225	6,225	
Accrued pension obligation	\$	(36,720) \$	(60,816)	

The accrued benefit obligation allocated to Parent is determined using the participant data at the time the Plan was frozen.

The actuarial gain in 2013 and loss in 2012 primarily relates to changes in the discount rate used to measure the benefit obligation.

Notes to Financial Statements (continued)

8. Retirement Benefit Plans (continued)

Accumulated Benefit Obligation

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

		2013		2012
	(In Thousands)			nds)
Projected benefit obligation	\$	179,605	\$	199,526
Accumulated benefit obligation		179,605		199,526
Fair value of plan assets		136,660		132,485

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

	Pension Benefits			efits
		2013		2012
		(In The	ousai	nds)
Components of net periodic benefit cost				
Interest cost	\$	7,841	\$	8,464
Expected rate of return on plan assets		(9,348)		(9,269)
Recognized net actuarial loss		2,740		1,365
Net periodic benefit cost	\$	1,233	\$	560

Assumptions

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

	Pension	Benefits
	2013	2012
Discount rate	4.90%	4.0%

Notes to Financial Statements (continued)

8. Retirement Benefit Plans (continued)

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

	Pension Benefits		
	2013	2012	
Discount rate	4.00%	5.20%	
Expected long-term return on plan assets	6.75	6.75	

Measurement Date

The measurement date used to determine pension benefits is September 30 in 2013 and 2012.

Plan Assets

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

	Target Allocation	Perce of Plan	O
	2014	2013	2012
Asset category:			
Equity securities	35%	40%	22%
Debt securities	39	43	61
Alternative investments	26	17	17
Total	100%	100%	100%

Notes to Financial Statements (continued)

8. Retirement Benefit Plans (continued)

The pension assets carried at fair value as of September 30, 2013 and 2012, are classified in the following tables in one of the three categories described in footNote 15 (in thousands):

		Level 1		Level 2	Level 3		Total
Money market funds	\$	1,441	\$	_ 9	\$ –	\$	1,441
U.S. equity securities	Ψ	29,960	Ψ	_ `	_	Ψ	29,960
International equity securities		25,111		_	_		25,111
Fixed income:		,					,
U.S. government		19,474		_	_		19,474
Corporate debt		29,606		_	_		29,606
International government		7,720		_	_		7,720
Hedge Funds							
Long/Short Equity		_		9,495	_		9,495
Multi Strategy/Other		_		_	10,505		10,505
Real Estate		3,348		_	_		3,348
Total investments as of	ф	116.660	ф	0.405	t 10.505	ф	127.770
September 30, 2013	\$	116,660	\$	9,495	10,505	\$	136,660
		Level 1		Level 2	Level 3		Total
		Level 1		Level 2	Level 3		Total
Money market funds	\$	Level 1 4,558	\$		Level 3	\$	Total 4,558
U.S. equity securities	\$		\$			\$	
U.S. equity securities International equity securities	\$	4,558	\$			\$	4,558
U.S. equity securities International equity securities Fixed income:	\$	4,558 19,674 12,459	\$			\$	4,558 19,674 12,459
U.S. equity securities International equity securities Fixed income: U.S. government	\$	4,558 19,674 12,459 28,193	\$			\$	4,558 19,674 12,459 28,193
U.S. equity securities International equity securities Fixed income: U.S. government Corporate debt	\$	4,558 19,674 12,459 28,193 37,263	\$			\$	4,558 19,674 12,459 28,193 37,263
U.S. equity securities International equity securities Fixed income: U.S. government Corporate debt International government	\$	4,558 19,674 12,459 28,193	\$			\$	4,558 19,674 12,459 28,193
U.S. equity securities International equity securities Fixed income: U.S. government Corporate debt International government Hedge Funds	\$	4,558 19,674 12,459 28,193 37,263	\$	- (- - - -		\$	4,558 19,674 12,459 28,193 37,263 10,275
U.S. equity securities International equity securities Fixed income: U.S. government Corporate debt International government Hedge Funds Long / Short Equity	\$	4,558 19,674 12,459 28,193 37,263	\$		\$ - - - - - -	\$	4,558 19,674 12,459 28,193 37,263 10,275 8,764
U.S. equity securities International equity securities Fixed income: U.S. government Corporate debt International government Hedge Funds Long / Short Equity Multi Strategy / other	\$	4,558 19,674 12,459 28,193 37,263 10,275	\$	- (- - - -		\$	4,558 19,674 12,459 28,193 37,263 10,275 8,764 8,689
U.S. equity securities International equity securities Fixed income: U.S. government Corporate debt International government Hedge Funds Long / Short Equity Multi Strategy / other Real Estate	\$	4,558 19,674 12,459 28,193 37,263	\$	- (- - - -	\$ - - - - - -	\$	4,558 19,674 12,459 28,193 37,263 10,275 8,764
U.S. equity securities International equity securities Fixed income: U.S. government Corporate debt International government Hedge Funds Long / Short Equity Multi Strategy / other	* *	4,558 19,674 12,459 28,193 37,263 10,275	\$	- S 	\$ - - - - - -	\$	4,558 19,674 12,459 28,193 37,263 10,275 8,764 8,689

