Consolidated Financial Statements and Supplementary Information

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

Ernst & Young LLP

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Building a better working world

Bridgeport Hospital and Subsidiaries

Consolidated Financial Statements
and Supplementary Information

Years Ended September 30, 2014 and 2013

Contents

Ernst & Young LLP
20 Church Street
Hartford, CT 06103

Tel: +1 860 247 3100
Fax: +1 860 725 6040
ey.com

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Report of Independent Auditors

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, 2014 and 2013, 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 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 consolidated financial position of Bridgeport Hospital and Subsidiaries at September 30, 2014 and 2013, and the consolidated results of their operations and changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

December 23, 2014

Bridgeport Hospital and Subsidiaries

Consolidated Balance Sheets

	September 30 2014	2013
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 29,461**	$ 30,636
Short-term investments	**72,752**	64,307
Accounts receivable for services to patients, less allowances for uncollectible accounts, charity, and free care of approximately $46,427 in 2014 and $42,242 in 2013	**49,732**	51,432
Professional liabilities insurance recoveries receivable – current portion	**8,273**	10,552
Other current assets	**21,191**	17,755
Assets limited as to use	**247**	–
Total current assets	**181,656**	174,682
Assets limited as to use	**5,066**	–
Long-term investments	**54,499**	53,099
Professional liabilities insurance recoveries receivable – non-current	**19,303**	22,167
Deferred financing costs	**1,290**	862
Other assets	**28,755**	31,023
Goodwill	**17,217**	17,217
Property, plant, and equipment:		
Land, buildings, and improvements	**124,401**	124,308
Equipment	**308,888**	285,812
	433,289	410,120
Less accumulated depreciation	**304,089**	285,773
	129,200	124,347
Construction in progress	**37,001**	19,477
	166,201	143,824
Total assets	**$ 473,987**	$ 442,874

	September 30	
	2014	2013
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 10,476**	$ 16,363
Accrued expenses	**58,490**	47,877
Current portion of long-term debt and capital lease obligation	**9,262**	32,205
Professional liabilities – current portion	**8,273**	10,552
Other current liabilities	**4,590**	5,306
Total current liabilities	**91,091**	112,303
Long-term debt, net of current portion	**79,882**	49,107
Long-term capital lease obligation, net of current portion	**20,160**	95
Accrued pension obligation	**58,281**	42,945
Professional liabilities	**33,169**	34,291
Other long-term liabilities	**34,631**	31,022
Total liabilities	**317,214**	269,763
Commitments and contingencies		
Net assets:		
Unrestricted	**101,751**	120,290
Temporarily restricted	**33,279**	32,033
Permanently restricted	**21,743**	20,788
Total net assets	**156,773**	173,111
Total liabilities and net assets	**$ 473,987**	$ 442,874

See accompanying notes.

Bridgeport Hospital and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2014	**2013**
	(In Thousands)	
Operating revenue:		
Net patient service revenue	**$ 459,680**	$ 446,753
Less provision for bad debts	**(20,305)**	(27,926)
Net patient service revenue, less provision for bad debts	**439,375**	418,827
Other revenue	**27,566**	26,208
Total operating revenue	**466,941**	445,035
Operating expenses:		
Salaries and benefits	**201,556**	195,993
Supplies and other expenses	**194,392**	191,236
Depreciation and amortization	**31,016**	22,858
Insurance	**480**	1,028
Interest	**2,566**	1,665
Total operating expenses	**430,010**	412,780
Income from operations	**36,931**	32,255
Non-operating gains and losses, net	**5,852**	3,969
Excess of revenue over expenses	**42,783**	36,224

Bridgeport Hospital and Subsidiaries

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

	Year Ended September 30	
	2014	**2013**
	(In Thousands)	
Unrestricted net assets:		
Excess of revenue over expenses	**$ 42,783**	$ 36,224
Net assets released from restrictions used for capital acquisitions	**2,445**	879
Transfers (to) from Yale-New Haven Health Services Corporation	**(25,000)**	900
Transfers to Yale-New Haven Health Services Corporation – Mission Support	**(17,682)**	(12,995)
Other transfers	**(115)**	444
Pension liability adjustment	**(20,970)**	22,810
(Decrease) increase in unrestricted net assets	**(18,539)**	48,262
Temporarily restricted net assets:		
Net assets released from restrictions used for operations	**(7,069)**	(6,346)
Net assets released from restrictions used for capital acquisitions	**(2,445)**	(879)
Change in unrealized gains and losses on investments	**2,935**	2,330
Bequests, contributions, and grants	**6,328**	6,138
Net realized investment gains	**756**	1,042
Other changes in net assets	**741**	916
Increase in temporarily restricted net assets	**1,246**	3,201
Permanently restricted net assets:		
Bequests, contributions, and grants	**955**	916
Increase in permanently restricted net assets	**955**	916
(Decrease) increase in net assets	**(16,338)**	52,379
Net assets at beginning of year	**173,111**	120,732
Net assets at end of year	**$ 156,773**	$ 173,111

See accompanying notes.

