

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER
FINANCIAL INFORMATION

Bridgeport Hospital & Healthcare Services, Inc. and
Subsidiaries

Years Ended September 30, 2009 and 2008
with Report of Independent Auditors

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidated Financial Statements and Other Financial Information

Years Ended September 30, 2009 and 2008

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Report of Independent Auditors

The Board of Directors
Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries (“BHHS”) as of September 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of BHHS’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of BHHS’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BHHS’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries as of September 30, 2009 and 2008, and the consolidated results of operations and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

January 25, 2010

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2009	2008
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 35,088	\$ 29,605
Accounts receivable for services to patients, less allowances for uncollectible accounts, charity and free care of approximately \$28,105,000 in 2009 and \$27,204,000 in 2008	34,835	36,168
Other receivables	1,977	2,741
Prepaid expenses and other current assets	5,082	6,102
Third-party payor receivables	1,281	3,834
Amounts on deposit with trustee in debt service fund	1,503	1,398
Total current assets	79,766	79,848
Assets limited as to use:		
Escrow funds for long-term debt	7,348	7,297
Trustee assets — other	580	2,134
	7,928	9,431
Less assets limited as to use — required for current liabilities	(1,503)	(1,398)
	6,425	8,033
Long-term investments	67,769	67,829
Other assets	9,337	14,169
Property, plant and equipment:		
Land, buildings and improvements	128,119	127,900
Equipment	242,444	218,865
	370,563	346,765
Less accumulated depreciation and amortization	(261,403)	(243,520)
	109,160	103,245
Construction in progress	12,497	22,622
	121,657	125,867
Total assets	\$ 284,954	\$ 295,746

	September 30	
	2009	2008
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 8,968	\$ 16,468
Accrued expenses	37,350	32,383
Current portion of long-term debt	2,785	2,795
Total current liabilities	<u>49,103</u>	<u>51,646</u>
Long-term debt, net of current portion	50,090	52,875
Professional and general insurance liabilities	16,423	13,585
Long-term third-party payor liabilities	9,990	8,303
Accrued pension obligation	54,221	–
Other long-term liabilities	18,436	19,426
Total liabilities	<u>198,263</u>	<u>145,835</u>
Commitments and contingencies		
Net assets:		
Unrestricted	47,837	110,103
Temporarily restricted	26,622	29,127
Permanently restricted	12,232	10,681
Total net assets	<u>86,691</u>	<u>149,911</u>
Total liabilities and net assets	<u><u>\$ 284,954</u></u>	<u><u>\$ 295,746</u></u>

See accompanying notes.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries
 Consolidated Statements of Operations and Changes in Net Assets

	Years Ended September 30	
	2009	2008
	<i>(In Thousands)</i>	
Operating revenue:		
Net patient service revenue	\$ 371,280	\$ 355,673
Other revenue	5,322	5,946
Net assets released from restrictions used for operations	4,386	5,231
Total operating revenue	380,988	366,850
Operating expenses:		
Salaries and benefits	195,289	187,915
Supplies and other expenses	145,108	140,214
Depreciation and amortization	19,468	17,338
Bad debts	14,535	14,347
Interest	3,200	3,483
Total operating expenses	377,600	363,297
Income from operations	3,388	3,553
Non-operating gains and losses:		
Income from investments, donations, and other, net	(4,987)	1,482
Changes in unrealized gains and losses on investments	1,442	(6,996)
Deficiency of revenue and gains over expenses and losses	(157)	(1,961)

(Continued on next page.)

