



BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Information

September 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

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

Independent Auditors' Report

The Board of Directors
Bridgeport Hospital and Subsidiaries:

We have audited the accompanying consolidated financial statements of Bridgeport Hospital and Subsidiaries, which comprise the consolidated balance sheets as of September 30, 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the year 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 from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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 2015 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bridgeport Hospital and Subsidiaries as of September 30, 2015, and the consolidated results of their operations and their cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

The accompanying consolidated financial statements of Bridgeport Hospital and Subsidiaries as of and for the year ended September 30, 2014 were audited by other auditors whose report thereon dated December 23, 2014, expressed an unmodified opinion on those consolidated financial statements.

Our audit was performed for the purpose of forming an opinion on the 2015 consolidated financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statement as a whole.

KPMG LLP

December 23, 2015

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2015 and 2014

(In thousands)

Assets	2015	2014
Current assets:		
Cash and cash equivalents	\$ 26,867	29,461
Short-term investments	97,808	72,752
Accounts receivable for services to patients, less allowance for uncollectible accounts of approximately \$55,248 in 2015 and \$46,427 in 2014	54,662	49,732
Professional liabilities insurance recoveries receivable – current portion	6,009	8,273
Other current assets	18,059	21,191
Assets limited as to use	679	247
Total current assets	<u>204,084</u>	<u>181,656</u>
Assets limited as to use	1,160	5,066
Long-term investments	55,382	54,499
Professional liabilities insurance recoveries receivable – noncurrent	18,161	19,303
Deferred financing costs	1,196	1,290
Other assets	24,439	28,755
Goodwill	17,217	17,217
Property, plant, and equipment:		
Land and land improvements	21,204	4,794
Building and fixtures	129,697	119,607
Equipment	280,999	308,888
	<u>431,900</u>	<u>433,289</u>
Less accumulated depreciation	289,859	304,089
	142,041	129,200
Construction in progress	69,785	37,001
	<u>211,826</u>	<u>166,201</u>
Total assets	\$ <u><u>533,465</u></u>	<u><u>473,987</u></u>

See accompanying notes to consolidated financial statements.

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2015 and 2014

(In thousands)

	<u>2015</u>	<u>2014</u>
Operating revenue:		
Net patient service revenue	\$ 481,491	459,680
Less provision for bad debts, net	<u>(15,417)</u>	<u>(20,305)</u>
Net patient service revenue, less provision for bad debts, net	466,074	439,375
Other revenue	<u>35,110</u>	<u>27,566</u>
Total operating revenue	<u>501,184</u>	<u>466,941</u>
Operating expenses:		
Salaries and benefits	207,206	201,556
Supplies and other expenses	198,316	194,392
Depreciation	31,204	31,016
Insurance	6,864	480
Interest	<u>3,048</u>	<u>2,566</u>
Total operating expenses	<u>446,638</u>	<u>430,010</u>
Income from operations	54,546	36,931
Nonoperating gains and losses, net	<u>944</u>	<u>5,852</u>
Excess of revenue over expenses	55,490	42,783
Other changes in unrestricted net assets:		
Net assets released from restrictions used for capital acquisitions	1,242	2,445
Transfers to Yale-New Haven Health Services Corporation	—	(25,000)
Transfers to Yale-New Haven Health Services Corporation – Mission Support	(27,763)	(17,682)
Other changes in net assets	(16)	(115)
Pension related changes other than net periodic benefit cost	<u>(18,998)</u>	<u>(20,970)</u>
	<u>9,955</u>	<u>(18,539)</u>

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Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2015 and 2014

(In thousands)

	<u>2015</u>	<u>2014</u>
Temporarily restricted net assets:		
Net assets released from restrictions used for operations	\$ (6,559)	(7,069)
Net assets released from restrictions used for capital acquisitions	(1,242)	(2,445)
Change in unrealized gains and losses on investments	1,086	2,935
Bequests, contributions, and grants	7,377	6,328
Net realized investment gains	362	756
Other changes in net assets	542	741
Increase in temporarily restricted net assets	<u>1,566</u>	<u>1,246</u>
Permanently restricted net assets:		
Bequests, contributions, and grants	<u>1,133</u>	955
Increase in permanently restricted net assets	<u>1,133</u>	955
Increase (decrease) in net assets	12,654	(16,338)
Net assets at beginning of year	<u>156,773</u>	<u>173,111</u>
Net assets at end of year	<u>\$ 169,427</u>	<u>156,773</u>

See accompanying notes to consolidated financial statements.

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2015 and 2014

(In thousands)

	<u>2015</u>	<u>2014</u>
Operating activities:		
Increase (decrease) in net assets	\$ 12,654	(16,338)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	31,204	31,016
Provision for bad debts, net	15,417	20,305
Change in unrealized gains and losses on investments	(2,572)	(7,369)
Bequests, contributions, and grants	(8,510)	(7,283)
Amortization of long-term debt premium	(804)	(567)
Amortization of deferred financing cost	94	97
Pension related changes other than net periodic benefit cost	18,998	20,970
Changes in operating assets and liabilities:		
Accounts receivable, net	(20,347)	(18,605)
Other assets	7,449	(1,168)
Accounts payable	5,227	(5,887)
Accrued expenses	(5,216)	10,613
Professional insurance recoverable and liabilities	1,679	1,742
Other current liabilities, accrued pension obligation, and other long-term liabilities	(1,006)	(2,741)
Net cash provided by operating activities	<u>54,267</u>	<u>24,785</u>
Investing activities:		
Net Purchase of Investment	(23,543)	(2,602)
Net Sale of Investment	176	126
Assets limited as to use	3,474	(5,313)
Acquisitions of property, plant, and equipment, net	(36,586)	(33,233)
Net cash used in investing activities	<u>(56,479)</u>	<u>(41,022)</u>
Financing activities:		
Proceeds from issuance of long-term debt	—	40,513
Payments on capital lease obligations	(47)	(48)
Payment for line of credit	—	(25,000)
Deferred financing costs	—	(525)
Repayments of long-term debt	(4,696)	(3,948)
Repayments of note payable	(4,149)	(3,213)
Bequests, contributions, and grants	8,510	7,283
Net cash (used in) provided by financing activities	<u>(382)</u>	<u>15,062</u>
Net decrease in cash and cash equivalents	(2,594)	(1,175)
Cash and cash equivalents at beginning of year	<u>29,461</u>	<u>30,636</u>
Cash and cash equivalents at end of year	<u>\$ 26,867</u>	<u>29,461</u>

See accompanying notes to consolidated financial statements.