Bridgeport Hospital and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2014	**2013**
	(In Thousands)	
Operating activities		
(Decrease) increase in net assets	**$ (16,338)**	$ 52,379
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**31,016**	22,858
Provision for bad debts	**20,305**	27,926
Change in unrealized gains and losses on investments	**(7,369)**	(5,882)
Bequests, contributions, and grants	**(7,283)**	(7,054)
Amortization of long-term debt premium	**(567)**	(493)
Amortization of deferred financing cost	**97**	72
Pension liability adjustment	**20,970**	(22,810)
Changes in operating assets and liabilities:		
Accounts receivable, net	**(18,605)**	(36,375)
Other assets	**(1,168)**	(10,409)
Accounts payable	**(5,887)**	6,155
Accrued expenses	**10,613**	553
Professional insurance recoverable and liabilities	**1,742**	(17)
Other current liabilities, accrued pension obligation, and other long-term liabilities	**(2,741)**	(6,373)
Net cash provided by operating activities	**24,785**	20,530
Investing activities		
Net change in investments	**(2,476)**	5,530
Net purchases of assets limited as to use	**(5,313)**	1,875
Cash paid for acquisition, net of cash acquired	**–**	(13,516)
Acquisitions of property, plant, and equipment, net	**(33,233)**	(37,564)
Net cash used in investing activities	**(41,022)**	(43,675)
Financing activities		
Proceeds from line of credit	**–**	25,000
Proceeds from note payable	**–**	14,000
Proceeds from issuance of long-term debt	**40,513**	–
Payments on capital lease obligations	**(48)**	(73)
Payment for line of credit	**(25,000)**	–
Deferred financing costs	**(525)**	–
Repayments of long-term debt	**(3,948)**	(3,747)
Repayments of note payable	**(3,213)**	(4,525)
Bequests, contributions, and grants	**7,283**	7,054
Net cash provided by financing activities	**15,062**	37,709
Net (decrease) increase in cash and cash equivalents	**(1,175)**	14,564
Cash and cash equivalents at beginning of year	**30,636**	16,072
Cash and cash equivalents at end of year	**$ 29,461**	$ 30,636

See accompanying notes.

1. Organization and Significant Accounting Policies

Bridgeport Hospital & Healthcare Services, Inc. (BHHS) was a Connecticut not-for-profit, nonstock corporation established to promote and carry out charitable, scientific, and educational activities. BHHS was the sole member of the following not-for-profit, nonstock corporations: Bridgeport Hospital; Bridgeport Hospital Foundation, Inc. (the Foundation); Southern Connecticut Health System Properties, Inc. (Properties); and the BHHS. BHHS had an affiliation agreement with Yale-New Haven Health Services Corporation (YNHHSC) in which YNHHSC was the sole member of BHHS.

The Hospital is a voluntary association incorporated under the General Statutes of the State of Connecticut.

In 2014, the Hospital and BHHS were merged in connection with the formation of an obligated group and are now referred to as Bridgeport Hospital and Subsidiaries (BH or the Hospital). As a result, the Hospital's financial statement reporting entity changed to include the Foundation and Properties, which were previously reported in the consolidated financial statements of BHHS. The change in reporting entity was retrospectively applied to the financial statements for the Hospital for all periods presented. YNHHSC is now the sole member of BH.

YNHHSC is the sole member of two similar organizations: Yale New Haven Hospital and Subsidiaries (Y-NHH) and Greenwich Health Care Services, Inc. (GHCS). 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. YNHHSC is also the sole member of Northeast Medical Group, Inc. (NEMG).

The Hospital is now the sole member of the Foundation and Properties. 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.

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 Yale New Haven Health System and Subsidiaries 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

1. Organization and Significant Accounting Policies (continued)

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.

Change in Reporting Entity

The change in reporting entity was retrospectively applied to the consolidated financial statements of the Hospital for all periods presented. The impact of the change in reporting entity on selected previously reported financial statement line items is as follows:

	Amounts Previously Reported	Adjustments	As Adjusted
Consolidated balance sheet – September 30, 2013			
Total current assets	$ 143,463	$ 31,219	$ 174,682
Total assets	440,309	2,565	442,874
Total current liabilities	113,611	(1,308)	112,303
Total liabilities	264,449	5,314	269,763
Total net assets	175,860	(2,749)	173,111
Total liabilities and net assets	440,309	2,565	442,874

1. Organization and Significant Accounting Policies (continued)

	Amounts Previously Reported	Adjustments	As Adjusted
Consolidated statement of operations and changes in net assets			
Total operating revenue	$ 441,712	$ 3,323	$ 445,035
Total operating expenses	409,234	3,546	412,780
Income from operations	32,478	(223)	32,255
Excess of revenue over expenses	36,447	(223)	36,224
Net assets, October 1, 2012	123,258	(2,526)	120,732
Net change in net assets – year ended September 30, 2013	52,602	(223)	52,379
Net assets, September 30, 2013	175,860	(2,749)	173,111
Consolidated statement of cash flows – year ended September 30, 2013			
Net cash provided by operating activities	$ 38,385	$ (17,855)	$ 20,530
Net cash used in investing activities	(40,936)	(2,739)	(43,675)
Net cash provided by financing activities	17,167	20,542	37,709
Net increase in cash and cash equivalents	14,616	(52)	14,564

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.

1. Organization and Significant Accounting Policies (continued)

Use of Estimates

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

During 2014 and 2013, the Hospital recorded a change in estimate of approximately $2.7 million and $6.4 million, respectively. Included in the change are amounts related to favorable third-party payor settlements.

Temporarily and Permanently Restricted Net Assets

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

Donor Restricted Gifts

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

1. Organization and Significant Accounting Policies (continued)

Pledges receivable, included in other current assets and other assets in the accompanying consolidated balance sheets at September 30, 2014 and 2013, are expected to be received as follows (in thousands):

	2014	2013
Due in one year or less	**$ 558**	$ 591
Due after one year through five years	**645**	214
Total pledges receivable	**1,203**	805
Less unamortized discount on contribution receivable (0.1% to 1.8%)	**(9)**	–
Less allowance for doubtful pledges	**(36)**	(24)
Pledges receivable, net	**$ 1,158**	$ 781

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.

