

FINANCIAL STATEMENTS

Greenwich Hospital
Years Ended September 30, 2014 and 2013
With Report of Independent Auditors

Ernst & Young LLP



Building a better
working world

Greenwich Hospital

Financial Statements

Years Ended September 30, 2014 and 2013

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Report of Independent Auditors

The Board of Trustees
Greenwich Hospital

We have audited the accompanying financial statements of Greenwich Hospital (the Hospital), which comprise the balance sheets as of September 30, 2014 and 2013, 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 Greenwich Hospital at September 30, 2014 and 2013, 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.

Ernst & Young LLP

December 23, 2014

Greenwich Hospital

Balance Sheets

	September 30	
	2014	2013
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 43,811	\$ 25,344
Short-term investments <i>(Note 4)</i>	31,934	36,063
Accounts receivable for services to patients, less allowance for uncollectible accounts, charity and free care of approximately \$49,896,000 in 2014 and \$41,874,000 in 2013 <i>(Note 2)</i>	37,984	34,799
Other receivables <i>(Note 2)</i>	28,313	21,944
Professional liabilities insurance recoveries receivable – current portion <i>(Note 9)</i>	8,030	6,570
Other current assets	9,268	9,779
Total current assets	159,340	134,499
Assets limited as to use <i>(Note 4)</i>	38,804	33,475
Beneficial interest in the net assets of the Foundation	60,140	56,389
Long-term investments <i>(Note 4)</i>	51,525	45,989
Due from affiliate <i>(Note 12)</i>	–	501
Professional liabilities insurance recoveries receivable – non-current <i>(Note 9)</i>	17,916	13,962
Other assets <i>(Note 1)</i>	15,737	15,773
Property, plant, and equipment <i>(Note 1)</i> :		
Land and land improvements	10,618	8,441
Buildings and fixtures	252,748	251,020
Equipment	172,367	163,134
	435,733	422,595
Less accumulated depreciation	(212,977)	(194,596)
	222,756	227,999
Construction in progress	461	138
	223,217	228,137
Total assets	\$ 566,679	\$ 528,725

	September 30	
	2014	2013
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 8,178	\$ 5,989
Accrued expenses <i>(Note 12)</i>	24,436	22,545
Professional liabilities – current portion <i>(Note 9)</i>	8,030	6,570
Current portion of long-term debt <i>(Note 7)</i>	2,605	2,505
Other current liabilities <i>(Note 2)</i>	12,282	12,215
Total current liabilities	<u>55,531</u>	49,824
Long-term debt, net of current portion <i>(Note 7)</i>	35,105	37,710
Accrued pension and postretirement benefit obligations <i>(Note 8)</i>	31,684	23,880
Professional liabilities <i>(Note 9)</i>	24,769	19,717
Interest rate swap <i>(Note 7)</i>	3,817	4,166
Other long-term liabilities <i>(Note 2)</i>	14,411	15,804
Total liabilities	<u>165,317</u>	151,101
Commitments and contingencies		
Net assets <i>(Note 6)</i> :		
Unrestricted	334,040	318,845
Temporarily restricted	44,115	36,543
Permanently restricted	23,207	22,236
Total net assets	<u>401,362</u>	377,624
Total liabilities and net assets	<u><u>\$ 566,679</u></u>	<u><u>\$ 528,725</u></u>

See accompanying notes.

Greenwich Hospital

Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2014	2013
	<i>(In Thousands)</i>	
Operating revenue:		
Net patient service revenue	\$ 357,292	\$ 331,264
Less: Provision for bad debts	(25,085)	(18,282)
Net patient service revenue, less provision for bad debts	332,207	312,982
Other revenue <i>(Note 13)</i>	17,848	19,797
Total operating revenue	350,055	332,779
Operating expenses:		
Salaries and benefits	150,222	152,296
Supplies and other	142,360	137,021
Depreciation	24,929	21,233
Interest <i>(Note 7)</i>	343	469
Total operating expenses	317,854	311,019
Income from operations	32,201	21,760
Non-operating losses and gains:		
Change in fair value of swap, including counterparty payments <i>(Note 7)</i>	(847)	1,011
Change in unrealized gains and losses on investments	6,345	5,019
Other non-operating gains and losses, net <i>(Note 13)</i>	(1,327)	140
Excess of revenue over expenses	36,372	27,930

Greenwich Hospital

Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2014	2013
	<i>(In Thousands)</i>	
Unrestricted net assets:		
Excess of revenue over expenses	\$ 36,372	\$ 27,930
Other changes in net assets	(71)	(72)
Transfers to affiliates <i>(Note 12)</i>	(11,614)	(9,988)
Net assets released from restrictions for purchases of fixed assets	-	9
Transfer from Yale New Haven Health Services Corporation	-	700
Pension and other postretirement liability adjustments <i>(Note 8)</i>	(9,492)	32,327
Increase in unrestricted net assets	15,195	50,906
Temporarily restricted net assets:		
Net realized gains and income from investments	1,091	805
Change in net unrealized gains and losses on investments	2,417	5,187
Bequests and contributions	7,074	4,187
Net assets released from restrictions for purchases of fixed assets	-	(9)
Net assets released from restriction for operations	(3,010)	(3,621)
Net assets released from restrictions for nonoperating activities	-	(5)
Increase in temporarily restricted net assets	7,572	6,544
Permanently restricted net assets:		
Contributions	925	125
Net realized gains on investments	12	23
Change in net unrealized gains and losses on investments	34	299
Increase in permanently restricted net assets	971	447
Increase in net assets	23,738	57,897
Net assets at beginning of year	377,624	319,727
Net assets at end of year	\$ 401,362	\$ 377,624

See accompanying notes.