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

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

	Years Ended September 30	
	2009	2008
	<i>(In Thousands)</i>	
Unrestricted net assets:		
Deficiency of revenue and gains over expenses and losses	\$ (157)	\$ (1,961)
Net assets released from restrictions used for capital acquisitions	957	6,220
Other transfers	-	(1)
Changes in unrealized losses on Century Financial Services investments	(47)	(51)
Pension liability adjustment	(63,019)	3,109
(Decrease) increase in unrestricted net assets	<u>(62,266)</u>	<u>7,316</u>
Temporarily restricted net assets:		
Net assets released from restrictions used for operations	(4,386)	(5,231)
Net assets released from restrictions used for capital acquisitions	(957)	(6,220)
Change in unrealized gains and losses on investments	445	(5,197)
Restricted contributions	5,844	6,825
Net realized investment (losses) gains	(3,451)	2,091
Decrease in temporarily restricted net assets	<u>(2,505)</u>	<u>(7,732)</u>
Permanently restricted net assets:		
Restricted contributions	1,551	1,450
Increase in permanently restricted net assets	<u>1,551</u>	<u>1,450</u>
(Decrease) increase in net assets	<u>(63,220)</u>	<u>1,034</u>
Net assets at beginning of year	<u>149,911</u>	<u>148,877</u>
Net assets at end of year	<u>\$ 86,691</u>	<u>\$ 149,911</u>

See accompanying notes.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended	
	September 30	
	2009	2008
	<i>(In Thousands)</i>	
Cash flows from operating activities		
(Decrease) increase in net assets	\$ (63,220)	\$ 1,034
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	19,468	17,338
Bad debts	14,535	14,347
Change in unrealized gains and losses on investments	(1,887)	12,244
Net assets released from restrictions used for capital acquisitions	(957)	(6,220)
Restricted contributions	(7,395)	(8,275)
Income from investments, donations, and other, net	8,438	(2,256)
Change in pension obligation	61,703	(3,109)
Changes in operating assets and liabilities:		
Accounts receivable, net	(13,202)	(19,029)
Other receivables	764	(275)
Prepaid expenses and other current assets	3,573	(172)
Other assets	(3,848)	(622)
Accounts payable	(7,500)	2,911
Accrued expenses	4,967	(203)
Other current liabilities, third-party payor liabilities, professional and general insurance liabilities and other long-term liabilities	3,535	(2,525)
Net cash provided by operating activities	18,974	5,188
Cash flows from investing activities		
Amounts on deposit with trustee in debt service fund	(105)	(5)
Net sale (purchase) of long-term investments	1,947	(3,123)
Net sale of assets whose use is limited or restricted	1,608	991
Acquisitions of property, plant and equipment, net	(14,075)	(24,566)
Loss on sale of assets	15	357
Income from investments, donations, and other, net	(8,438)	2,256
Net cash used in investing activities	(19,048)	(24,090)
Cash flows from financing activities		
Repayments of long-term debt	(2,795)	(3,389)
Restricted contributions	7,395	8,275
Net assets released from restrictions used for capital acquisitions	957	6,220
Net cash provided by financing activities	5,557	11,106
Net increase (decrease) in cash and cash equivalents	5,483	(7,796)
Cash and cash equivalents at beginning of year	29,605	37,401
Cash and cash equivalents at end of year	\$ 35,088	\$ 29,605

See accompanying notes.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

September 30, 2009

1. Organization and Significant Accounting Policies

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries (“BHHS”) is a Connecticut not-for-profit, nonstock corporation established to promote and carry out charitable, scientific, and educational activities. BHHS is the sole member of the following not-for-profit, nonstock corporations: Bridgeport Hospital (the “Hospital”), Bridgeport Hospital Foundation, Inc. (the “Foundation”), Southern Connecticut Health System Properties, Inc. (“Properties”), and Ahlbin Centers for Rehabilitation Medicine, Inc. (“Ahlbin”). BHHS has a controlling interest in Mill Hill Medical Consultants, Inc. (“Mill Hill”), a not-for-profit, nonstock organization through its elected representatives on the Mill Hill Board of Directors.

BHHS currently conducts no significant business activities and has no employees. Yale-New Haven Health Services Corporation (“YNHHSC”) is the sole member of BHHS and two similar organizations. Each of these three tax-exempt organizations serves as the sole member/parent for its respective delivery network of regional health care providers and related entities. Under the terms of an agreement with YNHHSC, BHHS continues to operate autonomously with separate boards, management and medical staff; however, YNHHSC approves the strategic plans, operating and capital budgets, and board appointments.