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2015 and 2014

(1) Organization and Significant Accounting Policies

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

YNHHSC is the sole member of two similar organizations: Yale New Haven Hospital and Subsidiaries (Y-NHH) and Greenwich Health Care Services, Inc. (GHCS). Each of these three tax-exempt organizations serves as the sole member/parent for its respective delivery network of regional health care providers and related entities. YNHHSC is also the sole member of Northeast Medical Group, Inc. (NEMG).

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

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

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

(a) *Principles of Consolidation*

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

(b) *Use of Estimates*

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for

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September 30, 2015 and 2014

services to patients, and liabilities, including estimated receivables and payables to third-party payors, and professional liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

During 2015 and 2014, the Hospital recorded a change in estimate of approximately \$10.8 million and \$2.7 million, respectively. Included in the change are amounts related to favorable third-party payor settlements.

(c) *Temporarily and Permanently Restricted Net Assets*

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

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

Donor Restricted Gifts

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

Pledges receivable, included in other current assets and other assets in the accompanying consolidated balance sheets at September 30, 2015 and 2014, are expected to be received as follows (in thousands):

	2015	2014
Due in one year or less	\$ 387	558
Due after one year through five years	528	645
Thereafter	60	—
Total pledges receivable	975	1,203
Less unamortized discount on contribution receivable (0.01% to 2.24%)	(83)	(9)
Less allowance for doubtful pledges	(27)	(36)
Pledges receivable, net	\$ 865	1,158

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(d) Cash and Cash Equivalents

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

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

(e) Accounts Receivable

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

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

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

(f) Investments

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

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

Certain alternative investments (Non-traditional, not-readily marketable assets) are structured such that the Hospital holds limited partnership interests or pooled units and are accounted for utilizing net asset value per unit for measurement of the units' fair value.

Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Fund of funds investments are primarily based

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on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The investments may indirectly expose the Hospital to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts, and other derivative products. While these financial instruments may contain varying degrees of risk, the Hospital's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors.

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

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

Under the terms of the investment management agreement with the Trust, withdrawals of the Hospital's investment in the L-TIP can be made annually by the Hospital on July 1. Amounts withdrawn are subject to a schedule that allows larger withdrawals with longer notice periods. As of September 30, 2015, the Hospital can withdraw 100% of its investment in the L-TIP as of July 1, 2016. Withdrawals of the Hospital's investment in the I-TIP in any amount can be made quarterly with 30 days' advance notice.

The Trust has an agreement with the University's investment office (the Investment Management Agreement) that allows the University to manage a portion of the Trust's investments as part of the University's Endowment Pool (the Pool). The Trust transferred approximately \$50.0 million and \$100.0 million to the University in exchange for units in the Pool for years ended September 30, 2015 and 2014, respectively. The Trust's interest in the Pool is reported at fair value based on the net asset value per units held. The Pool invests in domestic equity, foreign equity, absolute return, private equity, real assets, fixed income, and cash.

Under the terms of the Investment Management Agreement with the University, withdrawals of the Trust's investment in the Pool can be made annually by the Trust on July 1. For withdrawals of amounts less than \$150.0 million or 75% of the Trust's investment in the Pool, \$100.0 million or 50% of the Trust's investment in the Pool, and \$50.0 million or 25% of the Trust's investment in the Pool, the advance notice period is set to a maximum of 180 days, 90 days, and 30 days, respectively, prior to the University's fiscal year ending June 30. For withdrawals greater than \$150.0 million or more than 75% of the Trust's investment in the Pool, the advance notice period is set to a maximum of 270 days prior to the University's fiscal year ending June 30.

In 2011 the Investment Management Agreement between the Trust and the University was modified to allow the Trust to obtain a cash advance, up to a maximum of \$75 million, on a monthly basis. For these advances, an interest charge of prime plus 2% will be paid by the Trust. Repayments on the advances are made by the Trust by way of redemptions of a sufficient number of the Trust's units in

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the Endowment using the June 30 unit valuation. No advances have been requested or taken by the Trust.

Net realized gains and losses on investments and interest and dividends are included in excess of revenue over expenses unless the income or loss is restricted by donor or law. The change in unrealized gains and losses on all investments is included in the excess of revenue over expenses unless the income or loss is restricted by the donor.

(g) *Assets Limited as to Use*

Assets limited as to use include assets held by trustee under bond indenture agreements. Amounts required to meet current liabilities are reported as current assets. These funds primarily consist of equities, corporate obligations, U.S. government obligations, mutual funds, marketable securities, and money market funds. Changes in unrealized gains and losses are recorded in the excess of revenue over expenses and losses.

(h) *Inventories*

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

(i) *Deferred Financing Costs*

Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of the costs is provided using a method that approximates the interest method over the remaining term of the applicable indebtedness. The accumulated amortization of deferred financing costs was approximately \$0.3 million and \$0.2 million at September 30, 2015 and 2014, respectively. See note 7 for additional information relative to debt-related matters.

(j) *Benefits and Insurance*

The Hospital provides medical, dental, hospitalization, and prescription drug benefits to employees for which it is self-insured. Liabilities have been accrued for claims, including claims incurred but not reported (IBNRs), which are based on specific experience. At September 30, 2015 and 2014, the estimated liability for self-insured employee medical, prescriptions, and other benefit claims and IBNRs aggregated approximately \$0.8 million and \$1.0 million, respectively, and is included in accrued expenses in the accompanying consolidated balance sheets. The Hospital has a stop loss arrangement to limit exposure for self-insured benefits.