Greenwich Hospital
Statements of Cash Flows

	Year Ended September 30	
	2014	2013
	<i>(In Thousands)</i>	
Operating activities		
Increase in net assets	\$ 23,738	\$ 57,897
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	24,929	21,233
Change in net interest in the net assets of the Foundation	(3,751)	(5,122)
Net realized and change in net unrealized gains and losses on investments	9,898	11,333
Bequests and contributions	(7,999)	(4,312)
Pension and other postretirement liability adjustments	9,492	(32,327)
Change in fair value of interest rate swap agreement	(349)	(2,251)
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,185)	1,790
Other receivables	(6,369)	(4,092)
Professional liabilities and related insurance recoveries receivable	1,098	304
Due from affiliate	501	1,600
Other assets	547	(830)
Accounts payable	2,189	(172)
Accrued expenses	1,891	(313)
Other current liabilities, accrued pension, and post retirement benefit obligations and other long-term liabilities	(3,014)	(5,129)
Net cash provided by operating activities	<u>49,616</u>	<u>39,609</u>
Investing activities		
Acquisition of property, plant, and equipment, net	(20,009)	(14,483)
Net change in investments and assets limited as to use	(16,634)	(13,457)
Net cash used in investing activities	<u>(36,643)</u>	<u>(27,940)</u>
Financing activities		
Bequests and contributions	7,999	4,312
Repayment of long-term debt	(2,505)	(2,430)
Net cash provided by financing activities	<u>5,494</u>	<u>1,882</u>
Net increase in cash and cash equivalents	18,467	13,551
Cash and cash equivalents at beginning of year	25,344	11,793
Cash and cash equivalents at end of year	<u>\$ 43,811</u>	<u>\$ 25,344</u>

See accompanying notes.

Greenwich Hospital

Notes to Financial Statements

September 30, 2014

1. Organization and Significant Accounting Policies

Organization

Greenwich Hospital (the Hospital) is a not-for-profit acute care hospital located in Greenwich, Connecticut. The Greenwich Hospital Endowment Fund, Inc. (the Foundation) has been included as part of the reporting entity of the Hospital, based upon the financial interrelationship between the two organizations. The accompanying financial statements have been prepared from the separate records maintained by the Hospital and the Foundation. The Hospital's sole member is Greenwich Health Care Services, Inc. (GHCS or the Parent).

Yale-New Haven Health Services Corporation (YNHHSC) is the sole member of GHCS 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, GHCS 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 Foundation is a 501(c)(3) organization whose tax-exempt status is based upon its support of the Hospital and is a stand-alone corporation with its own board of directors. The Foundation was formed without variance power to receive and administer funds for the benefit of the Hospital, GHCS and any or all of their affiliates, which are exempt from federal income tax.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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, estimated settlements with third-party payors and professional insurance liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue reported during the year. 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 2014 and 2013, the Hospital recorded a change in estimate of approximately \$2.1 million and \$(0.3) million, respectively. Included in the change are amounts related to third-party payor settlements at September 30, 2014 and 2013, respectively.

Greenwich Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose and appreciation on permanently restricted net assets. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital and Foundation in perpetuity. The Hospital is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value.

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

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions receivable to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of the discount is recognized as revenue and is classified as either unrestricted or temporarily restricted in accordance with donor imposed restrictions, if any, on the contributions.

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets.

Cash and Cash Equivalents

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

Greenwich Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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 the financial institutions.

Accounts Receivable

Patient accounts receivable result from the healthcare services provided by the Hospital. Changes to the allowance for doubtful accounts result from changes to the provision for bad debts. Accounts written off as uncollectible are recorded as bad debt expense.

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

Investments

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

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

To diversify its investment portfolio and to enhance opportunities for increased rate of return, the Hospital has invested in alternative investments. Alternative investments include investments in non-marketable and market-traded debt and equity securities. Alternative investments are accounted for under the equity method, which is estimated using the net asset values of each alternative investment. Net asset values of these investments, provided by the investment manager or general partner, are primarily based upon financial data derived from underlying securities and other financial instruments and estimates that require varying degrees of judgment. 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

Greenwich Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

investment. The financial statements of the investees are audited annually by independent auditors. Certain alternative investments are subject to various withdrawal restrictions regarding timing, fees and enhanced disclosure required transaction limits at September 30, 2014 and 2013. Future funding commitments for alternative investments aggregated approximately \$2.4 million at September 30, 2014.

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

Inventories

Inventories are stated at the lower of cost or market. The Hospital values its inventories using the first-in, first-out method.

Assets Limited as to Use

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

Perpetual Trusts

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

Greenwich Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Interest Rate Swap Agreements

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

Beneficial Interest in the Net Assets of the Foundation

The Hospital has recognized its beneficial interest in the net assets of the Foundation. The investment is decreased when the Foundation makes distributions to the Hospital.

Deferred Financing Costs

Issuance costs, included in other assets, related to the Hospital's bond issuance are being amortized over the term of the applicable indebtedness using the effective interest method. Deferred financing costs capitalized totaled approximately \$0.6 million for September 30, 2014 and 2013. The accumulated amortization of deferred financing costs was approximately \$0.2 million for September 30, 2014 and 2013. Amortization, included in interest expense in the accompanying statements of operations and changes in net assets, was approximately \$30,000 for the years ended September 30, 2014 and 2013.

Beneficial Interest in Trusts

The Hospital has recognized its beneficial interest in trusts held by a third-party at fair value. Under these arrangements, the Hospital is receiving distributions to fund free care programs. The Hospital received distributions of approximately \$400,000 for the year ended September 30, 2013. No distributions were recorded for the year ended September 30, 2014.

