

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Yale-New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries  
Years Ended September 30, 2014 and 2013  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

Yale-New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries

Consolidated Financial Statements  
and Supplementary Information

Years Ended September 30, 2014 and 2013

**Contents**

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Balance Sheets .....	3
Consolidated Statements of Operations and Changes in Net Assets .....	5
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8
Supplementary Information	
Report of Independent Auditors on Supplementary Information.....	62
Consolidating Balance Sheet .....	63
Consolidating Statement of Operations and Changes in Net Assets .....	65



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

The Board of Directors  
Yale-New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries

We have audited the accompanying consolidated financial statements of Yale-New Haven Health Services Corporation, d/b/a Yale New Haven Health System 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 Yale-New Haven Health Services Corporation 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

Yale-New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries

Consolidated Balance Sheets  
(In Thousands)

	September 30	
	2014	2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 161,059	\$ 130,847
Short-term investments	1,040,882	816,969
Accounts receivable for services to patients, less allowance for uncollectible accounts, charity and free care of approximately \$272,684 in 2014, and \$258,274 in 2013	368,342	334,974
Professional liabilities insurance recoveries receivable – current portion	35,271	38,264
Other current assets	72,812	87,911
Amounts on deposit with trustee in debt service fund	4,641	7,176
Total current assets	1,683,007	1,416,141
Assets limited as to use	233,550	174,471
Long-term investments	394,904	338,009
Deferred financing costs, less accumulated amortization	10,993	8,519
Professional liabilities insurance recoveries receivable – non-current	86,652	96,328
Goodwill	114,352	56,439
Other assets	188,102	177,549
Property, plant and equipment, net	1,455,574	1,533,825
Construction in progress	66,043	44,054
	1,521,617	1,577,879
Total assets	\$ 4,233,177	\$ 3,845,335

	<b>September 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 469,398	\$ 474,100
Current portion of long-term debt	19,493	45,780
Current portion of capital lease obligation	2,963	2,598
Professional liabilities – current portion	35,271	38,264
Other current liabilities	40,432	36,164
Total current liabilities	<u>567,557</u>	<u>596,906</u>
Long-term debt, net of current portion	917,111	764,309
Long-term capital lease obligations, net of current portion	70,998	53,896
Accrued pension and postretirement benefit obligations	321,442	264,775
Professional liabilities	173,806	182,728
Other long-term liabilities	271,261	225,405
Deferred revenue	44,378	47,297
Total liabilities	<u>2,366,553</u>	<u>2,135,316</u>
<b>Commitments and contingencies</b>		
Net assets:		
Unrestricted	1,644,056	1,511,282
Temporarily restricted	141,712	128,558
Permanently restricted	80,856	70,179
Total net assets, including non-controlling interest	<u>1,866,624</u>	<u>1,710,019</u>
Total liabilities and net assets	<u>\$ 4,233,177</u>	<u>\$ 3,845,335</u>

*See accompanying notes.*

Yale-New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets  
(In Thousands)

	<b>Year Ended September 30</b>	
	<b>2014</b>	<b>2013</b>
Operating revenue:		
Net patient service revenue	\$ 3,411,435	\$ 3,293,561
Less: Provision for bad debts	(123,743)	(131,779)
Net patient service revenue, less provision for bad debts	3,287,692	3,161,782
Other revenue	106,994	118,572
Total operating revenue	<b>3,394,686</b>	3,280,354
Operating expenses:		
Salaries and benefits	1,744,137	1,701,365
Supplies and other expenses	1,251,717	1,229,160
Depreciation and amortization	192,072	164,253
Insurance	9,731	23,007
Interest	26,917	26,387
Total operating expenses	<b>3,224,574</b>	3,144,172
Income from operations	<b>170,112</b>	136,182
Non-operating gains (losses), net:		
Income from investments, donations and other, net	84,024	53,238
Change in fair value of swap, including counterparty payments	(17,204)	17,597
Loss on refunding of long-term debt	(32,631)	-
Excess of revenue over expenses	<b>204,301</b>	207,017

Yale-New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries

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

	<b>Year Ended September 30</b>	
	<b>2014</b>	<b>2013</b>
Other changes in unrestricted net assets:		
Excess of revenue over expenses	<b>204,301</b>	207,017
Other changes in net assets	<b>(215)</b>	(176)
Net assets released from restrictions for purchases of fixed assets	<b>3,947</b>	1,040
Pension and other postretirement liability adjustments	<b>(75,259)</b>	143,793
Increase in unrestricted net assets	<b>132,774</b>	351,674
Temporarily restricted net assets:		
Income from investments	<b>1,389</b>	241
Net realized and unrealized gains on investments	<b>13,172</b>	15,553
Bequests and contributions	<b>20,859</b>	31,102
Net assets released from restrictions for purchases of fixed assets	<b>(3,947)</b>	(1,040)
Net assets released from restrictions for operations	<b>(13,178)</b>	(12,789)
Net assets released from restrictions for clinical programs	<b>(5,882)</b>	(10,277)
Other changes in net assets	<b>741</b>	911
Increase in temporarily restricted net assets	<b>13,154</b>	23,701
Permanently restricted net assets:		
Bequests and contributions	<b>5,372</b>	1,041
Net realized and unrealized losses on investments	<b>46</b>	322
Change in beneficial interest in perpetual trusts	<b>5,259</b>	411
Increase in permanently restricted net assets	<b>10,677</b>	1,774
Increase in net assets	<b>156,605</b>	377,149
Net assets at beginning of year	<b>1,710,019</b>	1,332,870
Net assets at end of year	<b>\$ 1,866,624</b>	\$ 1,710,019

*See accompanying notes.*



Yale-New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries

Consolidated Statements of Cash Flows  
(In Thousands)

	Year Ended September 30	
	2014	2013
<b>Operating activities</b>		
Increase in net assets	\$ 156,605	\$ 377,149
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	192,072	164,253
Net realized and change in net unrealized gains and losses on investments	(101,335)	(75,384)
Change in fair value of interest rate swap agreements	1,455	(19,493)
Loss on refunding of long-term debt	32,631	-
Amortization of long-term debt premium	(1,758)	(1,457)
Bad debts	123,743	98,606
Amortization of deferred financing costs	(413)	360
Change in perpetual trusts	(6,212)	(934)
Bequests and contributions, net of pledges	(26,231)	(26,084)
Pension and other postretirement liability adjustments	75,259	(143,793)
Changes in operating assets and liabilities:		
Accounts receivable, net	(157,111)	(140,207)
Other assets	(53,367)	26,082
Accounts payable and accrued expenses	(4,702)	67,047
Professional insurance recoveries and liabilities	754	3,766
Other liabilities	27,204	6,274
Net cash provided by operating activities	<u>258,594</u>	<u>336,185</u>
<b>Investing activities</b>		
Net acquisitions of property, plant and equipment	(115,888)	(266,025)
Sale of property	-	53,605
Capitalized interest	190	146
Cash paid for the acquisition, net of cash acquired	-	(13,981)
Net change in investments	(179,473)	(72,614)
Amounts deposited with trustee in debt service fund	2,535	1,318
Assets limited as to use	(52,867)	21,584
Net cash used in investing activities	<u>(345,503)</u>	<u>(275,967)</u>
<b>Financing activities</b>		
Proceeds from issuance of long-term debt	619,183	232,000
Proceeds from notes payable	-	14,000
Proceeds from line of credit payable	-	25,000
Payments of long-term debt	(490,610)	(17,032)
Payments on bank line of credit payable	(25,000)	(210,900)
Payments of notes payable	(3,213)	(45,637)
Payments on capital lease obligations	(2,645)	(56,309)
Cost of issuance of long-term debt	(6,825)	(3,230)
Bequests, and contributions, net of pledges	26,231	26,084
Net cash provided by (used in) financing activities	<u>117,121</u>	<u>(36,024)</u>
Net increase in cash and cash equivalents	<u>30,179</u>	<u>24,194</u>
Cash and cash equivalents at beginning of year	<u>130,847</u>	<u>106,653</u>
Cash and cash equivalents at end of year	<u>\$ 161,059</u>	<u>\$ 130,847</u>

See accompanying notes.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2014

**1. Organization and Significant Accounting Policies**

Yale-New Haven Health Services Corporation (Y-NHHSC), formed in 1983, was incorporated under the Connecticut Nonstock Corporation Act to coordinate the activities of the members of the Yale-New Haven Health Services Corporation, d/b/a Yale New Haven Health System and Subsidiaries (collectively, the System), and is an integrated regional health care delivery system. The System currently includes the following entities:

Y-NHHSC was the parent company of YNH Network Corporation (YNHNC) as well as the sole member of Bridgeport Hospital & Healthcare Services, Inc. (BHHS) and remains the parent company of Greenwich Health Care Services, Inc. (GHCS), Northeast Medical Group, Inc (NEMG), and Y-NHH-MSO, Inc. (MSO).

YNHNC was a Connecticut not-for-profit, non-stock corporation established to promote and carry out charitable, scientific and educational activities. YNHNC was the sole member of Yale-New Haven Hospital, Inc., Yale-New Haven Care Continuum Corporation (YNHCCC), and the parent organization of Yale-New Haven Ambulatory Services Corporation and Subsidiaries (ASC) and York Enterprises, Inc. and Subsidiaries (York). YNHNC controlled, through contractual agreements, Quinnipiac Medical P.C. (QMPC) and Community Healthcare Physicians (CHCP). YNHNC had an affiliation agreement with Y-NHHSC in which Y-NHHSC was the sole member of YNHNC. In fiscal year 2014, Yale-New Haven Hospital and its parent company, YNHNC, were merged in connection with the formation of an Obligated Group and are now referred to as Yale-New Haven Hospital and Subsidiaries (Y-NHH). As a result, Y-NHH's financial statement reporting entity changed to include YNHCCC, ASC and York previously reported in the consolidated financial statements of YNHNC, retrospective to October 1, 2012.

Y-NHHSC is the sole member of Y-NHH. Y-NHH and its subsidiaries have continued to operate autonomously with a separate board, management, and medical staff. Y-NHHSC must approve the strategic plans, operating budgets, capital budgets and board appointments of Y-NHH. Y-NHH is the parent of:

YNHCCC, a Connecticut non-stock corporation, is a wholly owned subsidiary of Y-NHH. YNHCCC provides long-term care for those unable to live independently and short-term rehabilitation for patients who have experienced elective surgery, an injury or a traumatic major illness. Its services include respite care for family members and caregivers, recovery for victims of strokes, orthopedic recovery services, medications and diagnostic services (such as radiological services).

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

ASC, a Connecticut non-stock, taxable corporation, is a wholly owned subsidiary of Y-NHH, and is 51% owner of Shoreline Surgery Center, LLC (SSC) and SSC II, LLC.

