YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

Consolidated Financial Statements
and Supplementary Information

September 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

Table of Contents

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

Independent Auditors' Report

The Board of Trustees
Yale-New Haven Hospital and Subsidiaries:

We have audited the accompanying consolidated financial statements of Yale-New Haven 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 audit. 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 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 2015 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yale-New Haven 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 Yale-New Haven 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

YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

Consolidated Balance Sheets

September 30, 2015 and 2014

(In thousands)

Assets		**2015**	**2014**
Current assets:			
Cash and cash equivalents	$	103,628	69,250
Short-term investments		980,087	926,024
Accounts receivable for services to patients, less allowance for uncollectible accounts of approximately $196,203,000 in 2015 and $171,491,000 in 2014		293,352	264,671
Other receivables		35,074	33,771
Professional liabilities insurance recoveries receivable – current portion		19,852	18,968
Other current assets		75,554	72,597
Amounts on deposit with trustee in debt service fund		4,786	4,394
Total current assets		1,512,333	1,389,675
Assets limited as to use		96,888	124,869
Long-term investments		289,434	263,938
Deferred financing costs, less accumulated amortization		8,909	9,285
Professional liabilities insurance recoveries receivable – noncurrent		57,025	49,433
Goodwill		44,774	44,818
Other assets		169,842	172,823
Property, plant and equipment:			
Land and land improvements		50,200	42,308
Buildings and fixtures		1,158,500	1,151,698
Equipment		473,907	458,802
		1,682,607	1,652,808
Less accumulated depreciation		817,100	754,130
		865,507	898,678
Construction in progress		80,774	27,576
		946,281	926,254
Total assets	$	3,125,486	2,981,095

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets		2015	2014
Current liabilities:			
Accounts payable	$	150,298	153,601
Accrued expenses		202,062	181,555
Professional liabilities – current portion		19,852	18,968
Other current liabilities		59,087	36,290
Current portion capital lease obligation		2,003	2,963
Current portion of debt		8,083	7,626
Total current liabilities		441,385	401,003
Long-term debt, net of current portion		800,348	802,124
Long-term capital lease obligation, net of current portion		46,850	50,838
Accrued pension and postretirement benefit obligations		228,810	231,477
Professional liabilities – noncurrent		96,778	115,868
Other long-term liabilities		246,389	215,877
Deferred revenue		42,720	44,378
Total liabilities		1,903,280	1,861,565
Net assets:			
Unrestricted		1,102,351	1,017,424
Temporarily restricted		70,941	64,318
Permanently restricted		46,886	35,906
Total Yale-New Haven Hospital and Subsidiaries net assets		1,220,178	1,117,648
Noncontrolling interest		2,028	1,882
Total net assets including noncontrolling interest		1,222,206	1,119,530
Commitments and contingencies			
Total liabilities and net assets	$	3,125,486	2,981,095

YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2015 and 2014

(In thousands)

		2015	2014
Operating revenue:			
Net patient service revenue	$	2,540,863	2,448,983
Less provision for bad debts, net		(50,382)	(72,829)
Net patient service revenue, less provision for bad debts, net		2,490,481	2,376,154
Other revenue		64,677	60,453
Total operating revenue		2,555,158	2,436,607
Operating expenses:			
Salaries and benefits		1,070,626	1,050,746
Supplies and other		1,214,194	1,096,590
Depreciation		120,235	124,012
Insurance		17,162	8,275
Interest		20,826	24,002
Total operating expenses		2,443,043	2,303,625
Income from operations		112,115	132,982
Nonoperating gains (losses), net:			
Income from investments, donations and other, net		23,623	79,111
Change in fair value of swap, including counterparty payments		(28,248)	(16,357)
Loss on refunding of long-term debt		—	(32,631)
Excess of revenue over expenses, before noncontrolling interest		107,490	163,105
Less income attributable to noncontrolling interest		(1,674)	(2,320)
Excess of revenue over expenses		105,816	160,785
Other changes in unrestricted net assets:			
Other changes in net assets		(516)	135
Transfer to Yale-New Haven Health Services Corporation – Mission Support		(12,516)	(14,042)
Transfer to Yale-New Haven Health Services Corporation		—	(25,000)
Net assets released from restrictions for purchases of fixed assets		4,515	1,502
Pension related changes other than net periodic benefit cost		(12,372)	(44,799)
Increase in unrestricted net assets	$	84,927	78,581

YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets, Continued

Years ended September 30, 2015 and 2014

(In thousands)

	2015	2014
Temporarily restricted net assets:		
Income from investments	$ 298	298
Net realized gains on investments	297	583
Change in net unrealized gains and losses on investments	2,354	6,481
Bequests and contributions	17,989	7,457
Net assets released from restrictions for	—	
purchases of fixed assets	(3,123)	(1,502)
Net assets released from restrictions for free care	(596)	(613)
Net assets released from restrictions for operations	(9,854)	(3,099)
Net assets released from restrictions for clinical programs	(881)	(5,269)
Other	139	—
Increase in temporarily restricted net assets	6,623	4,336
Permanently restricted net assets:		
Bequests and contributions	13,654	3,492
Change in beneficial interest in perpetual trusts	(1,282)	5,259
Net assets released from restrictions for purchases of fixed assets	(1,392)	—
Increase in permanently restricted net assets	10,980	8,751
Noncontrolling interest:		
Income attributable to noncontrolling interest	1,674	2,320
Distributions to noncontrolling interest	(1,528)	(2,821)
	146	(501)
Increase in net assets	102,676	91,167
Net assets at beginning of year	1,119,530	1,028,363
Net assets at end of year	$ 1,222,206	1,119,530

See accompanying notes to consolidated financial statements.

YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2015 and 2014

(In thousands)

		2015	2014
Operating activities:			
Increase in net assets	$	102,676	91,167
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation		120,235	124,012
Net realized and change in net unrealized gains and losses on investments		(25,530)	(87,505)
Change in fair value of interest rate swap agreements		18,283	1,803
Amortization of long-term debt premium		(2,002)	(1,192)
Amortization of deferred financing costs		376	329
Provision for bad debts, net		50,382	72,829
Loss on refunding of long-term debt		—	32,631
Change in perpetual trusts		(255)	(5,258)
Transfer to Yale-New Haven Health Services Corporation		12,516	39,042
Bequests, and contributions, net of pledges		(30,557)	(10,949)
Pension related changes other than net periodic benefit cost		12,372	44,799
Changes in operating assets and liabilities:			
Accounts receivable, net		(79,063)	(98,599)
Other receivables		(1,303)	14,023
Other assets		68	(381)
Accounts payable		(3,303)	(1,884)
Accrued expenses		20,507	9,724
Professional insurance recoveries and liabilities		(26,682)	(2,086)
Other current liabilities, accrued pension and postretirement benefit obligations, other long-term liabilities, and deferred revenue		18,329	50,792
Net cash provided by operating activities		187,049	273,297
Investing activities:			
Net acquisitions of property, plant and equipment		(140,262)	(96,716)
Capitalized interest		—	190
Net purchases of investments		(135,862)	(178,622)
Net sales of investments		81,833	—
Debt service fund		(392)	2,782
Assets limited as to use		28,236	(35,516)
Transfer to Yale-New Haven Health Services Corporation		(12,516)	(39,042)
Net cash used in investing activities		(178,963)	(346,924)
Financing activities:			
Proceeds from issuance of long-term debt		—	578,670
Proceeds from notes payable		8,345	
Payments on capital lease obligations		(4,948)	(2,598)
Payments of long-term debt		(7,626)	(484,157)
Payments of notes payable		(36)	—
Cost of issuance of long-term debt		—	(6,299)
Bequests, and contributions, net of pledges		30,557	10,949
Net cash provided by financing activities		26,292	96,565
Net increase in cash and cash equivalents		34,378	22,938
Cash and cash equivalents at beginning of year		69,250	46,312
Cash and cash equivalents at end of year	$	103,628	69,250

See accompanying notes to consolidated financial statements.