Greenwich Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Beneficial Interest in Remainder Trusts

The Hospital is the ultimate beneficiary of certain charitable remainder trusts and similar arrangements. Under most of these arrangements, the Hospital is not receiving any distributions, but will be entitled to the remaining assets in the trust upon the death of the donor and any named beneficiaries. In certain cases, use of such assets ultimately to be received by the Hospital is restricted to specific purposes.

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, 2014 and 2013, the estimated liability for self-insured employee medical, prescription and other benefit claims and IBNRs aggregated approximately \$0.9 million 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, 2014 and 2013, the estimated liability for self-insured workers' compensation claims and IBNRs, discounted at 2.5% in 2014 and 2013, aggregated approximately \$2.0 million and \$2.3 million, respectively, and is included in other long-term liabilities in the accompanying balance sheets.

Professional Liability Insurance

The Hospital participates in the YNHHS coordinated professional liability program. Based on the terms of the agreement with YNHHS, the Hospital records the actuarially determined liabilities for professional and general liabilities.

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 date of contribution. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in income from operations.

Greenwich Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Depreciation of property, plant, and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives, ranging from 3 to 50 years. The cost of additions and improvements are capitalized and expenditures for repairs and maintenance, including the cost of replacing minor items not considered substantial enhancements, are expensed as incurred.

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 and gains 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 nonoperating.

Contributions of, or restricted to, property, plant, and equipment, transfers of assets to and from affiliates for other than goods and services, and pension 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 income taxes on related income pursuant to Section 501(a) of the Code. The Hospital also is exempt from state income tax.

Impairment of Assets

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

Greenwich Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

New Accounting Pronouncement

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

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2013 balances previously reported in the financial statements in order to conform with the current year presentation. Approximately \$22.8 million reported as a reduction to accounts receivable is now classified as allowances for uncollectible accounts, charity care, and free care on the accompanying balance sheet to conform with the current year presentation. See Note 3 for additional information relative to the amendment of the Hospital's Charity Care policy.

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

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

Greenwich Hospital

Notes to Financial Statements (continued)

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

Third-party payor receivables included in other receivables were approximately \$2.9 million and \$2.3 million at September 30, 2014 and 2013, respectively. Third-party payor liabilities included in other current liabilities were approximately \$4.0 million and \$3.9 million at September 30, 2014 and 2013, respectively. Third-party payor liabilities included in other long-term liabilities were approximately \$10.9 million and \$12.1 million at September 30, 2014 and 2013, respectively.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare, Medicaid and other 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 29% and 4%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2014 and approximately 28% and 3%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2013. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 36% and 6%, respectively, for the year ended September 30, 2014 and approximately 39% and 5%, respectively, for the year ended September 30, 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. In April 2014, the Hospital began participation in the Centers for Medicare & Medicaid Services Bundled Payments for Care Improvement initiative. Under the Bundled Payments for Care Improvement initiative, the Hospital has entered into payment arrangements that include financial and performance accountability for episodes of care.

Greenwich Hospital

Notes to Financial Statements (continued)

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

The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement through 2012 for Medicare and 1995 for Medicaid. Other years remain open for settlement.

The significant concentrations of accounts receivable for services to patients include 37% from Medicare, 3% from Medicaid, and 60% from non-governmental payors at September 30, 2014 and 34% from Medicare, 5% from Medicaid, and 61% from non-governmental payors at September 30, 2013.

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

	<u>2014</u>	<u>2013</u>
Gross revenue at charges	\$ 1,149,849	\$ 1,081,143
Deductions:		
Contractual allowances	772,804	733,992
Charity and free care (at charges)	19,753	15,887
Provision for doubtful accounts	25,085	18,282
Net patient service revenue	<u>\$ 332,207</u>	<u>\$ 312,982</u>

Greenwich Hospital

Notes to Financial Statements (continued)

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

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

	<u>Third-Party</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
2014 Patient service revenue (net of contractual allowances and discounts)	\$ 341,172	\$ 16,120	\$ 357,292
2013 Patient service revenue (net of contractual allowances and discounts)	322,834	8,430	331,264

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.

The Hospital's allowance for doubtful accounts totaled approximately \$49.9 million and \$41.9 million at September 30, 2014 and 2013, respectively. The allowance for doubtful accounts for self-pay patients was approximately 53% and 60% of self-pay accounts receivable as of September 30, 2014 and 2013, respectively. Overall, the total of self-pay discounts and write-offs did not change significantly in 2014.

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.

Greenwich Hospital

Notes to Financial Statements (continued)

3. Uncompensated Care and Community Benefit Expense (continued)

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. During the year ended September 30, 2014, the Hospital amended its Charity Care policy. Based upon the policy change, the Hospital experienced increased charity care write offs during the year.

Together, charity care and bad debt expense represent uncompensated care. The estimated cost of total uncompensated care is approximately \$17.0 million and \$12.5 million for the years ended September 30, 2014 and 2013, respectively. The estimated cost of uncompensated care is determined by the Hospital's cost accounting system. 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 approximately \$7.5 million and \$5.8 million for the years ended September 30, 2014 and 2013, respectively. The estimated cost of charity care is determined by the Hospital's cost accounting system.

For the years ended September 30, 2014 and 2013, bad debt expense, at charges, was approximately \$25.1 million and \$18.3 million, respectively. For the years ended September 30, 2014 and 2013, bad debt expense, at cost, was approximately \$9.5 million and \$6.7 million, respectively. The bad debt expense is multiplied by the ratio of cost to charges for purposes of inclusion in the total uncompensated care amount identified above.