The Hospital is effectively self-insured for workers' compensation claims. The Hospital has a stop loss arrangement to limit exposure for workers' compensation claims. Estimated amounts are accrued for claims, including IBNRs, which are based on specific experience. At September 30, 2015 and 2014, the estimated liability for self-insured workers' compensation claims and IBNRs aggregated approximately \$6.2 million and \$6.1 million, respectively, discounted at 2.0% in 2015 and 2.5% in 2014, and is included in other long-term liabilities in the accompanying consolidated balance sheets.

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(k) Property, Plant, and Equipment

Property, plant, and equipment purchased are carried at cost, and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Depreciation of property, plant, and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives ranging from 3 to 50 years. The cost of additions and improvements are capitalized and expenditures for repairs and maintenance, including the cost of replacing minor items not considered substantial enhancements, are expensed as incurred.

(l) Impairment of Assets

The Hospital reviews property, plant and equipment for impairment at least annually, and more frequently whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such impairment indicators are present, the Hospital recognizes a loss on the basis of whether these amounts are fully recoverable. No impairment charge was recorded for the years ended September 30, 2015 or 2014.

(m) Leases

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

(n) Acquisitions

On June 1, 2014, NEMG and YNHHSAC acquired certain assets of PriMed, LLC (PriMed), a physician practice, for approximately \$54.2 million. YNHHSAC contributed the entire purchase price, of which \$25.0 million was transferred from the Hospital to YNHHSAC. 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 YNHHSAC acquired substantially all the assets of PriMed and a 40% interest in the gastroenterology surgery center.

(o) 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 Hospital evaluates goodwill at the entity level as management has determined that the Hospital's operation comprise a single reporting entity. Goodwill is considered to be impaired if the carrying value of the reporting unit, including goodwill,

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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 Hospital has determined that no goodwill impairment exists at September 30, 2015 or 2014.

(p) *Derivative Contracts*

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

(q) *Excess of Revenue over Expenses*

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

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

(r) *Income Taxes*

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

There are certain transactions that could be deemed "Unrelated Business Income" and would result in a tax liability. Management reviews transactions to estimate potential tax liabilities using a threshold of more likely than not that the position will be sustainable based on the merits of the position. It is management's estimation that there are no material tax liabilities that need to be recorded.

(s) *Asset Retirement Obligation*

The Hospital maintains an asset retirement obligation liability related to the estimated future costs to remediate environmental liabilities in certain buildings. The asset and asset retirement obligation liability were approximately \$0.3 million and \$11.0 million, respectively, at September 30, 2015 and 2014.

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September 30, 2015 and 2014

(t) Reclassifications

Certain reclassifications have been made to the year ended September 30, 2014, balances previously reported in the consolidated financial statements in order to conform with the year ended September 30, 2015, presentation.

(u) New Accounting Pronouncement

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 820) – Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Reporting entities will be required to disclose the amount of investments measured at net asset value (or its equivalent) using the practical expedient to reconcile total investments in the fair value hierarchy to total investments measured at fair value. ASU 2015-07 is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The effective date for all other entities is fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. Management has adopted and applied ASU 2015-07 retrospectively to all periods presented.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 is intended to simplify the presentation of debt issuance costs, requiring them to be presented as a direct reduction from the carrying value of the related debt liability. This guidance is effective for fiscal years beginning after December 15, 2015 and management is currently evaluating the effect of this guidance on its consolidated financial statements.

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

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

Third-party payor receivables included in other current assets were approximately \$1.5 million and \$4.2 million at September 30, 2015 and 2014, respectively. Third-party payor liabilities included in other current liabilities were approximately \$15.2 million and \$4.0 million at September 30, 2015 and 2014,

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respectively. Third-party payor liabilities included in other long-term liabilities were approximately \$14.5 million and \$18.3 million at September 30, 2015 and 2014, respectively.

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

Revenue from Medicare and Medicaid programs accounted for approximately 37% and 22%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2015, and 36% and 20%, respectively, for the year ended September 30, 2014. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 40% and 32%, respectively, for the year ended September 30, 2015, and approximately 39% and 34%, respectively, for the year ended September 30, 2014. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement through 2012 for Medicare and 2013 for Medicaid. Other years remain open for settlement.

The significant concentrations of accounts receivable for services to patients include 35% from Medicare, 21% from Medicaid, and 44% from nongovernmental payors at September 30, 2015, and 42% from Medicare, 17% from Medicaid, and 41% from nongovernmental payors at September 30, 2014.

Net patient service revenue comprises the following for the years ended September 30, 2015 and 2014 (in thousands):

	2015	2014
Gross revenue from patients	\$ 1,759,987	1,693,080
Deductions:		
Contractual allowances	1,243,034	1,184,162
Charity and free care (at charges)	35,462	49,238
Provision for doubtful accounts	15,417	20,305
Net patient service revenue	\$ 466,074	439,375

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Patient service revenue for the years ended September 30, 2015 and 2014, net of contractual allowances and discounts (but before the provision for bad debts), recognized from these major payor sources based on primary insurance designation is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Third-party	\$ 474,958	441,363
Self-pay	<u>6,533</u>	<u>18,317</u>
Total all payors	<u>\$ 481,491</u>	<u>459,680</u>

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

The Hospital's allowance for doubtful accounts totaled approximately \$55.2 million and \$46.4 million at September 30, 2015 and 2014, respectively. The allowance for doubtful accounts for self-pay patients was approximately 63.5% and 87.5% of self-pay accounts receivable as of September 30, 2015 and 2014, respectively. Overall, the total of self-pay discounts and write-offs did not change significantly in 2015.

(3) Uncompensated Care and Community Benefit Expense

The Hospital's commitment to community service is evidenced by services provided to the poor and benefits provided to the broader community. Services provided to the poor include services provided to persons who cannot afford health care because of inadequate resources and/or who are uninsured or underinsured.