Accounts Receivable

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

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

1. Organization and Significant Accounting Policies (continued)

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

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

The Hospital participates in the Yale New Haven Health System Investment Trust (the Trust), a unitized Delaware Investment Trust created to pool assets for investment by the Health System non-profit entities. The Trust 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.

1. Organization and Significant Accounting Policies (continued)

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, 2014, the Hospital can withdraw 100% of its investment in the L-TIP as of July 1, 2015. 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 with the University's investment office (the Investment Management Agreement) that allows the University to manage a portion of the Trust's investments as part of the University's Endowment Pool (the Pool). For each of the years ended September 30, 2014 and 2013, the Trust transferred approximately $100.0 million to the University in exchange for units in the Pool. The Trust's interest in the Pool is reported at fair value based on the net asset value per units held. The Pool invests in domestic equity, foreign equity, absolute return, private equity, real 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.

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.

1. Organization and Significant Accounting Policies (continued)

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.

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.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of the costs is provided using a method that approximates the interest method over the remaining term of the applicable indebtedness. The accumulated amortization of deferred financing costs was approximately $0.2 million and $0.1 million at September 30, 2014 and 2013, respectively. See Note 7 for additional information relative to debt-related matters.

Benefits and Insurance

The Hospital provides medical, dental, hospitalization, and prescription drug benefits to employees for which it is self-insured. Liabilities have been accrued for claims, including claims incurred but not reported (IBNRs), which are based on specific experience. At September 30, 2014 and 2013, the estimated liability for self-insured employee medical, prescriptions, and other benefit claims and IBNRs aggregated approximately $1.0 million and $0.9 million, respectively, and is included in accrued expenses in the accompanying consolidated balance sheets.

The Hospital is effectively self-insured for workers' compensation claims. Estimated amounts are accrued for claims, including IBNRs, which are based on specific experience. At September 30, 2014 and 2013, the estimated liability for self-insured workers' compensation claims and IBNRs aggregated approximately $6.1 million and $5.6 million, respectively, discounted at 2.5% in 2014 and in 2013, and is included in other long-term liabilities in the accompanying consolidated balance sheets.

1. Organization and Significant Accounting Policies (continued)

Property, Plant, and Equipment

Property, plant, and equipment purchased are carried at cost, and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Depreciation of property, plant, and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives ranging from 3 to 50 years.

Acquisitions

During 2013, the Hospital acquired substantially all of the business, assets, and operations of Robert D. Russo and Associates Radiology P.C. (Russo Radiology). The acquisition includes installment payments totaling approximately $15.0 million, including interest, ranging from approximately $1.5 million to $3.9 million due from May 2013 through June 2017. At September 30, 2014 and 2013, the Hospital has a liability of approximately $6.3 million and $9.5 million, respectively, remaining. The Hospital has accounted for the business combination by applying the acquisition method of accounting in accordance with Accounting Standards Codification (ASC) 805, *Business Combinations*. As a result of the transaction, goodwill in the amount of approximately $13.5 million was recorded and is included in other assets at September 30, 2014 and 2013.

In 2011, the Hospital acquired certain tangible and intangible assets of Cardiac Specialists, P.C. for approximately $1.6 million. As a result of the transaction, goodwill in the amount of approximately $0.8 million was recorded and is included in other assets at September 30, 2014 and 2013.

On June 1, 2014, NEMG and YNHHSC acquired certain assets of PriMed, LLC (PriMed), a physician practice, for approximately $54.2 million. YNHHSC contributed the entire purchase price, of which $25.0 million was transferred from the Hospital to YNHHSC. PriMed is a multi-specialty group of approximately 120 providers in 36 locations across Fairfield County and New Haven County, Connecticut. PriMed also is the sole member of a gastroenterology surgery center, the Fairfield County Endoscopy Center, and offers a number of ancillary services such as a sleep laboratory, cardiac diagnostic testing, physical therapy, and nutritional counseling. Under the terms of the transaction, NEMG and YNHHSC acquired substantially all the assets of PriMed and a 40% interest in the gastroenterology surgery center.

1. Organization and Significant Accounting Policies (continued)

The Hospital is required to review its goodwill for impairment annually. Based on the Hospital's review at September 30, 2014 and 2013, goodwill was determined not to be impaired.

Excess of Revenue over Expenses

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

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

Income Taxes

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

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 \$0.3 million and \$11.0 million, respectively, at September 30, 2014, and approximately \$0.4 million and \$12.1 million, respectively, at September 30, 2013.

1. Organization and Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2013, balances previously reported in the consolidated financial statements in order to conform with the year ended September 30, 2014, presentation. Approximately $12.9 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 current year presentation. See Note 3 for additional information relative to the amendment of the Hospital's Charity Care policy.

New Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (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

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

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

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

Third-party payor receivables included in other current assets were approximately $4.2 million and $2.7 million at September 30, 2014 and 2013, respectively. Third-party payor receivables included in other long-term assets were approximately $3.4 million at September 30, 2013. Third-party payor liabilities included in other current liabilities were approximately $4.0 million and $4.5 million at September 30, 2014 and 2013, respectively. Third-party payor liabilities included in other long-term liabilities were approximately $18.3 million and $13.4 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 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. 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.

Revenue from Medicare and Medicaid programs accounted for approximately 36% and 20%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2014, and 38% and 18%, respectively, for the year ended September 30, 2013. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 39% and 34%, respectively, for the year ended September 30, 2014, and approximately 39% and 31%, 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.