(1) Organization and Significant Accounting Policies

(a) Organization

Yale-New Haven Hospital, Inc. (the Hospital or Y-NHH) is a voluntary association incorporated under the General Statutes of the State of Connecticut.

Y-NHH is the parent of the following and together form Yale-New Haven Hospital & Subsidiaries:

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

Yale-New Haven Ambulatory Services Corporation and Subsidiaries (ASC), a Connecticut nonstock, taxable corporation, is a wholly owned subsidiary of Y-NHH, and is 51% owner of Shoreline Surgery Center, LLC (SSC) and SSC II, LLC.

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

Caritas Insurance Company, Ltd. (Caritas) is a Vermont-domiciled, captive insurance company licensed under Chapter 141 of Title 8 of the Vermont Statutes Annotated. Caritas is a tax-exempt supporting organization having the Hospital as its sole shareholder. Caritas provides excess professional liability coverage and general liability coverage. Prior to the 2012 acquisition of the stock of Caritas by Y-NHH from the Hospital of Saint Raphael (HSR), Caritas was a wholly owned subsidiary of HSR. Caritas was dissolved on December 15, 2014 and the insurance liabilities were transferred to Medical Centre Insurance Company, Ltd (see note 9).

Lukan Indemnity Company, Ltd. (Lukan) is a Bermuda-domiciled captive insurance company that provides primary professional liability coverage. Prior to the 2012 acquisition of the stock of Lukan by Y-NHH from HSR, Lukan was a wholly owned subsidiary of HSR. Lukan was dissolved on March 31, 2015 and the insurance liabilities were transferred to Medical Centre Insurance Company, Ltd (see note 9).

Yale-New Haven Health Services Corporation (YNHHSC) is the sole member of Y-NHH. Y-NHH 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.

YNHHSC is the sole member of two similar organizations, Bridgeport Hospital (BH) 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, YNHH, Yale-New Haven Care Continuum Corporation, Bridgeport Hospital, the Bridgeport Hospital 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 by-laws 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 (the Board) 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.

(b) Acquisitions

On June 1, 2014, NEMG and YNHHSC acquired certain assets of PriMed, LLC (PriMed), a physician practice for approximately $54.2 million. YNHHSC contributed the entire purchase price, of which $25 million was transferred from the Hospital to YNHHSC. PriMed is a multi-specialty group of approximately 120 providers in 36 locations across Fairfield County and New Haven County, Connecticut. PriMed also is the sole member of a gastroenterology surgery center, the Fairfield County Endoscopy Center, and offers a number of ancillary services, such as a sleep laboratory, cardiac diagnostic testing, physical therapy and nutritional counseling. Under the terms of the transaction, NEMG and YNHHSC acquired substantially all the assets of PriMed and a 40% interest in the gastroenterology surgery center.

On October 11, 2013, the Hospital purchased 100% controlling interest of Saint Raphael Magnetic Resonance Center (SRMP) for approximately $7.4 million. Prior to the purchase of this practice by the Hospital, the controlling interest in SRMP was owned through a 50/50 joint venture between ASC and Medical Imaging Associates, P.C. ASC transferred its 50% ownership to the Hospital. In connection with this transaction, the Hospital recorded goodwill in the amount of $5.9 million.

(c) Principles of Consolidation

The accompanying consolidated financial statements present the accounts and transactions of the Hospital and its wholly owned subsidiaries. All significant intercompany revenue and expenses and intercompany balance sheet accounts have been eliminated in consolidation.

(d) Use of Estimates

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

During the year ended September 30, 2015 the Hospital recorded a change in estimate of approximately $17.6 million related to favorable third-party payor settlements and during the year ended September 30, 2014 the Hospital recorded a change in estimate of approximately $8.9 million related to unfavorable third-party payor settlements.

(e) 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 in perpetuity. The Hospital is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value. The investment income generated from these trusts is unrestricted and the assets are classified as permanently restricted by the donor.

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

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

(Continued)

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

		September 30	
		2015	**2014**
Less than one year	$	3,182	3,979
One to five years		947	1,285
		4,129	5,264
Less unamortized discount on contributions receivable (0.1% to 4.2%)		(38)	(52)
		4,091	5,212
Allowance for uncollectible contributions		(123)	(156)
	$	3,968	5,056

(f) 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.

(g) Cash and Cash Equivalents

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

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.

(h) 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.

(Continued)

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.

(i) Loan Receivable

In September 2014, the Hospital entered into a term loan agreement as part of a transaction with a health care provider more fully described in note 10. The term-loan agreement has a term that coincides with an agreement for the Hospital to lease an Inpatient Rehabilitation Unit (IRU). The term of the IRU Lease Agreement is five years and provides the Hospital with two five year renewal options at the end of each term.

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

(j) 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 consolidated balance sheets.

Certain alternative investments (nontraditional, not-readily marketable assets) are structured such that the Hospital holds limited partnership interests or pooled units and are accounted for utilizing net asset value per unit for measurement of the units' fair value. Individual investment holdings within the alternative investments may, in turn, include investments in both non-marketable and market-traded securities. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. The equity method reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose the Hospital to securities lending, short sales of securities, and trading in futures and forwards contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, the Hospital's risk with respect to such transactions is limited to its capital balance in each investment. The financial statements of the investees are audited annually by independent auditors. Future funding commitments for alternative investments aggregated approximately $2.3 million at September 30, 2015.

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 on 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 Yale University (the University) investment office (the Investment Management Agreement) which allows the University to manage a portion of the Trust's investments as part of the University's Endowment Pool (the Pool). 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 end of June 30.

In March 2006, the Hospital entered into an arrangement with the University whereby the University will manage certain Board-designated assets of the Hospital. These Board-designated assets are commingled in the University's endowment pool. At September 30, 2015 and 2014, the carrying value of assets managed by the University under this arrangement was approximately $10.6 million and $10.4 million, respectively. Because of the limitations on their use, the assets are separately classified from assets invested under the Investment Management Agreement.

In 2011, the investment management agreement between the Trust and the University was modified to allow the Trust to obtain a cash advance, up to a maximum of $75 million, on a monthly basis. For these advances interest of U.S. Prime rate, plus 2% will be paid by the Trust. Repayments on the advances are made by the Trust by way of redemptions of a sufficient number of Trust's units in the Endowment using the June 30 unit valuation. No advances have been requested or taken by the Trust.

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

(k) Inventories

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

(l) Assets Limited as to Use

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

(m) 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 revenue at the dates the trusts are established. Beneficial interest in perpetual trusts is recorded as permanently restricted net assets and is adjusted for any changes in the fair value of the trusts. Income distributions received from the trusts are recorded as temporarily restricted contributions when received.

