



**GREENWICH HOSPITAL**

Financial Statements

September 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

**GREENWICH HOSPITAL**

Financial Statements

September 30, 2015 and 2014

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

## **Independent Auditors' Report**

The Board of Trustees  
Greenwich Hospital:

We have audited the accompanying financial statements of Greenwich Hospital (the Hospital), which comprise the balance sheet as of September 30, 2015, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 financial statements referred to above present fairly, in all material respects, the financial position of Greenwich Hospital as of September 30, 2015, and the results of its operations and changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



**Other Matter**

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

*KPMG LLP*

December 23, 2015

**GREENWICH HOSPITAL**

## Balance Sheets

September 30, 2015 and 2014

(In thousands)

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Current assets:		
Cash and cash equivalents	\$ 26,854	43,811
Short-term investments (note 4)	72,659	31,934
Accounts receivable for services to patients, less allowance for uncollectible accounts, charity and free care of approximately \$57,791 in 2015 and \$49,979 in 2014 (note 2)	39,519	37,984
Other receivables (note 2)	26,373	28,313
Professional liabilities insurance recoveries receivable – current portion (note 9)	6,309	8,030
Other current assets	7,407	9,268
Total current assets	<u>179,121</u>	<u>159,340</u>
Assets limited as to use (note 4)	44,236	38,804
Beneficial interest in the net assets of the Foundation	56,878	60,140
Long-term investments (note 4)	51,340	51,525
Professional liabilities insurance recoveries receivable – noncurrent (note 9)	10,208	17,916
Other assets (note 1)	12,900	15,737
Property, plant, and equipment (note 1):		
Land and land improvements	11,707	10,618
Buildings and fixtures	252,685	252,748
Equipment	180,617	172,367
	<u>445,009</u>	<u>435,733</u>
Less accumulated depreciation	<u>(232,778)</u>	<u>(212,977)</u>
	212,231	222,756
Construction in progress	<u>4,579</u>	<u>461</u>
	<u>216,810</u>	<u>223,217</u>
Total assets	<u>\$ 571,493</u>	<u>566,679</u>

See accompanying notes to financial statements.

<b>Liabilities and Net Assets</b>	<b>2015</b>	<b>2014</b>
Current liabilities:		
Accounts payable	\$ 8,485	8,178
Accrued expenses (note 12)	24,038	24,436
Professional liabilities – current portion (note 9)	6,309	8,030
Current portion of long-term debt (note 7)	2,675	2,605
Other current liabilities (note 2)	11,502	12,282
Total current liabilities	<u>53,009</u>	<u>55,531</u>
Long-term debt, net of current portion (note 7)	32,430	35,105
Accrued pension and postretirement benefit obligations (note 8)	42,787	31,684
Professional liabilities - noncurrent (note 9)	17,819	24,769
Interest rate swap (note 7)	4,108	3,817
Other long-term liabilities (note 2)	14,846	14,411
Total liabilities	<u>164,999</u>	<u>165,317</u>
Net assets (note 6):		
Unrestricted	341,118	334,040
Temporarily restricted	41,782	44,115
Permanently restricted	23,594	23,207
Total net assets	<u>406,494</u>	<u>401,362</u>
Commitments and contingencies		
Total liabilities and net assets	<u>\$ <u>571,493</u></u>	<u>566,679</u>

**GREENWICH HOSPITAL**

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	\$ 361,338	357,292
Less provision for bad debts, net	<u>(12,494)</u>	<u>(25,085)</u>
Net patient service revenue, less provision for bad debts, net	348,844	332,207
Other revenue (note 13)	<u>14,393</u>	<u>17,848</u>
Total operating revenue	<u>363,237</u>	<u>350,055</u>
Operating expenses:		
Salaries and benefits	153,755	150,222
Supplies and other	152,680	142,360
Depreciation	24,014	24,929
Interest (note 7)	<u>310</u>	<u>343</u>
Total operating expenses	<u>330,759</u>	<u>317,854</u>
Income from operations	32,478	32,201
Nonoperating losses and gains:		
Change in fair value of swap, including counterparty payments (note 7)	(1,430)	(847)
Change in unrealized gains and losses on investments	(7,035)	6,345
Other nonoperating gains and losses, net (note 13)	<u>2,843</u>	<u>(1,327)</u>
Excess of revenue over expenses	26,856	36,372
Other changes in unrestricted net assets:		
Other changes in net assets	(163)	(71)
Transfers to affiliates (note 12)	(8,800)	(11,614)
Transfer from affiliate – close out of GHSI	342	—
Net assets released from restrictions for purchases of fixed assets	1,585	—
Pension related changes other than net periodic benefit cost	<u>(12,742)</u>	<u>(9,492)</u>
Increase in unrestricted net assets	\$ <u>7,078</u>	<u>15,195</u>

