BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Information

September 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

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

Independent Auditors' Report

The Board of Directors
Bridgeport Hospital and Subsidiaries:

We have audited the accompanying consolidated financial statements of Bridgeport Hospital and Subsidiaries, which comprise the consolidated balance sheets as of September 30, 2016 and 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bridgeport Hospital and Subsidiaries as of September 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statement as a whole.

KPMG LLP

December 22, 2016

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2016 and 2015

(In thousands)

Assets		**2016**	**2015**
Current assets:			
Cash and cash equivalents	$	26,616	26,867
Short-term investments		94,053	97,808
Accounts receivable for services to patients, less allowance for uncollectible accounts of approximately $65,463 in 2016 and $55,248 in 2015		53,543	54,662
Professional liabilities insurance recoveries receivable		5,893	6,009
Other assets		23,267	18,059
Assets limited as to use		715	679
Total current assets		204,087	204,084
Assets limited as to use		1,144	1,160
Long-term investments		61,697	55,382
Professional liabilities insurance recoveries receivable		20,486	18,161
Other assets		18,774	24,439
Property, plant, and equipment:			
Land and land improvements		36,747	21,204
Building and fixtures		225,045	129,697
Equipment		294,171	280,999
		555,963	431,900
Less accumulated depreciation		310,037	289,859
		245,926	142,041
Construction in progress		16,865	69,785
		262,791	211,826
Goodwill		17,217	17,217
Total assets	$	586,196	532,269

See accompanying notes to consolidated financial statements.

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidated Balance Sheets, continued

September 30, 2016 and 2015

(In thousands)

Liabilities and Net Assets	**2016**	**2015**
Current liabilities:		
Accounts payable	$ 17,483	15,703
Accrued expenses	49,838	53,275
Current portion of long-term debt and capital lease obligation	8,455	6,170
Professional liabilities	5,893	6,009
Other liabilities	15,141	15,856
Total current liabilities	96,810	97,013
Long-term debt, net of current portion and deferred financing costs	64,747	72,176
Long-term capital lease obligation, net of current portion	96,386	60,309
Accrued pension obligation	77,643	68,304
Professional liabilities	36,990	33,706
Other liabilities	30,581	31,334
Total liabilities	403,157	362,842
Net assets:		
Unrestricted	117,604	111,706
Temporarily restricted	42,302	34,845
Permanently restricted	23,133	22,876
Total net assets	183,039	169,427
Commitments and contingencies		
Total liabilities and net assets	$ 586,196	532,269

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2016 and 2015

(In thousands)

		2016	2015
Operating revenue:			
Net patient service revenue	$	488,431	481,491
Less provision for bad debts, net		(15,692)	(15,417)
Net patient service revenue, less provision for bad debts, net		472,739	466,074
Other revenue		41,059	35,110
Total operating revenue		513,798	501,184
Operating expenses:			
Salaries and benefits		203,955	207,206
Supplies and other expenses		222,898	198,316
Depreciation		32,496	31,204
Insurance		8,537	6,864
Interest		5,480	3,048
Total operating expenses		473,366	446,638
Income from operations		40,432	54,546
Nonoperating gains and losses, net		6,144	944
Excess of revenue over expenses		46,576	55,490
Other changes in unrestricted net assets:			
Net assets released from restrictions used for capital acquisitions		1,459	1,242
Transfers to Yale-New Haven Health Services Corporation – Mission Support		(21,218)	(27,763)
Transfer to NEMG		(466)	—
Other changes in net assets		17	(16)
Pension related changes other than net periodic benefit cost		(20,470)	(18,998)
Increase in unrestricted net assets		5,898	9,955

(Continued)

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets, continued

Years ended September 30, 2016 and 2015

(In thousands)

	2016	2015
Temporarily restricted net assets:		
Net assets released from restrictions used for operations	$ (5,568)	(6,559)
Net assets released from restrictions used for capital acquisitions	(1,459)	(1,242)
Change in unrealized gains and losses on investments	4,014	1,086
Bequests, contributions, and grants	10,020	7,377
Net realized investment gains	572	362
Other changes in net assets	(122)	542
Increase in temporarily restricted net assets	7,457	1,566
Permanently restricted net assets:		
Bequests, contributions, and grants	257	1,133
Increase in permanently restricted net assets	257	1,133
Increase in net assets	13,612	12,654
Net assets at beginning of year	169,427	156,773
Net assets at end of year	$ 183,039	169,427

See accompanying notes to consolidated financial statements.

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2016 and 2015

(In thousands)