(n) 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.

(o) Benefits and Insurance

The Hospital is effectively self-insured for medical, hospitalization, dental and prescription drug benefits provided to employees and has a stop loss arrangement to limit exposure for these self-insured benefits. The Hospital makes annual contributions to the YNHHSC Voluntary Employee Beneficiary Association (VEBA) plan to fund medical, dental, hospitalization, group term life insurance and prescription drug benefits. Annually, premiums are set to reflect the estimated cost of benefits. During the years ended September 30, 2015 and 2014, the Hospital made actuarially determined contributions, net of premium adjustments, to the VEBA plan of approximately $135.3 million and $138.7 million, respectively.

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 claims incurred but not reported (IBNR) and are based on the Hospital specific experience. At September 30, 2015 and 2014, the estimated discounted liabilities for self-insured workers' compensation claims and IBNR aggregated approximately $23.5 million, discounted at 2.0%, and $21.3 million, discounted at 2.5%, respectively, and are included in accrued expenses in the accompanying balance sheets.

(p) Professional Liability Insurance

The Hospital participates in the YNHHSC coordinated professional liability program. Based on the terms of the agreement with YNHHSC, the Hospital records the actuarially determined liabilities for incurred but not reported professional and general liabilities and has recorded a deposit (asset) for liabilities transferred in the year ended September 30, 1998.

(q) Property, Plant and Equipment

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

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

(r) 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, 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.

(s) Deferred Revenue

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

(t) 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.

(u) Excess of Revenue over Expenses

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

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

(v) Income Taxes

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

ASC and York are subject to federal and state corporate income taxes. Deferred income taxes are provided on temporary differences between financial statement and tax reporting. The provision for income taxes and deferred taxes are not material to the consolidated financial statements.

(w) Operating Expenses

The Hospital records amounts received from the University, area hospitals and other local healthcare providers for costs incurred on behalf of those organizations as reductions to expenses. These costs consist mainly of salaries and benefits. For the years ended September 30, 2015 and 2014, the Hospital recorded approximately $55.0 million and $60.5 million, respectively, as reductions to expenses.

(x) Deferred Financing Costs

The Hospital capitalizes costs incurred in connection with the issuance of long-term debt and amortizes these costs over the life of the respective obligations using the effective interest method. The accumulated deferred financing cost was approximately $0.6 million and $0.2 million at September 30, 2015 and 2014, respectively.

(y) 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.

(z) New Accounting Pronouncements

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, 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.

(aa) 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.

(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 $2.9 million and $0.9 million at September 30, 2015 and 2014, respectively. Third-party payor liabilities included in other current liabilities were $52.3 and $36.2 million at September 30, 2015 and 2014, respectively. Third-party payor liabilities included in other long-term liabilities were $44.1 million and $47.4 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 consolidated balance sheets. Additionally, certain payors' payment rates for various years have been appealed by Y-NHH. If the appeals are successful, additional income applicable to those years might be realized. In April, 2014, YNHHS began participation in the Centers for Medicare & Medicaid Services Bundled Payments for Care Improvement initiative. Under the Bundled Payments for Care Improvement initiative, YNHHS has entered into payment arrangements that include financial and performance accountability for episodes of care.

Revenue from Medicare and Medicaid programs accounted for approximately 30% and 11%, respectively, of Y-NHH's net patient service revenue for the year ended September 30, 2015, and approximately 33% and 11%, respectively, of Y-NHH's net patient service revenue for the year ended September 30, 2014. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 36% and 28%, respectively for the years ended September 30, 2015, and 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.

Y-NHH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing except as disclosed in note 10. 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 Y-NHH. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement for various years ranging through 2012 for Medicare and through 2013 for Medicaid. Other years remain open for settlement.

The significant concentrations of accounts receivable for services to patients include 37% from Medicare, 17% from Medicaid, and 46% from nongovernmental payors at September 30, 2015, and 36% from Medicare, 14% from Medicaid, and 50% 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):

		2015	2014
Gross revenue from patients	$	8,833,384	8,501,209
Deductions:			
Contractual allowances		6,165,563	5,922,235
Charity and free care (at charges)		126,956	129,991
Provision for doubtful accounts		50,394	72,829
Net patient service revenue	$	2,490,471	2,376,154

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:

		2015	2014
Third party	$	2,460,636	2,350,870
Self-pay		80,227	98,113
Total all payors	$	2,540,863	2,448,983

Deductibles and copayments under third-party payment programs within the third-party payor amount above are the patient's responsibility and Y-NHH 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, Y-NHH 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.

Y-NHH's allowance for doubtful accounts totaled approximately $196.2 million and $171.5 million at September 30, 2015 and 2014, respectively. The allowance for doubtful accounts for self-pay patients was approximately 65.1% and 88.5% 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

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

Y-NHH makes available free care programs for qualifying patients. In accordance with the established policies of Y-NHH, during the registration, billing and collection process a patient's eligibility for free care funds is determined. For patients who were determined by Y-NHH to have the ability to pay but did not, the uncollected amounts are the provision for bad debts. For patients who do not avail themselves of any free care program and whose ability to pay cannot be determined by Y-NHH, 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 $114.4 million and $132.4 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 and free care provided was $82.4 million and $85.3 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. The allocation between the provision for bad debts 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.

For the years ended September 30, 2015 and 2014, the provision for bad debts, at charges, was $50.4 million and $72.8 million, respectively. For the years ended September 30, 2015 and 2014, the provision for bad debts, was $32.0 million and $47.1 million, respectively. The provision for bad debts 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 $9.3 million and $26.6 million, respectively, in CDSHP distributions, of which approximately $6.7 million and $17.1 million, respectively was related to charity care. Y-NHH made payments into the CDSHP of $89.3 million and $73.5 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 $6.8 million for the period July 1, 2015 to September 30, 2015 and the funding has been eliminated for state fiscal year 2016 in the amount of $27.2 million.

Additionally, Y-NHH provides benefits for the broader community which includes services provided to other needy populations that may not qualify as indigent 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 nonEnglish speaking residents, disabled children, and various community support groups. Y-NHH voluntarily assists with the direct funding of several City of New Haven programs, including an economic development program and a youth initiative program.

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

(4) Investments and Assets Limited as to Use

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

	September 30	
	2015	2014
Money market funds	$ 50,943	$ 129,823
U.S. equity securities	70,490	59,186
U.S. equity securities – common collective trusts	—	—
International equity securities[(a)]	64,440	70,671
Fixed income:		
U.S. government	296,416	258,126
U.S. government – common collective trusts	—	—
International government[(b)]	84,944	77,706
Commodities	82	122
Hedge funds:		
Absolute return[(c)]	10,554	10,304
Real estate[(d)]	6,781	9,628
Interest in Yale University endowment pool[(e)]	768,495	685,862
Perpetual trusts[(f)]	18,050	17,797
Total	$ 1,371,195	$ 1,319,225

(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 (ADR, GDR) or in direct foreign securities.

(b) Investments with external commodities futures manager.

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

(d) Investments with external direct real estate managers and fund of funds managers. Investment vehicles include both closed end REITs and limited partnerships.

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

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

Y-NHH's ownership percentage of the Trust was approximately 88.6%, or $1.3 billion, and 90.5% or $1.2 billion, as of September 30, 2015 and 2014, respectively. Y-NHH's prorata portion of the Trust's investments are included above in the table.