**GREENWICH HOSPITAL**

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 realized gains and income from investments	\$ 1,936	1,091
Change in net unrealized gains and losses on investments	(2,764)	2,417
Bequests and contributions	4,970	7,074
Net assets released from restrictions for purchases of fixed assets	(1,585)	—
Net assets released from restriction for operations	(4,783)	(3,010)
Net assets released from restrictions for nonoperating activities	(107)	—
(Decrease) increase in temporarily restricted net assets	<u>(2,333)</u>	<u>7,572</u>
Permanently restricted net assets:		
Contributions	388	925
Net realized gains on investments	20	12
Change in net unrealized gains and losses on investments	(21)	34
Increase in permanently restricted net assets	<u>387</u>	<u>971</u>
Increase in net assets	5,132	23,738
Net assets at beginning of year	<u>401,362</u>	<u>377,624</u>
Net assets at end of year	<u><u>\$ 406,494</u></u>	<u><u>401,362</u></u>

See accompanying notes to financial statements.



**GREENWICH HOSPITAL**

Statements of Cash Flows

Years ended September 30, 2015 and 2014

(In thousands)

	<u>2015</u>	<u>2014</u>
Operating activities:		
Increase in net assets	\$ 5,132	23,738
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	24,014	24,929
Change in net interest in the net assets of the Foundation	3,261	(3,751)
Net realized and change in net unrealized gains and losses on investments	(7,864)	9,898
Provision for bad debts, net	12,494	25,085
Bequests and contributions	(5,358)	(7,999)
Pension related changes other than net periodic benefit cost	12,742	9,492
Change in fair value of interest rate swap agreement	291	(349)
Changes in operating assets and liabilities:		
Accounts receivable, net	(14,029)	(28,270)
Other receivables	1,941	(6,369)
Professional liabilities and related insurance recoveries receivable	758	1,098
Due from affiliate	—	501
Other assets	4,698	547
Accounts payable	307	2,189
Accrued expenses	(398)	1,891
Other current liabilities, accrued pension, and post retirement benefit obligations and other long-term liabilities	(1,984)	(3,014)
Net cash provided by operating activities	<u>36,005</u>	<u>49,616</u>
Investing activities:		
Acquisition of property, plant, and equipment, net	(17,607)	(20,009)
Net Purchase of Investment	(40,580)	(14,493)
Net Sale of Investment	7,904	3,188
Net purchase of assets limited as to use	(5,432)	(5,329)
Net cash used in investing activities	<u>(55,715)</u>	<u>(36,643)</u>
Financing activities:		
Bequests and contributions	5,358	7,999
Repayment of long-term debt	(2,605)	(2,505)
Net cash provided by financing activities	<u>2,753</u>	<u>5,494</u>
Net (decrease) increase in cash and cash equivalents	(16,957)	18,467
Cash and cash equivalents at beginning of year	<u>43,811</u>	<u>25,344</u>
Cash and cash equivalents at end of year	\$ <u>26,854</u>	<u>43,811</u>

See accompanying notes to financial statements.

## **GREENWICH HOSPITAL**

Notes to Financial Statements

September 30, 2015 and 2014

### **(1) Organization and Significant Accounting Policies**

#### **(a) Organization**

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

Yale-New Haven Health Services Corporation (YNHHSC) is the sole member of GHCS and two similar organizations. Each of these three tax-exempt organizations serves as the sole member/parent for its respective delivery network of regional health care providers and related entities. Under the terms of an agreement with YNHHSC, GHCS continues to operate autonomously with separate boards, management and medical staff; however, YNHHSC approves the strategic plans, operating and capital budgets, and board appointments.

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

During 2015, GHCS dissolved its wholly owned subsidiary, Greenwich Health Services, Inc., a Connecticut business corporation. The activity and eliminations for Greenwich Pathology Associates, LLC, Greenwich Clinical Pathology Associates, LLC, Greenwich Fertility and IVF center, P.C., Occupational Health of New Jersey and Occupational Health of New York are now reported as part of Greenwich Hospital.

#### **(b) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, including estimated uncollectibles for accounts receivable for services to patients, and liabilities, estimated settlements with third-party payors and professional insurance liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the amounts of revenue reported during the year. Actual results could differ from those estimates.

During fiscal 2015 and 2014, the Hospital recorded a change in estimate of approximately \$0.3 million and \$2.1 million, respectively. Included in the change are amounts related to favorable third-party payor settlements at September 30, 2015 and 2014, respectively.

#### **(c) Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose and appreciation on permanently restricted net assets. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital and Foundation

## **GREENWICH HOSPITAL**

### Notes to Financial Statements

September 30, 2015 and 2014

in perpetuity. The Hospital is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value.

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

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

**(d) 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.

**(e) Cash and Cash Equivalents**

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

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

**(f) Accounts Receivable**

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

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### Notes to Financial Statements

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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 System follows established guidelines for placing certain patient balances with collection agencies, subject to certain restrictions on collection efforts as determined by the System 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.