The Hospital makes available free care programs for qualifying patients. In accordance with the established policies of the Hospital, during the registration, billing, and collection process a patient's eligibility for free care funds is determined. For patients who were determined by the Hospital to have the ability to pay but did not, the uncollected amounts are bad debt expense. For patients who do not avail themselves of any free care program and whose ability to pay cannot be determined by the Hospital, care given but not paid for is classified as charity care.

Together, charity care and the provision for bad debts represent uncompensated care. The estimated cost of total uncompensated care is approximately \$24.8 million and \$31.2 million for the years ended September 30, 2015 and 2014, respectively. The estimated cost of uncompensated care is based on the ratio of cost to charges, as determined by claims activity. The estimated cost of charity care is based on the ratio of cost to charges. The allocation between bad debt and charity care is determined based on management's analysis on the previous 12 months of hospital data. This analysis calculates the actual percentage of accounts written off or designated as bad debt versus charity care while taking into account the total costs incurred by the hospital for each account analyzed.

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The estimated cost of charity care and free care provided was approximately \$17.3 million and \$22.1 million for the years ended September 30, 2015 and 2014, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by Hospital-specific data.

For the years ended September 30, 2015 and 2014, the provision for bad debts, at charges, was approximately \$15.4 million and \$20.3 million, respectively. For the years ended September 30, 2015 and 2014, the provision for bad debts, at cost, was approximately \$7.5 million and \$9.1 million, respectively. The bad debt expense is multiplied by the ratio of cost to charges for purposes of inclusion in the total uncompensated care amount identified above.

The Connecticut Disproportionate Share Hospital Program (CDSHP) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by a 1% assessment on hospital net inpatient service revenue. During the years ended September 30, 2015 and 2014, the Hospital received approximately \$4.9 million and \$14.4 million, respectively, in CDSHP distributions, of which approximately \$3.4 million and \$10.2 million, respectively, related to charity care. The Hospital made payments into CDSHP of approximately \$19.1 million and \$16.9 million for the years ended September 30, 2015 and 2014, respectively, for the 1% assessment.

The State of Connecticut implemented changes to the hospital funding levels for the CDSHP in their fiscal 2016 biennium budget. As a result of these budget changes, the funding for this program was reduced effective July 1, 2015. The reduction in funding was approximately \$6.1 million for the period July 1, 2015 to September 30, 2015 and the funding has been eliminated for the state fiscal year 2016 in the amount of \$24.2 million.

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

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

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(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):

	2015	2014
Money market funds	\$ 5,285	\$ 10,113
U.S. equity securities	9,742	7,738
International equity securities ^(a)	7,500	7,080
Fixed income:		
U.S. government	33,565	28,545
Corporate debt	802	3,809
International government ^(b)	9,607	6,334
Commodities	9	88
Real estate ^(c)	1,495	1,654
Perpetual trusts	451	519
Interest in Yale University Endowment Pool ^(d)	86,573	66,684
Total	\$ 155,029	\$ 132,564

- (a) Investments with external international equity and bond managers that are domiciled in the United States. Investment managers may invest in American or Global Depository Receipts or in direct foreign securities.
- (b) Investments with external commodities futures manager.
- (c) Investments with external direct real estate managers and fund of funds managers. Investment vehicles both closed-end real estate investment trusts and limited partnerships.
- (d) The Yale University Endowment Pool maintains a diversified investment portfolio through the use of external investment managers operating in a variety of investment vehicles, including separate accounts, limited partnerships and commingled funds. The pool combines a strong orientation to equity investments with a strong allocation to nontraditional asset classes such as an absolute return, private equity, and real assets.

The Hospital ownership percentage of the Trust was approximately 10.0%, or \$149.9 million, and 7.6%, or \$107.0 million, as of September 30, 2015 and 2014, respectively. The Hospital's pro rata portion of the Trust's investments is included in the above table.

The Hospital has a 47.6% equity interest in Century Financial Services, Inc. (Century). At September 30, 2015 and 2014, the Hospital's investment was \$1.1 million and \$0.9 million, respectively, and is included in other assets in the accompanying consolidated balance sheets. The investment in Century is carried on the equity basis of accounting and is adjusted for the Hospital's proportionate share of undistributed earnings or losses. Dividends received are deducted from the carrying value of the investment.

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(5) Endowment

The Hospital's endowment includes donor-restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Hospital has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment related to the Hospital's beneficial interest in perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Hospital; and (7) the investment and spending policies of the Hospital.

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

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

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

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

(a) Return Objectives and Risk Parameters

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

(b) Strategies Employed for Achieving Objectives

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

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

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

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

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(6) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets of approximately \$34.8 million and \$33.3 million for the years ended September 30, 2015 and 2014, respectively, are available for specific hospital operations, teaching, research, indigent and free care, and training.

Permanently restricted net assets of approximately \$22.9 million and \$21.7 million for the years ended September 30, 2015 and 2014, respectively, consist of donor-restricted endowment principal. The income generated from permanently restricted funds is expendable for purposes designated by donors, including the support of various health care services.