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 2010 for Medicare and 2008 for Medicaid. Other years remain open for settlement.

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

The significant concentrations of accounts receivable for services to patients include 42% from Medicare, 17% from Medicaid, and 41% from nongovernmental payors at September 30, 2014, and 31% from Medicare, 13% from Medicaid, and 56% from nongovernmental payors at September 30, 2013.

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

	2014	**2013**
Gross revenue from patients	**$ 1,693,080**	$ 1,512,520
Deductions:		
Contractual allowances	**1,184,162**	1,027,832
Charity and free care (at charges)	**49,238**	37,935
Provision for doubtful accounts	**20,305**	27,926
Net patient service revenue	**$ 439,375**	$ 418,827

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):

	2014	**2013**
Third-party	**$ 441,363**	$ 431,452
Self-pay	**18,317**	15,301
Total all payors	**$ 459,680**	446,753

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 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 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.

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

The Hospital's allowance for doubtful accounts totaled approximately $46.4 million and $42.2 million at September 30, 2014 and 2013, respectively. The allowance for doubtful accounts for self-pay patients was approximately 87.5% and 78.5% 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 health care because of inadequate resources and/or who are uninsured or underinsured.

The Hospital makes available free care programs for qualifying patients. In accordance with the established policies of the Hospital, during the registration, billing, and collection process a patient's eligibility for free care funds is determined. For patients who were determined by the Hospital to have the ability to pay but did not, the uncollected amounts are bad debt expense. For patients who do not avail themselves of any free care program and whose ability to pay cannot be determined by the Hospital, care given but not paid for is classified as charity care. 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 $31.2 million and $27.9 million for the years ended September 30, 2014 and 2013, 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 provided was approximately $22.1 million and $16.8 million for the years ended September 30, 2014 and 2013, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by Hospital-specific data.

3. Uncompensated Care and Community Benefit Expense (continued)

For the years ended September 30, 2014 and 2013, bad debt expense, at charges, was approximately $20.3 million and $27.9 million, respectively. For the years ended September 30, 2014 and 2013, bad debt expense, at cost, was approximately $9.1 million and $11.1 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 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, 2014 and 2013, the Hospital received approximately $14.4 million and $17.7 million, respectively, in CDSHP distributions, of which approximately $10.2 million and $12.6 million, respectively, related to charity care. The Hospital made payments into CDSHP of approximately $16.9 million for the years ended September 30, 2014 and 2013, respectively, for the 1% assessment.

Additionally, the Hospital provides benefits for the broader community, which includes services provided to other needy populations that may not qualify as poor but need special services and support. Benefits include the cost of health promotion and education of the general community, interns and residents, health screenings, and medical research. The benefits are provided through the community health centers, some of which service non-English speaking residents, disabled children, and various community support groups. The Hospital voluntarily assists with the direct funding of several City of Bridgeport programs, including an economic development program and a youth initiative program.

In addition to the quantifiable services defined above, the Hospital provides additional benefits to the community through its advocacy of community service by employees. The Hospital's employees serve numerous organizations through board representation, membership in associations, and other related activities. The Hospital also solicits the assistance of other 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):

	2014	2013
Money market funds	**$ 10,153**	$ 7,737
U.S. equity securities	**6,825**	7,004
U.S. equity securities – common collective trusts	**1,096**	1,514
International equity securities[a]	**7,300**	7,224
Fixed income:		
U.S. government	**19,543**	18,018
U.S. government – common collective trusts	**9,002**	7,509
Corporate debt	**3,803**	3,733
International government[b]	**6,334**	6,536
Commodities	**145**	173
Hedge funds:		
Long/short equity[c]	**69**	57
Real estate[d]	**1,610**	1,713
Interest in Yale University Endowment Pool[e]	**66,684**	56,188
Total	**$ 132,564**	$ 117,406

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

[b]Investments with external commodities futures manager.

[c]Investment with an external long-short equity fund of funds manager with underlying portfolio investments consisting of publicly traded equity positions.

[d]Investments with external direct real estate managers and fund of funds managers. Investment vehicles both closed-end real estate investment trusts and limited partnerships.

[e]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 non-traditional asset classes such as an absolute return, private equity, and real assets.

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

The Hospital ownership percentage of the Trust was approximately 7.6% and 9.2% as of September 30, 2014 and 2013, respectively. The Hospital's pro rata portion of the Trust's investments is included in the above table.

The Hospital has a 47.6% equity interest in Century Financial Services, Inc. (Century). At September 30, 2014 and 2013, the investment is included in other assets in the accompanying consolidated balance sheets. The investment in Century is carried on the equity basis of accounting and is adjusted for 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.

5. Endowment (continued)

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	$ 882	$ 20,321	$ 20,788	$ 41,991
Investment returns:				
Investment income	11	417	–	428
Net appreciation (realized and unrealized)	282	2,259	–	2,541
Total investment return	293	2,676	–	2,969
Appropriation of endowment assets for expenditure	–	(4,428)	–	(4,428)
Other changes:				
Contribution bequests	–	1,221	955	2,176
Endowment net assets, end of year	$ 1,175	$ 19,790	$ 21,743	$ 42,708

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 602	$ 16,768	$ 19,872	$ 37,242
Investment returns:				
Investment income	9	468	–	477
Net appreciation (realized and unrealized)	271	1,836	–	2,107
Total investment return	280	2,304	–	2,584
Appropriation of endowment assets for expenditure	–	(1,333)	–	(1,333)
Other changes:				
Contribution bequests	–	2,582	916	3,498
Endowment net assets, end of year	$ 882	$ 20,321	$ 20,788	$ 41,991

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 $33.3 million and $32.0 million for the years ended September 30, 2014 and 2013, respectively, are available for specific hospital operations, teaching, research, indigent and free care, and training.