**(g) Investments**

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

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

To diversify its investment portfolio and to enhance opportunities for increased rate of return, the Hospital has invested in alternative investments. Alternative investments include investments in nonmarketable and market-traded debt and equity securities. Alternative investments are accounted using the net asset values of each alternative investment. Net asset values of these investments, provided by the investment manager or general partner, are primarily based upon financial data derived from underlying securities and other financial instruments and estimates that require varying degrees of judgment. The investments may indirectly expose the Hospital to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, the Hospital's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors. Certain alternative investments are subject to various withdrawal restrictions regarding timing, fees and enhanced disclosure required transaction limits at September 30, 2015 and 2014. Future funding commitments for alternative investments aggregated approximately \$4.1 million at September 30, 2015.

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

## GREENWICH HOSPITAL

### Notes to Financial Statements

September 30, 2015 and 2014

**(h) Inventories**

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

**(i) 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 for future capital improvements.

**(j) Perpetual Trusts**

The Hospital is the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts, which are measured based on the fair value of the assets held by the trust, are recognized as assets and contribution revenues at the dates the trusts are established. Income distributions received from the trusts are recorded as temporarily restricted contributions when received.

**(k) Interest Rate Swap Agreements**

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

**(l) Beneficial Interest in the Net Assets of the Foundation**

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

**(m) Deferred Financing Costs**

Issuance costs, included in other assets, related to the Hospital's bond issuance are being amortized over the term of the applicable indebtedness using the effective interest method. Deferred financing costs capitalized totaled approximately \$0.6 million for September 30, 2015 and 2014. The accumulated amortization of deferred financing costs was approximately \$0.2 million for September 30, 2015 and 2014. Amortization, included in interest expense in the accompanying statements of operations and changes in net assets, was approximately \$30,000 for the years ended September 30, 2015 and 2014.

**(n) Beneficial Interest in Trusts**

The Hospital has recognized its beneficial interest in trusts held by a third-party at fair value. Under these arrangements, the Hospital is receiving distributions to fund free care programs. The Hospital received distributions of approximately \$1.1 million for the year ended September 30, 2015. No distributions were recorded for the year ended September 30, 2014.

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(o) ***Beneficial Interest in Remainder Trusts***

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

(p) ***Benefits and Insurance***

The Hospital provides medical, dental, hospitalization and prescription drug benefits to employees for which it is self-insured. The Hospital has a stop loss arrangement to limit exposure for self-insured benefits. Liabilities have been accrued for claims, including claims incurred but not reported (IBNRs), which are based on Hospital-specific experience. At September 30, 2015 and 2014, the estimated liability for self-insured employee medical, prescription and other benefit claims and IBNRs aggregated approximately \$0.8 million and \$0.9 million, respectively, and is included in accrued expenses in the accompanying balance sheets.

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 Hospital-specific experience. At September 30, 2015 and 2014, the estimated liability for self-insured workers' compensation claims and IBNRs, discounted at 2.0% and 2.5% respectively, aggregated approximately \$1.7 million and \$2.0 million, respectively, and is included in other long-term liabilities in the accompanying balance sheets.

(q) ***Professional Liability Insurance***

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

(r) ***Property, Plant, and Equipment***

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

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

Leases are classified as capital leases or operating leases in accordance with the terms of the underlying lease agreements. Lease payments under operating leases are charged directly to rental

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### Notes to Financial Statements

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expense, and are included in supplies and other expenses in the accompanying consolidated statements of operations.

(s) ***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.

(t) ***Excess of Revenue Over Expenses***

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

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

(u) ***Income Taxes***

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code), and is exempt from Federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital also is exempt from state income tax.

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.

(v) ***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.

(w) ***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

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

#### (x) **Reclassifications**

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

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

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program 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 approximately \$0.6 million and \$2.9 million at September 30, 2015 and 2014, respectively. Third-party payor liabilities included in other current liabilities were approximately \$5.4 million and \$4.0 million at September 30, 2015 and 2014, respectively. Third-party payor liabilities included in other long-term liabilities were approximately \$11.9 million and \$10.9 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 other 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.



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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 27% and 4%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2015 and approximately 29% and 4%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2014. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 35% and 7%, respectively, for the year ended September 30, 2015 and approximately 36% and 6%, 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. In April 2014, the Hospital began participation in the Centers for Medicare & Medicaid Services Bundled Payments for Care Improvement initiative. Under the Bundled Payments for Care Improvement initiative, the Hospital has entered into payment arrangements that include financial and performance accountability for episodes of care.

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 34% from Medicare, 3% from Medicaid, and 63% from nongovernmental payors at September 30, 2015 and 37% from Medicare, 3% from Medicaid, and 60% from nongovernmental payors at September 30, 2014.

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

	<u>2015</u>	<u>2014</u>
Gross revenue at charges	\$ 1,185,801	1,149,849
Deductions:		
Contractual allowances	803,900	772,804
Charity and free care (at charges)	20,563	19,753
Provision for doubtful accounts	12,494	25,085
Net patient service revenue	<u>\$ 348,844</u>	<u>332,207</u>

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### Notes to Financial Statements

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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>Third-party</u>	<u>Self-pay</u>	<u>Total all payors</u>
2015 Patient service revenue (net of contractual allowances and discounts)	\$ 358,448	2,890	361,338
2014 Patient service revenue (net of contractual allowances and discounts)	341,172	16,120	357,292

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

The Hospital's allowance for doubtful accounts totaled approximately \$57.8 million and \$50.0 million at September 30, 2015 and 2014, respectively. The allowance for doubtful accounts for self-pay patients was approximately 71% and 53% of self-pay accounts receivable as of September 30, 2015 and 2014, respectively. Substantially all write-offs are related to self-pay patients.