York is a Connecticut corporation formed for the purpose of initiating or acquiring business entities. Currently, York has two subsidiaries: Medical Center Pharmacy and Home Care, Inc. (MCP) and Medical Center Realty, Inc. (MCR). MCP is a Connecticut stock, for-profit company, which operated a retail pharmacy with multiple locations until February 2011. MCR is a Connecticut stock, for-profit company, which owns or holds leases on the System's affiliated commercial space. York is the sole shareholder of MCP and MCR.

QMPC and CHCP are Connecticut stock, for-profit, professional corporations formed in 1994 and 1996, respectively, to employ New Haven area primary care physicians. All of the stock of QMPC and CHCP is owned by the Chief of Staff of Y-NHH, who has assigned his rights in QMPC and CHCP to Y-NHH. QMPC and CHCP were both dissolved effective September 27, 2013.

Caritas Insurance Company, Ltd. (Caritas) is a Vermont-domiciled, captive insurance company licensed under Chapter 141 of Title 8 of the Vermont Statutes Annotated. Caritas is a tax-exempt supporting organization having the Hospital as its sole shareholder. Caritas provides excess professional liability coverage and general liability coverage. Prior to the 2012 acquisition of the stock of Caritas by Y-NHH from the Hospital of Saint Raphael (HSR), Caritas was a wholly-owned subsidiary of HSR.

Lukan Indemnity Company, Ltd. (Lukan) is a Bermuda-domiciled captive insurance company that provides primary professional liability coverage. Prior to the 2012 acquisition of the stock of Lukan by Y-NHH from HSR, Lukan was a wholly-owned subsidiary of HSR.

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

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

Foundation, Inc. (the Foundation), Southern Connecticut Health System Properties, Inc. (Properties), and the BHHS. BHHS had an affiliation agreement with Y-NHHSC in which Y-NHHSC was the sole member of BHHS. In fiscal year 2014, Bridgeport 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). As a result, Bridgeport 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 consolidated financial statements for BH for all periods presented.

Y-NHHSC is the sole member of BH. BH and its subsidiaries have continued to operate autonomously with a separate board management, and medical staff. Y-NHHSC must approve the strategic plans, operating budgets, capital budgets and board appointments of BH. BH is the sole member of the following not-for-profit, non-stock corporations:

The Foundation solicits contributions for the benefit of BH and all other tax-exempt health care organizations associated with BH.

Properties is a real estate holding company, which sold primarily all of its assets to BH during 1998.

NEMG is a tax-exempt medical foundation that provides physician-related services to Bridgeport, Greenwich, and Yale-New Haven Hospitals and their surrounding communities. NEMG operates autonomously with a separate board, management, and medical staff. Y-NHHSC must approve the strategic plans, operating budgets, capital budgets, and board appointments of 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 of Y-NHHSC, Y-NHH, YNHCCC, BH, BHF and NEMG. The members of the Obligated Group have adopted certain governance provisions in their certificates of incorporation and by-laws pursuant to which Y-NHHSC 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

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

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. GHCS and its subsidiaries are part of the System, but they are not members of the Obligated Group.

GHCS is the parent corporation of a group of wholly owned subsidiaries, including Greenwich Hospital, The Perryridge Corporation, Greenwich Health Care Services, Inc. (GHSI), the Greenwich Hospital Endowment Fund, Inc., and Greenwich Ambulatory Surgery Center, LLC (GASC). GHCS and its subsidiaries, with the exception of GHSI, are Section 501(c)(3) not-for-profit organizations, and are exempt from federal income taxes under Section 501(a) of the Code. Greenwich Hospital, a non-stock Connecticut corporation, is a wholly owned subsidiary of GHCS (the sole member), providing health care services to the lower Fairfield County and Westchester County, New York communities. GHCS and its subsidiaries have continued to operate autonomously with a separate board, management and medical staff. Y-NHHSC must approve the strategic plans, operating budgets, capital budgets, any transfer of assets, and Board of Director appointments of GHCS and its subsidiaries.

On October 21, 2010, GASC entered into an agreement to operate Orthopedic & Neurosurgery Center of Greenwich, LLC (the JV), for the purpose of providing outpatient surgical services in the greater Fairfield County and Westchester County communities. GASC holds governance control of the JV and a 35% equity interest as of September 30, 2011. Accordingly, the accounts of the JV have been included in the balance sheets of GASC. The non-controlling interest in the JV is reported in the consolidated financial statements.

MSO, a for-profit stock corporation, was formed to manage physician practices and provide third-party administration services on certain managed care contracts. The capital stock of MSO consists of 20,000 shares of common stock, par value of one one-hundredth of a dollar per share. The Board of Directors of MSO is appointed by Y-NHHSC, the sole shareholder, who controls MSO's operations.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Acquisitions**

On June 1, 2014, NEMG and Y-NHHSC acquired certain assets of PriMed, LLC (PriMed), a physician practice for approximately \$54.2 million. Y-NHHSC contributed the entire purchase price. 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 Y-NHHSC acquired substantially all the assets of PriMed and a 40% interest in the gastroenterology surgery center. Y-NHHSC deposited \$5.5 million into escrow to fund the purchase of the remaining 60% membership interest in the gastroenterology surgery center. Also at acquisition, Y-NHHSC recorded a liability of \$5 million for the amounts to be paid to PriMed physicians contingent on their continued service in the three years following the acquisition closing date as per the agreement.

On October 11, 2013, Y-NHH purchased 100% controlling interest of Saint Raphael Magnetic Resonance Center (SRMP) for approximately \$7.4 million. Prior to the purchase of this practice by Y-NHH, the controlling interest in SRMP was owned through a 50/50 joint venture between ASC and Medical Imaging Associates, P.C. ASC has transferred its 50% ownership to Y-NHH. In connection with this transaction, Y-NHH recorded goodwill in the amount of \$5.6 million.

During 2013, BH acquired substantially all of the business, assets, and operations of Robert D. Russo and Associates Radiology P.C. (Russo Radiology). The acquisition includes installment payments totaling \$15 million, including interest, ranging from approximately \$1.5 million to \$3.9 million due from May 2013 through June 2017. At September 30, 2014 and 2013, BH has a liability of approximately \$6.3 million and \$9.5 million, respectively, remaining. BH has accounted for the business combination by applying the acquisition method of accounting in accordance with Accounting Standards Codification (ASC) Topic 805, *Business Combinations*. As a result of the transaction, goodwill in the amount of approximately \$13.5 million was recorded.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Principles of Consolidation**

The accompanying consolidated financial statements present the accounts and transactions of the System and its subsidiaries. All significant intercompany revenue and expenses and inter-company balance sheet accounts have been eliminated in consolidation.

**Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients, and liabilities, including estimated net settlements with 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 reported during the 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 the years ended September 30, 2014 and 2013, the System recorded a change in estimate of approximately \$11.9 and \$9.4 million, respectively. Included in the change are amounts related to unfavorable third-party payor settlements.

**Temporarily and Permanently Restricted Net Assets**

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

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

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

is recognized as revenue, and is classified as either unrestricted or temporarily restricted in accordance with donor-imposed restrictions, if any, on the contributions.

**Capital Campaign and Pledges Receivable**

Contributions and 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):

	<b>September 30</b>	
	<b>2014</b>	<b>2013</b>
Less than one year	\$ 5,164	\$ 9,482
One to five years	<b>4,298</b>	1,772
	<b>9,462</b>	11,254
Less unamortized discount on contributions receivable (0.1% to 3.7%)	<b>(208)</b>	(65)
	<b>9,254</b>	11,189
Allowance for uncollectible contributions	<b>(277)</b>	(336)
Contributions receivable, net	<b>\$ 8,977</b>	\$ 10,853

Excluded from contributions receivable are certain items, primarily letters of intent, which are not legally binding and gifts conditional on events that have not yet occurred.

**Donor Restricted Gifts**

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



Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Cash and Cash Equivalents**

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

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

**Accounts Receivable**

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

**Loan Receivable**

On September 2014, Y-NHH entered into a term loan agreement as part of a transaction with a health care provider more fully described in Note 11. The term loan agreement has a term that coincides with an agreement for Y-NHH to lease an Inpatient Rehabilitation Unit (IRU). The term of the IRU Lease Agreement is five years and provides Y-NHH with two five-year renewal options at the end of each term.

The term loan bears interest of 6.5% annually that is payable monthly. The loan is collateralized by certain property owned by a subsidiary of the health care provider.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Investments**

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

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

Certain alternative investments (non-traditional, not-readily-marketable assets) are structured such that the System 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 System'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 System 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 System'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. Future funding commitments for alternative investments aggregated approximately \$4.9 million at September 30, 2014.

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

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

Under the terms of the investment management agreement with the Trust, withdrawals of investments in the L-TIP can be made annually by each Hospital on July 1. Amounts withdrawn are subject to a schedule that allows larger withdrawals with longer notice periods. As of September 30, 2014, each Hospital can withdrawal 100% of its investment in the L-TIP on July 1, 2015. Withdrawals of investments in the I-TIP in any amount can be made quarterly with 30 days advance notice.

The Trust has entered into an agreement with The University's investment office (the Investment Management Agreement) which allows the University to manage a portion of the Trust's investments as part of the University's Endowment Pool (the Pool). For each of the years ended September 30, 2014 and 2013, the Trust transferred \$100 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 end of June 30.

In March 2006, Y-NHH entered into an arrangement with the University, whereby the University will manage certain Board-designated assets of Y-NHH. These Board-designated assets are commingled in the University's endowment pool. As of September 30, 2014 and 2013, the carrying value of assets managed by the University under this agreement was approximately \$10.4 million and \$9.1 million, respectively. Because of the limitations on their use, the assets are separately classified from assets invested under the Investment Management Agreement.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

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, interest of U.S. Prime rate, 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 Trust's units in the Endowment using the June 30th unit valuation. No advances have been requested or taken by the Trust.

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

**Inventories**

Inventories are stated at the lower of cost or market. The System values its inventories using the first-in, first-out method, with the exception of Y-NHH's pharmacy inventories, which are valued at average cost.

**Assets Limited as to Use**

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

**Perpetual Trusts**

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

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Interest Rate Swap Agreements**

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

**Benefits and Insurance**

The System is effectively self-insured for medical, dental, hospitalization, and prescription drug benefits provided to employees. Y-NHH and Y-NHHSC make annual contributions to the Y-NHHSC Voluntary Employee Beneficiary Association (VEBA) plan to fund medical, dental, hospitalization, group term life insurance and prescription drug benefits. Annually, premiums are set to reflect the estimated cost of benefits. During the years ended September 30, 2014 and 2013, Y-NHH and Y-NHHSC made actuarially determined contributions, net of premium adjustments, to the VEBA plan of approximately \$172.6 million and \$169.2 million, respectively.

**Professional Liability Insurance**

The System is self-insured for workers' compensation claims. Estimated amounts are accrued for claims, including claims incurred but not reported (IBNR), and are based on System-specific experience. At September 30, 2014 and 2013, the estimated discounted liabilities for self-insured workers' compensation claims and IBNR aggregated approximately \$29.4 million and \$29.0 million, respectively, discounted at 2.5%, and are included in other long-term liabilities in the accompanying consolidated balance sheets.