Permanently restricted net assets of approximately $21.7 million and $20.8 million for the years ended September 30, 2014 and 2013, 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. Net assets of the Bridgeport Hospital Auxiliary, Inc. are included in temporarily restricted net assets.

7. Debt

A summary of debt at September 30 is as follows (in thousands):

	2014	**2013**
Intercompany debt with YNHHSC:		
Series D (fixed interest rates ranging from 2.00% to 5.00%)	**$ 32,110**	$ 34,350
Series E (3.47%, effective interest rate)	**35,971**	–
Tax-exempt debt:		
2010 term loan (3.22% fixed interest rate)	**4,317**	4,940
2012 term loan (1.66% fixed interest rate)	**3,082**	4,167
Line of credit (1.71% interest rate)	**–**	25,000
Note payable (6.9% fixed interest rate)	**6,250**	9,463
Capital lease obligations	**20,207**	95
	101,937	78,015
Add: premium	**7,367**	3,392
Less: current portion	**(9,262)**	(32,205)
	$ 100,042	$ 49,202

7. Debt (continued)

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%.

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 Series A and C tax-exempt revenue bonds and to pay for certain bond issuance costs of approximately $0.8 million. The bond premium is being amortized using the effective interest method and is included in interest expense in the accompanying statement of operations and changes in net assets. In connection with the formation of the Obligated Group, the Series D and E debt became an obligation of the Obligated Group and as such is reflected as intercompany debt with YNHHSC.

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

In December 2012, in connection with the purchase of 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.

In September 2013, the Hospital entered into and drew in full its $25.0 million line of credit with a bank. The bank line of credit requires payment of the outstanding principal amount 12 months subsequent to the initial advance. The obligation bears interest at a rate equal to one-month LIBOR (London Interbank Offered Rate) plus 1.50% per annum. The bank line of credit was paid in full and closed in September 2014.

7. Debt (continued)

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. The premium is being amortized and included as interest expense in the consolidated statement of operations and changes in net assets.

In connection with the formation of the Obligated Group, the Series D and E tax-exempt bonds became an obligation of the Obligated Group and as such are reflected as intercompany debt with YNHHSC. 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. As of September 30, 2014, the Obligated Group was in compliance with such covenants.

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. The arrangement contains provisions for Bridgeport Hospital to begin leasing the property for a 25-year period beginning in April 2016. Management has evaluated the terms of the arrangement and recorded the project as a capital lease. Upon completion, the total estimated capital lease obligation will approximate $102.0 million.

At September 30, 2014, construction costs totaled approximately $20.2 million and are included in construction in progress on the accompanying consolidated balance sheet.

7. Debt (continued)

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

	Debt	Capital Lease Obligations
2015	$ 9,215	$ 47
2016	5,713	3,662
2017	6,744	7,856
2018	4,466	7,856
2019	4,674	788
Thereafter	50,918	–
	$ 81,730	20,209
Less: interest		(2)
Total capital lease obligation		$ 20,207

Cash paid for interest for the years ended September 30, 2014 and 2013, approximated $2.6 million and $1.7 million, respectively.

Assets recorded under the capital lease obligations totaled approximately $20.2 million and $0.3 million as of September 30, 2014 and 2013, respectively. Accumulated depreciation for the capital lease obligations totaled approximately $0.3 million for September 30, 2014 and 2013.

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

8. Retirement Benefit Plans (continued)

employee's year of service and compensation. The Hospital expensed approximately $9.4 million and $9.5 million relating to the defined contribution plan for the years ended September 30, 2014 and 2013, respectively. Amounts due to the defined contribution plan amounted to approximately $5.2 million at September 30, 2014 and 2013, 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, 2014 and 2013, are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	2014	2013
Unrecognized actuarial loss	**$ (101,168)**	$ (80,198)

The actuarial loss included in unrestricted net assets at September 30, 2014, is approximately $2.3 million and is expected to be recognized in net periodic benefit cost during the year ending September 30, 2015.

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

	Pension Benefits	
	2014	2013
Change in benefit obligation		
Benefit obligation, beginning of year	**$ (179,605)**	$ (199,526)
Interest cost	**(8,618)**	(7,841)
Actuarial (loss) gain	**(21,944)**	21,397
Benefits paid	**6,730**	6,365
Benefit obligation, end of year	**$ (203,437)**	$ (179,605)
Change in plan assets		
Fair value of plan assets, beginning of year	**$ 136,660**	$ 132,485
Actual return on plan assets	**8,015**	8,020
Employer contribution	**7,211**	2,520
Benefits paid	**(6,730)**	(6,365)
Fair value of plan assets, end of year	**$ 145,156**	$ 136,660
Accrued pension obligation	**$ (58,281)**	$ (42,945)

8. Retirement Benefit Plans (continued)

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

Accumulated Benefit Obligation

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

	2014	2013
Projected benefit obligation	**$ 203,437**	$ 179,605
Accumulated benefit obligation	**203,437**	179,605
Fair value of plan assets	**145,156**	136,660

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	
	2014	**2013**
Components of net periodic benefit cost		
Interest cost	**$ 8,618**	$ 7,841
Expected rate of return on plan assets	**(9,302)**	(9,348)
Recognized net actuarial loss	**2,261**	2,740
Net periodic benefit cost	**$ 1,577**	$ 1,233

8. Retirement Benefit Plans (continued)

Assumptions

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

	Pension Benefits 2014	Pension Benefits 2013
Discount rate	**4.30%**	4.90%

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

	Pension Benefits 2014	Pension Benefits 2013
Discount rate	**4.90%**	4.00%
Expected long-term return on plan assets	**6.75**	6.75

Measurement Date

The measurement date used to determine pension benefits is September 30 in 2014 and 2013.