### (3) Uncompensated Care and Community Benefit Expense

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

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 debt represent uncompensated care. The estimated cost of total uncompensated care is approximately \$12.3 million and \$17.0 million for the years ended September 30, 2015 and 2014, respectively. The estimated cost of uncompensated care is determined by the Hospital's cost accounting system. This analysis calculates the actual percentage of accounts written off or designated as bad debt vs. charity care while taking into account the total costs incurred by the Hospital for each account analyzed.

## **GREENWICH HOSPITAL**

### Notes to Financial Statements

September 30, 2015 and 2014

The estimated cost of charity care and free care provided was approximately \$7.7 million and \$7.5 million for the years ended September 30, 2015 and 2014, respectively. The estimated cost of charity care is determined by the Hospital's cost accounting system.

For the years ended September 30, 2015 and 2014, the provision for bad debt, at charges, was approximately \$12.5 million and \$25.1 million, respectively. For the years ended September 30, 2015 and 2014, bad debt expense, at cost, was approximately \$4.6 million and \$9.5 million, respectively. The provision for bad debt 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, 2015 and 2014, the Hospital received approximately \$0.4 million and \$1.2 million, respectively, in CDSHP distributions, of which approximately \$0.3 million was related to charity care, respectively. The Hospital made payments into the CDSHP of approximately \$14.0 million and \$12.1 million for the years ended September 30, 2015 and 2014, respectively, for the 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 \$0.3 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 \$1.4 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.

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.

**GREENWICH HOSPITAL**

Notes to Financial Statements

September 30, 2015 and 2014

**(4) Investments and Assets Limited as to Use**

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

	<u>2015</u>	<u>2014</u>
Money market funds	\$ 53,125	\$ 58,569
U.S. equity securities	6,475	8,019
International equity securities <sup>(c)</sup>	8,844	10,119
Fixed income:		
U.S. government	76,395	8,003
International government	1,678	1,125
Corporate debt <sup>(a)</sup>	2,040	15,795
Mortgage backed securities <sup>(b)</sup>	—	24
Hedge funds:		
Absolute return <sup>(d)</sup>	2,996	3,126
Long/short equity <sup>(f)</sup>	1,830	640
Commodities	397	652
Private equity <sup>(e)</sup>	1,976	2,154
Perpetual trusts	12,479	14,037
	<u>\$ 168,235</u>	<u>\$ 122,263</u>

(a) Investments consist of PIMCO short-term and total return funds as well as bonds issued by U.S. corporations.

(b) Investments consist of Fannie Mae, Ginnie Mae, and Federal Home Loan Mortgage Corporation Bonds.

(c) Investments with external international equity and bond managers that are domiciled in the U.S. Investment managers may invest in American or Global Depository Receipts (ADR, GDR) or in direct foreign securities.

(d) Investment with external multi-strategy fund of funds manager investing in publicly traded equity and credit holdings which may be long or short positions.

(e) Investments in funds which are directly investing into private companies.

(f) Investments with an external long/short equity fund of funds manager underlying portfolio investments consisting of publicly traded equity positions.

## GREENWICH HOSPITAL

### Notes to Financial Statements

September 30, 2015 and 2014

The Hospital participates in the Yale-New Haven Health System Investment Trust (the Trust), a unitized Delaware Investment Trust created to pool assets for investment by the Health System nonprofit entities. The Hospital's ownership percentage of the Trust was approximately 1.0% and 1.1% as of September 30, 2015 and 2014, respectively.

#### (5) Endowment

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

The Hospital has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment related to the Hospital's beneficial interest in perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by CUPMIFA.

In accordance with CUPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Hospital; and (7) the investment and spending policies of the Hospital. Changes in endowment net assets for the year ended September 30, 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	\$ 46,772	17,514	23,207	87,493
Investment return:				
Investment loss	(877)	(330)	—	(1,207)
Net appreciation (realized and unrealized)	360	65	(1)	424
Total investment return	(517)	(265)	(1)	(783)
Contributions	—	—	388	388
Appropriation of endowment assets for expenditure	(2,820)	(595)	—	(3,415)
Endowment net assets, end of year	\$ 43,435	16,654	23,594	83,683

**GREENWICH HOSPITAL**

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September 30, 2015 and 2014

Changes in endowment net assets for the year ended September 30, 2014 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	\$ 43,011	15,472	22,236	80,719
Investment return:				
Investment (loss) income	(565)	58	—	(507)
Net appreciation (realized and unrealized)	6,874	2,600	46	9,520
Total investment return	6,309	2,658	46	9,013
Contributions	—	—	925	925
Appropriation of endowment assets for expenditure	(2,548)	(616)	—	(3,164)
Endowment net assets, end of year	<u>\$ 46,772</u>	<u>17,514</u>	<u>23,207</u>	<u>87,493</u>