The System records the actuarially determined liabilities for IBNR professional and general liabilities (see Note 10).

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Property, Plant and Equipment**

Property, plant and equipment purchased are carried at cost, and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation are removed from the accounts when such assets are disposed of, and any resulting gain or loss is included in income from 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.

Y-NHH and the Housing Authority of New Haven (HANH) entered into an agreement to swap parcels of land on the Legion/Howard/Sylvan/Ward block located in New Haven, Connecticut. As part of the key terms of the agreement, HANH pledged an account to Y-NHH in the amount of \$5.7 million. The pledged account was established at the time Y-NHH conveyed the land to HANH in July 2010. If HANH failed to meet certain requirements of the agreement, including conveying its land parcel to Y-NHH, Y-NHH had the right to withdraw from the pledged account in the amount of \$5.2 million. On November 21, 2013, all criteria was met and HANH conveyed its land parcel to Y-NHH in the amount of \$5.2 million.

**Goodwill**

Goodwill is not amortized but instead tested 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 System evaluates goodwill at the entity level as management has determined that the System'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. Reporting unit fair value is estimated using both income (discounted cash flows) and market approaches.

The discounted cash flow approach requires the use of assumptions and judgments, including estimates of future cash flows and the selection of discount rates. The market approach relies on comparisons to publicly traded stocks or to sales of similar companies. The System has determined that no goodwill impairment exists at September 30, 2014.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Deferred Revenue**

Deferred revenue includes amounts which have been received that relate to future years. Amounts will be reduced as revenue is earned.

**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. 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.

Contributions of, or restricted to, property, plant and equipment, and pension and other postretirement liability adjustments are excluded from the performance indicator, but are included in the change in net assets.

**Income Taxes**

Most entities within the System are not-for-profit corporations as described in Section 501(c)(3) of the Code, and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Provisions for income taxes and deferred taxes, which are not material to the consolidated financial statements, have been made for the taxable entities listed above under the description of the System.

**Operating Expenses**

Y-NHH records amounts received from the University, area hospitals, and other local health care providers for costs incurred on behalf of those organizations as reductions to expenses. For the years ended September 30, 2014 and 2013, Y-NHH recorded approximately \$60.5 million and \$67.3 million, respectively, as reductions to expenses.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**1. Organization and Significant Accounting Policies (continued)**

**Deferred Financing Costs**

The System capitalizes costs incurred in connection with the issuance of long-term debt, and amortizes these costs over the life of the respective obligations using the effective interest method (Note 8). The accumulated amortization of deferred financing costs was approximately \$0.6 million and \$1.8 million for September 30, 2014 and 2013, respectively. See Note 8 for additional information relative to debt-related matters.

**Impairment of Assets**

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

**Reclassifications**

Certain reclassifications have been made to the year ended September 30, 2013, balances previously reported in the financial statements in order to conform with the year ended September 30, 2014 presentation. Approximately \$52.4 million reported as a reduction to gross accounts receivable are 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 System's Charity Care policy.

**New Accounting Pronouncement**

In May 2014, the Financial Accounting Standards Board (FASB) 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 currently evaluating the effect of this guidance on its financial statements.



Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

Third-party payor receivables included in other receivables were \$8.0 million and \$10.7 million at September 30, 2014 and 2013, respectively. Third-party payor receivables included in other long-term assets were \$11.3 million at September 30, 2013. Third-party payor liabilities included in other current liabilities were \$47.4 million and \$24.1 million at September 30, 2014 and 2013, respectively. Third-party payor liabilities included in other long-term liabilities were \$76.9 million and \$65.6 million at September 30, 2014 and 2013, respectively.

The System 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 System-specific data. Such amounts are included in the accompanying consolidated balance sheets. Additionally, certain payors' payment rates for various years have been appealed by the System. If the appeals are successful, additional income applicable to those years might be realized. In April 2014, Y-NHHS began participation in the Centers for Medicare & Medicaid Services Bundled Payments for Care Improvement initiative. Under the Bundled Payments for Care Improvement initiative, Y-NHHS has entered into payment arrangements that include financial and performance accountability for episodes of care.

Revenue from Medicare and Medicaid programs accounted for approximately 32% and 11%, respectively, of the System's consolidated net patient service revenue for the years ended September 30, 2014, and approximately 32% and 14%, respectively, of the System's consolidated net patient service revenue for the years ended September 30, 2013. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 37% and 27%, respectively for the year ended September 30, 2014 and 37%, and 26%, respectively, for

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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 System 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, except as disclosed in Note 11. 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 System. Cost reports for the System's hospitals, which serve as the basis for final settlement with government payors have been settled by final settlement for various years ranging through 2010 for Medicare and through 1995 for Medicaid. Other years remain open for settlement.

The significant concentrations of accounts receivable for services to patients include 37% from Medicare, 13% from Medicaid, and 50% from non-governmental payors at September 30, 2014 and 31% from Medicare, 13% from Medicaid, and 56% from non-governmental payors at September 30, 2013.

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:

	<b>2014</b>	<b>2013</b>
	<i>(In thousands)</i>	
Third-party	<b>\$ 3,276,256</b>	\$ 3,147,921
Self-pay	<b>135,179</b>	145,640
Total all payors	<b>\$ 3,411,435</b>	\$ 3,293,561

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

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

The System's allowance for doubtful accounts totaled approximately \$272.7 million and \$258.3 million at September 30, 2014 and 2013, respectively. The allowance for doubtful accounts for self-pay patients was approximately 81.8% and 82.3% of self-pay accounts receivable as of September 30, 2014 and 2013, respectively.

**3. Uncompensated Care and Community Benefit Expense**

The System'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 System makes available free care programs for qualifying patients. In accordance with the established policies of the System, during the registration, billing, and collection process, a patient's eligibility for free care funds is determined. For patients who were determined by the System 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 System, care given but not paid for is classified as charity care. During the year ended September 30, 2014, the System amended its Charity Care policy. Based upon the policy change, the System 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 \$184.9 million and \$158.2 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.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**3. Uncompensated Care and Community Benefit Expense (continued)**

The estimated cost of charity care provided was \$115.8 million and \$77.7 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. 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 System for each account analyzed.

For the years ended September 30, 2014 and 2013, bad debt expense, at charges, was \$123.7 million and \$131.8 million, respectively. For the years ended September 30, 2014 and 2013 bad debt expense at cost was approximately \$69.1 million and \$80.5 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 an assessment on hospital net patient service revenue. During the years ended September 30, 2014 and 2013, the System received \$42.2 million and \$78.5 million, respectively, in CDSHP distributions, of which approximately \$27.8 million and \$47.3 million was related to charity care. The System made payments into the CDSHP of \$102.5 million for the years ended September 30, 2014 and 2013, for the assessment.

Additionally, the System 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 System voluntarily assists with the direct funding of several City of New Haven programs, including an economic development program and a youth initiative program.

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

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**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):

	September 30	
	2014	2013
Money market funds	\$ 213,016	\$ 205,455
U.S. equity securities	86,369	84,286
U.S. equity securities – common collective trusts	19,473	20,059
International equity securities <sup>(a)</sup>	117,361	102,424
Fixed income:		
U.S. government	147,701	103,888
U.S. government – common collective trusts	157,065	98,138
International government <sup>(b)</sup>	86,319	72,106
Corporate bonds	27,705	20,562
Mortgage backed securities	24	44
Commodities	3,170	3,778
Hedge funds:		
Absolute return <sup>(c)</sup>	22,310	25,970
Long/short equity <sup>(d)</sup>	2,529	57
Private equity	8,272	7,227
Real estate <sup>(e)</sup>	12,136	12,031
Interest in Yale University endowment pool <sup>(f)</sup>	752,731	568,062
Perpetual trusts <sup>(g)</sup>	17,796	12,538
Total	\$ 1,673,977	\$ 1,336,625

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

<sup>(b)</sup> Investments with external commodities futures manager.

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

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

<sup>(e)</sup> Investments with external direct real estate managers and fund of funds managers. Investment vehicles include both closed end Real Estate Investment Trusts (REITs) and limited partnerships.

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

<sup>(g)</sup> Investments consist of several domestic and international equity and fixed income mutual funds, REITs, commodities and money market funds. There is also an investment in a hedge fund of funds.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**5. Property, Plant and Equipment**

Property, plant and equipment is as follows (in thousands):

	<b>September 30</b>	
	<b>2014</b>	<b>2013</b>
Land, buildings and improvements	<b>\$ 1,562,723</b>	\$ 1,537,530
Equipment	<b>1,267,165</b>	1,216,242
Assets recorded under capital leases	<b>70,262</b>	70,262
	<b>2,900,150</b>	2,824,034
Less accumulated depreciation and amortization	<b>1,444,576</b>	1,290,209
Property, plant, and equipment, net	<b>1,455,574</b>	1,533,825
Construction in progress	<b>66,043</b>	44,054
	<b>\$ 1,521,617</b>	\$ 1,577,879

**6. Endowment**

The System'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 System 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 System classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment related to the System's beneficial interest in perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**6. Endowment (continued)**

prescribed by CUPMIFA. In accordance with CUPMIFA, the System 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 System 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 System; and (7) the investment and spending policies of the System.

Changes in endowment net assets for the year ended September 30, 2014, are as follows (in thousands):

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at beginning of year	\$ 43,893	\$ 71,899	\$ 70,179	\$ 185,971
Investment returns:				
Investment income	(554)	688	–	134
Net appreciation (realized and unrealized)	7,515	10,607	46	18,168
Total investment returns	6,691	11,295	46	18,302
Appropriation of endowment assets for expenditure	(2,548)	(5,044)	–	(7,592)
Other changes:				
Contributions	–	1,221	5,373	6,594
Change in value of beneficial interest trusts	–	(5,898)	5,258	(640)
Endowment net assets at end of year	<u>\$ 48,306</u>	<u>\$ 73,473</u>	<u>\$ 80,856</u>	<u>\$ 202,635</u>

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**6. Endowment (continued)**

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

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets at beginning of year	\$ 38,616	\$ 63,561	\$ 68,406	\$ 170,583
Investment returns:				
Investment income	104	668	–	772
Net appreciation (realized and unrealized)	7,573	12,832	322	20,727
Total investment returns	7,677	13,500	322	21,499
Appropriation of endowment assets for expenditure	(2,400)	(7,744)	–	(10,144)
Other changes:				
Contributions	–	2,582	1,041	3,623
Change in value of beneficial interest trusts	–	–	410	410
Endowment net assets at end of year	<u>\$ 43,893</u>	<u>\$ 71,899</u>	<u>\$ 70,179</u>	<u>\$ 185,971</u>

	<b>September 30</b>	
	<b>2014</b>	<b>2013</b>
	<i>(In Thousands)</i>	
The portion of perpetual endowment funds subject to a time restriction under CUPMIFA:		
Without purpose restrictions	<b>\$ 8,357</b>	\$ 8,199
With purpose restrictions	<b>65,115</b>	63,700
Total endowment funds classified as temporarily restricted net assets	<u><b>\$ 73,473</b></u>	<u>\$ 71,899</u>



Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**6. Endowment (continued)**

**Return Objectives and Risk Parameters**

The System has adopted investment and spending policies 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 these policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that over time provide a rate of return that meets the spending policy objectives adjusted for inflation. Actual returns in any given year may vary from this amount.