Plan Assets

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

	Target Allocation	Percentage of Plan Assets	
	2015	2014	2013
Asset category:			
Equity securities	35%	**42%**	40%
Debt securities	39	**38**	43
Alternative investments	26	**20**	17
Total	100%	**100%**	100%

8. Retirement Benefit Plans (continued)

The pension assets carried at fair value as of September 30, 2014 and 2013, are classified in the following tables in one of the three categories described in Note 15 (in thousands):

	Level 1	Level 2	Level 3	Total
Money market funds	**$ 6,077**	**$ –**	**$ –**	**$ 6,077**
U.S. equity securities	**28,116**	**–**	**–**	**28,116**
International equity securities	**26,837**	**–**	**–**	**26,837**
Fixed income:				
U.S. government	**17,018**	**–**	**–**	**17,018**
Corporate debt	**26,543**	**–**	**–**	**26,543**
International government	**11,431**	**–**	**–**	**11,431**
Hedge funds:				
Long/short equity	**–**	**190**	**–**	**190**
Multi-strategy/other	**–**	**–**	**25,455**	**25,455**
Real estate	**3,489**	**–**	**–**	**3,489**
Total investments as of September 30, 2014	**$ 119,511**	**$ 190**	**$ 25,455**	**$ 145,156**

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

	Level 1	Level 2	Level 3	Total
Money market funds	$ 1,441	$ –	$ –	$ 1,441
U.S. equity securities	29,960	–	–	29,960
International equity securities	25,111	–	–	25,111
Fixed income:				
U.S. government	19,474	–	–	19,474
Corporate debt	29,606	–	–	29,606
International government	7,720	–	–	7,720
Hedge funds:				
Long/short equity	–	9,495	–	9,495
Multi-strategy/other	–	–	10,505	10,505
Real estate	3,348	–	–	3,348
Total investments as of September 30, 2013	$ 116,660	$ 9,495	$ 10,505	$ 136,660

8. Retirement Benefit Plans (continued)

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

Fair value at October 1, 2012	$	8,689
2013 unrealized gains and losses		666
2013 purchases		1,150
Fair value at September 30, 2013		10,505
2014 unrealized gains and losses		**950**
2014 purchases		**14,000**
Fair value at September 30, 2014	**$**	**25,455**

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

The Hospital's pension portfolio return assumption of 6.75% is based on the targeted weighted average return of comparative market indices for the asset classes represented in the portfolio and discounted for pension expenses.

Cash Flows

Contributions: The Hospital's and its affiliates' expected contribution to the defined benefit pension plan in 2015 is approximately $10.5 million.

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

2015	$	7,944
2016		8,289
2017		8,738
2018		9,841
2019		10,119
2020 to 2025		58,736

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. Premiums are based on modified claims made coverage and are actuarially determined based on actual experience of the Hospital and the Captive. The Hospital pays insurance premiums to YNHHSC.

The estimate for modified claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately $41.4 million and $44.8 million at September 30, 2014 and 2013, respectively. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately $15.7 million and $13.6 million at September 30, 2014 and 2013, respectively, and is included in professional insurance liabilities in the accompanying balance sheets at the actuarially determined present value of approximately $13.9 million and $12.1 million, respectively, based on a discount rate of 2.5% for the years ended September 30, 2014 and 2013.

The Hospital has recorded related insurance recoveries receivable of approximately $27.6 million and $32.7 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 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 has an irrevocable letter of credit with a bank to provide coverage to the State of Connecticut for workers' compensation claims. There were no amounts outstanding under this letter of credit during 2014 and 2013.

The Hospital obtained a surety bond to provide coverage to the State of Connecticut for unemployment compensation in 2012. There were no amounts outstanding in 2014 or 2013.

The Hospital has various lease agreements. Lease expense for the years 2014 and 2013, was approximately $5.4 million and $4.7 million, respectively. Future minimum payments under these leases are as follows:

2015	$ 4,820
2016	4,462
2017	3,181
2018	2,364
2019	2,331
Thereafter	12,246
	$ 29,404

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):

	2014	2013
Health care services	**$ 335,408**	$ 330,224
General and administrative	**94,602**	82,556
	$ 430,010	$ 412,780

12. Related-Party Transactions

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

	2014	2013
Operating expenses:		
Information systems	**$ 21,360**	$ 21,811
System business office	**10,249**	9,289
Other business services	**28,632**	27,069
	$ 60,241	$ 58,169

The Hospital funds certain capital assets purchased by YNHHSC. Included in prepaid expenses and other assets were approximately $34.0 million at September 30, 2014, and approximately $35.0 million at September 30, 2013.

Included in depreciation and amortization expense for each of the years ended September 30, 2014 and 2013, is approximately $8.6 million and $2.2 million, respectively, of costs allocated from YNHHSC for shared capital projects.