(5) Endowment

Y-NHH'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.

Y-NHH 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, Y-NHH 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 Y-NHH's beneficial interest in perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time of the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Y-NHH in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, Y-NHH 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 Y-NHH 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 Y-NHH; and (7) the investment and spending policies of Y-NHH.

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

		Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	36,239	35,906	72,145
Investment return:				
Investment income		248	—	248
Net appreciation (realized and unrealized)		2,306	—	2,306
Total investment return		2,554	—	2,554
Contributions		4,976	13,654	18,630
Appropriation of endowment assets for expenditure		(5,223)	(1,392)	(6,615)
Other changes:				
Change in value of beneficial interest trusts		—	(1,282)	(1,282)
Endowment net assets, end of year	$	38,546	46,886	85,432

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

		Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$	36,106	27,155	63,261
Investment return:				
Investment income		213	—	213
Net appreciation (realized and unrealized)		5,818	—	5,818
Total investment return		6,031	—	6,031
Contributions		—	3,493	3,493
Appropriation of endowment assets for expenditure		(5,898)	—	(5,898)
Other changes:				
Change in value of beneficial interest trusts		—	5,258	5,258
Endowment net assets, end of year	$	36,239	35,906	72,145

		September 30 2015	September 30 2014
		(In thousands)	
The portion of perpetual endowment funds subject to a time restriction under CUPMIFA:			
Without purpose restrictions	$	8,666	8,357
With purpose restrictions		29,880	27,882
Total endowment funds classified as temporarily restricted net assets	$	38,546	36,239

(a) Return Objectives and Risk Parameters

Y-NHH has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under these policies, as approved by the Board, 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, Y-NHH 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). Y-NHH 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

Y-NHH 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 5.25% of the current market value of the endowment fund. In establishing this policy, Y-NHH considered the long-term expected return on its endowment.

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

(6) Temporarily and Permanently Restricted Net Assets

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

		September 30	
		2015	**2014**
Plant improvement and expansion	$	17,712	13,005
Specific hospital operations, teaching, research, free care and training		53,229	51,313
	$	70,941	64,318

Permanently restricted net assets of approximately $46.9 million and $35.9 million at September 30, 2015 and 2014, respectively, consist of donor restricted endowment principal and beneficial interests in perpetual trusts. The income generated from permanently restricted funds is expendable for purposes designated by donors, including research, free care, health care and other services.

(7) Debt

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

		September 30	
		2015	**2014**
Intercompany debt with YNHHSC:			
Series N, 4.27% effective interest rate (a)	$	44,815	44,815
Series O, 2.84% effective interest rate (a)		50,000	50,000
Series A, 3.77% effective interest rate (c)		102,300	102,300
Series B, 2.30% effective interest rate (c)		168,275	168,275
Series C, 3.11% effective interest rate (d)		77,235	83,625
Series D, 3.68% effective interest rate (d)		108,275	108,275
Series E, 3.47% effective interest rate (e)		43,728	44,963
Series 2013 taxable bonds – 4.13% effective rate (b)		132,000	132,000
Series 2014 taxable bonds – 4.37% effective rate (f)		50,725	50,725
Note payable, 5.46% effective interest rate (g)		8,309	—
Capital lease obligation at an imputed interest of 6.0%, (Y-NHH) (h)		48,853	50,682
Capital lease obligations at varying rates of imputed interest rate of 6.25% collateralized by leased equipment (York)		—	3,119
		834,515	838,779
Add premium		22,769	24,772
Less current portion		(10,086)	(10,589)
	$	847,198	852,962

(a) In January 2013, the Hospital issued Series N and Series O revenue bonds totaling approximately $100.0 million. The Series N revenue bonds were issued as fixed rate bonds with an effective interest rate of 4.27%. The Series O revenue bonds were issued as VRDBs with an effective interest rate of 2.84%. The proceeds, including a premium of approximately $5.2 million for the Series N revenue bonds, were used to refinance a line of credit. The bond premium is being amortized as interest expense in the statement of operations and changes in net assets.

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

(c) In June 2014, the Obligated Group issued Series A revenue bonds totaling approximately $102.3 million and Series B revenue bonds totaling approximately $168.3 million. The Series A revenue bonds were issued as fixed rate bonds with an effective interest rate of 3.77%. The Series B revenue bonds were issued as floating rate notes with an effective interest rate of 2.30%. The proceeds from the Series A revenue bonds, including a premium of approximately $14.8 million, and the proceeds from the Series B revenue bonds, were used to defease certain existing indebtedness. The bond premium is being amortized as interest expense using the effective interest method in the consolidated statement of operations and changes in net assets.

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

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

(e) 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. Of the proceeds, $50 million were used to finance costs for the installation of machinery and equipment and various renovations and improvements to the Hospitals' infrastructure. The remaining proceeds were used by BH. The premium is being amortized and included in capitalized interest. Upon completion of these projects, the bond premium will be amortized as interest expense in the consolidated statement of operations and changes in net assets.

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

The Series C, Series D and Series O VRDBs are required to be supported by letter of credit facilities (LOCs) which have been executed with three financial institutions. These LOCs are scheduled to expire on December 31, 2017, June 23, 2017 and February 14, 2018, respectively.

The Hospital maintains the bank letters 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, depending upon which bond series, during a period of from 180 to 367 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 quarterly payments over five years. There were no draws under the letters of credit as of September 30, 2015.

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

Sinking fund installment amounts are to be made in accordance with the Series A, B, C, D, E, N and O financing agreements. Required monthly payments on the revenue bonds by the Hospital to a trustee are in amounts sufficient to provide for the payments of principal, interest and sinking fund installments, in accordance with the terms of the agreements and certain other annual costs of CHEFA.

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

In connection with the formation of the Obligated Group the Series A, B, C, D, E, N and O tax-exempt bonds and the Series 2013 and 2014 taxable bonds became an obligation of the Obligated Group and as such are reflected as intercompany debt with YNHHSC. Under the terms of the Master Indenture all members of the Obligated Group are jointly and severally liable for debt issued by YNHHSC on behalf of the Obligated Group.

(Continued)

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

		Debt	Capital lease obligations
2016	$	8,084	4,879
2017		16,363	4,879
2018		8,493	4,879
2019		9,957	4,880
2020		10,332	5,062
Thereafter		732,433	48,988
	$	785,662	73,567
Less interest			(24,714)
Total capital lease obligations		$	48,853

Capitalized interest at September 30, 2015 and 2014, totaled $30.9 million and $29.9 million, respectively.

YNHHSC, on behalf of the Obligated Group, has entered into interest rate swap agreements with financial institutions related to the Obligated Group's Series B, Series C and Series D debt.

The swap agreements fix the interest rate at a level viewed as desirable by the Hospital. Such agreements expose the Hospital to credit risk in the event of nonperformance by the counterparties, some of which is collateralized. At September 30, 2015 and 2014, the fair value of all swap agreements based on current interest rates was approximately $50.6 million and $32.3 million, respectively, representing a payable to the counterparties (recorded in other long-term liabilities).