The Connecticut Disproportionate Share Hospital Program (CDSHP) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by an assessment on hospital net patient service revenue. During the years ended September 30, 2014 and 2013, the Hospital received approximately \$1.2 million and \$2.8 million, respectively, in CDSHP distributions, of which approximately \$0.5 million and \$1.4 million was related to charity care. The Hospital made payments into the CDSHP of approximately \$12.1 million for the years ended September 30, 2014 and 2013 for the assessment.

Greenwich Hospital

Notes to Financial Statements (continued)

3. Uncompensated Care and Community Benefit Expense (continued)

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.

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 health care professionals to provide their services at no charge through participation in various community seminars and training programs.

4. Investments and Assets Limited as to Use

The composition of investments and assets limited as to use at September 30 is set forth in the following table (in thousands):

	2014	2013
Money market funds	\$ 59,018	\$ 58,410
U.S. equity securities	8,843	9,849
U.S. equity securities – common collective trusts	7,100	4,752
International equity securities ^(c)	10,625	9,107
Fixed income:		
U.S. government	3,979	3,754
U.S. government – common collective trusts	7,116	6,911
International government	1,284	1,073
Corporate debt ^(a)	16,409	13,250
Mortgage backed securities ^(b)	24	44
Hedge funds:		
Absolute return ^(d)	3,126	4,385
Private equity ^(e)	2,154	1,911
Commodities	1,050	1,356
Real assets ^(f)	895	725
Long/short equity ^(g)	640	–
	\$ 122,263	\$ 115,527

Greenwich Hospital

Notes to Financial Statements (continued)

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

- (a) Investments consist of PIMCO short-term and total return funds as well as bonds issued by U.S. corporations.
- (b) Investments consist of Fannie Mae, Ginnie Mae, and Federal Home Loan Mortgage Corporation Bonds.
- (c) Investments with external international equity and bond managers that are domiciled in the U.S.. Investment managers may invest in American or Global Depository Receipts (ADR, GDR) or in direct foreign securities.
- (d) Investment with external multi-strategy fund of funds manager investing in publicly traded equity and credit holdings which may be long or short positions.
- (e) Investments in funds which are directly investing into private companies.
- (f) Investments made in pooled investment funds.
- (g) Investments with an external long/short equity fund of funds manager underlying portfolio investments consisting of publicly traded equity positions.

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 nonprofit entities. The Hospital's ownership percentage of the Trust was approximately 1.1% and 1.3% as of September 30, 2014 and 2013, respectively.

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.

Greenwich Hospital

Notes to Financial Statements (continued)

5. Endowment (continued)

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 (c) accumulations to the permanent endowment related to the Hospital's beneficial interest in perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the 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 assets for the year ended September 30, 2014 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 43,011	\$ 15,472	\$ 22,236	\$ 80,719
Investment return:				
Investment income	(565)	58	–	(507)
Net appreciation (realized and unrealized)	6,874	2,600	46	9,520
Total investment return	6,309	2,658	46	9,013
Contributions	–	–	925	925
Appropriation of endowment assets for expenditure	(2,548)	(616)	–	(3,164)
Endowment net assets, end of year	<u>\$ 46,772</u>	<u>\$ 17,514</u>	<u>\$ 23,207</u>	<u>\$ 87,493</u>

Greenwich Hospital

Notes to Financial Statements (continued)

5. Endowment (continued)

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

	Temporarily		Permanently	Total
	Unrestricted	Restricted	Restricted	
Endowment net assets, beginning of year	\$ 38,014	\$ 10,115	\$ 21,789	\$ 69,918
Investment return:				
Investment income	95	–	–	95
Net appreciation (realized and unrealized)	7,302	5,426	322	13,050
Total investment return	7,397	5,426	322	13,145
Contributions	–	–	125	125
Appropriation of endowment assets for expenditure	(2,400)	(69)	–	(2,469)
Endowment net assets, end of year	\$ 43,011	\$ 15,472	\$ 22,236	\$ 80,719

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Greenwich Hospital

Notes to Financial Statements (continued)

5. Endowment (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Hospital has a policy of appropriating funds for distribution each year based on the greater of \$800,000 or 5% of the average market value of its investments for the prior 12 quarters. In establishing this policy, the Hospital considered the long-term expected return on its endowment.

Net assets released from donor-imposed restrictions used for operations and included in other revenue consisted of the following at September 30, 2014 and 2013 (in thousands):

	2014	2013
Restricted funds to support operations	\$ 3,008	\$ 3,177
Free care fund	2	444
	\$ 3,010	\$ 3,621

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2014 and 2013 (in thousands):

	2014	2013
Other specified capital expenditures	\$ 5,649	\$ 3,266
Indigent care	10,065	8,505
Indigent care funds held by trustee	11,918	11,142
Specified health care services and operations	9,868	7,626
Education	6,615	6,004
	\$ 44,115	\$ 36,543

Greenwich Hospital

Notes to Financial Statements (continued)

6. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets are restricted as follows at September 30, 2014 and 2013 (in thousands):

	2014	2013
Principal to be held in perpetuity (held by the Foundation), with income expendable to support health care services and other activities (reported as nonoperating gains)	\$ 13,418	\$ 13,283
Principal to be held in perpetuity (held by the trustee), with income expendable to support free care programs (reported as an increase in unrestricted net assets)	1,941	1,941
Principal to be held in perpetuity, with income to be spent for restricted purposes as specified by donor (reported as additions to temporarily restricted net assets until released upon satisfaction of restriction)	7,848	7,012
	\$ 23,207	\$ 22,236

7. Long-Term Debt

Long-term debt consists of the following at September 30, 2014 and 2013 (in thousands):

	2014	2013
State of Connecticut Health and Educational Facilities Authority Tax Exempt Bonds, Series C (variable interest rates with an average rate of approximately 3.22% for fiscal 2014)	\$ 37,710	\$ 40,215
Less current portion	(2,605)	(2,505)
Long-term portion	\$ 35,105	\$ 37,710

On March 1, 1996, the State of Connecticut Health and Educational Facilities Authority (CHEFA) issued approximately \$62.9 million of its Revenue Bonds on behalf of Greenwich Hospital, Series A, consisting of \$12.8 million of serial bonds and approximately \$50.1 million of term bonds, the proceeds of which have been loaned by CHEFA to the Hospital for the master facility renovation project.