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

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

**GREENWICH HOSPITAL**

Notes to Financial Statements

September 30, 2015 and 2014

**(6) Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at September 30, 2015 and 2014 (in thousands):

	<u>2015</u>	<u>2014</u>
Other specified capital expenditures	\$ 4,389	5,649
Indigent care	9,755	10,065
Indigent care funds held by trustee	10,832	11,918
Specified health care services and operations	10,329	9,868
Education	6,477	6,615
	<u>\$ 41,782</u>	<u>44,115</u>

Permanently restricted net assets are restricted as follows at September 30, 2015 and 2014 (in thousands):

	<u>2015</u>	<u>2014</u>
Principal to be held in perpetuity (held by the Greenwich Hospital Endowment, Inc.), with income expendable to support health care services and other activities (reported as nonoperating gains)	\$ 13,443	13,418
Principal to be held in perpetuity (held by the trustee), with income expendable to support free care programs (reported as an increase in unrestricted net assets)	1,941	1,941
Principal to be held in perpetuity, with income to be spent for restricted purposes as specified by donor (reported as additions to temporarily restricted net assets until released upon satisfaction of restriction)	8,210	7,848
	<u>\$ 23,594</u>	<u>23,207</u>

**(7) Long-Term Debt**

Long-term debt consists of the following at September 30, 2015 and 2014 (in thousands):

	<u>2015</u>	<u>2014</u>
State of Connecticut Health and Educational Facilities Authority Tax Exempt Bonds, Series C (variable interest rates with an average rate of approximately 3.22% for fiscal 2015)	\$ 35,105	37,710
Less current portion	<u>(2,675)</u>	<u>(2,605)</u>
Long-term portion	<u>\$ 32,430</u>	<u>35,105</u>

## GREENWICH HOSPITAL

### Notes to Financial Statements

September 30, 2015 and 2014

On May 6, 2008, the State of Connecticut Health and Educational Facilities Authority (CHEFA) issued approximately \$53.6 million of its Revenue Bonds on behalf of Greenwich Hospital, Series C, consisting of variable rate demand bonds. The proceeds were utilized for the refunding of outstanding revenue bonds. Principal amounts related to the Series C revenue bonds mature annually each July 1 through fiscal 2026.

The Series C bonds are required to be supported by a letter of credit which has been executed with Bank of America. The letter of credit is scheduled to expire in May 2018.

The Hospital maintains the bank letter of credit to ensure the availability of funds to purchase any bonds tendered by bondholders that the remarketing agents are unable to remarket to new bondholders. Draws related to such tenders under the letters of credit will become Bank Bonds. As Bank Bonds, they can still be remarketed by the remarketing agents. If not remarketed successfully as Bank Bonds, the Hospital will have the opportunity to refinance them during a period of 90 days from initial draw date. If the Bank Bonds are not refunded and remain outstanding exceeding such period from initial draw date, the Hospital will be required to make monthly payments over three years. There were no draws under the letter of credit as of September 30, 2015.

For the years ended September 30, 2015 and 2014, the Hospital paid approximately \$0.1 million for interest related to long-term debt, exclusive of the swap agreements.

Aggregate principal and sinking fund payments required by the Hospital for the Series C revenue bonds for fiscal 2016 through fiscal 2020 and thereafter are as follows (in thousands):

Years ending:		
2016	\$	2,675
2017		2,790
2018		2,870
2019		2,970
2020		3,065
Thereafter		<u>20,735</u>
	\$	<u><u>35,105</u></u>

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

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

In connection with its Series C revenue bonds, the Hospital entered into an interest rate swap agreement (the swap) with a financial institution. Under the terms of the swap, the Hospital will receive variable interest payments and pay fixed interest payments on a notional value of approximately \$24.0 million.



## GREENWICH HOSPITAL

### Notes to Financial Statements

September 30, 2015 and 2014

There was a favorable change in fair value of approximately \$0.3 million for the years ended September 30, 2015 and 2014, respectively, which was recorded in excess of revenue over expenses. The terms of the swap agreement have not required the Hospital to collateralize funds to be held by the financial institution as of September 30, 2015 and 2014.

#### (8) Retirement Plan

##### (a) *Defined Contribution Pension Plan*

The Hospital provides a defined contribution pension plan for those employees eligible to participate. The plan contains three separate benefits. The incentive contribution, which is generally available to all nonmanagement employees, is designed to reward employees when the Hospital meets certain predetermined quality and financial measures (if paid, this benefit varies based on service from 1% to 3% of pay). Effective January 1, 2007, a matching contribution, which is generally available to all employees no longer accruing benefits under the defined benefit plan, is designed to provide an incentive to employees to save for retirement by matching employee contributions (employees can receive up to 3% of pay on contributions equal to 5% of pay). The length of service contribution, effective January 1, 2007, which is generally available to all employees no longer accruing benefits under the defined benefit plan, is designed to provide future retirement income that rewards continued service at the Hospital (this benefit varies based on service from 3% to 8% of pay).