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

Swap type	Expiration date	Hospital receives	Hospital pays		Notional amount at September 30 2015	Notional amount at September 30 2014
Series O – Fixed to Floating	July 1, 2053	67% of LIBOR	2.84%	$	50,000	50,000
Series B – Fixed to Floating	July 1, 2049	67% of LIBOR	2.31%		100,965	100,965
Series B – Fixed to Floating	July 1, 2049	LIBOR	2.29%		67,310	67,310
Series C – Fixed to Floating	July 1, 2025	LIBOR	3.11%		51,592	55,861
Series D – Fixed to Floating	July 1, 2036	LIBOR	3.68%		44,505	44,505
				$	314,372	318,641

For the Series O swap, there was an unfavorable change in fair value of $0.7 million and $0.6 million for the years ended September 30, 2015 and 2014, respectively, which was recorded in excess of revenue over expenses. No collateral was required under the Series O swap agreement for the years ended September 30, 2015 and 2014.

In June 2014, YNHHSC, on behalf of the Obligated Group, entered into LIBOR swap rate locks with two counter parties (the Series B swaps). For the Series B swaps, there was an unfavorable change in fair value of $13.2 million and $7.1 million for the years ended September 30, 2015 and 2014, respectively, which was recorded in excess of revenue over expenses. No collateral was required under the Series B swap agreements for the years ended September 30, 2015 and 2014.

For the Series C swap, there was a favorable change in fair value of approximately $0.5 million and $1.0 million, respectively, for the years ended September 30, 2015 and 2014, which was recorded in the excess of revenue over expenses. No collateral was required under the Series C swap agreement for the years ended September 30, 2015 and 2014.

For the Series D swap, there was an unfavorable change in fair value of approximately $4.2 million and $2.2 million for the years ended September 30, 2015 and 2014, respectively, which was recorded in the excess of revenue over expenses. No collateral was required under the Series L/D swap agreement for the years ended September 30, 2015 and 2014.

For the years ended September 30, 2015 and 2014, the Hospital paid approximately $20.3 million and $22.8 million, respectively, for interest related to long-term debt, exclusive of the swap agreements.

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

In January 2013, the Hospital entered into a transaction in connection with a building at 2 Howe Street, New Haven, Connecticut which was previously accounted for by the Hospital as a capital lease. Under the terms of the capital lease, the Hospital was obligated to purchase the building after an initial lease term of 3 years. In satisfaction of that obligation, the Hospital purchased the building and immediately sold the building to a third-party investor. The Hospital currently leases the building from the investor under a long-term operating lease. The Hospital owns the land on which the building is located and has entered into a prepaid long-term ground lease with the investor.

(g) In connection with the May 2015 purchase of a parcel of real estate, the Hospital assumed a note payable with an effective interest rate of 5.46%. The note payable has a term of three years and matures in May 2017.

Assets recorded under the capital lease obligations totaled $57.3 million and $70.2 million as of September 30, 2015 and 2014, respectively. Accumulated depreciation for the capital lease obligations totaled $9.7 million and $19.0 million at September 30, 2015 and 2014, respectively.

(8) Pensions and Postretirement Benefits

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

Y-NHH also sponsors contributory 403(b) and 401(k) plans covering substantially all employees. YNHNC's contributions for the 403(b) plan are made to a matching 401(a) plan and are determined based on employee contributions and years of service. The Hospital expensed approximately $40.4 million and $32.9 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 $23.5 million and $16.5 million at September 30, 2015 and 2014, respectively, and is included in accrued expenses in the accompanying balance sheets. Y-NHH maintains a Section 457 nonqualified deferred compensation plan. Contributions are made on a pre-tax basis. The balances recorded at September 30, 2015 and 2014, in other assets and other long-term liabilities were $34.4 million and $32.5 million, respectively.

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

Included in unrestricted net assets at September 30, 2015 and 2014, are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credit of $20.4 million and $22.4 million, respectively, and unrecognized actuarial losses of $172.4 million and $162.0 million, respectively. The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2016, are $2.0 million and $6.9 million, respectively.

(Continued)

The following table sets forth the change in benefit obligation, change in plan assets, and the reconciliation of underfunded status of Y-NHH's defined benefit plans as of September 30, 2015 and 2014 (in thousands):

	Defined Benefit Pension Plans		Postretirement Benefit Plans	
	2015	**2014**	**2015**	**2014**
Change in benefit obligation:				
Benefit obligation at prior measurement date	$ 502,711	445,908	78,136	67,904
Service cost	20,895	22,532	3,789	3,617
Interest cost	20,652	20,896	3,393	3,270
Plan amendments	—	—	—	(577)
Actuarial loss (gain)	(15,213)	37,881	(14,067)	5,413
Benefits paid	(27,013)	(24,506)	(1,670)	(1,491)
Benefit obligation at current measurement date	502,032	502,711	69,581	78,136
Change in plan assets:				
Fair value of assets at prior measurement date	347,238	313,730	—	—
Actual return on plan assets	(19,519)	19,950	—	—
Employer contributions	39,963	38,064	1,670	1,491
Benefits paid	(27,013)	(24,506)	(1,670)	(1,491)
Fair value of assets at current measurement date	340,669	347,238	—	—
Accrued benefit cost	$ 161,363	155,473	69,581	78,136

(a) Benefit Obligation and Assumptions

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.

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

	2015	**2014**
Projected benefit obligation	$ (502,032)	(502,711)
Accumulated benefit obligation	(443,165)	(428,547)
Fair value of plan assets	340,669	347,238

At September 30, 2015 and 2014, the underfunded status of the qualified defined benefit pension plan was approximately $111.1 million and $107.6 million, respectively, and that of the nonqualified defined benefit pension plan was approximately $50.2 million and $47.9 million, respectively. Additionally, there are assets limited as to use of approximately $78.8 million and $77.9 million, which are available to satisfy the obligations of the nonqualified defined benefit pension plan at September 30, 2015 and 2014, respectively.

The net periodic benefit cost for the years ended September 30, 2015 and 2014, is as follows (in thousands):

	Defined Benefit Pension Plans		Postretirement Benefit Plans	
	2015	2014	2015	2014
Service cost	$ 20,895	22,532	3,789	3,617
Interest cost	20,652	20,896	3,392	3,270
Expected return on plan assets	(27,952)	(25,377)	—	—
Amortization of prior service cost	(1,951)	(2,035)	(37)	86
Recognized net actuarial loss	7,806	5,294	—	—
Net periodic benefit cost	$ 19,450	21,310	7,144	6,973

Weighted average assumptions and dates used to determine benefit obligations at September 30, 2015 and 2014 are as follows:

	Defined Benefit Pension Plans		Postretirement Benefit Plans	
	2015	2014	2015	2014
Discount rate for determining benefit obligations at year-end, qualified plan	4.30%	4.20%	4.50%	4.40%
Discount rate for determining benefit obligations at year-end, nonqualified plan	4.50%	4.40	—	—
Rate of compensation increase	4.0%–5.0%	5.00	—	—

Weighted average assumptions used to determine net periodic benefit cost for the years ended September 30, 2015 and 2014, are as follows:

	Defined Benefit Pension Plans		Postretirement Benefit Plans	
	2015	**2014**	**2015**	**2014**
Discount rate for determining net periodic benefit cost at year-end, qualified plan	4.20%	4.80%	4.40%	4.90%
Discount rate for determining net periodic benefit cost at year end, nonqualified plan	4.40	4.90	—	—
Expected rate of return on plan assets	7.75	7.75	—	—
Rate of compensation increase	5.00	5.00	—	—

For measurement purposes relating to the postretirement benefits plan, a 4.0% and 5.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for fiscal 2015 and fiscal 2014, respectively.