	2016	2015
Operating activities:		
Increase in net assets	$ 13,612	12,654
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	32,496	31,204
Provision for bad debts, net	15,692	15,417
Change in unrealized gains and losses on investments	(10,208)	(2,572)
Bequests, contributions, and grants	(4,116)	(8,510)
Amortization of long-term debt premium	(772)	(804)
Amortization of deferred financing cost	94	94
Transfer to Yale-New Haven Health Services Corporation	21,218	—
Transfer to NEMG	466	—
Pension related changes other than net periodic benefit cost	20,470	18,998
Changes in operating assets and liabilities:		
Accounts receivable	(14,573)	(20,347)
Other assets	(5,175)	7,449
Accounts payable	1,780	5,227
Accrued expenses	(8,139)	(5,216)
Professional insurance recoverable and liabilities	959	1,679
Other current liabilities, accrued pension obligation, and other long-term liabilities	(12,598)	(1,006)
Net cash provided by operating activities	51,206	54,267
Investing activities:		
Purchase of investments	(2,455)	(23,543)
Sale of investments	10,103	176
Assets limited as to use, net	(20)	3,474
Acquisitions of property, plant, and equipment	(35,056)	(36,586)
Net cash used in investing activities	(27,428)	(56,479)
Financing activities:		
Transfer to Yale-New Haven Health Services Corporation	(21,218)	—
Transfer to NEMG	(466)	—
Payments on capital lease obligations	(749)	(47)
Repayments of long-term debt	(5,712)	(8,845)
Bequests, contributions, and grants	4,116	8,510
Net cash used in financing activities	(24,029)	(382)
Net decrease in cash and cash equivalents	(251)	(2,594)
Cash and cash equivalents at beginning of year	26,867	29,461
Cash and cash equivalents at end of year	$ 26,616	26,867

See accompanying notes to consolidated financial statements.

(1) Organization and Significant Accounting Policies

Bridgeport Hospital & Subsidiaries (the Hospital or BH) is a voluntary association incorporated under the General Statutes of the State of Connecticut. BH is the sole member of the following not-for-profit, nonstock corporations: Bridgeport Hospital Foundation, Inc. (Foundation) and Southern Connecticut Health System Properties, Inc. (Properties). BH has an affiliation agreement with Yale-New Haven Health Services Corporation (YNHHSC) in which YNHHSC is the sole member of BH. The Hospital provides health care services to the Fairfield County community. The Foundation solicits contributions for the benefit of the Hospital and all other tax-exempt health care organizations associated with the Hospital. Properties is a real estate holding company.

YNHHSC is the sole member of two similar organizations: Yale New Haven Hospital and Subsidiaries (Y-NHH) and Greenwich Hospital and Subsidiaries (GH). Effective September 8, 2016, YNHHSC is also the sole member of Lawrence + Memorial Corporation and Subsidiaries (LMC). Each of these four tax-exempt organizations serves as the sole member/parent for its respective delivery network of regional health care providers and related entities. YNHHSC is also the sole member of Northeast Medical Group, Inc. (NEMG).

Concurrent with the issuance of the Connecticut Health and Educational Facilities Authority (CHEFA) Revenue Bonds, Yale-New Haven Health Obligated Group Issue, Series A, B, C, D and E dated May 20, 2014, six members of the System were combined to form an Obligated Group. The Obligated Group comprises YNHHSC, Y-NHH, Yale-New Haven Care Continuum Corporation, the Hospital, the Foundation, and NEMG (the Obligated Group). YNHHSC serves as agent of the Obligated Group. The members of the Obligated Group have adopted certain governance provisions in their certificates of incorporation and bylaws pursuant to which YNHHSC retains the authority to directly take certain actions on behalf of each Obligated Group member without the approval of the board of trustees of the applicable Obligated Group member, including the incurrence of indebtedness on behalf of each Obligated Group member, the management and control of the liquid assets of each, and the appointment of the president and chief executive officer of each Obligated Group member.

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

The accounting policies that affect significant elements of the Hospital's consolidated financial statements are summarized below.

(a) Principles of Consolidation

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

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectible 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 consolidated financial statements. Estimates also affect the amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

During 2016 and 2015, the Hospital recorded a change in estimate of approximately $1.9 million and $10.8 million, respectively, which increased net patient service revenue. Included in the change are amounts related to favorable third-party payor settlements.

(c) 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.

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

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions receivable to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of the discount is recognized as revenue and is classified as either unrestricted or temporarily restricted in accordance with donor imposed restrictions, if any, on the contributions. Contributions are reduced by an allowance for uncollectible contributions. The amount of the allowances for uncollectible contributions is based upon management’s assessment of historical and expected net collections.

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.

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

		2016	2015
Due in one year or less	$	1,987	387
Due after one year through five years		508	528
Thereafter		45	60
Total pledges receivable		2,540	975
Less unamortized discount on contribution receivable (0.01% to 2.24%)		(10)	(83)
Less allowance for doubtful pledges		(76)	(27)
Pledges receivable, net	$	2,454	865

(d) 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, that are not classified as assets limited as to use or held in the long-term investment portfolio.

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

(e) Accounts Receivable

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

The amount of the allowances for uncollectible accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage, and other collection indicators. Management periodically assesses the adequacy of this allowance based upon historical collection and write-off experience by payor category. The results of these reviews are used to modify, as necessary, the provision for bad debts and to establish appropriate allowances for uncollectible patient accounts receivable. After satisfaction of amounts due from insurance, the Hospital follows established guidelines for placing certain patient balances with collection agencies, subject to certain restrictions on collection efforts as determined by the Hospital's policy. See note 2 for additional information relative to third-party payor programs.

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

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

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

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

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

Under the terms of the investment management agreement with the Trust, withdrawals of the Hospital's investment in the L-TIP can be made annually by the Hospital on July 1. Amounts withdrawn are subject to a schedule that allows larger withdrawals with longer notice periods. As of September 30, 2016, the Hospital can withdraw 100% of its investment in the L-TIP as of July 1, 2017. Withdrawals of the Hospital's investment in the I-TIP in any amount can be made quarterly with 30 days' advance notice.