(7) Debt

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

	2015	2014
Intercompany debt with YNHHS:		
Series D (fixed interest rates ranging from 2.00% to 5.00%) (a) \$	29,780	32,110
Series E (3.47%, effective interest rate) (b)	34,982	35,971
Tax-exempt debt:		
2012 term loan (1.66% fixed interest rate) (d)	1,977	3,082
2010 term loan (3.22% fixed interest rate) (c)	3,674	4,317
Note payable (6.9% fixed interest rate) (e)	2,101	6,250
Capital lease obligations (f)	60,774	20,207
	133,288	101,937
Add premium	6,563	7,367
Less current portion	(6,170)	(9,262)
	\$ 133,681	100,042

a) In May 2012, the Series D tax-exempt revenue bonds were issued through CHEFA under a master trust indenture for approximately \$36.4 million, with coupons ranging from 2.0% to 5.0%, and a final maturity of July 2025. The proceeds, including a premium of approximately \$4.1 million, were held in an escrow account and used for the retirement of the outstanding tax-exempt revenue bonds and to pay for certain bond issuance costs of approximately \$0.8 million. The bond premium is being amortized using the effective interest method and is included in interest expense in the accompanying statement of operations and changes in net assets.

b) In June 2014, the Obligated Group issued Series E revenue bonds totaling approximately \$80.9 million. The Series E revenue bonds were issued as fixed rate bonds with an effective interest rate of 3.47%. The proceeds included a premium of approximately \$10.1 million. Approximately \$40.0 million of the proceeds were used to finance costs for the installation of machinery and equipment and various renovations and improvements to the Hospital's infrastructure. The remaining \$50.0 million was used for renovations at Y-NHH. The premium is being amortized and included as interest expense in the consolidated statement of operations and changes in net assets.

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

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

- c) In November 2010, the Hospital obtained a \$6.6 million term loan from the CHEFA. The proceeds of the loan were to be used for the purchase and installation of energy savings equipment and various renovations and improvements to the Hospital's infrastructure. The loan is to be paid in monthly installments over ten years at a fixed interest rate of 3.22%.
- d) In June 2012, the Hospital obtained a \$5.5 million term loan from CHEFA. The loan is to be paid in monthly installments over five years at a fixed rate of 1.66% with the proceeds to be used for medical and cafeteria equipment. The loan is secured by the equipment purchased with the proceeds of the loan.
- e) In December 2012, in connection with the purchase of a radiology practice, the Hospital entered into a note payable with the seller in the amount of \$15.1 million. The note is to be repaid in monthly installments over five years as discussed in note 1.
- f) In November 2013, BH entered into an arrangement with a developer to construct a 120,000 – square-foot medical office building and adjacent garage in Fairfield County, Connecticut. The arrangement contains provisions for Bridgeport Hospital to begin leasing the property for a 25-year period beginning in April 2016. Management has evaluated the terms of the arrangement and recorded the project as a capital lease. Upon completion, the total estimated capital lease obligation will approximate \$102.0 million. At September 30, 2015 and 2014, construction costs totaled approximately \$60.8 million and \$20.2 million, respectively, and are included in construction in progress on the accompanying consolidated balance sheet.

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

	<u>Debt</u>	<u>Capital lease obligations</u>
2016	\$ 5,713	3,754
2017	6,744	8,173
2018	4,466	8,173
2019	4,674	8,173
2020	4,893	8,173
Thereafter	<u>46,025</u>	<u>128,563</u>
	\$ <u><u>72,515</u></u>	165,009
Less interest		<u>(104,235)</u>
Total capital lease obligations		\$ <u><u>60,774</u></u>

Cash paid for interest for the years ended September 30, 2015 and 2014, approximated \$3.0 million and \$2.6 million, respectively.

Assets recorded under the capital lease obligations totaled approximately \$60.8 million and \$20.2 million as of September 30, 2015 and 2014, respectively. Accumulated depreciation for the capital lease obligations totaled approximately \$0.4 million for September 30, 2015 and 2014, respectively.

(8) Retirement Benefit Plans

The Hospital has a defined benefit pension plan covering substantially all employees. The benefits are based on years of service and employees' average compensation as defined by the plan documents. The Hospital makes contributions in amounts sufficient to meet the required benefits to be paid to plan participants as they become due as required under the Employee Retirement Income Security Act of 1974.

On June 30, 2006, the Hospital froze its defined benefit plan. On October 1, 2006, the Hospital instituted a defined contribution plan covering substantially all employees. The Hospital matches employee 403(b) contributions on a bi-weekly basis, as defined by the defined contribution plan documents, and provides an annual contribution to the employees' accounts based on each employee's year of service and compensation. The Hospital expensed approximately \$9.9 million and \$9.4 million relating to the defined contribution plan for the years ended September 30, 2015 and 2014, respectively. Amounts due to the defined contribution plan amounted to approximately \$5.2 million at September 30, 2015 and 2014, and are included in accrued expenses in the accompanying balance sheets.

The Hospital is required to measure plan assets and benefit obligations at a date consistent with its year-end balance sheet. Included in unrestricted net assets at September 30, 2015 and 2014, are the following amounts that have not yet been recognized in net periodic benefit cost (in thousands):

	<u>2015</u>	<u>2014</u>
Unrecognized actuarial loss	\$ (120,166)	(101,168)

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The actuarial loss included in unrestricted net assets at September 30, 2015, is approximately \$3.0 million and is expected to be recognized in net periodic benefit cost during the year ending September 30, 2016.

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

	<u>Pension benefits</u>	
	<u>2015</u>	<u>2014</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ (203,437)	(179,605)
Interest cost	(8,579)	(8,618)
Actuarial loss	(6,563)	(21,944)
Benefits paid	7,289	6,730
	<u>(211,290)</u>	<u>(203,437)</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	145,156	136,660
Actual return on plan assets	(5,381)	8,015
Employer contribution	10,500	7,211
Benefits paid	(7,289)	(6,730)
	<u>142,986</u>	<u>145,156</u>
Fair value of plan assets, end of year	<u>142,986</u>	<u>145,156</u>
Accrued pension obligation	\$ <u>(68,304)</u>	<u>(58,281)</u>

The actuarial loss in 2015 primarily relates to changes in the discount rate and mortality table used to measure the tax benefit obligation, and the actuarial gain in 2014 primarily relates to changes in the discount rate used to measure the benefit obligation.