**Strategies Employed for Achieving Objectives**

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

**7. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes (in thousands):

	<b>September 30</b>	
	<b>2014</b>	<b>2013</b>
Specific hospital operations, teaching, research, indigent and free care, and training	<b>\$ 123,058</b>	\$ 118,358
Plant improvement and expansion	<b>18,654</b>	10,200
	<b><u>\$ 141,712</u></b>	<u>\$ 128,558</u>

Permanently restricted net assets of approximately \$80.9 million and \$70.2 million at September 30, 2014 and 2013, respectively, consist of donor restricted endowment principal and beneficial interests in perpetual trusts. The income generated from permanently restricted funds is expendable for purposes designated by donors, including research, free care, health care, and other services.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Debt**

A summary of long-term debt and capital lease obligations is as follows (in thousands):

	September 30	
	2014	2013
Revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA):		
Series C (Greenwich Hospital) maturing July 1, 2026 (variable interest rates with an average rate of approximately 3.22% for fiscal 2014)	\$ 37,710	\$ 40,215
Series D (BH), maturing July 1, 2025, fixed interest ranging from 2.00% to 5.00%	32,110	34,350
Series E (BH), 3.47% effective interest rate	35,971	–
Series J (Y-NHH), 5.12% effective interest rate	–	156,120
Series K (Y-NHH), 3.11% effective interest rate	–	89,005
Series L (Y-NHH), 3.68% effective interest rate	–	107,460
Series M (Y-NHH), 5.24% effective interest rate	–	98,475
Series N (Y-NHH), 4.27% effective interest rate	44,815	44,815
Series O (Y-NHH), 2.84% effective interest rate	50,000	50,000
Series A (Y-NHH), 3.77% effective interest rate	102,300	–
Series B (Y-NHH), 2.30% effective interest rate	168,275	–
Series C (Y-NHH), 3.11% effective interest rate	83,625	–
Series D (Y-NHH), 3.68% effective interest rate	108,275	–
Series E (Y-NHH), 3.47% effective interest rate	44,963	–
Series 2013 taxable bonds (Y-NHH), 4.13% effective rate	132,000	132,000
Series 2014 taxable bonds (Y-NHH), 4.37% effective rate	50,725	
Loans payable:		
Line of credit payable (BH), 1.71% interest rate	–	25,000
Term loan – November 2010 (BH), 3.22% fixed interest rate	4,317	4,940
Term loan – June, 2012 (BH), 1.66% fixed interest rate	3,082	4,167
Note payable (BH), 6.9% fixed interest	6,250	9,463
Capital lease obligation at an imputed interest of 6.0% – November 2010, (Y-NHH)	50,682	52,237
Capital lease obligation (BH)	20,207	95
Capital lease obligations (York), at varying rates of imputed interest of 6.25%, collateralized by leased equipment	3,119	4,162
	978,426	852,504
Add premium	32,139	14,079
Less current portion	(22,456)	(48,378)
	\$ 988,109	\$ 818,205

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Debt (continued)**

In September 2006, Y-NHH issued Series J revenue bonds totaling approximately \$280.9 million. The proceeds, including a premium of approximately \$10.1 million, were used to finance a portion of the construction costs of the Cancer Hospital. The bond premium was being amortized and was included in capitalized interest through March 2010. As of the opening of the Cancer Hospital, the bond premium was amortized in the statement of operations and changes in net assets. The Series J revenue bonds were issued in three sub-series as follows: (1) Series J-1, approximately \$174.4 million, consisting of approximately \$83.7 million of serial bonds and approximately \$90.7 million in term bonds bearing interest at 5% per annum; (2) Series J-2, approximately \$40.0 million of revenue bonds bearing interest at 3.65% at September 30, 2007; (3) Series J-3, approximately \$66.5 million of revenue bonds bearing interest 3.70% at September 30, 2007. Series J-2 and J-3 revenue bonds were refunded during the year ended September 30, 2008 by the issuance of Series L revenue bonds.

In May 2008, Y-NHH issued Series K and Series L revenue bonds totaling approximately \$216.6 million. The Series K revenue bonds were issued as Variable Rate Demand Bonds (VRDBs) in two sub-series, Series K-1 and K-2, approximately \$54.6 million each, with an effective rate of 3.11%. The proceeds from the Series K issuance were used to refund the Series I revenue bonds. The Series L revenue bonds were issued as VRDBs in two sub-series, Series L-1 and L-2, approximately \$53.7 million each, with an effective rate of 3.68%. The proceeds from the Series L issuance were used to refund the Series J-2 and J-3 revenue bonds.

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

In November 2010, BH obtained a \$6.6 million term loan from the CHEFA. The proceeds of the loan are to be used for the purchase and installation of energy savings equipment and various renovations and improvements to the infrastructure of BH. The loan is to be paid in monthly installments over ten years at a fixed interest rate of 3.22%.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Debt (continued)**

In December 2010, Y-NHH issued Series M revenue bonds totaling approximately \$104.4 million. The proceeds, including a premium of approximately \$1.0 million, were used to finance costs for the expansion and renovations to the Adult Emergency Department, the purchase and installation of machinery and equipment, various renovations and improvements to the Hospital's infrastructure. The premium was being amortized and included in capitalized interest through December 2012. As of the completion of these projects, the bond premium was amortized in the statement of operations. The Series M revenue bonds were issued as one series consisting of approximately \$33.9 million of serial bonds bearing interest at 4.69%, and approximately \$17.6 million, \$17.8 million, and \$35.1 million in term bonds bearing interest at 5.25%, 5.75%, and 5.50%, respectively, per annum.

On August 30, 2011, Y-NHH entered into a loan agreement with a bank for \$40.0 million. Y-NHH agreed to repay the aggregate principal amount in five equal annual payments of \$8.0 million, beginning on October 1, 2012. The loan bore interest at a rate equal to London Interbank Offered Rate (LIBOR) plus 0.50% per annum with an option to convert to a fixed rate loan upon formal notification to the bank, which may include a portion of or the total outstanding loan balance at the time notification is made. The loan was fully repaid by the issuance of the Series N, Series O, and Series 2013 bonds.

In May 2012, the BH 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 consolidated statement of operations and changes in net assets.

In June 2012, BH 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.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Debt (continued)**

In July 2012, Y-NHH entered into a line of credit with a bank in the amount of \$27.0 million which was subsequently increased to \$187.0 million. In July 2012, Y-NHH drew the unconditional loan of \$27.0 million to outfit a new facility. In September 2012, Y-NHH drew the remaining \$160.0 million. The line of credit required Y-NHH to repay the bank in 24 equal monthly installments commencing on August 1, 2013. The full amount of the remaining balance was due on July 12, 2015. This obligation bore interest at a rate equal to LIBOR plus 0.45% per annum. The line of credit was fully repaid and cancelled by the issuance of the Series N, Series O, and Series 2013 bonds.

In September 2012, Y-NHH drew on its \$50.0 million line of credit with a bank, established in January 2012, in the amount of \$25.0 million. This line of credit required repayment of the aggregate principal amount on the 364th day subsequent to the advance. This obligation bore interest at a rate equal to LIBOR plus 0.50% per annum. The line of credit was repaid in December 2012.

In December 2012, in connection with the purchase of a radiology practice, BH 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.

In January 2013, Y-NHH issued Series N and Series O revenue bonds totaling approximately \$100.0 million. The Series N revenue bonds were issued as fixed rate bonds with an effective interest rate of 4.27%. The Series O revenue bonds were issued as VRDBs with an effective interest rate of 2.84% at September 30, 2013. The proceeds, including a premium of approximately \$5.2 million for the Series N revenue bonds, were used to refinance a line of credit. The bond premium is being amortized as interest expense in the accompanying consolidated statements of operations and changes in net assets.

In January 2013, Y-NHH issued Series 2013 taxable bonds totaling approximately \$132.0 million. The Series 2013 taxable bonds were issued as fixed rate bonds with an effective interest rate of 4.13%. The proceeds were used to finance and refinance the costs of certain projects and activities in furtherance of Y-NHH's tax exempt purpose, including the refinancing of certain existing indebtedness.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Debt (continued)**

In September 2013, BH 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 plus 1.50% per annum. The bank line of credit was paid in full and closed in September 2014.

In June 2014, the Obligated Group issued Series A revenue bonds totaling approximately \$102.3 million and Series B revenue bonds totaling approximately \$168.3 million. The Series A revenue bonds were issued as fixed rate bonds with an effective interest rate of 3.77%. The Series B revenue bonds were issued as floating rate notes with an effective interest rate of 2.30%. The proceeds from the Series A revenue bonds, including a premium of approximately \$14.8 million, and the proceeds from the Series B revenue bonds, were used to defease Y-NHH's Series J-1 and M revenue bonds. The bond premium is being amortized as interest expense using the effective interest method in the consolidated statements of operations and changes in net assets.

In June 2014, the Obligated Group issued Series C revenue bonds totaling approximately \$83.6 million and Series D revenue bonds totaling approximately \$108.3 million. The Series C revenue bonds were issued as VRDBs with an effective interest rate of 3.11%. The proceeds from the Series C issuance were used to refund Y-NHH's Series K revenue bonds. The Series D revenue bonds were issued as VRDBs with an effective interest rate of 3.68%. The proceeds from the Series D issuance were used to refund Y-NHH's Series L revenue bonds.

As a result of the above transactions, Y-NHH incurred a loss on extinguishment of debt totaling approximately \$32.6 million during the fiscal year ended September 30, 2014.

The Series C, Series D and Series O VRDBs are required to be supported by letter of credit facilities (LOCs) which have been executed with three financial institutions. These LOCs are scheduled to expire on May 2, 2016, June 23, 2017, and February 14, 2018, respectively.

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. The proceeds were used to finance costs for the installation of machinery and equipment and various

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Debt (continued)**

renovations and improvements to the infrastructures at BH and Y-NHH. The premium is being amortized and included in capitalized interest. Upon completion of these projects, the bond premium will be amortized as interest expense in the accompanying consolidated statement of operations and changes in net assets.

In June 2014, the Obligated Group issued Series 2014 taxable bonds totaling approximately \$50.7 million. The Series 2014 taxable bonds were issued as fixed rate bonds with an effective interest rate of 4.37%. The proceeds were used to finance the costs of certain projects and activities in furtherance of the System's tax-exempt purpose.

Required monthly payments on the revenue bonds by the System to a trustee are in amounts sufficient to provide for the payments of principal, interest, and sinking fund installments, as well as required payments to certain reserve funds held by the trustee, in accordance with the terms of the agreements, and certain other annual costs of CHEFA.