Notes to Financial Statements (continued)

8. Retirement Benefit Plans (continued)

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

Fair value at September 30, 2011	\$ 6,806
2012 Realized gains and losses	2,931
2012 Unrealized gains and losses	207
2012 Purchases	8,500
2012 Sales	(9,755)
Fair value at September 30, 2012	8,689
2013 Unrealized gains and losses	666
2013 Purchases	1,150
Fair value at September 30, 2013	\$ 10,505

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 6.75% 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 2014 is approximately \$7.2 million.

Notes to Financial Statements (continued)

8. Retirement Benefit Plans (continued)

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

2014	\$ 7	,529
2015	7	7,723
2016	8	3,113
2017	8	3,582
2018	9	,331
2019 to 2024	55	5,051

9. Professional Liability and Self-Insurance Arrangements

Yale-New Haven Hospital (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 estimate for modified claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$44.8 million and \$54.7 million at September 30, 2013 and 2012, respectively. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately \$13.6 million and \$13.9 million at September 30, 2013 and 2012, respectively, and is included in professional insurance liabilities in the accompanying balance sheets at the actuarially determined present value of approximately \$12.1 million and \$12.1 million, respectively, based on a discount rate of 2.5% and 3.0% for the years ended September 30, 2013 and 2012, respectively.

The Hospital has recorded related insurance recoveries receivable of approximately \$32.7 million and \$42.5 million at September 30, 2013 and 2012, respectively, in consideration of the expected insurance recoveries for the total discounted modified claims-made insurance. The current portion of professional liabilities and the related insurance receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

Notes to Financial Statements (continued)

9. Professional Liability and Self-Insurance Arrangements (continued)

The Hospital's estimates for professional insurance liabilities are based upon complex actuarial calculations which utilize factors such as historical claims experience for the Hospital 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

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 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 financial position or results of operations of the Hospital.

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 2013 and 2012.

The Hospital has obtained a surety bond to provide coverage to the State of Connecticut for unemployment compensation in 2013 and 2012. There are no amounts outstanding during fiscal years 2013 and 2012.

The Hospital has various lease agreements. Lease expense for the fiscal years 2013 and 2012, was approximately \$4.7 million and \$4.3 million, respectively. Future minimum payments under these leases are as follows:

2014	\$ 4,051
2015	3,134
2016	2,982
2017	2,183
2018	1,411
Thereafter	 12,156
	\$ 25,917

Notes to Financial Statements (continued)

11. Functional Expenses

The Hospital provides general health care services to residents within its geographic location, including pediatric care, cardiac catheterization and outpatient surgery. Net expenses related to providing these services for the year ended September 30 are as follows:

	 2013	2012			
	(In Thousands)				
Health care services	\$ 327,387 \$	309,891			
General and administrative	81,847	77,473			
	\$ 409,234 \$	387,364			

12. Related-Party Transactions

The Hospital provides management services and purchases support and management services and participates in service contracts, lease agreements and other consulting contracts with affiliated organizations. The related amounts for the years ended September 30 were as follows:

	2013			2012		
	(In Thousands)					
Services to affiliates:						
Northeast Medical Group	\$	196	\$	229		
Southern Connecticut Health System Properties		15		15		
BHHS		13		10		
Yale-New Haven Hospital		9,569		4,833		
	\$	9,793	\$	5,087		
Services from affiliates:						
Yale-New Haven Hospital	\$	4,067	\$	3,226		
BHHS		20		20		
Southern Connecticut Health System Properties		5		5		
Northeast Medical Group		17,603		19,890		
YNHHSC		57,878		42,995		
	\$	79,573	\$	66,136		

Notes to Financial Statements (continued)

12. Related Party Transactions (continued)

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

		2013		2012		
	(In Thousands)					
Operating expenses:						
Professional and general liability insurance	\$	292	\$	2,182		
Information systems		21,811		15,798		
System business office		9,289		7,050		
Other business services		26,777		20,147		
	\$	58,169	\$	45,177		

The Hospital funds certain capital assets purchased by YNHHSC. Included in prepaid expenses and other assets were approximately \$35.0 million at September 30, 2013, and approximately \$18.8 million at September 30, 2012.

Included in depreciation and amortization expense for the years ended September 30, 2013 and 2012, is approximately \$2.2 million and \$1.0 million, respectively, of costs allocated from YNHHSC for shared capital projects.