12. Related-Party Transactions (continued)

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):

	2014	2013
Accounts receivable:		
Y-NHH	**$ 890**	$ –
YNHHSC	**1,637**	837
	$ 2,527	$ 837
Accounts payable:		
YNHHSC	**$ 24,676**	$ 15,710
NEMG	**1,784**	1,355
Greenwich Hospital	**179**	34
	$ 26,639	$ 17,099

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 $17.7 million and $13.0 million for the years ended September 30, 2014 and 2013, respectively.

13. Other Revenue

Other revenue consisted of the following (in thousands):

	Year Ended September 30	
	2014	2013
Cafeteria and vending	**$ 1,898**	$ 1,934
Parking income	**1,417**	1,447
Net assets released from restrictions for operations	**7,069**	6,346
Electronic health records incentive payment	**3,004**	3,587
Pediatric ancillary services	**9,326**	9,569
Other	**4,852**	3,325
	$ 27,566	$ 26,208

13. Other Revenue (continued)

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 $2.3 million and $2.6 million for the years ended September 30, 2014 and 2013, respectively. Medicaid EHR incentive payment revenue was approximately $0.7 million and $1.0 million for the years ended September 30, 2014 and 2013, respectively. 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. Non-Operating Gains and Losses, Net

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

	Year Ended September 30 2014	2013
Income from investments and other, net	**$ 1,418**	$ 447
Change in unrealized gains and losses on investments	**4,434**	3,522
	$ 5,852	$ 3,969

Contributions received consisted of the following (in thousands):

	Year Ended September 30 2014	2013
Unrestricted contributions	**$ 714**	$ 634
Temporarily restricted contributions	**4,284**	3,832
Permanently restricted contributions	**955**	906
Total contributions	**5,953**	5,372
Less: Fundraising costs	**2,109**	2,069
	$ 3,844	$ 3,303

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 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.

15. Fair Values Measurements (continued)

- 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, 2014 and 2013, are classified in the following tables in the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 29,461	$ –	$ –	$ 29,461
Money market funds	10,153	–	–	10,153
U.S. equity securities	6,825	–	–	6,825
International equity securities	7,300	–	–	7,300
Fixed income:				
U.S. government	19,543	–	–	19,543
Corporate debt	3,803	–	–	3,803
International government	3,937	2,397	–	6,334
Interest in Yale University Endowment Pool	–	–	66,684	66,684
Investments at fair value	$ 81,022	$ 2,397	$ 66,684	150,103
Common collective trusts				10,098
Alternative investments				1,824
Investments not at fair value				11,922
Total investments as of September 30, 2014				$ 162,025

15. Fair Values Measurements (continued)

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 30,636	$ –	$ –	$ 30,636
Money market funds	7,737	–	–	7,737
U.S. equity securities	7,004	–	–	7,004
International equity securities	7,224	–	–	7,224
Fixed income:				
U.S. government	18,018	–	–	18,018
Corporate debt	3,733	–	–	3,733
International government	4,022	2,514	–	6,536
Interest in Yale University Endowment Pool	–	–	56,188	56,188
Investments at fair value	$ 78,374	$ 2,514	$ 56,188	137,076
Common collective trusts				9,023
Alternative investments				1,943
Investments not at fair value				10,966
Total investments as of September 30, 2013				$ 148,042

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

Interest in Yale University Endowment Pool:	
Fair value at September 30, 2012	$ 46,760
2013 unrealized gains	9,428
Fair value at September 30, 2013	56,188
2014 unrealized gains	**10,496**
Fair value at September 30, 2014	**$ 66,684**

Fair values of the Hospital's debt are based on current borrowing rates for similar types of debt using undiscounted cash flow analyses. The fair value of the long-term debt at September 30, 2014 and 2013, is approximately $90.7 million and $57.8 million, respectively. The fair value of capital leases was approximately $20.3 million at September 30, 2014. 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.

16. Subsequent Events

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

Supplementary Information

Ernst & Young LLP
20 Church Street
Hartford, CT 06103

Tel: +1 860 247 3100
Fax: +1 860 725 6040
ey.com

Report of Independent Auditors on Supplementary Information

The Board of Directors
Bridgeport Hospital and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Bridgeport Hospital and Subsidiaries as of and for the year ended September 30, 2014, and have issued an unmodified opinion thereon dated December 23, 2014. 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 audits 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Ernst & Young LLP

December 23, 2014

Bridgeport Hospital and Subsidiaries

Consolidating Balance Sheet

(In Thousands)

September 30, 2014

	Hospital	Foundation	Properties	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 28,527	$ 913	$ 21	$ –	$ 29,461
Short-term investments	37,860	34,892	–	–	72,752
Accounts receivable	49,732	–	–	–	49,732
Professional liabilities insurance recoveries receivable – current portion	8,273	–	–	–	8,273
Other current assets	22,162	730	9	(1,710)	21,191
Assets limited as to use	247	–	–	–	247
Total current assets	146,801	36,535	30	(1,710)	181,656
Assets limited as to use	3,856	1,210	–	–	5,066
Long-term investments	25,131	29,368	–	–	54,499
Professional liabilities insurance recoveries receivable – non-current	19,303	–	–	–	19,303
Deferred financing costs	1,290	–	–	–	1,290
Interest in Bridgeport Hospital Foundation, Inc.	65,812	–	–	(65,812)	–
Other assets	28,025	730	–	–	28,755
Goodwill	17,217	–	–	–	17,217
Property, plant, and equipment:					
Land, buildings, and improvements	122,928	–	1,473	–	124,401
Equipment	308,888	–	–	–	308,888
	431,816	–	1,473	–	433,289
Less accumulated depreciation and amortization	(303,677)	–	(412)	–	(304,089)
	128,139	–	1,061	–	129,200
Construction in progress	37,001	–	–	–	37,001
Total assets	$ 472,575	$ 67,843	$ 1,091	$ (67,522)	$ 473,987