Greenwich Hospital

Notes to Financial Statements (continued)

7. Long-Term Debt (continued)

On April 3, 2006, CHEFA issued approximately \$56.6 million of its Revenue Bonds on behalf of Greenwich Hospital, Series B, consisting of auction rate certificates. The proceeds were utilized for the defeasance and retirement of the outstanding Series A revenue bonds at a redemption price of 102%, which occurred on July 1, 2006.

On May 6, 2008, CHEFA issued approximately \$53.6 million of its Revenue Bonds on behalf of Greenwich Hospital, Series C, consisting of variable rate demand bonds. The proceeds were utilized for the refunding of the outstanding Series B revenue bonds. Principal amounts related to the Series C revenue bonds mature annually each July 1 through fiscal 2026. The effective interest rate of 3.22% is the result of the variable rate paid to bondholders, disclosed as interest expense of approximately \$0.1 million and net counterparty payments of approximately \$1.3 million in connection with the interest rate swap included in nonoperating gains and losses.

The Series C bonds are required to be supported by a letter of credit which has been executed with Bank of America. The letter of credit is scheduled to expire in May 2016.

For the years ended September 30, 2014 and 2013, the Hospital paid approximately \$0.1 million for interest related to long-term debt, exclusive of the swap agreements.

Aggregate principal and sinking fund payments required by the Hospital for the Series C revenue bonds for fiscal 2015 through fiscal 2019 and thereafter are as follows (in thousands):

Years ending:	
2015	\$ 2,605
2016	2,675
2017	2,790
2018	2,870
2019	2,970
Thereafter	23,800
	<u>\$ 37,710</u>

Required payments on the Series C revenue bonds by the Hospital are made to a trustee in amounts sufficient to provide for the payment of principal, interest and sinking fund installments as the same become due, and certain other payments. Additionally, the Hospital has granted a collateral interest to CHEFA on its gross receipts.

Greenwich Hospital

Notes to Financial Statements (continued)

7. Long-Term Debt (continued)

Pursuant to the State of Connecticut Health and Educational Authority Trust Indenture (Trust Indenture), dated May 1, 2008, the Hospital is required to maintain a debt service fund with a trustee to cover payment of principal and interest. The Hospital is required to comply with a variety of covenants, including a debt service coverage ratio. In connection with the Series C revenue bonds, GHCS is part of the Obligated Group with the Hospital (including the Hospital's Foundation).

At September 30, 2014 and 2013, the Obligated Group was in compliance with its debt covenants.

In connection with its Series C revenue bonds, the Hospital entered into an interest rate swap agreement (the swap) with a financial institution. Under the terms of the swap, the Hospital will receive variable interest payments and pay fixed interest payments on a notional value of approximately \$25.7 million.

There was a favorable change in fair value of approximately \$0.3 million and \$2.3 million for the years ended September 30, 2014 and 2013, respectively, which was recorded in excess of revenue over expenses. The terms of the swap agreement have not required the Hospital to collateralize funds to be held by the financial institution as of September 30, 2014 and 2013.

8. Retirement Plan

Defined Contribution Pension Plan

The Hospital provides a defined contribution pension plan for those employees eligible to participate. The plan contains three separate benefits. The incentive contribution, which is generally available to all non-management employees, is designed to reward employees when the Hospital meets certain predetermined quality and financial measures (if paid, this benefit varies based on service from 1% to 3% of pay). Effective January 1, 2007, a matching contribution, which is generally available to all employees no longer accruing benefits under the defined benefit plan, is designed to provide an incentive to employees to save for retirement by matching employee contributions (employees can receive up to 3% of pay on contributions equal to 5% of pay).

Greenwich Hospital

Notes to Financial Statements (continued)

8. Retirement Plan (continued)

The length of service contribution, effective January 1, 2007, which is generally available to all employees no longer accruing benefits under the defined benefit plan, is designed to provide future retirement income that rewards continued service at the Hospital (this benefit varies based on service from 3% to 8% of pay).

In total, the Hospital contributed approximately \$5.5 million and \$5.2 million to the Plan for the years ended September 30, 2014 and 2013, respectively.

Defined Benefit Pension Plan

Prior to December 31, 2006, the Hospital provided a noncontributory defined benefit pension plan (the Plan) covering substantially all employees. The benefits provided are based on age, years of service and compensation. The Hospital's policy is to at least make annual contributions to fund the Plan's minimum required contribution as defined by the Employee Retirement Income Security Act of 1974. Effective as of December 31, 2006, the Plan was amended to freeze benefits for employees who were under age 50 with less than five years of service. This amendment is reflected in the tables below. Future retirement benefits will be provided through the defined contribution plan for those employees affected by the freeze. Employees who were age 50 or older with five years of service continue to accumulate benefits under the defined benefit plan and do not participate in the employer matching and length of service portions of the defined contribution plan.