The Hospital, the largest entity among BHHS’s subsidiaries, provides health care services to the Fairfield County community. The Foundation solicits contributions for the benefit of BHHS, and all other tax-exempt healthcare organizations associated with BHHS. Properties is a real estate holding company. Ahlbin’s sole business line is audiology services. Ahlbin purchases certain services from the Hospital as they pertain to the Ahlbin’s Audiology services. Mill Hill provides physician-related services such as patient care, medical education, medical research and administration to the Hospital, in order to promote and enhance the quality of health care.

The accounting policies that affect significant elements of BHHS’s consolidated financial statements are summarized below.

Principles of Consolidation

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

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Use of Estimates

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

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by BHHS has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by BHHS in perpetuity.

Donor Restricted Gifts

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

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Pledges receivable are included in other receivables (\$0.8 million and \$0.9 million at September 30, 2009 and 2008, respectively) and other assets (\$0.4 million and \$1.0 million or at September 30, 2009 and 2008, respectively) in the accompanying consolidated balance sheets. Pledges receivable are anticipated to be received as follows at September 30:

	2009	2008
	<i>(In Thousands)</i>	
Due in one year or less	\$ 887	\$ 966
Due after one year through five years	415	1,043
Total pledges receivable	1,302	2,009
 Deferred pledge revenue representing interest	(6)	(29)
	1,296	1,980
 Less allowance for doubtful pledges	79	115
Pledges receivable, net	\$ 1,217	\$ 1,865

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 or held in the long-term investment portfolio.

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

Accounts Receivable

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts. The amount of the allowances for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Investments and Investment Income

BHHS has designated all investments reported in the accompanying consolidated balance sheets as trading securities. As such, unrealized gains and losses are included in the deficiency of revenue and gains over expenses and losses.

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

Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that BHHS holds limited partnership interests, are accounted for under the equity method. Individual investment holdings with the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments, and therefore BHHS's holdings, may be determined by the investment manager or general partner and for "fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. The investments may indirectly expose BHHS 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, BHHS'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.

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

Assets Limited as to Use

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

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Inventories

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

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain long-term financing. Amortization of the costs is provided using a method that approximates the interest method over the remaining term of the applicable indebtedness. See Note 7 for additional information relative to debt-related matters.

Benefits and Insurance

BHHS provides medical, dental, hospitalization and prescription drug benefits to employees for which it is self-insured. Liabilities have been accrued for claims, including claims incurred but not reported (“IBNRs”), which are based on specific experience. At September 30, 2009 and 2008, the estimated liability for self-insured employee medical, prescriptions and other benefit claims and IBNRs aggregated approximately \$1.6 million and \$2.0 million, respectively, and is included in accrued expenses in the accompanying consolidated balance sheets.

BHHS is effectively self-insured for workers’ compensation claims. Estimated amounts are accrued for claims, including IBNRs, which are based on specific experience. At September 30, 2009 and 2008, the estimated liability for self-insured workers’ compensation claims and IBNRs aggregated approximately \$3.5 million and \$3.0 million, respectively, discounted at 5.0%, and is included in other long-term liabilities in the accompanying consolidated balance sheets.

Property, Plant and Equipment

Property, plant and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation and amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations. Depreciation of property, plant and equipment is computed by the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives ranging from 3 to 41 years.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Goodwill

In 2009, the Hospital acquired a medical practice (the “Acquisition”) for \$3.0 million based on the fair market value of the practice. The Acquisition resulted in goodwill of approximately \$2.9 million. The Hospital is required to perform an annual review of its goodwill for impairment. Based on the Hospital’s review at September 30, 2009, goodwill was determined not to be impaired.