Accounts receivable from and payable to related organizations included in prepaid expenses and other assets, and accrued expenses, respectively, in the accompanying balance sheets for the years ended September 30 are as follows:

	2013			2012
	(In Thousands)			nds)
Accounts receivable:				
Southern Connecticut Health System Properties	\$	89	\$	55
Bridgeport Hospital Foundation		520		769
Yale-New Haven Hospital		837		1,501
	\$	1,446	\$	2,325
Accounts payable:				
BHHS	\$	2,772	\$	2,763
YNHHSC		14,796		14,485
Northeast Medical Group		1,355		2,430
Greenwich Hospital		34		
	\$	18,957	\$	19,678

Notes to Financial Statements (continued)

13. Other Revenue

Other revenue consisted of the following (in thousands):

	Year Ended September 30			
		2012		
Cafeteria and vending	\$	1,934 \$	1,793	
Parking income		1,447	1,409	
Net assets released from restrictions for operations		3,282	2,316	
Pediatric ancillary services		9,569	5,901	
Electronic health records incentive payment		3,587	1,725	
Other		3,066	2,931	
	\$	22,885 \$	16,075	

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

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. Medicare EHR incentive payment revenue was approximately \$2.6 million for the year ended September 30, 2013 and Medicaid EHR incentive payment revenue was approximately \$1.0 million and \$1.7 million, respectively for the years ended September 30, 2013 and 2012. EHR incentive payment revenue is included in other revenue in the accompanying statement of operations. Income

Notes to Financial Statements (continued)

13. Other Revenue (continued)

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

14. Non-Operating Gains and Losses, Net

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

	Year Ended September 30			
		2013	2012	
Net realized gains and investment income	\$	790		
Change in unrealized gains and losses on investments		1,035 1,335		
Net changes in interest in Bridgeport Hospital				
Foundation, Inc.		1,825		1,838
Loss on refunding and refinancing of debt		- (1,799		
	\$	3,969	\$	2,164

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*, 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.

Notes to Financial Statements (continued)

15. Fair Value Measurements (continued)

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

Financial assets carried at fair value as of September 30, 2013 and 2012, are classified in the following tables in two of the three categories described above (in thousands):

	1	Level 1	Level 2		Level 3		Total
Cash and cash equivalents Money market funds U.S. equity securities International equity securities	\$	30,127 5,025 4,500 3,689	\$ - - -	\$	- - - -	\$	30,127 5,025 4,500 3,689
Fixed income: U.S. government Corporate debt		4,473 419	_		_		4,473 419
International government		2,272	1,492		_		3,764
Interest in Yale University endowment pool			 	_	29,368		29,368
Investments at fair value	\$	50,505	\$ 1,492	\$	29,368	=	81,365
Common collective trusts							5,792
Alternative investments							694
Investments not at fair value Total investments as of September 30, 2013						\$	6,486 87,851
Total investments as of september 30, 2013						Ψ	07,021
		Level 1	Level 2		Level 3		Total
Cash and cash equivalents	\$	15,511	\$ _	\$	_	\$	15,511
Money market funds		5,458	_		_		5,458
Mutual funds		145	_		_		145
U.S. equity securities		3,872	_		-		3,872
International equity securities Fixed income:		2,702	_		_		2,702
U.S. government		10,623	_		_		10,623
Corporate debt		285	_		_		285
International government		2,344	1,616		_		3,960
Interest in Yale University endowment pool		_	_		24,439		24,439
Investments at fair value	\$	40,940	\$ 1,616	\$	24,439	_	66,995
							0.225
Common collective trusts							9,325
Alternative investments							4,296
Investments not at fair value						\$	13,621
Total investments as of September 30, 2012						φ	80,616

Notes to Financial Statements (continued)

15. Fair Value Measurements (continued)

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

Interest in Yale University Endowment Pool:

Fair value at September 30, 2011	\$ 11,933
2012 Unrealized gains	9,514
2012 Purchases	 2,992
Fair value at September 30, 2012	24,439
2013 Unrealized gains	4,929
Fair value at September 30, 2013	\$ 29,368

Fair values of the Hospital's 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, 2013 and 2012, is \$57.8 million and \$48.0 million, 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 Hospital's alternative investments and common collective trusts are reported using the equity method of accounting (see Note 1).

16. Subsequent Events

Subsequent events have been evaluated through December 23, 2013 which is the date the financial statements were available to be issued. No events, other than those disclosed below, have occurred that require disclosure or adjustment of the financial statements.

In November 2013, the Hospital entered into an arrangement with a developer to construct a 120,000 square foot medical office building and adjacent garage in Fairfield County, CT. The arrangement contains provisions for the Hospital to begin leasing the property for a 25-year period beginning in April 2016. Management has evaluated the terms of the arrangement and anticipates the project will be recorded as a capital lease. Upon completion, management estimates the capital lease obligation will be approximately \$102 million.

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