The Trust has an agreement (the Investment Management Agreement) with the University's investment office that allows the University to manage a portion of the Trust's investments as part of the University's Endowment Pool (the Pool). The Trust transferred approximately $50.0 million to the University in exchange for units in the Pool for the year ended September 30, 2015 and did not make any transfers for the year ended September 30, 2016. The Trust's interest in the Pool is reported at fair value based on the net asset value per units held. The Pool invests in domestic equity, foreign equity, absolute return, private equity, real assets, fixed income, and cash.

Under the terms of the Investment Management Agreement with the University, withdrawals of the Trust's investment in the Pool can be made annually by the Trust on July 1. For withdrawals of amounts less than $150.0 million or 75% of the Trust's investment in the Pool, $100.0 million or 50% of the Trust's investment in the Pool, and $50.0 million or 25% of the Trust's investment in the Pool, the advance notice period is set to a maximum of 180 days, 90 days, and 30 days, respectively, prior to the University's fiscal year ending June 30. For withdrawals greater than $150.0 million or more than 75% of the Trust's investment in the Pool, the advance notice period is set to a maximum of 270 days prior to the University's fiscal year ending 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 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 30 unit valuation. No advances have been requested or taken by the Trust in 2015 or 2016.

Net realized gains and losses on investments and 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.

(g) 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 equities, corporate obligations, U.S. government obligations, mutual funds, marketable securities, and money market funds. Changes in unrealized gains and losses are recorded in the excess of revenue over expenses and losses.

(h) Inventories

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

(i) 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 specific experience. At September 30, 2016 and 2015, the estimated liability for self-insured employee medical, prescriptions, and other benefit claims and IBNRs aggregated approximately $0.7 million and $0.8 million, respectively, and is included in accrued expenses in the accompanying consolidated balance sheets. The Hospital has a stop loss arrangement to limit exposure for self-insured benefits.

The Hospital is self-insured for workers' compensation claims. The Hospital has a stop loss arrangement to limit exposure for workers' compensation claims. Estimated amounts are accrued for claims, including IBNRs, which are based on specific experience. At September 30, 2016 and 2015, the estimated liability for self-insured workers' compensation claims and IBNRs aggregated approximately $7.0 million and $6.2 million, respectively, discounted at 2.0% in 2016 and 2015, and is included in other long-term liabilities in the accompanying consolidated balance sheets.

(j) 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. The cost of additions and improvements are capitalized and expenditures for repairs and maintenance, including the cost of replacing minor items not considered substantial enhancements, are expensed as incurred.

Leases are classified as capital leases or operating leases in accordance with the terms of the underlying lease agreements. Equipment under capital leases is recorded as assets and the related obligations as liabilities at the present value of future minimum lease payments. Lease payments under operating leases are charged directly to rental expense, and are included in supplies and other expenses in the accompanying consolidated statements of operations.

(k) Impairment of Assets

The Hospital reviews property, plant and equipment for impairment at least annually, and more frequently whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such impairment indicators are present, the Hospital recognizes a loss on the basis of whether these amounts are fully recoverable. No impairment charge was recorded for the years ended September 30, 2016 or 2015.

(l) Goodwill

Goodwill is evaluated at least annually for impairment or more frequently when events or changes in circumstances indicate that the assets might be impaired. This impairment test is performed annually at the reporting unit level. The Hospital evaluates goodwill at the entity level as management has determined that the Hospital's operation comprise a single reporting entity. Goodwill is considered to be impaired if the carrying value of the reporting unit, including goodwill, exceeds the reporting unit's fair value. The Hospital has determined that no goodwill impairment exists at September 30, 2016 or 2015.

(m) Derivative Contracts

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

(n) Excess of Revenue over Expenses

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

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

(o) Income Taxes

The Hospital and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are generally exempt from federal and state income taxes pursuant to Section 501(a) of the Code. Properties is a tax-exempt organization generally exempt from federal and state income taxes pursuant to Section 501(c)(2) of the Code.

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

(p) 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 $0.2 million and $11.0 million, respectively, at September 30, 2016 and approximately $0.3 million and $11.0 million, respectively, at September 30, 2015.

(q) Reclassifications

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

(r) New Accounting Pronouncements

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

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

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

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

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

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

Third-party payor receivables included in other current assets were approximately \$0.7 million and \$1.5 million at September 30, 2016 and 2015, respectively. Third-party payor liabilities included in other current liabilities were approximately \$14.8 million and \$15.2 million at September 30, 2016 and 2015, respectively. Third-party payor liabilities included in other long-term liabilities were approximately \$13.0 million and \$14.5 million at September 30, 2016 and 2015, respectively.

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

Revenue from Medicare and Medicaid programs accounted for approximately 37% and 21%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2016, and 36% and 21%, respectively, for the year ended September 30, 2015. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 40% and 33%, respectively, for the year ended September 30, 2016, and approximately 40% and 32%, respectively, for the year ended September 30, 2015. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

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

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

	2016	2015
Commercial – Anthem Blue Cross	$ 67,696	65,943
Commercial – Other	12,653	11,177
Managed care	114,852	117,579
Medicaid	97,105	97,288
Medicare	124,802	117,911
Medicare managed care	50,408	49,395
Self-pay/Other	20,915	22,198
Total all payors	$ 488,431	481,491

The significant concentrations of accounts receivable for services to patients include 35% from Medicare, 21% from Medicaid, and 44% from nongovernmental payors at September 30, 2016, and 35% from Medicare, 21% from Medicaid, and 44% from nongovernmental payors at September 30, 2015.