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

	1% Increase	1% Decrease
Effect on total of service and interest cost components	$ 50	(59)
Effect on postretirement benefit obligation	335	(381)

The asset allocation of Y-NHH's qualified pension plan at September 30, 2015 and 2014, was as follows:

Asset category	Target allocation 2016	Percentage of plan assets 2015	Percentage of plan assets 2014
Equity securities	42%	47%	39%
Debt securities	17	17	18
All other assets	41	36	43
Total	100%	100%	100%

Pension assets carried at fair value, as of September 30, 2015 and 2014, are classified in the following tables (see Footnote 14 for description) (in thousands):

	Investments measured at NAV	Investments classified in the fair value hierarchy Level 1	Total
Money market funds	$ —	$ 5,136	$ 5,136
Money market funds	—	—	—
U.S. equity securities	37,450	40,885	78,335
International equity securities	35,119	44,182	79,301
Fixed income:			
U.S. government	28,183	—	28,183
Corporate debt	—	—	—
International government	10,776	19,975	30,751
Commodities	7,951	—	7,951
Private equity	6,238		6,238
Real estate	—	—	—
Hedge funds:			
Long/short equity	—	—	—
Multi strategy/other	87,681	—	87,681
Real estate	17,093	—	17,093
Beneficial interest in remainder trusts	—	—	—
	$ 230,491	$ 110,178	$ 340,669

	Investments measured at NAV	Investments classified in the fair value hierarchy Level 1	Total
Money market funds	$ —	$ 14,528	$ 14,528
U.S. equity securities	10,673	49,322	59,995
International equity securities	11,554	62,254	73,808
Fixed income:			
U.S. government	42,800	—	42,800
International government	9,489	20,607	30,096
Commodities	23,509	—	23,509
Private equity	3,417		3,417
Hedge funds:			
Long/short equity	341	—	341
Multi strategy/other	79,300	—	79,300
Real estate	19,444	—	19,444
	$ 200,527	$ 146,711	$ 347,238

(Continued)

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

(b) Description of Investment Policies and Strategies

Y-NHH'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 allocation of the investment pool to various sectors of the markets is designed to reduce volatility in the portfolio. Y-NHH'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. The actual return on assets of the pension plan was (5.2%) and 7.4% for the years ended September 30, 2015 and 2014, respectively.

(c) Cash Flows

The future cash flows of Y-NHH relative to retirement benefits are expected to be as follows (in thousands):

		Defined benefit pension plans	Postretirement benefits plan
Estimated benefit payments related to years ending September 30:			
2016	$	26,471	2,131
2017		27,698	2,399
2018		29,624	2,606
2019		30,946	2,835
2020		33,473	3,073
2021 to 2025		190,454	20,305

Y-NHH expects to contribute approximately $34.0 million for pension benefits and $2.1 million for postretirement benefits payments in fiscal 2016.

(9) Professional Liability Insurance

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

In fiscal 1998, the Hospital entered into a purchase and sales management agreement with YNHHSC that transferred the Hospital's participation in the Captive to YNHHSC for its book value as calculated by the

Captive. Under the terms of the agreement, the Hospital retains certain elements of control and assumes limited risk associated with the ongoing operation of the Captive. The Hospital pays insurance premiums to YNHHSC.

Additionally, because the purchase and sales management agreement entered into with YNHHSC in 1998 meet criteria for deposit accounting, the Hospital recorded an actuarially determined liability for IBNR professional and general liabilities with an offsetting deposit (asset) of an equal amount (approximately $11.8 million).

The estimate for claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately $116.6 million and $105.2 million at September 30, 2015 and 2014, respectively for the Hospital. The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately $43.5 million and $40.6 million for the Hospital at September 30, 2015 and 2014, respectively, and is included in professional insurance liabilities in the accompanying consolidated statements of financial position at the actuarially determined present value of approximately $39.9 million and $36.8 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 $76.9 million and $68.4 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 represents an estimate of expected settlements and insurance recoveries over the next 12 months.

Lukan, the Hospital sponsored professional liability program, continues to manage all incidents and claims reported to Lukan prior to the 2012 acquisition of the Saint Raphael Healthcare System Inc. (SRHS), as well as extending professional liability coverage for post acquisition risks to certain affiliated community clinicians.

Prior to the acquisition of SRHS, Caritas provided excess professional liability and general liability insurance to SRHS and their employed clinicians. Caritas continued to manage all incidents and claims reported prior to the acquisition of SRHS and are included in the amounts above.

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

In October 2014, the Hospital disposed of its interest in Caritas and Lukan (the Captives) through a novation agreement with Medical Centre Insurance Company, Ltd (MCIC) for a total price of approximately $40.2 million. The novation agreement assigns and transfers all of the Captives' past, present and future rights, risks, liabilities and obligations, and transfers substantially all of the assets of the Captives to MCIC. The Hospital dissolved the Captives in the fiscal year ended September 30, 2015.

The estimates for professional insurance liabilities are based upon complex actuarial calculations which utilize factors such as historical claims experience for Y-NHH 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

(a) Leases

YNHH leases certain office, clinical and parking spaces under noncancelable operating leases that range in terms ending in 2016 through 2039. Future minimum lease payments under these leases are as follows (in thousands):

2016	$	23,387
2017		21,591
2018		19,611
2019		18,917
2020		10,424
Thereafter		110,729
	$	204,659

Y-NHH incurred net rent expense under these leases of approximately $23.5 million for the year ended September 30, 2015, and $18.7 million for the year ended 2014.

(b) Cancer Hospital

The Hospital has a shared facilities and services agreement with the University in connection with the Cancer Hospital which is recorded as deferred revenue. Deferred revenue, from this agreement, at September 30, 2015 and 2014, was $42.7 million and $44.0 million, respectively.

(c) Inpatient Rehabilitation Unit Agreement

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

(d) 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 actions will not have a material adverse effect on the consolidated financial position or changes in net assets of the Hospital.

(Continued)

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

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

		Year ended September 30	
		2015	**2014**
Health care services	$	1,980,819	1,796,828
General and administrative		462,224	506,797
	$	2,443,043	2,303,625

(12) Related-Party Transactions

The Hospital provided facility space and certain services to related parties as follows (in thousands):

		Year ended September 30	
		2015	**2014**
Recovery of expenses:			
YNHHSC:			
Facility rental	$	3,214	3,066
Shared services		—	2
	$	3,214	3,068
Bridgeport Hospital:			
Resident fees	$	2,897	2,477
Other		1,157	999
	$	4,054	3,476

YNHHSC is the sole member Bridgeport Hospital.