In total, the Hospital contributed approximately \$7.2 million and \$5.5 million to the Plan for the years ended September 30, 2015 and 2014, respectively.

##### (b) *Defined Benefit Pension Plan*

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

The Hospital is required to measure plan assets and benefit obligations at a date consistent with its fiscal year-end balance sheet. Included in unrestricted net assets at September 30, 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	\$ (57,579)	(44,837)
Unrecognized prior service cost	—	—
	<u>\$ (57,579)</u>	<u>(44,837)</u>

**GREENWICH HOSPITAL**

Notes to Financial Statements

September 30, 2015 and 2014

The actuarial loss included in unrestricted net assets at September 30, 2015 and expected to be recognized in net periodic benefit cost during the year ending September 30, 2015 is as follows (in thousands):

Unrecognized actuarial loss	\$ <u>7,537</u>
	\$ <u><u>7,537</u></u>

The following table sets forth the change in benefit obligations, change in plan assets and the funded status of the Hospital's plan at September 30, 2015 and 2014 (in thousands):

	<b>2015</b>	<b>2014</b>
Change in benefit obligations:		
Benefit obligation, at prior measurement date	\$ 202,762	179,205
Service cost	2,211	2,298
Interest cost	8,544	8,594
Actuarial loss	3,474	19,811
Benefits paid	(8,024)	(7,146)
Benefit obligation, at current measurement date	208,967	202,762
Change in plan assets:		
Fair value of plan assets, at prior measurement date	171,078	155,325
Actual return on plan assets	(4,074)	17,399
Employer contributions	7,200	5,500
Benefits paid	(8,024)	(7,146)
Fair value of plan assets, at current measurement date	166,180	171,078
Pension liability	\$ (42,787)	(31,684)

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

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets were as follows at September 30, 2015 and 2014 (in thousands):

	<b>2015</b>	<b>2014</b>
Projected benefit obligation	\$ 208,967	202,762
Accumulated benefit obligation	204,656	197,893
Fair value of plan assets	166,180	171,078

**GREENWICH HOSPITAL**

Notes to Financial Statements

September 30, 2015 and 2014

The following table provides the components of the net periodic benefit cost for the Plan for the years ended September 30, 2015 and 2014 (in thousands):

	<u>2015</u>	<u>2014</u>
Service cost	\$ 2,211	2,298
Interest cost	8,544	8,594
Expected return on plan assets	(12,731)	(11,678)
Amortization of prior service cost	—	6
Amortization loss	7,537	4,592
Net periodic benefit cost	<u>\$ 5,561</u>	<u>3,812</u>

The weighted average assumptions used in the measurement of the Hospital's net periodic benefit cost and benefit obligations for the years ended September 30, 2015 and 2014 are shown in the following table:

	<u>Net periodic benefit cost</u>		<u>Benefit obligation</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Discount rate	4.30%	4.90%	4.40%	4.30%
Rate of compensation increase	2.50	3.50	2.50	2.50
Expected rate of return on plan assets	7.75	7.75	—	—

The asset allocation of the Plan at September 30, 2015 and 2014 was as follows:

	<u>2016 Target allocation</u>	<u>2015</u>	<u>2014</u>
Equity securities	46%	46%	55%
Debt securities	21	21	15
Alternative investments	33	33	30
	<u>100%</u>	<u>100%</u>	<u>100%</u>

**GREENWICH HOSPITAL**

Notes to Financial Statements

September 30, 2015 and 2014

The plan assets carried at fair value as of September 30, 2015 are classified in the table below in one of the categories described in note 14 (in thousands):

	<b>Investments measured at NAV</b>	<b>Investments classified in the fair value hierarchy Level 1</b>	<b>Total</b>
Money market funds	\$ —	\$ 13,367	\$ 13,367
U.S. equity securities	23,951	11,889	35,840
International equity securities	35,108	7,153	42,261
Fixed income:			
U.S. government	—	5,401	5,401
Corporate debt	—	15,921	15,921
Commodities	2,694	—	2,694
Hedge funds:			
Absolute return	29,438	—	29,438
Long/short equity	10,453	—	10,453
Private equity	10,805	—	10,805
	<u>\$ 112,449</u>	<u>\$ 53,731</u>	<u>\$ 166,180</u>

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

	<b>Investments measured at NAV</b>	<b>Investments classified in the fair value hierarchy Level 1</b>	<b>Total</b>
Money market funds	\$ —	\$ 1,249	\$ 1,249
U.S. equity securities	40,362	16,004	56,366
International equity securities	29,843	8,297	38,140
Fixed income:			
Corporate debt	—	23,987	23,987
International government	—	—	—
Commodities	4,484	—	4,484
Hedge funds:			
Absolute return	30,083	—	30,083
Long/short equity	4,919	—	4,919
Private equity	11,850	—	11,850
	<u>\$ 121,541</u>	<u>\$ 49,537</u>	<u>\$ 171,078</u>

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.