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

		2016	2015
Gross revenue from patients	$	1,767,448	1,759,987
Deductions:			
Contractual allowances		1,240,815	1,243,034
Charity and free care (at charges)		38,202	35,462
Provision for bad debts		15,692	15,417
Net patient service revenue	$	472,739	466,074

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 uncollectible accounts. In evaluating the collectibility 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 uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

The Hospital's allowance for uncollectible accounts totaled approximately $65.5 million and $55.2 million at September 30, 2016 and 2015, respectively. The allowance for uncollectible accounts for self-pay patients was approximately 62.5% and 63.5% of self-pay accounts receivable as of September 30, 2016 and 2015, respectively.

(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 health care because of inadequate resources and/or who are uninsured or underinsured.

The Hospital provides 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 the provision for bad debts represent uncompensated care. The estimated cost of total uncompensated care is approximately $27.0 million and $24.8 million for the years ended September 30, 2016 and 2015, respectively. The estimated cost of uncompensated care is based on the ratio of cost to charges, as determined by claims activity. The estimated cost of charity care is based on the ratio of cost to charges. The allocation between bad debt and charity care is determined based on management's analysis on the previous 12 months of hospital data. This analysis calculates the actual percentage of accounts written off or designated as bad debt versus charity care while taking into account the total costs incurred by the hospital for each account analyzed.

The estimated cost of charity care and free care provided was approximately $19.1 million and $17.3 million for the years ended September 30, 2016 and 2015, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by Hospital-specific data.

For the years ended September 30, 2016 and 2015, the provision for bad debts, at charges, was approximately $15.7 million and $15.4 million, respectively. For the years ended September 30, 2016 and 2015, the provision for bad debts, at cost, was approximately $7.9 million and $7.5 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, 2016 and 2015, the Hospital received approximately $16.1 million and $4.9 million, respectively, in CDSHP distributions, of which approximately $11.4 million and $3.4 million, respectively, related to charity care. The Hospital made payments into CDSHP of approximately $25.8 million and $19.1 million for the years ended September 30, 2016 and 2015, respectively, for the 1% assessment. These are recorded in net patient service revenue.

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

		2016	2015
Money market funds	$	3,510	5,285
U.S. equity securities		15,164	9,742
International equity securities[a]		14,577	7,500
Fixed income:			
U.S. government		35,596	33,565
Corporate debt		910	802
International government[a]		6,566	9,607
Commodities (b)		7	9
Real estate[c]		1,296	1,495
Perpetual trusts		458	451
Interest in Yale University Endowment Pool[d]		79,524	86,573
Total	$	157,608	155,029

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

(b) Investments with external commodities futures manager.

(c) Investments with external direct real estate managers and fund of funds managers. Investment vehicles both closed-end real estate investment trusts and limited partnerships.

(d) The 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 a strong orientation to equity investments with a strong allocation to nontraditional asset classes such as an absolute return, private equity, and real assets.

The Hospital ownership percentage of the Trust was approximately 8.5%, or $152.3 million, and 10.0%, or $149.9 million, as of September 30, 2016 and 2015, respectively. The Hospital's pro rata portion of the Trust's investments is included in the above table. The remaining 91.5% of the Trust is with YNHH, YNHHSC, and GH.

The Hospital has a 47.6% equity interest in Century Financial Services, Inc. (Century). At September 30, 2016 and 2015, the Hospital's investment was $0.9 million and $1.1 million, respectively, and is included in other assets in the accompanying consolidated balance sheets. The investment in Century is carried on the equity basis of accounting and is adjusted for the Hospital's proportionate share of undistributed earnings or losses. Dividends received are deducted from the carrying value of the investment.

(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 (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) 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, 2016, are as follows (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 1,279	20,076	22,876	44,231
Investment returns:				
Investment income	9	155	—	164
Net appreciation (realized and unrealized)	273	3,839	(1)	4,111
Total investment return	282	3,994	(1)	4,275
Appropriation of endowment assets for expenditure	—	(2,020)	—	(2,020)
Other changes:				
Contribution bequests	—	2,013	258	2,271
Endowment net assets, end of year	$ 1,561	24,063	23,133	48,757

Changes in endowment net assets for the year ended September 30, 2015, are as follows:

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	1,175	19,790	21,743	42,708
Investment returns:					
Investment income		12	233	—	245
Net appreciation (realized and unrealized)		92	907	—	999
Total investment return		104	1,140	—	1,244
Appropriation of endowment assets for expenditure		—	(2,008)	—	(2,008)
Other changes:					
Contribution bequests		—	1,154	1,133	2,287
Endowment net assets, end of year	$	1,279	20,076	22,876	44,231

(a) 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.

(b) 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.

(c) Spending Policy and How the Investment Objectives Relate to Spending Policy

The Hospital has a policy of appropriating for distribution each year based on a combination of the weighted average of the prior year spending adjusted for inflation and the amount that would have been spent using 5.0% percentage of the current market value of the endowment fund. In establishing this policy, the Hospital considered the long-term expected return on its endowment.

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

(6) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets of approximately $42.3 million and $34.8 million for the years ended September 30, 2016 and 2015, respectively, are available for specific hospital operations, teaching, research, indigent and free care, and training.