Bridgeport Hospital and Subsidiaries

Consolidating Balance Sheet (continued)

(In Thousands)

	Hospital	Foundation	Properties	Eliminations	Total
Liabilities and net assets					
Current liabilities:					
Accounts payable	$ 10,476	$ –	$ –	$ –	$ 10,476
Accrued expenses	58,396	70	24	–	58,490
Current portion of long-term debt and capital lease obligation	9,262	–	–	–	9,262
Professional liabilities – current portion	8,273	–	–	–	8,273
Other current liabilities	4,590	1,583	127	(1,710)	4,590
Total current liabilities	90,997	1,653	151	(1,710)	91,091
Long-term debt, net of current portion	79,882	–	–	–	79,882
Long-term capital lease obligation, net of current portion	20,160	–	–	–	20,160
Accrued pension obligation	58,281	–	–	–	58,281
Professional liabilities	33,169	–	–	–	33,169
Other long-term liabilities	34,253	378	–	–	34,631
Total liabilities	316,742	2,031	151	(1,710)	317,214
Net assets:					
Unrestricted	100,811	34,454	940	(34,454)	101,751
Temporarily restricted	33,279	15,023	–	(15,023)	33,279
Permanently restricted	21,743	16,335	–	(16,335)	21,743
Total net assets	155,833	65,812	940	(65,812)	156,773
Total liabilities and net assets	$ 472,575	$ 67,843	$ 1,091	$ (67,522)	$ 473,987

Bridgeport Hospital and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets
(In Thousands)

Year Ended September 30, 2014

	Hospital	Foundation	Parent	Properties	Eliminations	Total
Operating revenue:						
Net patient service revenue	$ 459,680	$ –	$ –	$ –	$ –	$ 459,680
Less: Provision for bad debts	(20,305)	–	–	–	–	(20,305)
Net patient service revenue, less provision for bad debts	439,375	–	–	–	–	439,375
Other revenue	24,165	3,250	–	155	(4)	27,566
Total operating revenue	463,540	3,250	–	155	(4)	466,941
Operating expenses:						
Salaries and benefits	201,556	–	–	–	–	201,556
Supplies and other expenses	190,937	3,250	–	209	(4)	194,392
Depreciation and amortization	30,957	–	–	59	–	31,016
Insurance	480	–	–	–	–	480
Interest	2,566	–	–	–	–	2,566
Total operating expenses	426,496	3,250	–	268	(4)	430,010
Income (loss) from operations	37,044	–	–	(113)	–	36,931
Non-operating gains and losses, net	5,852	2,395	–	–	(2,395)	5,852
Excess (deficiency) of revenue over expenses	42,896	2,395	–	(113)	(2,395)	42,783
Unrestricted net assets:						
Excess (deficiency) of revenue over expenses	42,896	2,395	–	(113)	(2,395)	42,783
Net assets released from restrictions used for capital acquisitions	2,445	–	–	–	–	2,445
Net change in Interest in Foundation	–	1,637	–	–	(1,637)	–
Transfers (to) from BH	(3,904)	–	3,904	–	–	–
Transfers to YNHHSC	(25,000)	–	–	–	–	(25,000)
Transfers to YNHHSC – mission support	(17,682)	–	–	–	–	(17,682)
Other transfers	(13)	–	(152)	50	–	(115)
Pension liability adjustment	(20,970)	–	–	–	–	(20,970)
(Decrease) increase in unrestricted net assets	(22,228)	4,032	3,752	(63)	(4,032)	(18,539)

Bridgeport Hospital and Subsidiaries

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

(In Thousands)

	Hospital	Foundation	Parent	Properties	Eliminations	Total
Temporarily restricted net assets:						
Net changes in interest in the Foundation:						
Net assets released from restrictions used for operations	$ (3,250)	$ –	$ –	$ –	$ 3,250	$ –
Change in unrealized gains and losses on investments	993	–	–	–	(993)	–
Bequests, contributions, and grants	6,328	–	–	–	(6,328)	–
Net realized investment gains and losses	369	–	–	–	(369)	–
Transfers to the Hospital	(3,978)	–	–	–	3,978	–
Other changes in net assets	350	–	–	–	(350)	–
Net assets released from restrictions used for operations	(3,819)	(3,250)	–	–	–	(7,069)
Net assets released from restrictions used for capital acquisitions	(2,445)	–	–	–	–	(2,445)
Change in unrealized gains and losses on investments	1,942	993	–	–	–	2,935
Bequests, contributions, and grants	–	6,328	–	–	–	6,328
Net realized investment gains	387	369	–	–	–	756
Other changes in net assets	391	350	–	–	–	741
Transfers from the Foundation and other transfers	3,978	(3,978)	–	–	–	–
Increase (decrease) in temporarily restricted net assets	1,246	812	–	–	(812)	1,246
Permanently restricted net assets:						
Bequests, contributions, and grants	955	954	–	–	(954)	955
Increase (decrease) in permanently restricted net assets	955	954	–	–	(954)	955
(Decrease) increase in net assets	(20,027)	5,798	3,752	(63)	(5,798)	(16,338)
Net assets (deficiency) at beginning of year	175,860	60,014	(3,752)	1,003	(60,014)	173,111
Net assets (deficiency) at end of year	$ 155,833	$ 65,812	$ –	$ 940	$ (65,812)	$ 156,773

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