The Hospital purchased certain services from YNHHSC as follows (in thousands):

	Year ended September 30	
	2015	**2014**
Operating expenses:		
Professional and general liability insurance	$ 20,470	26,887
Information systems	69,769	62,472
System business office	65,421	31,189
Other business services	74,620	99,886
	$ 230,280	220,434

Amounts receivable from and payable to related organizations included in other receivables, accounts payable and other long-term liabilities, respectively, in the consolidated balance sheets are as follows (in thousands):

	Year ended September 30	
	2015	**2014**
Other receivables:		
YNHHSC	$ 6,889	5,875
	$ 6,889	5,875
Accounts payable:		
YNHHSC	$ 19,236	41,038
Bridgeport Hospital	484	890
Northeast Medical Group, Inc.	7,985	2,610
Greenwich Hospital	428	85
Other long-term liabilities:		
YNHHSC	54,380	52,486
	$ 82,513	97,109

The Hospital maintains certain investments for YNHHSC employees that participate in YNHH's sponsored benefit plans. The costs associated with the YNHHSC employees that participate in benefit plans are recovered by the Hospital.

The Hospital funds certain capital assets purchased by YNHHSC. Included in prepaid expenses and other assets were approximately $12.1 million and $71.8 million, respectively, at September 30, 2015, and approximately $30.3 million and $72.2 million, respectively, at September 30, 2014.

Additionally, for the year ended 2014, the Hospital funded YNHHSC approximately $2.1 million, as part of its participation in the New Clinical Program Development Corporation (NCPDC). There was no funding for the year ended September 30, 2015. The NCPDC was established for the purpose of funding

(Continued)

and supporting clinical research and clinical programs. The NCPDC Board approves the funding of initiatives.

Included in the consolidated statement of changes in net assets are amounts funded by the Hospital for physician related strategic mission support for NEMG of approximately $12.5 million and $14.0 million for the years ended September 30, 2015 and 2014, respectively.

(13) Other Revenue

Other revenue consisted of the following (in thousands):

		Year ended September 30	
		2015	2014
Cafeteria and vending	$	11,433	10,605
Contributions		3,406	5,495
Parking income		7,768	6,485
Net assets released from restrictions for operations		9,854	3,099
Net assets released from restrictions for free care		596	613
Net assets released from restrictions for medical research and clinical programs		881	5,269
Grants		18,175	13,574
Rental income		1,196	1,704
Electronic health records incentive payment		981	3,037
Other		10,387	10,572
	$	64,677	60,453

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 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 $1.0 million and $2.0 million, respectively, for the years ended September 30, 2015 and 2014, and Medicaid EHR incentive payment revenue was approximately $1.0 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 statement of operations and changes in net assets. Income from incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government.

(14) Nonoperating Gains (Losses)

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

		Year ended September 30	
		2015	2014
Income from investments, donations and other, net	$	4,219	3,162
Discontinued operations		(725)	—
Income attributable to noncontrolling interest		(1,674)	(2,320)
Change in unrealized gains and losses on investments		20,129	75,949
Change in fair value of swaps, including counterparty payments		(28,248)	(16,357)
Loss on refunding of long-term debt		—	(32,631)
	$	(6,299)	27,803

Contributions received consisted of the following (in thousands):

		Year ended September 30	
		2015	2014
Unrestricted	$	870	840
Temporarily restricted		17,989	12,827
Permanently restricted		13,655	3,492
Total contributions		32,514	17,159
Less fundraising expenses		(4,049)	(4,704)
Contributions, net	$	28,465	12,455

During 2015, the Attorney General approved the transfer of certain philanthropic funds to Y-NHH from the Hospital of Saint Raphael and its Foundation related to Y-NHH's acquisition of the Hospital of Saint Raphael in FY 2012. The funds approved for transfer are included as contributions to temporarily restricted net assets and permanently restricted net assets totaling $8.8 million and $11.5 million, respectively, for the year ended September 30, 2015.

(15) 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.

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

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

Financial assets carried at fair value as of September 30, 2015, are classified in the following table by level within the fair value hierarchy as described above (in thousands):

	Investments measured at NAV	Investments classified in the fair value hierarchy Level 1	Level 2	Total
Cash and cash equivalents	$ —	$ 103,628	$ —	$ 103,628
Money market funds	—	50,943	—	50,943
U.S. equity securities	13,131	57,359	—	70,490
International equity securities	18,420	46,020	—	64,440
Fixed income:				
U.S. government	247,394	49,022	—	296,416
International government	36,757	48,187	—	84,944
Commodities	82	—	—	82
Real estate	6,781	—	—	6,781
Hedge funds:				
Absolute return	10,554	—	—	10,554
Perpetual trusts	18,050	—	—	18,050
Interest in Yale University endowment pool	768,495	—	—	768,495
Total investments as of September 30, 2015	$ 1,119,664	$ 355,159	$ —	$ 1,474,823
Liabilities:				
Interest rate swap	$ —	$ —	$ (50,599)	$ (50,599)

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

	Investments measured at NAV	value hierarchy Level 1	Level 2	Total
Cash and cash equivalents	$ —	$ 69,250	$ —	$ 69,250
Money market funds	—	129,823	—	129,823
U.S. equity securities	11,274	47,912	—	59,186
International equity securities	11,397	59,274	—	70,671
Fixed income:				
U.S. government	137,425	120,701	—	258,126
Corporate debt	—	—	—	—
International government	30,873	46,833	—	77,706
Commodities	122	—	—	122
Real estate	9,628	—	—	9,628
Hedge funds:				
Absolute return	10,304	—	—	10,304
Beneficial interest in remainder trusts	17,797	—	—	17,797
Interest in Yale University endowment pool	685,862	—	—	685,862
Total investments as of September 30, 2015	$ 914,682	$ 473,793	$ —	$ 1,388,475
Liabilities:				
Interest rate swap	$ —	$ —	$ (32,316)	$ (32,316)

The fair value of debt was approximately $829.7 million and $808.5 million at September 30, 2015 and 2014, respectively. The fair value of the capital leases was approximately $51.7 million and $54.5 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.

The interest rate swaps listed above are classified in the accompanying balance sheets as other long-term liabilities at 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):

Description of investment	Carrying value	Unfunded commitment	Redemption frequency	Notice period	Funds availability
Real estate	$ 6,781	2,295	N/A	N/A	N/A
Commodities	82	—	N/A	N/A	N/A

(16) Subsequent Events

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

SUPPLEMENTARY INFORMATION

YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

Consolidating Balance Sheet

September 30, 2015

(In thousands)

Assets		Hospital	York	ASC	YNHCCC	Eliminations	Total
Current assets:							
Cash and cash equivalents	$	101,130	1,256	1,196	46	—	103,628
Short-term investments		980,087	—	—	—	—	980,087
Accounts receivable for services to patients, net		286,728	3,234	1,369	2,021	—	293,352
Other receivables		33,463	893	5,442	—	(4,724)	35,074
Professional liabilities insurance recoveries receivable – current portion		19,852	—	—	—	—	19,852
Other current assets		74,322	57	1,175	—	—	75,554
Amounts on deposit with trustee in debt service fund		4,786	—	—	—	—	4,786
Total current assets		1,500,368	5,440	9,182	2,067	(4,724)	1,512,333
Assets limited as to use		96,888	—	—	—	—	96,888
Long-term investments		289,434	—	—	—	—	289,434
Deferred financing costs, less accumulated amortization		8,909	—	—	—	—	8,909
Professional liabilities insurance recoveries receivable – noncurrent portion		57,025	—	—	—	—	57,025
Goodwill		44,774	—	—	—	—	44,774
Other assets		186,745	1,078	9,663	726	(28,370)	169,842
Property, plant and equipment:							
Land and land improvements		46,283	2,337	—	1,580	—	50,200
Buildings and fixtures		1,149,033	1,962	4,641	2,864	—	1,158,500
Equipment		469,579	64	3,874	390	—	473,907
		1,664,895	4,363	8,515	4,834	—	1,682,607
Less accumulated depreciation		808,887	1,411	6,100	702	—	817,100
		856,008	2,952	2,415	4,132	—	865,507
Construction in progress		80,774	—	—	—	—	80,774
		936,782	2,952	2,415	4,132	—	946,281
Total assets	$	3,120,925	9,470	21,260	6,925	(33,094)	3,125,486

YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

Consolidating Balance Sheet

September 30, 2015

(In thousands)

Liabilities and Net Assets (Deficiency)	Hospital	York	ASC	YNHCCC	Eliminations	Total
Current liabilities:						
Accounts payable	$ 145,177	2,557	565	6,932	(4,933)	150,298
Accrued expenses	200,995	250	817	—	—	202,062
Professional liabilities – current portion	19,852	—	—	—	—	19,852
Other current liabilities	58,668	—	—	419	—	59,087
Current portion of capital lease obligation	2,003	—	—	—	—	2,003
Current portion of long term debt	8,083	—	—	—	—	8,083
Total current liabilities	434,778	2,807	1,382	7,351	(4,933)	441,385
Long-term debt, net of current portion	800,348	—	—	—	—	800,348
Long-term capital lease obligation, net of current portion	46,850	—	—	—	—	46,850
Accrued pension and postretirement benefit obligations	228,810	—	—	—	—	228,810
Professional liabilities - noncurrent	96,778	—	—	—	—	96,778
Other long-term liabilities	245,649	218	8,732	4,390	(12,600)	246,389
Deferred revenue	42,720	—	—	—	—	42,720
Total liabilities	1,895,933	3,025	10,114	11,741	(17,533)	1,903,280
Net assets (deficiency):						
Unrestricted	1,107,165	6,445	9,118	(4,816)	(15,561)	1,102,351
Temporarily restricted	70,941	—	—	—	—	70,941
Permanently restricted	46,886	—	—	—	—	46,886
Total Yale-New Haven Hospital & Subsidiaries net assets (deficiency)	1,224,992	6,445	9,118	(4,816)	(15,561)	1,220,178
Noncontrolling interest	—	—	2,028	—	—	2,028
Total net assets (deficiency) including noncontrolling interest	1,224,992	6,445	11,146	(4,816)	(15,561)	1,222,206
Total liabilities and net assets (deficiency)	$ 3,120,925	9,470	21,260	6,925	(33,094)	3,125,486

See accompanying independent auditors' report.

YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Net Assets

September 30, 2015

(In thousands)

		Hospital	Lukan	Caritas	York	ASC	YNHCCC	Eliminations	Total
Operating revenue:									
Net patient service revenue	$	2,507,294	—	—	4,669	16,380	12,740	(220)	2,540,863
Less provision for bad debts		(49,304)	—	—	—	(176)	(902)	—	(50,382)
Net patient service revenue, less provision for bad debts		2,457,990	—	—	4,669	16,204	11,838	(220)	2,490,481
Other revenue		68,887	—	—	5,522	731	41	(10,504)	64,677
Total operating revenue		2,526,877	—	—	10,191	16,935	11,879	(10,724)	2,555,158
Operating expenses:									
Salaries and benefits		1,053,740	—	—	1,293	5,842	9,751	—	1,070,626
Supplies and other expenses		1,202,819	—	—	4,780	6,509	3,673	(3,587)	1,214,194
Depreciation		119,157	—	—	433	393	252	—	120,235
Insurance		16,952	—	—	13	133	64	—	17,162
Interest		20,696	—	—	130	—	—	—	20,826
Total operating expenses		2,413,364	—	—	6,649	12,877	13,740	(3,587)	2,443,043
Income (loss) from operations		113,513	—	—	3,542	4,058	(1,861)	(7,137)	112,115
Nonoperating gains (losses), net:									
Income from investments, donations and other, net		24,086	—	—	(463)	(2,069)	—	2,069	23,623
Change in fair value of swap, including counterparty payments		(28,248)	—	—	—	—	—	—	(28,248)
Excess of revenue over expenses, before noncontrolling interest		109,351	—	—	3,079	1,989	(1,861)	(5,068)	107,490
Less income attributable to noncontrolling interest		—	—	—	—	(1,674)			(1,674)
Excess of revenue over expenses		109,351	—	—	3,079	315	(1,861)	(5,068)	105,816
Unrestricted net assets:									
Other changes in net assets		(516)	(10,218)	(5,065)	—	—	—	15,283	(516)
Transfer to Yale-New Haven Health Services Corporation – Mission Support		(12,516)	—	—	—	—	—	—	(12,516)
Net assets released from restrictions for purchases of fixed asset		4,515	—	—	—	—	—	—	4,515
Pension related changes other than net periodic benefit cost		(12,372)	—	—	—	—	—	—	(12,372)
Increase (decrease) in unrestricted net assets		88,462	(10,218)	(5,065)	3,079	315	(1,861)	10,215	84,927

(Continued)

YALE-NEW HAVEN HOSPITAL AND SUBSIDIARIES

Consolidating Statement of Operations and Changes in Net Assets, Continued

September 30, 2015

(In thousands)

	Hospital	Lukan	Caritas	York	ASC	YNHCCC	Eliminations	Total
Temporarily restricted net assets:								
Income from investments	$ 298	—	—	—	—	—	—	298
Net realized gains on investments	297	—	—	—	—	—	—	297
Change in net unrealized gains and losses on investments	2,354	—	—	—	—	—	—	2,354
Bequests and contributions	17,989	—	—	—	—	—	—	17,989
Net assets released from restrictions for purchases of fixed assets	(3,123)	—	—	—	—	—	—	(3,123)
Net assets released from restrictions for free care	(596)	—	—	—	—	—	—	(596)
Net assets released from restrictions for operations	(9,854)	—	—	—	—	—	—	(9,854)
Net assets released from restrictions for clinical programs	(881)	—	—	—	—	—	—	(881)
Other	139	—	—	—	—	—	—	139
Increase in temporarily restricted net assets	6,623	—	—	—	—	—	—	6,623
Permanently restricted net assets:								
Bequests, contributions, and grants	13,654	—	—	—	—	—	—	13,654
Change in beneficial interest in perpetual trusts	(1,282)	—	—	—	—	—	—	(1,282)
Net assets released from restrictions for capital	(1,392)	—	—	—	—	—	—	(1,392)
Increase in permanently restricted net assets	10,980	—	—	—	—	—	—	10,980
Noncontrolling interest:								
Income attributable to noncontrolling interest	(1,674)	—	—	—	1,674	—	1,674	1,674
Distributions to noncontrolling interest	—	—	—	—	(1,528)	—	—	(1,528)
	(1,674)	—	—	—	146	—	1,674	146
(Decrease) increase in net assets	104,391	(10,218)	(5,065)	3,079	461	(1,861)	11,889	102,676
Net assets (deficiency) at beginning of year	1,120,602	10,218	5,065	3,366	10,685	(2,955)	(27,451)	1,119,530
Net assets (deficiency) at end of year	$ 1,224,993	—	—	6,445	11,146	(4,816)	(15,562)	1,222,206

See accompanying independent auditors' report.