Permanently restricted net assets of approximately $23.1 million and $22.9 million for the years ended September 30, 2016 and 2015, respectively, consist 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 (in thousands):

		2016	2015
Tax-exempt debt:			
Series D (fixed interest rates ranging from 2.00% to 5.00%) (a)	$	27,400	29,780
Series E (3.47%, effective interest rate) (b)		33,927	34,982
2012 term loan (1.66% fixed interest rate) (d)		854	1,977
2010 term loan (3.22% fixed interest rate) (c)		3,010	3,674
Note payable (6.9% fixed interest rate) (e)		1,611	2,101
Capital lease obligations (f)		98,097	60,774
		164,899	133,288
Add premium		5,791	6,563
Less:			
Current portion		(8,455)	(6,170)
Deferred costs of issuance, net of accumulated amortization		(1,102)	(1,196)
	$	161,133	132,485

a) In May 2012, the 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 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. Principal amounts related to the Series D revenue bonds mature annually each July 1 through fiscal 2025. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.

b) In June 2014, the Obligated Group issued Series E revenue bonds totaling approximately $80.9 million. The Series E revenue bonds were issued as fixed rate bonds with an effective interest rate of 3.47%. The proceeds included a premium of approximately $10.1 million. Approximately $40.0 million of the proceeds were used to finance costs for the installation of machinery and equipment and various renovations and improvements to the Hospital’s infrastructure. The remaining $50.0 million was used for renovations at Y-NHH. Until completion of these projects, the premium was being amortized and included in capitalized interest. Upon completion, the bond premium is being amortized as interest expense in the consolidated statement of operations and changes in net assets. The Series E revenue bonds maturing on July 1, 2037 are payable in installments from 2016 to 2034 and July 1, 2037. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.

In connection with the formation of the Obligated Group, the Series D and E tax-exempt bonds became an obligation of the Obligated Group. Under the terms of the Master Indenture, all members of the Obligated Group are jointly and severally liable for debt issued by YNHHSC on behalf of the Obligated Group.

The terms of the various financing arrangements between CHEFA, the Obligated Group, and the financial institutions providing the letters of credit and the Obligated Group provide for financial covenants regarding the Obligated Group's debt service coverage ratio and liquidity ratio.

c) In November 2010, the Hospital obtained a $6.6 million term loan from the CHEFA. The proceeds of the loan were 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 ten years at a fixed interest rate of 3.22%.

d) 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.

e) In December 2012, in connection with the purchase of a radiology practice, the Hospital entered into a note payable with the seller in the amount of $15.1 million. The note is to be repaid in monthly installments over five years as discussed in note 1.

f) In November 2013, BH entered into an arrangement with a developer to construct a 120,000 – square-foot medical office building and adjacent garage in Fairfield County, Connecticut. Bridgeport Hospital began leasing the property for a 25-year period in April 2016. Management has evaluated the terms of the arrangement and recorded the project as a capital lease. At September 30, 2015 construction costs totaled approximately $60.8 million, and is included in construction in progress on the accompanying consolidated balance sheet. During 2016, the project was placed into service.

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

	Debt	Capital lease obligations
2017	$ 6,744	$ 7,856
2018	4,466	7,856
2019	4,674	7,856
2020	4,893	7,856
2021	4,475	7,856
Thereafter	41,550	153,529
	$ 66,802	192,809
Less interest		(94,712)
Total capital lease obligations		$ 98,097

Cash paid for interest for the years ended September 30, 2016 and 2015 approximated $5.5 million and $3.0 million, respectively.

Assets recorded under the capital lease obligations totaled approximately $98.8 million and $60.8 million as of September 30, 2016 and 2015, respectively.

(8) Retirement Benefit Plans

The Hospital has 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 makes 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.

On June 30, 2006, the Hospital froze its defined benefit plan. On October 1, 2006, the Hospital 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 $9.9 million relating to the defined contribution plan for the years ended September 30, 2016 and 2015, respectively. Amounts due to the defined contribution plan amounted to approximately $6.0 million and $5.2 million at September 30, 2016 and 2015, 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 year-end balance sheet. Included in unrestricted net assets at September 30, 2016 and 2015, are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	2016	2015
Unrecognized actuarial loss	$ (140,635)	(120,166)

The actuarial loss included in unrestricted net assets at September 30, 2016 is approximately $3.2 million and is expected to be recognized in net periodic benefit cost during the year ending September 30, 2017.

The following table sets forth the funded status of the Hospital's plans as of September 30 (in thousands):

		Pension benefits	
		2016	**2015**
Change in benefit obligation:			
Benefit obligation, beginning of year	$	(211,290)	(203,437)
Interest cost		(9,110)	(8,579)
Actuarial loss		(24,641)	(6,563)
Benefits paid		7,804	7,289
Benefit obligation, end of year		(237,237)	(211,290)
Change in plan assets:			
Fair value of plan assets, beginning of year		142,986	145,156
Actual return on plan assets		13,112	(5,381)
Employer contribution		11,300	10,500
Benefits paid		(7,804)	(7,289)
Fair value of plan assets, end of year		159,594	142,986
Accrued pension obligation	$	(77,643)	(68,304)

(a) Accumulated Benefit Obligation

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

		2016	**2015**
Projected benefit obligation	$	237,237	211,290
Accumulated benefit obligation		237,237	211,290
Fair value of plan assets		159,594	142,986