## GREENWICH HOSPITAL

Notes to Financial Statements

September 30, 2015 and 2014

(c) **Description of Investment Policies and Strategies**

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

The Hospital's pension portfolio return assumption of 7.75% is based on the targeted weighted average return of comparative market indices for the asset classes represented in the portfolio, reduced for administrative expenses. The actual return on assets of the Plan was (2.1%) and 7.3% for the one and five years ended September 30, 2015, respectively.

(d) **Cash Flows**

Contributions: The Hospital expects to make cash contributions of approximately \$3.7 million to the Plan in fiscal 2016.

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

Years ending:	
2016	\$ 8,820
2017	9,613
2018	10,297
2019	11,184
2020	11,863
2021 to 2025	67,553

(9) **Professional Liability Insurance**

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

The estimate for claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$24.1 million and \$32.8 million at September 30, 2015 and 2014, respectively. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately \$8.4 million and \$7.7 million at September 30, 2015 and 2014, respectively, and is included in professional liabilities in the accompanying balance sheets at the actuarially determined

**GREENWICH HOSPITAL**

Notes to Financial Statements

September 30, 2015 and 2014

present value of approximately \$7.6 million and \$6.9 million, respectively, based on a discount rate 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 \$16.5 million and \$25.9 million at September 30, 2015 and 2014, 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.

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

**(10) Commitments and Contingencies**

*Leases*

The Hospital leases various equipment and properties under operating leases and has long-term commitments under service contracts expiring at various dates through fiscal 2019. Expense under such leases and service contracts was approximately \$7.9 million and \$8.3 million for fiscal 2015 and 2014, respectively.

Future minimum lease payments for each of the following three years subsequent to September 30, 2015 under noncancelable operating leases and service contracts are as follows (in thousands):

Years ending:		
2016	\$	6,384
2017		4,714
2018		2,305
Thereafter		<u>15,648</u>
	\$	<u><u>29,051</u></u>

The Hospital has been involved in leasing leased and owned houses and properties to Hospital employees. Expenses for the years ended September 30, 2015 and 2014, under these leases are included in supplies and other expenses. The amounts received from employees relating to these leases are included in other revenue (see note 13).

The Hospital has a leasing arrangement, renewable annually, with an affiliate, Perryridge Corporation, to rent four office buildings (the Cohen Pavilion, 55 Holly Hill Lane, 500 West Putnam Avenue and 2015 West Main Street). Included in supplies and other expenses was approximately \$3.2 million and \$3.5 million for fiscal 2015 and 2014, respectively. It is anticipated that this arrangement will be renewed in the future.

## GREENWICH HOSPITAL

### Notes to Financial Statements

September 30, 2015 and 2014

Effective October 2015, GH entered into a lease for 54,755 sq. ft. located at 260 Long Ridge Road in Stamford, Connecticut for a 12 year term commencing on February 1st, 2017 with two five year renewal options. Management has evaluated the lease, and has determined that the lease will be recorded as an operating lease. The amounts relating to the transaction are included in the above schedule of minimum lease payments.

#### *Litigation*

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

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

#### (11) **Functional Expenses**

Functional expenses related to the Hospital's operating activities for the years ended September 30, 2015 and 2014 are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Health care services	\$ 257,992	228,855
General and administrative	72,767	88,999
	<u>\$ 330,759</u>	<u>317,854</u>

#### (12) **Related-Party Transactions**

The Hospital purchased certain services from YNHHS for the years ended September 30, 2015 and 2014 as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Professional and general liability insurance	\$ 5,199	4,670
Information systems	13,638	13,068
Management services	4,805	4,670
Other support services	26,532	29,633
Hospitalist Program	9,865	9,761
EPIC shared project	3,355	5,035
	<u>\$ 63,394</u>	<u>66,837</u>

## GREENWICH HOSPITAL

### Notes to Financial Statements

September 30, 2015 and 2014

The Hospital has amounts due to YNHSC of approximately \$5.5 million and \$6.8 million, included in accrued expenses and other current liabilities in the accompanying balance sheets, at September 30, 2015 and 2014, respectively.

During the years ended September 30, 2015 and 2014, the Hospital transferred approximately \$8.8 million and \$11.6 million, respectively, related to operations to GHCS.

#### (13) Supplemental Operating Data

Other revenue consisted of the following (in thousands):

	Year ended September 30	
	2015	2014
Foundation distributed income	\$ 2,820	2,532
Pathology services	—	4,104
Cafeteria and vending	1,170	1,173
Greenwich Ambulatory Surgery Center Joint Venture	1,739	1,499
Net assets released from restrictions for operations	4,783	3,010
Invitro fertilization	—	1,295
Electronic health record incentive payment	696	1,190
Other	3,185	3,045
	<u>\$ 14,393</u>	<u>17,848</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 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 Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received. Medicare EHR incentive payment revenue was approximately \$0.7 million and \$1.1 million for the years ended September 30, 2015 and 2014, respectively, and Medicaid EHR incentive payment revenue was approximately \$0.1 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.