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, 2014 and 2013 are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	<u>2014</u>	<u>2013</u>
Unrecognized actuarial loss	\$ (44,837)	\$ (35,339)
Unrecognized prior service cost	-	(6)
	<u>\$ (44,837)</u>	<u>\$ (35,345)</u>

Greenwich Hospital

Notes to Financial Statements (continued)

8. Retirement Plan (continued)

The actuarial loss included in unrestricted net assets at September 30, 2014 and expected to be recognized in net periodic benefit cost during the year ending September 30, 2014 is as follows (in thousands):

Unrecognized actuarial loss	\$ 7,537
	\$ 7,537

The following table sets forth the change in benefit obligations, change in plan assets and the funded status of the Hospital's plan at September 30, 2014 and 2013 (in thousands):

	2014	2013
Change in benefit obligations:		
Benefit obligation, at prior measurement date	\$ 179,205	\$ 193,078
Service cost	2,298	2,852
Interest cost	8,594	7,579
Actuarial loss (gain)	19,811	(17,328)
Benefits paid	(7,146)	(6,976)
Benefit obligation, at current measurement date	\$ 202,762	\$ 179,205
Change in plan assets:		
Fair value of plan assets, at prior measurement date	\$ 155,325	\$ 138,914
Actual return on plan assets	17,399	18,087
Employer contributions	5,500	5,300
Benefits paid	(7,146)	(6,976)
Fair value of plan assets, at current measurement date	\$ 171,078	\$ 155,325
Pension liability	\$ (31,684)	\$ (23,880)

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

Greenwich Hospital

Notes to Financial Statements (continued)

8. Retirement Plan (continued)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets were as follows at September 30, 2014 and 2013 (in thousands):

	2014	2013
Projected benefit obligation	\$ 202,762	\$ 179,205
Accumulated benefit obligation	197,893	172,322
Fair value of plan assets	171,078	155,325

The following table provides the components of the net periodic benefit cost for the Plan for the years ended September 30, 2014 and 2013 (in thousands):

	2014	2013
Service cost	\$ 2,298	\$ 2,852
Interest cost	8,594	7,579
Expected return on plan assets	(11,678)	(11,069)
Amortization of prior service cost	6	6
Amortization loss	4,592	7,976
Net periodic benefit cost	\$ 3,812	\$ 7,344

The weighted-average assumptions used in the measurement of the Hospital's net periodic benefit cost and benefit obligations for the years ended September 30, 2014 and 2013 are shown in the following table:

	Net Periodic Benefit Cost		Benefit Obligation	
	2014	2013	2014	2013
Discount rate	4.90%	4.00%	4.30%	4.90%
Rate of compensation increase	3.50	3.50	2.50	3.50
Expected rate of return on plan assets	7.75	7.75	—	—

Greenwich Hospital

Notes to Financial Statements (continued)

8. Retirement Plan (continued)

The asset allocation of the Plan at September 30, 2014 and 2013 was as follows:

	2015 Target Allocation	2014	2013
Equity securities	60%–90%	55%	54%
Debt securities	10%–40%	15	16
Alternative investments	0%–25%	30	30
		100%	100%

The plan assets carried at fair value as of September 30, 2014 are classified in the table below in one of the three categories described in Note 14 (in thousands):

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,249	\$ –	\$ –	\$ 1,249
U.S. equity securities	20,965	29,461	–	50,426
International equity securities	3,336	40,744	–	44,080
Fixed income:				
Corporate debt	23,987	–	–	23,987
Commodities	–	–	4,484	4,484
Private equity	–	–	11,850	11,850
Hedge funds:				
Absolute return	–	16,248	13,835	30,083
Long/short equity	–	–	4,919	4,919
	\$ 49,537	\$ 86,453	\$ 35,088	\$ 171,078

Greenwich Hospital

Notes to Financial Statements (continued)

8. Retirement Plan (continued)

The plan assets carried at fair value as of September 30, 2013 are classified in the table below in one of the three categories described in Note 14 (in thousands):

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 1,603	\$ –	\$ –	\$ 1,603
U.S. equity securities	21,349	23,664	–	45,013
International equity securities	–	38,332	–	38,332
Fixed income:				
Corporate debt	22,601	–	–	22,601
Commodities	–	–	4,491	4,491
Private equity	–	–	9,843	9,843
Hedge funds:				
Absolute return	–	18,452	14,990	33,442
	<u>\$ 45,553</u>	<u>\$ 80,448</u>	<u>\$ 29,324</u>	<u>\$ 155,325</u>

The composition and presentation of financial assets categorized as Level 3 investments in the tables above for the fiscal years ended September 30, 2014 and 2013 are as follows (in thousands):

	Private Equity	Commodities	Hedge Funds	Total
Beginning balance as of October 1, 2013	\$ 9,843	\$ 4,491	\$ 14,990	\$ 29,324
Income and realized gains (losses)	(1,191)	–	832	(359)
Unrealized gains (losses)	3,214	(7)	1,216	4,423
Sales, distributions	(2,051)	–	(3,284)	(5,335)
Purchases, sales, issuance, settlements, transfers, other	2,035	–	5,000	7,035
Ending balance as of September 30, 2014	<u>\$ 11,850</u>	<u>\$ 4,484</u>	<u>\$ 18,754</u>	<u>\$ 35,088</u>

Greenwich Hospital

Notes to Financial Statements (continued)

8. Retirement Plan (continued)

	Private Equity	Commodities	Hedge Funds	Total
Beginning balance as of October 1, 2012	\$ 8,319	\$ 4,580	\$ 10,579	\$ 23,478
Income and realized gains	643	–	503	1,146
Unrealized gains (losses)	1,487	(89)	632	2,030
Sales, distributions	(346)	–	(3,724)	(4,070)
Purchases, sales, issuance, settlements, transfers, other	(260)	–	7,000	6,740
Ending balance as of September 30, 2013	<u>\$ 9,843</u>	<u>\$ 4,491</u>	<u>\$ 14,990</u>	<u>\$ 29,324</u>

Description of Investment Policies and Strategies

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. The actual return on assets of the Plan was 11.9% and 10.1% for the one and five years ended September 30, 2014, respectively.