Arbitrage rules apply to tax-exempt debt issued after August 31, 1986. The rules require that, in specified circumstances, earnings from the investment of tax-exempt bond proceeds which exceed the yield on the bonds must be remitted to the Federal government.

In November 2013, Bridgeport Hospital entered into an arrangement with a developer to construct a 120,000 square foot medical office building and adjacent garage in Fairfield County, CT. The arrangement contains provisions for 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 will be recording 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 process in the accompanying consolidated balance sheet.

The terms of the various financing arrangements between CHEFA and the System, the financial institutions providing the LOCs and the System, and the Bank and the System provide for financial covenants regarding the System's debt service coverage ratio, liquidity ratio, and debt to capitalization ratio, among others. As of September 30, 2014 and 2013, the System was in compliance with such covenants.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Debt (continued)**

Scheduled principal payments on all long-term debt, including capital lease obligations, are as follows (in thousands):

	<u>Debt</u>	<u>Capital Lease Obligations</u>
Year ending September 30:		
2015	\$ 19,493	\$ 6,150
2016	16,318	9,897
2017	17,741	13,536
2018	15,829	12,735
2019	17,601	5,668
Thereafter	817,483	54,051
	<u>\$ 904,465</u>	102,037
Less interest		<u>(28,076)</u>
		<u>\$ 73,961</u>

Capitalized interest at September 30, 2014 and 2013 totaled approximately \$29.9 million and \$27.0 million, respectively.

The swap agreements fix the interest rate at a level viewed as desirable by the System. Such agreements expose the System to credit risk in the event of non-performance by the counterparties, some of which is collateralized. At September 30, 2014 and 2013, the fair value of the swap agreements based on current interest rates was approximately \$36.1 million and \$26.5 million, respectively, representing a payable to the counterparties (recorded in other long-term liabilities).



Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Debt (continued)**

The following table summarizes the System's interest rate swap agreements (in thousands):

Swap Type	Expiration Date	System Receives	System Pays	Notional Amount at	
				September 30 2014	September 30 2013
Series K – fixed to floating	July 1, 2025	LIBOR	3.11%	\$ –	\$ 59,987
Series L – fixed to floating	July 1, 2036	LIBOR	3.68%	–	44,505
Series O – fixed to floating	July 1, 2053	67% of LIBOR	2.84%	<b>50,000</b>	50,000
Series B – fixed to floating	July 1, 2049	67% of LIBOR	2.31%	<b>100,965</b>	–
Series B – fixed to floating	July 1, 2049	LIBOR	2.29%	<b>67,310</b>	–
Series C – fixed to floating	July 1, 2025	LIBOR	3.11%	<b>55,861</b>	–
Series D – fixed to floating	July 1, 2036	LIBOR	3.68%	<b>44,505</b>	–
Series C – fixed to floating (Greenwich Hospital)	July 1, 2026	LIBOR	3.10%	<b>25,700</b>	27,400
				<b>\$ 344,341</b>	<b>\$ 181,892</b>

On September 20, 2012, Y-NHH entered into a Forward Starting Interest Rate swap (the Series O swap), a LIBOR Swap Rate Lock and a SIFMA Rate Lock swap with two different counterparties. The agreements require Y-NHH to pay a fixed rate and receive a floating rate based on LIBOR or SIFMA. The change in market value, as well as the net interest paid or received under the swap agreement, for the Series L swap has been capitalized as part of the interest costs related to construction of the Cancer Hospital until construction was complete. Once the Cancer Hospital became operational, these amounts were recorded in the accompanying consolidated statements of operations and changes in net assets.

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

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Debt (continued)**

In June 2014, Y-NHHSC, on behalf of the Obligated Group, entered into LIBOR swap rate locks with two counter parties (the Series B swaps). For the Series B swaps, there was an unfavorable change in fair value of approximately \$7.1 million for the year ended September 30, 2014, which was recorded in excess of revenue over expenses. No collateral was required under the Series B swap agreements for the year ended September 30, 2014.

For the Y-NHH Series K/C swap, there was a favorable change in fair value of approximately \$1.0 million and \$4.5 million, respectively, for the years ended September 30, 2014 and 2013 which was recorded in excess of revenue over expenses. No collateral was required under the Y-NHH Series K/C swap agreement for the years ended September 30, 2014 and 2013.

For the Y-NHH Series L/D swap, there was an unfavorable change in fair value of approximately \$2.2 million for the year ended September 30, 2014, and a favorable change in fair value of approximately \$7.5 million for the year ended September 30, 2013, which was recorded in excess of revenue over expenses. No collateral was required under the Series L/D swap agreement for the years ended September 30, 2014 and 2013.

For the Y-NHH Series O swap, there was an unfavorable change in fair value of approximately \$0.6 million for the year ended September 30, 2014, which was recorded in excess of revenue over expenses. For the Series O swap and the LIBOR Swap Rate Lock swap, there was a favorable change in fair value of approximately \$2.5 million and \$1.0 million, respectively, for the year ended September 30, 2013, which was recorded in excess of revenue over expenses. No collateral was required under the Series O swap agreement for the years ended September 30, 2014 and 2013.

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

For the years ended September 30, 2014 and 2013, the System paid approximately \$25.5 million and \$25.0 million, respectively, for interest related to long-term debt and capital lease obligations.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**8. Debt (continued)**

Y-NHH entered into a contract to lease space in a building adjacent to Y-NHH. Y-NHH's rental obligation commenced in December 2009. This capital lease has a term of 20 years from the commencement date with the option to extend the lease for four successive terms of ten years. Rental payments increase by 5% every five years. Y-NHH is also subject to additional rent for its share of expenses, as defined in the contract. Y-NHH has the option to purchase the property at the end of the fifth, tenth, or twentieth year or at the end of each of the first three 10-year extension periods.

In January 2013, Y-NHH entered into a transaction in connection with a building at 2 Howe Street, New Haven, Connecticut, which was previously accounted for by Y-NHH as a capital lease. Under the terms of the capital lease, Y-NHH was obligated to purchase the building after an initial lease term of three years. In satisfaction of that obligation, Y-NHH purchased the building and immediately sold the building to a third-party investor. Y-NHH currently leases the building from the investor under a long-term operating lease. Y-NHH owns the land on which the building is located and has entered into a prepaid long-term ground lease with the investor.

Assets recorded under the capital lease obligations totaled approximately \$90.4 million and \$57.6 million as of September 30, 2014 and 2013, respectively. Accumulated depreciation for the capital lease obligations totaled approximately \$19.3 million and \$16.8 million at September 30, 2014 and 2013, respectively.

**9. Pensions and Postretirement Benefits**

The System has qualified and non-qualified defined benefit pension plans covering substantially all employees and executives. The benefits provided are based on age, years of service, and compensation. The System's policy is to fund the pension benefits with at least the minimum amounts required by the Employee Retirement Income Security Act of 1974.

The System also sponsors contributory 403(b) plans and 401(k) plans covering substantially all employees. Employer contributions for certain 403(b), made to a matching 401(a) plan, and 401(k) plans are determined based on employee contributions and years of service. The System contributed approximately \$51.3 million and \$34.5 million for the years ended September 30, 2014 and 2013, respectively.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Pensions and Postretirement Benefits (continued)**

YNHNC maintains a Section 457 non-qualified deferred compensation plan. Contributions are made on a pre-tax basis. The balances recorded at September 30, 2014 and 2013 in other assets and other long-term liabilities were approximately \$32.5 million and \$27.3 million, respectively.

On June 30, 2006, BH froze its defined benefit plan. On October 1, 2006, BH instituted a defined contribution plan.

Effective as of December 31, 2006, GH amended its defined benefit pension plan to freeze benefits for employees who were under age 50 with less than five years of service. Effective January 1, 2007, GH began providing a matching contribution and a length of service contribution, in addition to its incentive contribution, for its defined contribution plan for all employees no longer accruing benefits under the defined benefit plan. Employees who were age 50 or older with five years of service continue to accumulate benefits under the defined benefit plan, and do not participate in the defined contribution plan.

Effective September 30, 2013, the Y-NHH qualified defined benefit pension plan and the 401(a) plan were amended to reduce the percentage of compensation contributed by Y-NHH to the qualified defined benefit pension plan and to increase the percentage of compensation contributed by Y-NHH to the 401(a) plan for the plan years commencing after December 1, 2013. The amendment to the qualified defined benefit pension plan resulted in a decrease to the projected benefit obligation at September 30, 2013 of approximately \$23.9 million.

Y-NHH and GH also provide certain health care and life insurance benefits upon retirement to substantially all their employees. Y-NHH's and GH's policy is to fund these annual costs as they are incurred from the general assets of Y-NHH and GH. The estimated cost of these postretirement benefits is actuarially determined and accrued over the employees' service periods.

Included in unrestricted net assets at September 30, 2014 and 2013 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credit of approximately \$22.4 million and \$23.8 million, respectively, and unrecognized actuarial losses of approximately \$308.0 million and \$234.1 million, respectively. The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2015 are approximately \$2.0 million and \$17.6 million, respectively.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Pensions and Postretirement Benefits (continued)**

The following table sets forth the change in benefit obligations, change in the plans' assets, and the reconciliation of underfunded status of the System's defined benefit plans as of September 30, 2014 and 2013 (in thousands):

	Defined Benefit Pension Plans		Postretirement Benefits Plan	
	2014	2013	2014	2013
Change in benefit obligation:				
Benefit obligation at prior measurement date	\$ 804,718	\$ 868,077	\$ 67,904	\$ 79,630
Service cost	24,830	39,116	3,617	5,080
Interest cost	38,108	32,096	3,270	3,135
Plan amendments	–	(23,836)	(577)	–
Actuarial loss (gain)	79,636	(77,027)	5,413	(18,428)
Benefits paid	(38,382)	(33,708)	(1,491)	(1,513)
Benefit obligation at current measurement date	<b>908,910</b>	804,718	<b>78,136</b>	67,904
Change in plans' assets:				
Fair value of assets at prior measurement date	605,715	543,351	–	–
Actual return on plans' assets	45,364	46,013	–	–
Employer contributions	50,775	50,059	1,491	1,513
Benefits paid	(38,382)	(33,708)	(1,491)	(1,513)
Fair value of plans' assets at current measurement date	<b>663,472</b>	605,715	–	–
Accrued benefit cost	<b>\$ (245,438)</b>	\$ (199,003)	<b>\$ (78,136)</b>	\$ (67,904)

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

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Pensions and Postretirement Benefits (continued)**

The accrued benefit cost included in the consolidated balance sheets includes the following (in thousands):

	<b>Accrued Pension and Postretirement Obligations</b>		<b>Fair Value of Plans' Assets</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
YNHNC and Subsidiaries – accrued pension and postretirement obligations	\$ (233,609)	\$ (200,082)	\$ 347,238	\$ 313,730
Bridgeport Hospital – accrued pension and postretirement obligations	(58,281)	(42,945)	145,156	136,660
Greenwich Hospital – accrued pension and postretirement obligations	(31,684)	(23,880)	171,078	155,325
	<u>\$ (323,574)</u>	<u>\$ (266,907)</u>	<u>\$ 663,472</u>	<u>\$ 605,715</u>