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

		Pension benefits	
		2016	**2015**
Components of net periodic benefit cost:			
Interest cost	$	9,110	8,579
Expected rate of return on plan assets		(12,112)	(10,017)
Recognized net actuarial loss		3,172	2,963
Net periodic benefit cost	$	170	1,525

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

		Defined benefit pension plans	
		2016	**2015**
AOCI at prior fiscal year end	$	120,165	101,168
Amounts amortized during the year:			
Net loss		(3,172)	(2,963)
Occurring during the year:			
Net loss		23,642	21,960
AOCI at current fiscal year end	$	140,635	120,165

(b) Assumptions

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

	Pension benefits	
	2016	**2015**
Discount rate	3.60%	4.40%

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

	Pension benefits	
	2016	**2015**
Discount rate	4.40%	4.30%
Expected long-term return on plan assets	7.75	6.75

(c) Plan Assets

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

	Target allocation	Percentage of plan assets	
	2017	**2016**	**2015**
Asset category:			
Equity securities	50%	50%	45%
Debt securities	20	22	37
Alternative investments	30	28	18
Total	100%	100%	100%

The pension assets carried at fair value as of September 30, 2016 are classified in the following tables in one of the categories described in note 15 (in thousands):

	Investments measured at NAV	Investments classified in the fair value hierarchy Level 1	Total
Money market funds	$ —	6,093	6,093
U.S. equity securities	—	37,943	37,943
International equity securities	18,890	23,110	42,000
Fixed income funds:			
U.S. government	—	14,062	14,062
International government	4,731	9,343	14,074
Hedge funds:			
Absolute Return	45,422	—	45,422
	$ 69,043	90,551	159,594

The pension assets carried at fair value as of September 30, 2015, are classified in the following tables in one of the categories described in note 15 (in thousands):

	Investments measured at NAV	Investments classified in the fair value hierarchy Level 1	Total
Money market funds	$ —	11,974	11,974
U.S. equity securities	—	29,204	29,204
International equity securities	15,164	19,002	34,166
Fixed income funds:			
U.S. government	—	31,588	31,588
International government	—	10,529	10,529
Hedge funds:			
Multi strategy/other	25,525	—	25,525
	$ 40,689	102,297	142,986

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

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

Description of investment		Carrying value	Unfunded commitment	Redemption frequency	Notice period
International equity securities	$	15,164	—	Daily	1–30 Days
Hedge funds:					
Multi strategy/other		25,525	—	Quarterly	30–90 Days

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

(d) Description of Investment Policy 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.

(e) Cash Flows

Contributions: The Hospital's and its affiliates' expected contribution to the defined benefit pension plan in 2017 is approximately $6.5 million.

Estimated Future Benefit Payments: The Hospital and its affiliates expect to pay the following benefit payments as appropriate (in thousands):

2017	$	9,245
2018		9,866
2019		10,457
2020		11,004
2021		11,472
2022 to 2026		64,601

(9) Professional Liability and Self-Insurance Arrangements

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. In addition, the insurance structure includes a layer where the Hospital is self-insured for claims. Premiums are based on claims made coverage and are actuarially determined based on actual experience of the Hospital and the Captive. The Hospital pays insurance premiums to YNHHSC.

The estimate for claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately $42.9 million and $39.7 million at September 30, 2016 and 2015, respectively. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately $18.3 million and $17.2 million at September 30, 2016 and 2015, respectively, and is included in professional insurance liabilities in the accompanying balance sheets at the actuarially determined present value of approximately $16.5 million and $15.5 million, respectively, based on a discount rate of 2.0% for the years ended September 30, 2016 and 2015, respectively.

The Hospital has recorded related insurance recoveries receivable of approximately $26.4 million and $24.2 million at September 30, 2016 and 2015, respectively, in consideration of the expected insurance recoveries for the total discounted claims-made insurance. The current portion of professional liabilities and the related insurance receivable represent an estimate of expected settlements and insurance recoveries over the next 12 months.

The Hospital’s estimates for professional insurance liabilities are based upon complex actuarial calculations that 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 immaterial. While the outcome of these lawsuits cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the consolidated financial position or results of operations of the Hospital.

The Hospital and its subsidiaries have various lease agreements, some of which provide for adjustments to future lease payments.

The Hospital obtained a surety bond to provide coverage to the State of Connecticut for workers’ compensation claims compensation in 2012. There were no amounts outstanding in 2016 or 2015.

The Hospital has various lease agreements. Lease expense for the years 2016 and 2015, was approximately $5.0 million and $5.6 million, respectively. Future minimum payments under these leases are as follows:

2017	$	11,872
2018		11,707
2019		11,524
2020		11,201
2021		10,733
Thereafter		172,499
	$	229,536

(11) Functional Expenses

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

		2016	2015
Health care services	$	376,279	338,552
General and administrative		97,087	108,086
	$	473,366	446,638

(12) Related-Party Transactions

The Hospital purchased certain services for the years ended September 30 from YNHHSC as follows (in thousands):

		2016	2015
Operating expenses:			
Information systems	$	30,382	21,518
System business office		22,453	15,971
Other business services		18,759	21,659
	$	71,594	59,148

The Hospital funds certain capital assets purchased by YNHHSC. Included in other assets (current and noncurrent) were approximately $18.4 million at September 30, 2016, and approximately $23.5 million at September 30, 2015.