Deficiency of Revenue and Gains over Expenses and Losses

The accompanying consolidated statements of operations and changes in net assets include deficiency of revenue and gains over expenses and losses. Activities, other than those connected with providing health care services, are considered to be nonoperating. Nonoperating gains primarily consist of other income. Changes in unrestricted net assets, which are excluded from deficiency of revenue and gains over expenses and losses, consistent with industry practice, includes contributions for, or restricted to, property, plant and equipment, transfers of assets to and from affiliates for other than goods and services and changes in pension liability adjustments.

Income Taxes

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

Professional and General Insurance

The Hospital accesses modified claims made insurance for professional and comprehensive general risk through Yale-New Haven Hospital (“YNHH”) owned captive insurance company. The Hospital has no ownership interest in the captive insurance company and records the actuarially determined liabilities for incurred but not reported professional and comprehensive general liabilities on a discounted basis.

Asset Retirement Obligation

The Hospital maintains an asset retirement obligation liability related to the estimated future costs to remediate environment liabilities in certain buildings. The asset and asset retirement obligation liability were approximately \$0.6 million and \$12.8 million, respectively, at

September 30, 2009 and approximately \$0.7 million and \$12.3 million, respectively, at September 30, 2008.

New Accounting Pronouncements

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (“Statement 168”). Statement 168 establishes the FASB Accounting Standards Codification (“ASC”, also collectively known as the “Codification”) as the single source of authoritative GAAP to be applied by nongovernmental entities. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. Statement 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. BHHS has adopted Statement 168 for its year ended September 30, 2009. Accounting references have been updated, where applicable.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, (hereafter referred to as ASC No. 820) which defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosure about fair value measurements. BHHS adopted ASC No. 820 effective October 1, 2008. The effect of adopting ASC No. 820 was not material to the BHHS financial statements.

In September 2009, the FASB issued Accounting Standards Update 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12). ASU 2009-12 provides amendments to ASC 820. The amendments permit, as a practical expedient, a reporting entity to estimate the fair value of an investment that is within the scope of ASU 2009-12 using the net asset per share value (or its equivalent) of the investment and provides for additional disclosures. The amended guidance is effective for interim and annual periods ending after December 15, 2009; however early application is permitted if financial statements for prior periods have not been issued. Entities that elect to early adopt may defer the additional disclosure requirements of the ASU until the effective date. BHHS has elected to early adopt the amended guidance. The effect of adopting ASC 2009-12 was not material to the BHHS financial statements.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, (hereafter referred to as ASC No. 825) which permits companies to choose to measure certain financial instruments and other items at fair value that are not currently required to be measured at fair value. The Hospital adopted ASC No. 825 effective October 1, 2008. The effect of adopting ASC No. 825 was not material to the Hospital's financial statements.

In June 2009, the FASB issued a Statement on Subsequent Events. This statement provides authoritative accounting guidance and disclosure requirements for material events occurring subsequent to the balance sheet date and prior to the issuance of the financial statements. This statement is effective for the Hospital for the year ended September 30, 2009. The implementation of this statement had no effect on the BHHS's consolidated financial statements.

Reclassifications

Certain 2008 amounts have been reclassified to conform to the 2009 presentation. Such reclassifications had no effect on the changes in net assets.

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

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

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

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Revenue from Medicare and Medicaid programs accounted for approximately 38% and 19%, respectively, of the BHHS net patient service revenue for the years ended September 30, 2009 and 39% and 19%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2008. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 36% and 28% respectively, for the year ended September 30, 2009 and 36% and 27%, respectively, for the year ended September 30, 2008.

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. BHHS believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement through 2005 for Medicare and 1994 for Medicaid. Other years remain open for settlement.

For the years ended 2009 and 2008, the Hospital recorded a change in estimate of approximately \$(0.4) million and \$6.5 million, respectively. Included in the change are amounts related to unfavorable third-party payor settlements at September 30, 2009 and amounts related to favorable third-party payor settlements at September 30, 2008.

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party agreements. The significant concentrations of accounts receivable for services to patients include 27% from Medicare, 20% from Medicaid, 13% from commercial insurance carriers, and 40% from managed care companies and others at September 30, 2009 (32%, 18%, 10%, and 40%, respectively, at September 30, 2008).