(a) Accumulated Benefit Obligation

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

	<u>2015</u>	<u>2014</u>
Projected benefit obligation	\$ 211,290	203,437
Accumulated benefit obligation	211,290	203,437
Fair value of plan assets	142,986	145,156

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

	Pension benefits	
	2015	2014
Components of net periodic benefit cost:		
Interest cost	\$ 8,579	8,618
Expected rate of return on plan assets	(10,017)	(9,302)
Recognized net actuarial loss	2,963	2,261
Net periodic benefit cost	<u>\$ 1,525</u>	<u>1,577</u>

(b) Assumptions

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

	Pension benefits	
	2015	2014
Discount rate	4.40%	4.30%

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

	Pension benefits	
	2015	2014
Discount rate	4.30%	4.90%
Expected long-term return on plan assets	6.75	6.75

(c) Measurement Date

The measurement date used to determine pension benefits is September 30 in 2015 and 2014.

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(d) Plan Assets

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

Asset category:	Target allocation 2016	Percentage of plan assets	
		2015	2014
Equity securities	42%	45%	42%
Debt securities	17	37	38
Alternative investments	41	18	20
Total	100%	100%	100%

The pension assets carried at fair value as of September 30, 2015 and 2014, are classified in the following tables in one of the categories described in note 15 (in thousands):

	Investments measured at NAV	Investments classified in the fair value hierarchy Level 1	Total
Money market funds	\$ —	11,974	11,974
U.S. equity securities	13,962	15,242	29,204
International equity securities	26,768	7,398	34,166
Fixed income:			
U.S. government	—	31,588	31,588
International government	—	10,529	10,529
Hedge funds:			
Multi strategy/other	25,525	—	25,525
	\$ 66,255	76,731	142,986

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

	Investments measured at NAV	Investments classified in the fair value hierarchy Level 1	Total
Money market funds	\$ —	6,077	6,077
U.S. equity securities	5,707	22,409	28,116
International equity securities	19,746	7,091	26,837
Fixed income:			
U.S. government	—	17,018	17,018
Corporate debt	—	26,543	26,543
International government	—	11,431	11,431
Hedge funds:			
Long/short equity	190	—	190
Multi strategy/other	25,455	—	25,455
Real estate	—	3,489	3,489
	\$ 51,098	94,058	145,156

There are no pension investments that are measured at fair value based on Level 2 or Level 3 inputs at September 30, 2015 or 2014.

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

The Hospital's pension portfolio return assumption of 7.75% is based on the targeted weighted average return of comparative market indices for the asset classes represented in the portfolio and discounted for pension expenses.

(e) Cash Flows

Contributions: The Hospital's and its affiliates' expected contribution to the defined benefit pension plan in 2016 is approximately \$9.9 million.

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

2016	\$	8,561
2017		8,990
2018		9,676
2019		10,287
2020		10,863
2021 to 2025		61,882

(9) Professional Liability and Self-Insurance Arrangements

Y-NHH and a number of academic medical centers are shareholders in the Medical Center Insurance Company, Ltd. (the Captive). The Captive was formed to insure for professional and comprehensive general liability risks of its shareholders and certain affiliated entities of the shareholders. On October 1, 1997, the Hospital was added to the Y-NHH program as an additional insured. The Captive and its wholly owned subsidiary write direct insurance and reinsurance for varying levels of per claim limit exposure. The Captive has reinsurance coverage from outside reinsurers for amounts above the per claim limits. Premiums are based on claims made coverage and are actuarially determined based on actual experience of the Hospital and the Captive. The Hospital pays insurance premiums to YNHHS.

The estimate for claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$39.7 million and \$41.4 million at September 30, 2015 and 2014, respectively. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately \$17.2 million and \$15.7 million at September 30, 2015 and 2014, respectively, and is included in professional insurance liabilities in the accompanying balance sheets at the actuarially determined present value of approximately \$15.5 million and \$13.9 million, respectively, based on a discount rate of 2.0% and 2.5% for the years ended September 30, 2015 and 2014, respectively.

The Hospital has recorded related insurance recoveries receivable of approximately \$24.2 million and \$27.6 million at September 30, 2015 and 2014, respectively, in consideration of the expected insurance recoveries for the total discounted claims-made insurance. The current portion of professional liabilities and the related insurance receivable represent an estimate of expected settlements and insurance recoveries over the next 12 months.

The Hospital's estimates for professional insurance liabilities are based upon complex actuarial calculations that utilize factors such as historical claims experience for the Hospital and related industry factors, trending models, estimates for the payment patterns of future claims, and present value discount factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known or when changes are anticipated.

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2015 and 2014

(10) Commitments and Contingencies

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

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

The Hospital obtained a surety bond to provide coverage to the State of Connecticut for workers' compensation claims compensation in 2012. There were no amounts outstanding in 2015 or 2014.

The Hospital has various lease agreements. Lease expense for the years 2015 and 2014, was approximately \$5.6 million and \$5.4 million, respectively. Future minimum payments under these leases are as follows:

2016	\$	5,053
2017		4,260
2018		3,609
2019		3,204
2020		2,770
Thereafter		13,809
	\$	<u>32,705</u>

(11) Functional Expenses

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

	<u>2015</u>	<u>2014</u>
Health care services	\$ 338,552	335,408
General and administrative	108,086	94,602
	<u>\$ 446,638</u>	<u>430,010</u>

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2015 and 2014

(12) Related-Party Transactions

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

	<u>2015</u>	<u>2014</u>
Operating expenses:		
Information systems	\$ 21,518	21,360
System business office	15,971	10,249
Other business services	21,659	28,632
	<u>\$ 59,148</u>	<u>60,241</u>

The Hospital funds certain capital assets purchased by YNHHS. Included in prepaid expenses and other assets were approximately \$23.5 million at September 30, 2015, and approximately \$34.0 million at September 30, 2014.

Included in depreciation and amortization expense for each of the years ended September 30, 2015 and 2014, is approximately \$8.7 million and \$8.6 million, respectively, of costs allocated from YNHHS for shared capital projects.