Included in depreciation and amortization expense for each of the years ended September 30, 2016 and 2015, is approximately $8.4 million and $8.7 million, respectively, of costs allocated from YNHHSC for shared capital projects.

Accounts receivable to related organizations is included in other current assets, and accounts payable to related organizations is included in accrued expenses in the accompanying consolidated balance sheets for the years ended September 30 as follows (in thousands):

		2016	2015
Other receivables:			
Y-NHH	$	6,245	2,114
YNHHSC		4,715	1,941
	$	10,960	4,055
Accounts payable:			
YNHHSC	$	9,994	17,608
NEMG		4,557	3,782
Greenwich Hospital		375	469
	$	14,926	21,859

Included in the consolidated statement of operations and changes in net assets are amounts funded by the Hospital for physician-related strategic mission support for NEMG of approximately $21.2 million and $27.8 million for the years ended September 30, 2016 and 2015, respectively.

(13) Other Revenue

Other revenue consisted of the following (in thousands):

		Year ended September 30	
		2016	2015
Related-party oncology ancillary services	$	14,490	9,534
Pediatric ancillary services		9,157	9,000
Net assets released from restrictions for operations		5,568	6,559
Cafeteria and vending		2,273	2,070
Tuition		1,818	1,888
Electronic health records incentive payment		777	1,525
Parking income		1,562	1,473
Rental Income		870	82
Other		4,544	2,979
	$	41,059	35,110

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 depends 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 year 2015.

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. Medicare EHR incentive payment revenue was approximately $0.8 million and $1.5 million for the years ended September 30, 2016 and 2015, respectively. The Hospital did not receive any Medicaid EHR incentive payments for the years ended September 30, 2016 or 2015.

EHR incentive payment revenue is included in other revenue in the accompanying consolidated 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.

(14) Nonoperating Gains and Losses, Net

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

		Year ended September 30	
		2016	**2015**
Income (losses) from investments and other, net	$	(51)	(542)
Change in unrealized gains on investments, net		6,195	1,486
	$	6,144	944

(15) Fair Values 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, *Fair Value Measurement*, establishes a valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The levels are defined as follows:

- Net Asset Value: Determined by the respective external investment managers, including general partners, if market values are not readily ascertainable.
- Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.
- Level 2: Observable inputs that are based on data not quoted in active markets, but corroborated by market data.

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

Financial assets carried at fair value as of September 30, 2016 are classified in the following tables in the categories described above (in thousands):

		Investments measured at NAV	Investments classified in the fair value hierarchy Level 1	Total
Cash and cash equivalents	$	—	26,616	26,616
Money market funds		—	3,511	3,511
U.S. equity securities		—	15,164	15,164
International equity securities		4,779	9,798	14,577
Fixed income funds:				
U.S. government		—	35,596	35,596
Corporate debt		—	910	910
International government		2,085	4,481	6,566
Commodities		7	—	7
Real estate		1,257	39	1,296
Perpetual trusts		458	—	458
Interest in Yale University endowment pool		79,524		79,524
Total investments as of September 30, 2016	$	88,110	96,115	184,225

Financial assets carried at fair value as of September 30, 2015 are classified in the following tables in the categories described above (in thousands):

	Investments measured at NAV	Investments classified in the fair value hierarchy Level 1	Total
Cash and cash equivalents	$ —	26,867	26,867
Money market funds	—	5,285	5,285
U.S. equity securities	—	9,742	9,742
International equity securities	2,075	5,425	7,500
Fixed income funds:			
U.S. government	—	33,565	33,565
Corporate debt	—	802	802
International government	4,161	5,446	9,607
Commodities	$ 9	—	9
Real estate	1,458	37	1,495
Perpetual trusts	451	—	451
Interest in Yale University endowment pool	86,573	—	86,573
Total investments as of September 30, 2015	$ 94,727	87,169	181,896

Description of investment	Carrying value	Unfunded commitment	Redemption frequency	Notice period
International equity securities	$ 4,779	—	Daily/Monthly	1–30 Days
Fixed income:				
International government	2,085	—	Daily/Monthly	1–10 Days
Commodities	7	—	None	None
Real estate	1,257	—	None	None
Perpetual trusts	458	—	*	*
Interest in Yale University endowment pool	79,524	—	*	*

* see note 1 for descriptions

The fair value of debt at September 30, 2016 and 2015, was approximately $70.7 million and $72.9 million, respectively. The fair value of capital leases at September 30, 2016 and 2015, was approximately $100.1 million and $60.8 million, respectively. The fair value of long-term debt and capital leases are classified as Level 2 in the fair value hierarchy as it uses a combination of quoted market prices and valuation based on current market rates. The carrying value of all other financial instruments approximates fair value.