Cash Flows

Contributions: The Hospital expects to make cash contributions of approximately \$7.2 million to the Plan in fiscal 2015.

Greenwich Hospital

Notes to Financial Statements (continued)

8. Retirement Plan (continued)

Estimated Future Benefit Payments: Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows (in thousands):

Years ending:	
2015	\$ 8,217
2016	8,965
2017	9,742
2018	10,511
2019	11,304
2020 to 2024	65,545

9. Professional Liability Insurance

Yale-New Haven Hospital (Y-NHH) 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 Y-NHH 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 YNHHS.

The estimate for modified claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$32.8 and \$26.3 million at September 30, 2014 and 2013, respectively. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately \$7.7 million and \$6.5 million at September 30, 2014 and 2013, respectively, and is included in professional liabilities in the accompanying balance sheets at the actuarially determined present value of approximately \$6.9 million and \$5.8 million, respectively, based on a discount rate 2.5% for the years ended September 30, 2014 and 2013.

The Hospital has recorded related insurance recoveries receivable of approximately \$25.9 million and \$20.5 million at September 30, 2014 and 2013, respectively, in consideration of the expected insurance recoveries for the total discounted modified claims-made insurance. The current portion of professional liabilities and the related insurance receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

Greenwich Hospital

Notes to Financial Statements (continued)

9. Professional Liability Insurance (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

Leases

The Hospital leases various equipment and properties under operating leases and has long-term commitments under service contracts expiring at various dates through fiscal 2019. Expense under such leases and service contracts was approximately \$8.3 million and \$7.6 million for fiscal 2014 and 2013, respectively.

Future minimum lease payments for each of the following four years subsequent to September 30, 2014 under noncancelable operating leases and service contracts are as follows (in thousands):

Years ending:	
2015	\$ 7,733
2016	6,432
2017	2,878
2018	942
	<u>\$ 17,985</u>

The Hospital has been involved in leasing leased and owned houses and properties to Hospital employees. Expenses for the years ended September 30, 2014 and 2013, under these leases are included in supplies and other expenses. The amounts received from employees relating to these leases are included in other revenue (see Note 13).

Greenwich Hospital

Notes to Financial Statements (continued)

10. Commitments and Contingencies (continued)

The Hospital has a leasing arrangement, renewable annually, with an affiliate, Perryridge Corporation, to rent four office buildings (the Cohen Pavilion, 55 Holly Hill Lane, 500 West Putnam Avenue and 2015 West Main Street). Included in supplies and other expenses was approximately \$3.5 million and \$3.4 million for fiscal 2014 and 2013, respectively. It is anticipated that this arrangement will be renewed in the future.

Litigation

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance as explained in Note 9 or are deemed to be immaterial. While the outcomes of the lawsuits and claims cannot be determined at this time, management believes that any loss which may arise from these will not have a material adverse effect on the financial position or changes in net assets of the Hospital.

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

11. Functional Expenses

Functional expenses related to the Hospital's operating activities for the years ended September 30, 2014 and 2013 are as follows (in thousands):

	<u>2014</u>	<u>2013</u>
Health care services	\$ 228,855	\$ 167,895
General and administrative	88,999	143,124
	<u>\$ 317,854</u>	<u>\$ 311,019</u>

Greenwich Hospital

Notes to Financial Statements (continued)

12. Related-Party Transactions

The Hospital purchased certain services from YNHHSO for the years ended September 30, 2014 and 2013 as follows (in thousands):

	2014	2013
Professional and general liability insurance	\$ 4,670	\$ 4,573
Information systems	13,068	9,540
Management services	4,670	4,661
Other support services	29,633	24,888
Hospitalist Program	9,761	9,362
EPIC shared project	5,035	8,299
	\$ 66,837	\$ 61,323

The Hospital has amounts due to YNHHSO of approximately \$6.8 million and \$7.5 million, included in accrued expenses and other current liabilities in the accompanying balance sheets, at September 30, 2014 and 2013, respectively.

In April 2004, the Hospital granted a \$10.0 million line of credit to 2015 West Main Street Associates, LLC, a wholly owned subsidiary of the Perryridge Corporation (an affiliate of the Hospital), of which approximately \$0.5 million and \$2.1 million was outstanding at September 30, 2014 and 2013, respectively.

Future payments under these loans are as follows (in thousands):

	2014	2013
Amounts due in one year (included in other receivables)	\$ 501	\$ 1,600
Amounts due in two to five years	-	501

During the years ended September 30, 2014 and 2013, the Hospital transferred approximately \$11.6 million and \$10.0 million, respectively, related to operations to GHCS.

Greenwich Hospital

Notes to Financial Statements (continued)

13. Supplemental Operating Data

Other revenue consisted of the following (in thousands):

	Year Ended September 30	
	2014	2013
Pathology services	\$ 4,104	\$ 4,651
Foundation distributed income	2,532	2,400
Cafeteria and vending	1,173	1,260
Greenwich Ambulatory Surgery Center Joint Venture	1,499	1,417
Net assets released from restrictions for operations	3,010	3,621
Electronic health record incentive payment	1,190	1,762
In vitro fertilization	1,295	1,269
Other	3,045	3,417
	\$ 17,848	\$ 19,797

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 2012 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.