**Benefit Obligation and Assumptions**

The projected benefit obligation, accumulated benefit obligation, and fair value of the plans' assets were as follows (in thousands):

	<b>September 30</b>	
	<b>2014</b>	<b>2013</b>
Projected benefit obligation	\$ (908,910)	\$ (804,718)
Accumulated benefit obligation	(829,877)	(732,493)
Fair value of plans' assets	663,472	605,715

As of September 30, 2014 and 2013, the underfunded status of the qualified defined benefit pension plans was approximately \$197.6 million and \$154.7 million, respectively, and that of the non-qualified defined benefit pension plan was approximately \$47.9 million and \$44.3 million, respectively. Additionally, there are assets limited as to use of approximately \$77.9 million and \$69.4 million, which are available to satisfy the obligations of the non-qualified defined benefit pension plan at September 30, 2014 and 2013, respectively.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Pensions and Postretirement Benefits (continued)**

The net periodic benefit cost for the years ended September 30, 2014 and 2013 is as follows (in thousands):

	<b>Defined Benefit Pension Plans</b>		<b>Postretirement Benefits Plan</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Service cost	\$ 24,830	\$ 39,116	\$ 3,617	\$ 5,080
Interest cost	<b>38,108</b>	32,096	<b>3,270</b>	3,135
Expected return on plan assets	<b>(46,357)</b>	(42,349)	–	–
Amortization of prior service cost	<b>(2,029)</b>	(287)	<b>86</b>	85
Recognized net actuarial loss	<b>12,147</b>	20,333	–	703
Net periodic benefit cost	<b>\$ 26,699</b>	\$ 48,909	<b>\$ 6,973</b>	\$ 9,003

Weighted-average assumptions used to determine benefit obligations at September 30, 2014 and 2013 are as follows:

	<b>Defined Benefit Pension Plans</b>		<b>Postretirement Benefits Plan</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Discount rate for determining benefit obligations at year-end, qualified plan	<b>4.2–4.3%</b>	4.8–4.9%	<b>4.4%</b>	4.9%
Discount rate for determining benefit obligations at year-end, non-qualified plan	<b>4.4%</b>	4.9%	–	–
Rate of compensation increase	<b>2.5–5.0%</b>	3.5–5.0%	–	–

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Pensions and Postretirement Benefits (continued)**

Weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2014 and 2013 are as follows:

	<b>Defined Benefit Pension Plans</b>		<b>Postretirement Benefits Plan</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Discount rate for determining net periodic benefit cost at year-end, qualified plan	<b>4.8–4.9%</b>	3.6–4.0%	<b>4.9%</b>	4.0%
Discount rate for determining net periodic benefit cost at year-end, non-qualified plan	<b>4.9%</b>	4.0%	–	–
Expected rate of return on plan assets	<b>6.75–7.75</b>	6.75–7.75	–	–
Rate of compensation increase	<b>3.5–5.0%</b>	3.5–5.0%	–	–

For measurement purposes relating to the postretirement benefits plan, a 5.0% and 6.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 2014 and fiscal 2013, respectively. Rates are assumed to decline to 4.9% through fiscal 2015.

Assumed health care cost trend rate assumptions have a significant effect on the amounts reported. A 1% change in the assumed health care cost trend rate would have the following effects (in thousands):

	<b>1% Increase</b>	<b>1% Decrease</b>
Effect on total of service and interest cost components	\$ 14	\$ (17)
Effect on postretirement benefit obligations	325	368



Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Pensions and Postretirement Benefits (continued)**

The asset allocation of the System's pension plans at September 30, 2014 and 2013, on a combined basis, was as follows:

Asset Category	Target Allocation	Percentage of Assets	
	2015	2014	2013
Equity securities	35%–90%	44%	44%
Debt securities	10%–40%	22	26
Real assets	0%–26%	15	18
All other assets	0%–22%	19	12
		<b>100%</b>	<b>100%</b>

Financial assets carried at fair value, as of September 30, 2014, are classified in the following tables (see Note 15 for description) (in thousands):

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 21,754	\$ –	\$ –	\$ 21,754
U.S. equity securities	109,076	29,461	–	138,537
International equity securities	103,981	40,744	–	144,725
Fixed income:				
U.S. government	59,918	–	–	59,918
Corporate debt	50,530	–	–	50,530
International government	32,038	9,489	–	41,527
Commodities	12,667	–	15,326	27,993
Private equity	–	–	15,267	15,267
Hedge funds:				
Absolute return	–	16,248	13,835	30,083
Multi strategy/other	–	341	25,455	25,796
Long/short equity	–	55,871	28,538	84,409
Real estate	3,489	–	19,444	22,933
Total investments	<b>\$ 393,453</b>	<b>\$ 152,154</b>	<b>\$ 117,865</b>	<b>\$ 663,472</b>

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Pensions and Postretirement Benefits (continued)**

Financial assets carried at fair value, as of September 30, 2013, are classified in the following tables (see Note 15 for description) (in thousands):

	<b>September 30, 2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Money market funds	\$ 14,883	\$ –	\$ –	\$ 14,883
U.S. equity securities	109,945	23,664	–	133,609
International equity securities	93,715	38,332	–	132,047
Fixed income:				
U.S. government	68,129	–	–	68,129
Corporate debt	52,207	–	–	52,207
International government	25,146	8,297	–	33,443
Commodities	13,396	–	10,718	24,114
Private equity	–	–	10,986	10,986
Hedge funds:				
Absolute return	–	18,452	14,990	33,442
Multi strategy/other	–	44,905	10,505	55,410
Long/short equity	–	26,034	–	26,034
Real estate	3,348	–	18,063	21,411
<b>Total investments</b>	<b>\$ 380,769</b>	<b>\$ 159,684</b>	<b>\$ 65,262</b>	<b>\$ 605,715</b>

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Pensions and Postretirement Benefits (continued)**

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

	<u>Commodities</u>	<u>Private Equity</u>	<u>Real Estate</u>	<u>Hedge Funds</u>	<u>Total</u>
Fair value at September 30, 2012	\$ 10,707	\$ 8,828	\$ 16,784	\$ 19,268	\$ 55,587
2013 realized and unrealized gains and losses	(249)	1,612	1,058	1,801	4,222
2013 purchases	748	938	2,334	8,150	12,170
2013 sales	(488)	(392)	(2,113)	(3,724)	(6,717)
Fair value at September 30, 2013	10,718	10,986	18,063	25,495	65,262
<b>2014 realized and unrealized gains and losses</b>	<b>1,529</b>	<b>2,240</b>	<b>1,461</b>	<b>3,617</b>	<b>8,847</b>
<b>2014 purchases</b>	<b>3,963</b>	<b>4,184</b>	<b>2,932</b>	<b>42,000</b>	<b>53,079</b>
<b>2014 sales</b>	<b>(884)</b>	<b>(2,143)</b>	<b>(3,012)</b>	<b>(3,284)</b>	<b>(9,323)</b>
<b>Fair value at September 30, 2014</b>	<b>\$ 15,326</b>	<b>\$ 15,267</b>	<b>\$ 19,444</b>	<b>\$ 67,828</b>	<b>\$ 117,865</b>

The System's investment strategy for its pension assets balances the liquidity needs of the pension plans 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 allocation of the investment pool to various sectors of the markets is designed to reduce volatility in the portfolio.

The System's pension portfolios 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.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**9. Pensions and Postretirement Benefits (continued)**

The future cash flows of the System relative to retirement benefits are expected to be as follows (in thousands):

	<u>Defined Benefit Pension Plans</u>	<u>Postretirement Benefit Plan</u>
Estimated benefit payments related to years ending September 30:		
2015	\$ 42,845	\$ 2,088
2016	43,514	2,400
2017	46,555	2,640
2018	50,925	2,914
2019	53,211	3,231
2020 to 2024	312,218	22,055

The System expects to make contributions of approximately \$57.7 million for pension benefits and approximately \$2.1 million for postretirement benefits in fiscal 2015.

**10. Professional Liability Insurance**

In 1978, Y-NHH and a number of other academic medical centers formed The Medical Centre Insurance Company Ltd. (the Captive) to insure for professional and comprehensive general liability risks. In 1997, the Captive formed MCIC Vermont, Inc. (MCIC) to write direct insurance for the professional and general liability risks of the shareholders. Since 1997, the Captive has acted as a reinsurer for varying levels of per claim limit exposure. MCIC 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 System, the Captive, and MCIC.

Y-NHH controls less than 20% of the Class A stock of MCIC; however, for accounting purposes the investment in the insurance companies is recorded on the equity method because of contractual agreements.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**10. Professional Liability Insurance**

The System entities participate in the Y-NHH insurance program as additional insureds. All System entities initially pay premiums to Y-NHHSC. Y-NHHSC generally assumes the responsibility for ensuring that all the System members pay all premiums owed by them to MCIC. Y-NHHSC manages MCIC's operations for all other System members.

MCIC's policy is to establish retrospective-related premiums for its shareholders equivalent to estimated losses and general and administrative expenses, less estimated investment income, so that its results of operations are breakeven each year. The System accrues premiums as incurred.

The estimate for modified claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$179.4 million and \$182.3 million at September 30, 2014 and 2013, respectively for the System. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately \$64.0 million and \$53.4 million for the System at September 30, 2014 and 2013, respectively, and is included in professional insurance liabilities in the accompanying consolidated balance sheets at the actuarially determined present value of approximately \$57.6 million and \$47.8 million, respectively, based on a discount rate of 2.5% for the years ended September 30, 2014 and 2013, respectively.

The System has recorded related insurance recoveries receivable of approximately \$121.9 million and \$134.5 million at September 30, 2014 and 2013, respectively, in consideration of the expected insurance recoveries for the total discounted modified claims-made insurance. The current portion of professional liabilities and the related insurance receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

Lukan, the Y-NHH sponsored professional liability program, continues to manage all incidents and claims reported to Lukan prior to the acquisition of HSR, as well as extending professional liability coverage for post-acquisition risks to certain affiliated community clinicians.

Prior to the 2012 acquisition of HSR, Caritas provided excess professional liability and general liability insurance to HSR and their employed clinicians. Caritas continues to manage all incidents and claims reported prior to the acquisition of HSR.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**10. Professional Liability Insurance (continued)**

Caritas and Lukan have recorded the undiscounted estimate for claims-made professional liabilities, and the estimate for incidents that have been incurred but not reported aggregated approximately \$29.6 million and \$38.7 million at September 30, 2014 and 2013, respectively, and are included in professional liabilities in the accompanying consolidated statements of financial position.