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

	<u>2015</u>	<u>2014</u>
Other receivables:		
Y-NHH	\$ 1,474	890
YNHHS	1,941	1,637
	<u>\$ 3,415</u>	<u>2,527</u>
Accounts payable:		
YNHHS	\$ 17,607	24,676
NEMG	3,783	1,784
Greenwich Hospital	453	179
	<u>\$ 21,843</u>	<u>26,639</u>

Included in the consolidated statement of operations and changes in net assets are amounts funded by the Hospital for physician-related strategic mission support for NEMG of approximately \$27.8 million and \$17.7 million for the years ended September 30, 2015 and 2014, respectively.

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2015 and 2014

(13) Other Revenue

Other revenue consisted of the following (in thousands):

	Year ended September 30	
	2015	2014
Smilow Practices of Bridgeport/Fairfield	\$ 9,534	—
Pediatric ancillary services	9,000	9,326
Net assets released from restrictions for operations	6,559	7,069
Cafeteria and vending	2,070	1,898
Tuition	1,888	1,878
Electronic health records incentive payment	1,525	3,004
Parking income	1,473	1,417
Other	3,061	2,974
	<u>\$ 35,110</u>	<u>27,566</u>

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

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. Medicare EHR incentive payment revenue was approximately \$1.5 million and \$2.3 million for the years ended September 30, 2015 and 2014, respectively. Medicaid EHR incentive payment revenue was approximately \$0.7 million for the year ended September 30, 2014. The Hospital did not receive any Medicaid EHR incentive payments for the year ended September 30, 2015.

EHR incentive payment revenue is included in other revenue in the accompanying consolidated statements of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2015 and 2014

(14) Nonoperating Gains and Losses, Net

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

	Year ended September 30	
	2015	2014
Income from investments and other, net	\$ (542)	1,418
Change in unrealized gains and losses on investments	1,486	4,434
	<u>\$ 944</u>	<u>5,852</u>

Contributions received consisted of the following (in thousands):

	Year ended September 30	
	2015	2014
Unrestricted contributions	\$ 730	714
Temporarily restricted contributions	5,198	4,284
Permanently restricted contributions	1,133	955
Total contributions	7,061	5,953
Less fundraising expenses	2,359	2,109
	<u>\$ 4,702</u>	<u>3,844</u>

(15) Fair Values Measurements

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

ASC 820, *Fair Value Measurement*, establishes a valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The levels are defined as follows:

- Net Asset Value: Determined by the respective external investment managers, including general partners, if market values are not readily ascertainable.
- Level 1: Quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. This established hierarchy assigns the highest priority to Level 1 assets.
- Level 2: Observable inputs that are based on data not quoted in active markets, but corroborated by market data.
- Level 3: Unobservable inputs that are used when little or no market data is available. The Level 3 inputs are assigned the lowest priority.

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2015 and 2014

Financial assets carried at fair value as of September 30, 2015 and 2014, are classified in the following tables in the categories described above (in thousands):

	Investments measured at NAV	Investments classified in the fair value hierarchy Level 1	Total
Cash and cash equivalents	\$ —	\$ 26,867	\$ 26,867
Money market funds	—	5,285	5,285
U.S. equity securities	1,479	8,263	9,742
International equity securities	2,075	5,425	7,500
Fixed income:			
U.S. government	28,040	5,525	33,565
Corporate debt	—	802	802
International government	4,161	5,446	9,607
Commodities	9	—	9
Real estate	1,458	37	1,495
Hedge funds:			
Perpetual trusts	451	—	451
Interest in Yale University endowment pool	86,573	—	86,573
	<u>124,246</u>	<u>57,650</u>	<u>181,896</u>
Total investments as of September 30, 2015	\$ <u>124,246</u>	\$ <u>57,650</u>	\$ <u>181,896</u>

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2015 and 2014

	Investments measured at NAV	Investments classified in the fair value hierarchy Level 1	Total
Cash and cash equivalents	\$ —	\$ 29,461	\$ 29,461
Money market funds	—	10,113	10,113
U.S. equity securities	1,096	6,642	7,738
International equity securities	1,108	5,972	7,080
Fixed income:			
U.S. government	9,002	19,543	28,545
Corporate debt	—	3,809	3,809
International government	2,397	3,937	6,334
Commodities	12	76	88
Real estate	1,610	44	1,654
Perpetual trusts	519		519
Interest in Yale University endowment pool	66,684	—	66,684
	<u>66,684</u>	<u>—</u>	<u>66,684</u>
Total investments as of September 30, 2014	\$ <u>82,428</u>	\$ <u>79,597</u>	\$ <u>162,025</u>

The fair value of debt at September 30, 2015 and 2014, was approximately \$72.4 million and \$70.4 million, respectively. The fair value of capital leases at September 30, 2015 and 2014, was approximately \$60.8 million and \$20.3 million, respectively. The fair value of long-term debt is classified as Level 2 in the fair value hierarchy as it uses a combination of quoted market prices and valuation based on current market rates.

There are no assets or liabilities that are measured at fair value based on Level 3 inputs at September 30, 2015 or 2014.

(16) Subsequent Events

Subsequent events have been evaluated through December 23, 2015, which is the date the consolidated financial statements were issued. No events have occurred that require disclosure or adjustment of the consolidated financial statements.