**GREENWICH HOSPITAL**

Notes to Financial Statements

September 30, 2015 and 2014

EHR incentive payment revenue is included in other revenue in the accompanying statements of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

Other nonoperating gains and losses, net for the years ended September 30, 2015 and 2014 consisted of the following (in thousands):

	<b>2015</b>	<b>2014</b>
Income from Foundation operations, primarily investment income and net realized gains	\$ 4,496	1,464
Less Foundation income distributed to the Hospital included in other revenue	(2,820)	(2,532)
	1,676	(1,068)
Unrestricted contributions	2,760	2,412
Interest and investment income	1,937	718
Fundraising expenses	(2,994)	(2,660)
Community Health at Greenwich Hospital	(643)	(729)
Net assets released from restrictions used for nonoperating activities, net	107	—
	\$ 2,843	(1,327)

Contributions received consisted of the following (in thousands):

	<b>2015</b>	<b>2014</b>
Unrestricted contributions	\$ 2,760	2,412
Temporarily restricted contributions	4,970	7,074
Permanently restricted contributions	388	925
Total contributions	8,118	10,411
Less fundraising costs	2,994	2,660
	\$ 5,124	7,751

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

**(14) Fair Value Measurements**

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

**GREENWICH HOSPITAL**

Notes to Financial Statements

September 30, 2015 and 2014

ASC 820-10, *Fair Value Measurements*, establishes a valuation hierarchy for fair value disclosure purposes. This hierarchy is based on the transparency of the inputs utilized for the valuation. The levels are defined as follows:

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

Financial assets and liabilities carried at fair value as of September 30, 2015 are classified in the table below in one of the categories described above (in thousands):

	<b>Investments Measured at NAV</b>	<b>Investments classified in the fair value hierarchy</b>		<b>Total</b>
	<u>NAV</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Cash and cash equivalents	\$ —	\$ 26,854	\$ —	\$ 26,854
Money market funds	—	53,125	—	53,125
U.S. equity securities	4,369	2,106	—	6,475
International equity securities	7,114	1,730	—	8,844
Fixed income:				
U.S. government	6,965	69,430	—	76,395
Corporate debt	—	2,040	—	2,040
International government	826	851	—	1,677
Commodities	—	397	—	397
Real estate	—	—	—	—
Hedge funds:				
Absolute return	2,996	—	—	2,996
Long/short equity	1,830	—	—	1,830
Private equity	1,976	—	—	1,976
Perpetual trusts	14,148	—	—	14,148
	<u>40,224</u>	<u>156,533</u>	<u>—</u>	<u>196,757</u>
Total investments as of September 30, 2015	\$ <u>40,224</u>	\$ <u>156,533</u>	\$ <u>—</u>	\$ <u>196,757</u>
Liabilities:				
Interest rate swap	\$ —	\$ —	\$ (4,108)	\$ (4,108)

**GREENWICH HOSPITAL**

Notes to Financial Statements

September 30, 2015 and 2014

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

	Investments Measured at NAV	Investments classified in the fair value hierarchy		Total
		Level 1	Level 2	
Cash and cash equivalents	\$ —	\$ 43,811	\$ —	\$ 43,811
Money market funds	—	58,569	—	58,569
U.S. equity securities	5,063	2,956	—	8,019
International equity securities	8,227	1,892	—	10,119
Fixed income:				
U.S. government	4,024	3,979	—	8,003
Corporate debt	—	15,795	—	15,795
International government	558	566	—	1,124
Mortgage backed securities	—	24	—	24
Commodities	652	—	—	652
Real estate	—	—	—	—
Hedge funds:				
Absolute return	3,126	—	—	3,126
Long/short equity	640	—	—	640
Private equity	2,154	—	—	2,154
Perpetual trusts	15,984	—	—	15,984
Total investments as of September 30, 2014	\$ 40,428	\$ 127,592	\$ —	\$ 168,020
Liabilities:				
Interest rate swap	\$ —	\$ —	\$ (3,817)	\$ (3,817)

The fair value of long-term debt was approximately \$32.4 million and \$35.1 million at September 30, 2015 and 2014, 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.

**GREENWICH HOSPITAL**

Notes to Financial Statements

September 30, 2015 and 2014

The following is a summary of total investments as of September 30, 2015, with restrictions to redeem the investments at the measurement date, any unfunded capital commitments and investment strategies of the investees (in thousands):

<u>Description of investment</u>	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Private equity	\$ 1,976	4,150	N/A	N/A
Hedge funds:				
Absolute return	3,135	N/A	N/A	N/A
Long/short equity	1,830	N/A	N/A	N/A
Global equity	9,210	N/A	30 days	2 years
Total	<u>\$ 16,151</u>			

**(15) Subsequent Events**

Management has evaluated subsequent events through December 23, 2015, which is the date the financial statements were issued. No events have occurred that require disclosure to or adjustment of the financial statements.