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

**11. Commitments and Contingencies**

**Leases**

The System leases various equipment and properties under several non-cancelable operating leases that range in terms. The System is responsible for operating expenses, as defined, during the lease terms. Future minimum lease payments under these leases are as follows (in thousands):

2015	\$ 37,794
2016	33,931
2017	29,555
2018	25,608
2019	22,398
Thereafter	116,661
	<u>\$ 265,947</u>

The System incurred rent expense under these leases of approximately \$33.0 million and \$30.2 million for the years ended September 30, 2014 and 2013, respectively.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**11. Commitments and Contingencies (continued)**

**Cancer Hospital**

Y-NHH has a shared facilities and services agreement with in connection with the Cancer Hospital which is recorded as deferred revenue. Deferred revenue, from this agreement, at September 30, 2014 and 2013 was approximately \$44.0 million and \$45.2 million, respectively.

**Inpatient Rehabilitation Unit Agreement**

During September 2014, Y-NHH entered into an agreement with another health care provider to provide a framework for implementing programs in a manner that is consistent with the charitable mission of each organization and the communities they serve. Under the terms of the agreement, Y-NHH will utilize beds at the health care provider's location under a lease arrangement to provide inpatient rehabilitation services to its patients and will furnish an \$8.0 million term loan.

**Litigation**

Various lawsuits and claims arising in the normal course of operations are pending, or are in progress against the System. Such lawsuits and claims are either specifically covered by insurance as explained in Note 10, or are deemed immaterial. While the outcomes of the lawsuits and claims cannot be determined at this time, management believes that any loss which may arise from these actions will not have a material adverse effect on the consolidated financial position or changes in net assets of the System.

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

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**12. Functional Expenses**

The System provides general acute health care services to residents within its geographic areas. Net expenses related to providing these services are as follows (in thousands):

	<b>Year Ended September 30</b>	
	<b>2014</b>	<b>2013</b>
Health care services	<b>\$ 2,374,449</b>	\$ 2,483,922
General and administrative	<b>850,125</b>	660,250
	<b>\$ 3,224,574</b>	\$ 3,144,172

**13. Other Revenue**

Other revenue consisted of the following (in thousands):

	<b>Year Ended September 30</b>	
	<b>2014</b>	<b>2013</b>
Cafeteria and vending	<b>\$ 13,676</b>	\$ 13,758
Contributions	<b>5,495</b>	3,924
Parking income	<b>7,902</b>	7,954
Net assets released from restrictions for operations	<b>13,178</b>	12,789
Net assets released from restrictions for free care	<b>613</b>	779
Net assets released from restrictions for medical research and clinical programs	<b>5,269</b>	9,498
Grants	<b>19,533</b>	19,346
Rental income	<b>3,896</b>	3,694
Electronic health records incentive payment	<b>9,231</b>	10,659
Investment income	<b>70</b>	311
Foundation distributed income	<b>2,532</b>	2,400
Other	<b>25,599</b>	33,460
	<b>\$ 106,994</b>	\$ 118,572



Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**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 2012 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology. In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR technology are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The System 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 System 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 \$7.4 million and \$8.0 million for the years ended September 30, 2014 and 2013, respectively, and Medicaid EHR incentive payment revenue was approximately \$1.8 million \$2.7 million, respectively, for the years ended September 30, 2014 and 2013. 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 System's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**14. Non-Operating Gains and Losses, Net**

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

	<b>Year Ended September 30</b>	
	<b>2014</b>	<b>2013</b>
Income from investments, donations and other, net	\$ 3,103	\$ 1,545
Discontinued operations	–	(1,844)
Income attributable to non-controlling interest	(5,992)	(5,070)
Change in unrealized gains and losses on investments	86,913	58,607
Change in fair value of swap, including counterparty payments	(17,204)	17,597
Loss on refunding of long-term debt	(32,631)	–
	<u>\$ 34,189</u>	<u>\$ 70,835</u>

Contributions received consisted of the following (in thousands):

	<b>2014</b>	<b>2013</b>
Unrestricted contributions	\$ 3,966	\$ 4,820
Temporarily restricted contributions	24,185	29,896
Permanently restricted contributions	5,372	1,041
Total contributions	<u>33,523</u>	<u>35,757</u>
Less: Fundraising costs	(9,473)	(9,484)
	<u>\$ 24,050</u>	<u>\$ 26,273</u>

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**15. Fair Values of Financial Instruments**

In determining fair value, the System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The System also considers non-performance risk in the overall assessment of fair value.

ASC No. 820-10 establishes a three-tier valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The three levels are defined as follows:

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

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

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

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**15. Fair Values of Financial Instruments (continued)**

Financial assets carried at fair value as of September 30, 2014 are classified in the following table by level within the fair value hierarchy as described above (in thousands):

	September 30, 2014			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 161,059	\$ –	\$ –	\$ 161,059
Money market funds	213,016	–	–	213,016
U.S. equity securities	66,925	–	–	66,925
International equity securities	85,762	–	–	85,762
Fixed income:				
U.S. government	147,701	–	–	147,701
Corporate bonds	27,705	–	–	27,705
Mortgage backed securities	24	–	–	24
International government	52,491	33,828	–	86,319
Beneficial interest in remainder trust	1,947	–	–	1,947
Commodities	397	–	–	397
Real estate	895	–	–	895
Interest in Yale University endowment pool	–	–	752,731	752,731
Investments at fair value	<u>\$ 757,922</u>	<u>33,828</u>	<u>\$ 752,731</u>	<u>1,544,481</u>
Common collective trusts				176,539
Alternative investments				98,167
Perpetual trusts				17,796
Investments not at fair value				<u>292,502</u>
Total investments				<u>\$ 1,836,983</u>
Liabilities:				
Interest rate swaps	\$ –	\$ (36,134)	\$ –	\$ (36,134)

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**15. Fair Values of Financial Instruments (continued)**

Financial assets carried at fair value as of September 30, 2013 are classified in the following table by level within the fair value hierarchy as described above (in thousands):

	<b>September 30, 2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 130,847	\$ –	\$ –	\$ 130,847
Money market funds	205,455	–	–	205,455
U.S. equity securities	68,466	–	–	68,466
International equity securities	72,842	–	–	72,842
Fixed income:				
U.S. government	103,888	–	–	103,888
Corporate bonds	20,562	–	–	20,562
Mortgage backed securities	44	–	–	44
International government	43,605	28,501	–	72,106
Beneficial interest in remainder trust	1,832	–	–	1,832
Commodities	691	–	–	691
Real estate	725	–	–	725
Interest in Yale University endowment pool	–	–	568,062	568,062
Investments at fair value	<u>\$ 648,957</u>	<u>\$ 28,501</u>	<u>\$ 568,062</u>	<u>1,245,520</u>
Common collective trusts				118,197
Alternative investments				93,049
Perpetual trusts				12,538
Investments not at fair value				<u>223,784</u>
Total investments				<u>\$ 1,469,304</u>
Liabilities:				
Interest rate swaps	\$ –	\$ (26,489)	\$ –	\$ (26,489)

The amounts reported in the tables as detailed above do not include assets invested in the System's defined benefit pension plan. In addition, included in the tables above at September 30, 2014 and 2013 are investments in common collective trusts totaling approximately \$176.5 million and \$118.2 million, respectively, other alternative investments totaling approximately \$98.2 million and \$93.0 million, respectively, and other perpetual trusts totaling approximately \$17.8 million and \$12.5 million that are accounted for under the equity method of accounting (see Note 1). The beneficial interest in remainder trust listed in the above tables are included in other assets. The interest rate swaps listed above are classified in the accompanying consolidated balance sheets as "other long-term liabilities" at September 30, 2014 and 2013.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**15. Fair Values of Financial Instruments (continued)**

The following is a rollforward of assets classified as Level 3 of the valuation hierarchy (in thousands):

**Interest in Yale University Endowment Pool**

Fair value at September 30, 2012	\$ 408,438
2013 unrealized gains and losses	59,624
2013 purchases	100,000
Fair value at September 30, 2013	568,062
<b>2014 unrealized gains and losses</b>	<b>84,669</b>
<b>2014 purchases</b>	<b>100,000</b>
<b>Fair value at September 30, 2014</b>	<b>\$ 752,731</b>

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

Description of Investment	Carrying Value	Unfunded Commitments	Redemption Frequency	Notice Period	Funds Availability
Private equity	\$ 8,272	\$ 2,414	N/A	N/A	N/A
Global equity	11,356	N/A	30 days	3 years	N/A
Hedge funds:					
Absolute return	2,496	N/A	N/A	N/A	N/A
Long/short equity	2,460	N/A			
Real estate			N/A	N/A	N/A
Commodities	121	N/A	N/A	N/A	N/A

The fair value of long-term debt was approximately \$934.3 million and \$770.1 million at September 30, 2014 and 2013, respectively. The fair value of the capital leases was approximately \$74.7 million and \$55.5 million at September 30, 2014 and 2013, respectively.

Yale-New Haven Health Services Corporation  
d/b/a Yale-New Haven Health System and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**16. Subsequent Events**

In October 2014, Y-NHH disposed of its interest in Lukan and Caritas (the Captives) through a novation agreement with MCIC for a total price of approximately \$40.2 million. The novation agreement assigns and transfers all of the Captives' past, present and future rights, risks, liabilities and obligations, and transfers substantially all of the assets of the Captives to MCIC. Y-NHH will dissolve the Captives during fiscal year 2015.

In fiscal year 2015, GHCS anticipates dissolving its wholly owned subsidiary, Greenwich Health Services, Inc. a Connecticut business corporation.

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

Board of Directors  
Yale-New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States, the consolidated financial statements of Yale-New Haven Health Services Corporation, d/b/a Yale New Haven Health System and Subsidiaries as of and for the years ended September 30, 2014, and have issued an unmodified report thereon dated December 23, 2014. The accompanying consolidating balance sheets 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. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statement as a whole.