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

(16) Subsequent Events

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

SUPPLEMENTARY INFORMATION

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidating Balance Sheet

September 30, 2016

(In thousands)

Assets		Hospital	Foundation	Properties	Eliminations	Total
Current assets:						
Cash and cash equivalents	$	25,249	1,327	40	—	26,616
Short-term investments		56,146	37,907	—	—	94,053
Accounts receivable		53,543	—	—	—	53,543
Professional liabilities insurance recoveries receivable		5,893				5,893
Other assets		22,284	2,197	2	(1,216)	23,267
Assets limited as to use		715	—	—	—	715
Total current assets		163,830	41,431	42	(1,216)	204,087
Assets limited as to use		—	1,144	—	—	1,144
Long-term investments		23,795	37,902	—	—	61,697
Professional liabilities insurance recoveries receivable		20,486	—	—	—	20,486
Other assets		97,774	597	—	(79,597)	18,774
Property, plant, and equipment:						
Land and land improvements		35,251	—	1,496	—	36,747
Buildings		225,045	—	—	—	225,045
Equipment		294,171	—	—	—	294,171
		554,467	—	1,496	—	555,963
Less accumulated depreciation and amortization		309,517	—	520	—	310,037
		244,950	—	976	—	245,926
Construction in progress		16,865	—	—	—	16,865
		261,815	—	976	—	262,791
Goodwill		17,217	—	—	—	17,217
Total assets	$	584,917	81,074	1,018	(80,813)	586,196
Liabilities and Net Assets						
Current liabilities:						
Accounts payable	$	17,351	132	—	—	17,483
Accrued expenses		49,811	—	27	—	49,838
Current portion of long-term debt and capital lease obligation		8,455	—	—	—	8,455
Professional liabilities		5,893	—	—	—	5,893
Other liabilities		15,141	1,039	177	(1,216)	15,141
Total current liabilities		96,651	1,171	204	(1,216)	96,810
Long-term debt, net of current portion and deferred financing costs		64,747	—	—	—	64,747
Long-term capital lease obligation, net of current portion		96,386	—	—	—	96,386
Accrued pension obligation		77,643	—	—	—	77,643
Professional liabilities		36,990	—	—	—	36,990
Other liabilities		30,275	306	—	—	30,581
Total liabilities		402,692	1,477	204	(1,216)	403,157
Net assets:						
Unrestricted		116,790	38,403	814	(38,403)	117,604
Temporarily restricted		42,302	23,469	—	(23,469)	42,302
Permanently restricted		23,133	17,725	—	(17,725)	23,133
Total net assets		182,225	79,597	814	(79,597)	183,039
Total liabilities and net assets	$	584,917	81,074	1,018	(80,813)	586,196

See accompanying independent auditors' report.

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Net Assets

Year ended September 30, 2016

(In thousands)

		Hospital	Foundation	Properties	Eliminations	Total
Operating revenue:						
Net patient service revenue	$	488,431	—	—	—	488,431
Less provision for bad debts		(15,692)	—	—	—	(15,692)
Net patient service revenue, less provision for bad debts		472,739	—	—	—	472,739
Other revenue		37,985	2,919	155	—	41,059
Total operating revenue		510,724	2,919	155	—	513,798
Operating expenses:						
Salaries and benefits		203,955	—	—	—	203,955
Supplies and other expenses		219,785	2,919	194	—	222,898
Depreciation and amortization		32,444	—	52	—	32,496
Insurance		8,530	—	7	—	8,537
Interest		5,480	—	—	—	5,480
Total operating expenses		470,194	2,919	253	—	473,366
Income (loss) from operations		40,530	—	(98)	—	40,432
Nonoperating gains and losses, net		6,144	2,320		(2,320)	6,144
Excess (deficiency) of revenue over expenses		46,674	2,320	(98)	(2,320)	46,576
Unrestricted net assets:						
Net assets released from restrictions used for capital acquisitions		1,457	1,320	—	(1,318)	1,459
Transfers to YNHHSC – mission support		(21,218)	—	—	—	(21,218)
Transfers to NEMG		(466)	—	—	—	(466)
Other changes in net assets		(31)	—	48	—	17
Pension related changes other than net periodic benefit cost		(20,470)	—	—	—	(20,470)
Increase(decrease) in unrestricted net assets		5,946	3,640	(50)	(3,638)	5,898

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Net Assets, continued

Year ended September 30, 2016

(In thousands)

	Hospital	Foundation	Properties	Eliminations	Total
Temporarily restricted net assets:					
Net changes in interest in the Foundation:					
Net assets released from restrictions used for operations	$ (2,919)	—	—	2,919	—
Change in unrealized gains and losses on investments	2,402	—	—	(2,402)	—
Bequests, contributions, and grants	10,020	—	—	(10,020)	—
Net realized investment gains and losses	342	—	—	(342)	—
Transfers to the Hospital	(2,408)	—	—	2,408	—
Other changes in net assets	(1,002)	—	—	1,002	—
Net assets released from restrictions used for operations	(2,649)	(2,919)	—	—	(5,568)
Net assets released from restrictions used for capital acquisitions	(140)	(1,319)	—	—	(1,459)
Change in unrealized gains and losses on investments	1,612	2,402	—	—	4,014
Bequests, contributions, and grants	—	10,020	—	—	10,020
Net realized investment gains	230	342	—	—	572
Other changes in net assets	(438)	315	1	—	(122)
Transfers from the Foundation	2,408	(2,408)	—	—	—
Increase in temporarily restricted net assets	7,458	6,433	1	(6,435)	7,457
Permanently restricted net assets:					
Bequests, contributions, and grants	257	257	—	(257)	257
Increase in permanently restricted net assets	257	257	—	(257)	257
Increase (decrease) in net assets	13,661	10,330	(49)	(10,330)	13,612
Net assets at beginning of year	168,564	69,267	863	(69,267)	169,427
Net assets at end of year	$ 182,225	79,597	814	(79,597)	183,039

See accompanying independent auditors' report.