SUPPLEMENTARY INFORMATION

BRIDGEPORT HOSPITAL AND SUBSIDIARIES

Consolidating Balance Sheet

September 30, 2015

(In thousands)

Assets	Hospital	Foundation	Properties	Eliminations	Total
Current assets:					
Cash and cash equivalents	\$ 25,968	866	33	—	26,867
Short-term investments	61,779	36,029	—	—	97,808
Accounts receivable	54,662	—	—	—	54,662
Professional liabilities insurance recoveries receivable – current portion	6,009	—	—	—	6,009
Other current assets	19,991	516	2	(2,450)	18,059
Assets limited as to use	679	—	—	—	679
Total current assets	169,088	37,411	35	(2,450)	204,084
Assets limited as to use	—	1,160	—	—	1,160
Long-term investments	22,585	32,797	—	—	55,382
Professional liabilities insurance recoveries receivable – noncurrent	18,161	—	—	—	18,161
Deferred financing costs	1,196	—	—	—	1,196
Other assets	93,099	607	—	(69,267)	24,439
Goodwill	17,217	—	—	—	17,217
Property, plant, and equipment:					
Land and land improvements	21,204	—	—	—	21,204
Buildings	128,224	—	1,473	—	129,697
Equipment	280,999	—	—	—	280,999
	430,427	—	1,473	—	431,900
Less accumulated depreciation and amortization	(289,391)	—	(468)	—	(289,859)
	141,036	—	1,005	—	142,041
Construction in progress	69,785	—	—	—	69,785
	210,821	—	1,005	—	211,826
Total assets	\$ 532,167	71,975	1,040	(71,717)	533,465
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$ 15,607	96	—	—	15,703
Accrued expenses	53,255	—	20	—	53,275
Current portion of long-term debt and capital lease obligation	6,170	—	—	—	6,170
Professional liabilities – current portion	6,009	—	—	—	6,009
Other current liabilities	15,856	2,293	157	(2,450)	15,856
Total current liabilities	96,897	2,389	177	(2,450)	97,013
Long-term debt, net of current portion	73,372	—	—	—	73,372
Long-term capital lease obligation, net of current portion	60,309	—	—	—	60,309
Accrued pension obligation	68,304	—	—	—	68,304
Professional liabilities	33,706	—	—	—	33,706
Other long-term liabilities	31,015	319	—	—	31,334
Total liabilities	363,603	2,708	177	(2,450)	364,038
Net assets:					
Unrestricted	110,843	34,764	863	(34,764)	111,706
Temporarily restricted	34,845	17,035	—	(17,035)	34,845
Permanently restricted	22,876	17,468	—	(17,468)	22,876
Total net assets	168,564	69,267	863	(69,267)	169,427
Total liabilities and net assets	\$ 532,167	71,975	1,040	(71,717)	533,465

See accompanying independent auditors' report.

BRIDGEPORT HOSPITAL AND SUBSIDIARIES
Consolidating Statement of Operations and Changes in Net Assets
Year ended September 30, 2015
(In thousands)

	<u>Hospital</u>	<u>Foundation</u>	<u>Properties</u>	<u>Eliminations</u>	<u>Total</u>
Operating revenue:					
Net patient service revenue	\$ 481,491	—	—	—	481,491
Less provision for bad debts	(15,417)	—	—	—	(15,417)
Net patient service revenue, less provision for bad debts	466,074	—	—	—	466,074
Other revenue	32,055	2,899	160	(4)	35,110
Total operating revenue	498,129	2,899	160	(4)	501,184
Operating expenses:					
Salaries and benefits	207,206	—	—	—	207,206
Supplies and other expenses	195,197	2,899	224	(4)	198,316
Depreciation and amortization	31,148	—	56	—	31,204
Insurance	6,857	—	7	—	6,864
Interest	3,048	—	—	—	3,048
Total operating expenses	443,456	2,899	287	(4)	446,638
Income (loss) from operations	54,673	—	(127)	—	54,546
Nonoperating gains and losses, net	944	20	—	(20)	944
Excess (deficiency) of revenue over expenses	55,617	20	(127)	(20)	55,490
Unrestricted net assets:					
Net assets released from restrictions used for capital acquisitions	1,242	—	—	—	1,242
Transfers to YNHHS – mission support	(27,763)	—	—	—	(27,763)
Other changes in net assets	(66)	290	50	(290)	(16)
Pension related changes other than net periodic benefit cost	(18,998)	—	—	—	(18,998)
(Decrease) increase in unrestricted net assets	10,032	310	(77)	(310)	9,955

BRIDGEPORT HOSPITAL AND SUBSIDIARIES
Consolidating Statement of Operations and Changes in Net Assets
Year ended September 30, 2015
(In thousands)

	<u>Hospital</u>	<u>Foundation</u>	<u>Properties</u>	<u>Eliminations</u>	<u>Total</u>
Temporarily restricted net assets:					
Net changes in interest in the Foundation:					
Net assets released from restrictions used for operations	\$ (2,899)	—	—	2,899	—
Change in unrealized gains and losses on investments	971	—	—	(971)	—
Bequests, contributions, and grants	7,377	—	—	(7,377)	—
Net realized investment gains and losses	(129)	—	—	129	—
Transfers to the Hospital	(3,597)	—	—	3,597	—
Other changes in net assets	289	—	—	(289)	—
Net assets released from restrictions used for operations	(3,660)	(2,899)	—	—	(6,559)
Net assets released from restrictions used for capital acquisitions	(1,242)	—	—	—	(1,242)
Change in unrealized gains and losses on investments	115	971	—	—	1,086
Bequests, contributions, and grants	—	7,377	—	—	7,377
Net realized investment gains	491	(129)	—	—	362
Other changes in net assets	253	289	—	—	542
Transfers from the Foundation	3,597	(3,597)	—	—	—
Increase (decrease) in temporarily restricted net assets	<u>1,566</u>	<u>2,012</u>	<u>—</u>	<u>(2,012)</u>	<u>1,566</u>
Permanently restricted net assets:					
Bequests, contributions, and grants	<u>1,133</u>	<u>1,133</u>	<u>—</u>	<u>(1,133)</u>	<u>1,133</u>
Increase (decrease) in permanently restricted net assets	<u>1,133</u>	<u>1,133</u>	<u>—</u>	<u>(1,133)</u>	<u>1,133</u>
Increase (decrease) in net assets	12,731	3,455	(77)	(3,455)	12,654
Net assets (deficiency) at beginning of year	<u>155,833</u>	<u>65,812</u>	<u>940</u>	<u>(65,812)</u>	<u>156,773</u>
Net assets (deficiency) at end of year	<u>\$ 168,564</u>	<u>69,267</u>	<u>863</u>	<u>(69,267)</u>	<u>169,427</u>

See accompanying independent auditors' report.