*Ernst & Young LLP*

December 23, 2014

Yale-New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries

Consolidating Balance Sheet

September 30, 2014

	Yale-New Haven Health Services Corporation		Yale-New Haven Hospital and Subsidiaries		Bridgeport Hospital and Subsidiaries		Obligated Group		Greenwich Health Care Services, Inc. and Subsidiaries		Other Non-Obligated Entities		Eliminations		Total	
		NEMG														
	<i>(In Thousands)</i>															
<b>Assets</b>																
Current assets:																
Cash and cash equivalents	\$ 11,210	\$ 2,974	\$ 69,250	\$ 29,461	\$ -	\$ 112,895	\$ 47,945	\$ 3,873	\$ (3,654)	\$ 161,059						
Short-term investments	10,172	-	926,024	72,752	-	1,008,948	31,934	-	-	1,040,882						
Accounts receivable for services to patients, less allowance for uncollectible accounts, charity, and free care	-	13,324	264,671	49,732	-	327,727	40,615	2,154	(2,154)	368,342						
Professional liabilities insurance recoveries receivable – current portion	-	-	18,968	8,273	-	27,241	8,030	-	-	35,271						
Other current assets	120,086	6,699	106,368	21,191	(182,901)	71,443	18,789	8,354	(25,774)	72,812						
Amounts on deposit with trustee in debt service fund	-	-	4,394	247	-	4,641	-	-	-	4,641						
<b>Total current assets</b>	<b>141,468</b>	<b>22,997</b>	<b>1,389,675</b>	<b>181,656</b>	<b>(182,901)</b>	<b>1,552,895</b>	<b>147,313</b>	<b>14,381</b>	<b>(31,582)</b>	<b>1,683,007</b>						
Assets limited as to use	-	-	124,869	5,066	-	129,935	103,615	-	-	233,550						
Long-term investments	11,524	-	263,938	54,499	-	329,961	64,943	-	-	394,904						
Deferred financing costs, less accumulated amortization	10,575	-	9,285	1,290	(10,575)	10,575	418	-	-	10,993						
Professional liabilities insurance recoveries receivable – non-current	-	-	49,433	19,303	-	68,736	17,916	-	-	86,652						
Goodwill	52,050	267	44,818	17,217	-	114,352	-	-	-	114,352						
Other assets	977,027	2,013	172,823	28,755	(998,851)	181,767	15,329	10,305	(19,299)	188,102						
Property, plant, and equipment, net	169,740	3,041	898,678	129,200	-	1,200,659	254,915	8,444	(8,444)	1,455,574						
Construction in progress	662	203	27,576	37,001	-	65,442	601	-	-	66,043						
	<b>170,402</b>	<b>3,244</b>	<b>926,254</b>	<b>166,201</b>	<b>-</b>	<b>1,266,101</b>	<b>255,516</b>	<b>8,444</b>	<b>(8,444)</b>	<b>1,521,617</b>						
<b>Total assets</b>	<b>\$ 1,363,046</b>	<b>\$ 28,521</b>	<b>\$ 2,981,095</b>	<b>\$ 473,987</b>	<b>\$(1,192,327)</b>	<b>\$ 3,654,322</b>	<b>\$ 605,050</b>	<b>\$ 33,130</b>	<b>\$ (59,325)</b>	<b>\$ 4,233,177</b>						

Yale-New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries  
Consolidating Balance Sheet (continued)

	Yale-New Haven Health Services Corporation	NEMG	Yale-New Haven Hospital and Subsidiaries	Bridgeport Hospital and Subsidiaries	Eliminations	Obligated Group	Greenwich Health Care Services, Inc. and Subsidiaries	Other Non- Obligated Entities	Eliminations	Total
	<i>(In Thousands)</i>									
<b>Liabilities and net assets</b>										
Current liabilities:										
Accounts payable and accrued expenses	\$ 83,238	\$ 21,227	\$ 353,524	\$ 68,966	\$ (81,694)	\$ 445,261	\$ 33,886	\$ 6,167	\$ (15,916)	\$ 469,398
Current portion of long-term debt	10,945	–	7,626	9,262	(10,945)	16,888	2,605	–	–	19,493
Current portion of capital lease obligation	–	–	2,963	–	–	2,963	–	1,134	(1,134)	2,963
Professional liabilities – current portion	–	–	18,968	8,273	–	27,241	8,030	–	–	35,271
Other current liabilities	–	3,163	17,922	4,590	–	25,675	14,757	127	(127)	40,432
Total current liabilities	94,183	24,390	401,003	91,091	(92,639)	518,028	59,278	7,428	(17,177)	567,557
Long-term debt, net of current portion	874,253	–	802,124	79,882	(874,253)	882,006	35,105	–	–	917,111
Long-term capital lease obligations, net of current portion	–	–	50,838	20,160	–	70,998	–	1,985	(1,985)	70,998
Accrued pension and postretirement benefit obligations	9,446	–	231,477	58,281	(9,446)	289,758	31,684	–	–	321,442
Professional liabilities	–	–	115,868	33,169	–	149,037	24,769	–	–	173,806
Other long-term liabilities	235,173	–	215,877	34,631	(215,989)	269,692	18,296	8,726	(25,453)	271,261
Deferred revenue	–	–	44,378	–	–	44,378	–	–	–	44,378
Total liabilities	1,213,055	24,390	1,861,565	317,214	(1,192,327)	2,223,897	169,132	18,139	(44,615)	2,366,553
<b>Net assets</b>										
Unrestricted	149,991	4,131	1,019,306	101,751	–	1,275,179	368,596	14,991	(14,710)	1,644,056
Temporarily restricted	–	–	64,318	33,279	–	97,597	44,115	–	–	141,712
Permanently restricted	–	–	35,906	21,743	–	57,649	23,207	–	–	80,856
Total net assets	149,991	4,131	1,119,530	156,773	–	1,430,425	435,918	14,991	(14,710)	1,866,624
Total liabilities and net assets	\$ 1,363,046	\$ 28,521	\$ 2,981,095	\$ 473,987	\$(1,192,327)	\$ 3,654,322	\$ 605,050	\$ 33,130	\$ (59,325)	\$ 4,233,177

Yale-New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

Year Ended September 30, 2014

	Yale New Haven Health Services Corporation and Subsidiaries	NEMG	Yale New Haven Hospital and Subsidiaries	Bridgeport Hospital and Subsidiaries	Eliminations	Obligated Group	Greenwich Health Care Services, Inc. and Subsidiaries	Other Non- Obligated Entities	Eliminations	Total
<i>(In Thousands)</i>										
Operating revenue:										
Net patient service revenue	\$ –	\$ 128,512	\$ 2,448,983	\$ 459,680	\$ –	\$ 3,037,175	\$ 374,260	\$ 26,621	\$ (26,621)	\$ 3,411,435
Less: Provision for bad debts	–	(5,357)	(72,829)	(20,305)	–	(98,491)	(25,252)	(136)	136	(123,743)
Net patient service revenue, less provision for bad debts	–	123,155	2,376,154	439,375	–	2,938,684	349,008	26,485	(26,485)	3,287,692
Other revenue	398,814	81,519	60,453	27,566	(413,061)	155,291	12,533	3,132	(63,962)	106,994
Total operating revenue	398,814	204,674	2,436,607	466,941	(413,061)	3,093,975	361,541	29,617	(90,447)	3,394,686
Operating expenses:										
Salaries and benefits	192,834	148,203	1,050,746	201,556	59	1,593,398	150,739	6,740	(6,740)	1,744,137
Supplies and other expenses	104,536	92,281	1,096,590	194,392	(334,696)	1,153,103	160,243	21,899	(83,528)	1,251,717
Depreciation and amortization	57,229	2,234	124,012	31,016	(42,007)	172,484	26,218	1,284	(7,914)	192,072
Insurance	35,637	7,577	8,275	480	(36,417)	15,552	(1,142)	(6,587)	1,908	9,731
Interest	–	–	24,002	2,566	–	26,568	349	260	(260)	26,917
Total operating expenses	390,236	250,295	2,303,625	430,010	(413,061)	2,961,105	336,407	23,596	(96,534)	3,224,574
Income (loss) from operations	8,578	(45,621)	132,982	36,931	–	132,870	25,134	6,021	6,087	170,112
Non-operating gains (losses), net:										
Income from investments, donations and other, net	12,119	–	76,791	5,852	–	94,762	1,381	(2,568)	(9,551)	84,024
Change in fair value of swap, including counter party payments	–	–	(16,357)	–	–	(16,357)	(847)	–	–	(17,204)
Loss on refunding of long-term debt	–	–	(32,631)	–	–	(32,631)	–	–	–	(32,631)
Excess (deficiency) of revenue over expenses	20,697	(45,621)	160,785	42,783	–	178,644	25,668	3,453	(3,464)	204,301

(Continued on following page).

Yale-New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries

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

Year Ended September 30, 2014

	Yale New Haven Health Services Corporation and Subsidiaries	NEMG	Yale New Haven Hospital and Subsidiaries	Bridgeport Hospital and Subsidiaries	Eliminations	Obligated Group	Greenwich Health Care Services, Inc. and Subsidiaries	Other Non- Obligated Entities	Eliminations	Total
	<i>(In Thousands)</i>									
Unrestricted net assets:										
Excess (deficiency) of revenue over expenses	\$ 20,697	\$ (45,621)	\$ 160,785	\$ 42,783	\$ –	\$ 178,644	\$ 25,668	\$ 3,453	\$ (3,464)	\$ 204,301
Other changes in net assets	–	–	(366)	(115)	–	(481)	266	–	–	(215)
Transfer from (to) HSC for PriMed	48,438	1,562	(25,000)	(25,000)	–	–	–	–	–	–
Transfer to NEMG	(13,897)	45,621	(14,042)	(17,682)	–	–	–	–	–	–
Net assets released from restrictions for purchases of fixed assets	–	–	1,502	2,445	–	3,947	–	–	–	3,947
Pension and other postretirement liability adjustments	–	–	(44,799)	(20,970)	–	(65,769)	(9,490)	–	–	(75,259)
Increase (decrease) in unrestricted net assets	55,238	1,562	78,080	(18,539)	–	116,341	16,444	3,453	(3,464)	132,774
Temporarily restricted net assets:										
Income from investments	–	–	298	–	–	298	1,091	–	–	1,389
Net realized and unrealized gains on investments	–	–	7,064	3,691	–	10,755	2,417	–	–	13,172
Bequests and contributions	–	–	7,457	6,328	–	13,785	7,074	–	–	20,859
Net assets released from restrictions for purchases of fixed assets	–	–	(1,502)	(2,445)	–	(3,947)	–	–	–	(3,947)
Net assets released from restrictions for operations	–	–	(3,099)	(7,069)	–	(10,168)	(3,010)	–	–	(13,178)
Net assets released from restrictions for clinical programs	–	–	(5,882)	–	–	(5,882)	–	–	–	(5,882)
Other changes in net assets	–	–	–	741	–	741	–	–	–	741
Increase in temporarily restricted net assets	–	–	4,336	1,246	–	5,582	7,572	–	–	13,154
Permanently restricted net assets:										
Bequests and contributions	–	–	3,492	955	–	4,447	925	–	–	5,372
Net realized and unrealized on investments	–	–	–	–	–	–	46	–	–	46
Changes in beneficial interest in perpetual trusts	–	–	5,259	–	–	5,259	–	–	–	5,259
Increase in permanently restricted net assets	–	–	8,751	955	–	9,706	971	–	–	10,677
Increase (decrease) in net assets	55,238	1,562	91,167	(16,338)	–	131,629	24,987	3,453	(3,464)	156,605
Net assets at beginning of year	94,753	2,569	1,028,363	173,111	–	1,298,796	410,931	11,538	(11,246)	1,710,019
Net assets at end of year	\$ 149,991	\$ 4,131	\$ 1,119,530	\$ 156,773	\$ –	\$ 1,430,425	\$ 435,918	\$ 14,991	\$ (14,711)	\$ 1,866,624

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2013 Ernst & Young LLP.  
All Rights Reserved.

**[ey.com](http://ey.com)**