Greenwich Hospital

Notes to Financial Statements (continued)

13. Supplemental Operating Data (continued)

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. Medicare EHR incentive payment revenue was approximately \$1.1 million and \$1.6 million for the years ended September 30, 2014 and 2013, respectively, and Medicaid EHR incentive payment revenue was approximately \$0.1 million for the years ended September 30, 2014 and 2013. EHR incentive payment revenue is included in other revenue in the accompanying statements of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

Other non-operating gains and losses, net for the years ended September 30, 2014 and 2013 consisted of the following (in thousands):

	2014	2013
Income from Foundation operations, primarily investment income and net realized gains	\$ 1,464	\$ 2,020
Less Foundation income distributed to the Hospital included in other revenue	<u>(2,532)</u>	<u>(2,400)</u>
	(1,068)	(380)
Unrestricted contributions	2,412	3,284
Interest and investment income	718	304
Fundraising expenses	(2,660)	(2,424)
Community Health at Greenwich Hospital	(729)	(649)
Net assets released from restrictions used for non-operating activities, net	—	5
	<u>\$ (1,327)</u>	<u>\$ 140</u>

Greenwich Hospital

Notes to Financial Statements (continued)

13. Supplemental Operating Data (continued)

Contributions received consisted of the following (in thousands):

	<u>2014</u>	<u>2013</u>
Unrestricted contributions	\$ 2,412	\$ 3,284
Temporarily restricted contributions	7,074	4,187
Permanently restricted contributions	925	125
Total contributions	<u>10,411</u>	<u>7,596</u>
Less: Fundraising costs	<u>2,660</u>	<u>2,424</u>
	<u>\$ 7,751</u>	<u>\$ 5,172</u>

Annually, the Foundation has committed to make a distribution to the Hospital, calculated as the greater of \$800,000 or 5% of the average market value of its investments for the prior 12 quarters (see Note 1).

14. 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.
- Level 3: Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

Greenwich Hospital

Notes to Financial Statements (continued)

14. Fair Value Measurements (continued)

Financial assets and liabilities carried at fair value as of September 30, 2014 are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 43,811	\$ —	\$ —	\$ 43,811
Money market funds	59,019	—	—	59,019
U.S. equity securities	3,780	—	—	3,780
International equity securities	2,398	—	—	2,398
Fixed income:				
U.S. government	3,979	—	—	3,979
Corporate debt	16,409	—	—	16,409
Mortgage backed securities	24	—	—	24
International government	725	558	—	1,283
Commodities	397	—	—	397
Real estate	895	—	—	895
Beneficial interest in remainder trusts	1,947	—	—	1,947
Investments at fair value	\$ 133,384	\$ 558	\$ —	133,942
Common collective trusts				14,217
Alternative investments				19,862
Investments not at fair value				34,079
Total investments as of September 30, 2014				\$ 168,021
Liabilities:				
Interest rate swap	\$ —	\$ (3,817)	\$ —	\$ (3,817)

The amounts reported in the table above exclude assets invested in the Hospital's defined benefit pension plan (see Note 8).

Greenwich Hospital

Notes to Financial Statements (continued)

14. Fair Value Measurements (continued)

Financial assets and liabilities carried at fair value as of September 30, 201b are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 25,344	\$ —	\$ —	\$ 25,344
Money market funds	58,411	—	—	58,411
U.S. equity securities	5,667	—	—	5,667
International equity securities	1,288	—	—	1,288
Fixed income:				
U.S. government	3,754	—	—	3,754
Corporate debt	13,250	—	—	13,250
Mortgage backed Securities	44	—	—	44
International government	528	545	—	1,073
Commodities	690	—	—	690
Real estate	725	—	—	725
Beneficial interest in remainder trusts	1,832	—	—	1,832
Investments at fair value	\$ 111,533	\$ 545	\$ —	112,078
Common collective trusts				11,663
Alternative investments				18,963
Investments not at fair value				30,626
Total investments as of September 30, 2013				\$ 142,704
Liabilities:				
Interest rate swap	\$ —	\$ (4,166)	\$ —	\$ (4,166)

The fair value of long-term debt was approximately \$35.1 million and \$37.7 million at September 30, 2014 and 2013, respectively. The fair value of long-term debt is classified as Level 2 in the fair value hierarchy, as it uses a combination of quoted market prices and valuation based on current market rates.

Greenwich Hospital

Notes to Financial Statements (continued)

14. Fair Value Measurements (continued)

Included in the table above are investments at September 30, 2014 and 2013 in common collective trusts totaling approximately \$14.2 million and \$11.7 million, respectively, and other alternative investments totaling approximately \$19.9 million and \$19.0 million, respectively, that are accounted for under the equity method of accounting (see Note 1). The interest rate swap listed above is classified in the accompanying balance sheets as other long-term liabilities at September 30, 2014 and 2013.

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

<u>Description of Investment</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private equity	\$ 8,272	\$ 2,414	N/A	N/A
Hedge funds:				
Absolute return	2,496	N/A	N/A	N/A
Long/short equity	2,460	N/A	N/A	N/A
Global equity	11,356	N/A	30 days	3 years
Total	<u>\$ 24,584</u>			

15. Subsequent Events

Management has evaluated subsequent events through December 23, 2014, which is the date the financial statements were available to be issued. No events have occurred that require disclosure to or adjustment of the financial statements.

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