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

Net patient service revenue is comprised of the following for the years ended September 30, 2009 and 2008 (in thousands):

	<u>2009</u>	<u>2008</u>
Gross revenue from patients	\$ 1,155,983	\$ 1,084,041
Deductions:		
Contractual allowances	748,742	696,279
Charity and free care (at charges)	35,961	32,089
Net patient service revenue	<u>\$ 371,280</u>	<u>\$ 355,673</u>

3. Uncompensated Care and Community Benefit Expense

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

For financial reporting purposes, BHHS reports care provided for which no payment was received from the patient or insurer as uncompensated care. Uncompensated care is the sum of BHHS free care provided, charity care provided and bad debt expense. In determining uncompensated care, BHHS excludes contractual allowances. The Hospital's cost of uncompensated care amounted to approximately \$19.6 million and \$20.4 million in 2009 and 2008, respectively. Additionally, the Hospital incurred losses related to the State Medicaid program of approximately \$25.4 million and \$22.8 million in 2009 and 2008, respectively. The estimated cost of uncompensated care and Medicaid losses were determined using Hospital-specific data.

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

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Uncompensated Care and Community Benefit Expense (continued)

Annually, BHHS accrues for the potential losses related to its uncollectible accounts and the amounts that meet the definition of charity and free care allowances. At September 30, 2009 and 2008, the amount estimated by management to represent the BHHS uncollectible and charity and free care allowance, which is included in the accompanying balance sheet as a reduction of accounts receivable for services to patients, was approximately \$28.1 million and \$27.2 million, respectively.

Additionally, BHHS provides benefits for the broader community which include services to other needy populations that may not qualify as poor but need special services and support. Benefits include the cost of health promotion and education of the general community, interns and residents, health screenings, and medical research. The benefits are provided through the community health centers, some of which service non-English speaking residents, disabled children, and various community support groups.

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

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Investments and Assets Limited as to Use

Investments are stated at fair value. The composition of assets limited as to use as of September 30 is set forth in the following table:

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Assets limited as to use:		
Escrow funds for long-term debt:		
U.S. government obligations	\$ 3,646	\$ 3,540
Corporate debt and other securities	3,702	3,757
	<u>\$ 7,348</u>	<u>\$ 7,297</u>
Trustee assets—other:		
Cash and cash equivalents	\$ 64	\$ 306
U.S. government obligations	–	41
Corporate debt and other securities	155	100
Mutual funds	–	759
Marketable equity securities and other	361	928
	<u>\$ 580</u>	<u>\$ 2,134</u>

The composition of long-term investments is set forth in the following table at September 30:

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
U.S. government agency obligations	\$ 14,716	\$ 228
Equity securities	1,111	15,803
Cash and money market funds	26,638	14,766
Corporate debt and other securities	7,916	7,002
Limited partnerships	4,813	4,661
Mutual funds	12,575	25,369
	<u>\$ 67,769</u>	<u>\$ 67,829</u>

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

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

The composition and presentation of investment income, gains from investments and the net change in unrealized gains and losses, are as follows for the years ended September 30, 2009 and 2008 (in thousands):

	<u>2009</u>	<u>2008</u>
Interest and dividend income, net	\$ 1,785	\$ 2,370
Realized gains on investments, net	(9,482)	3,378
Change in unrealized gains and losses investments	1,887	(12,193)
	<u>\$ (5,810)</u>	<u>\$ (6,445)</u>

BHHS has a 47.6% equity interest in Century Collection Agency, Inc. (“Century”). At September 30, 2009 and 2008, the investment is included in other assets in the accompanying consolidated balance sheets. The investment in Century is carried on the equity basis of accounting and is adjusted for BHHS’s proportionate share of undistributed earnings or losses. Dividends received are deducted from the carrying value of the investment. Century declared dividends of approximately \$0.9 million in 2009.

5. Endowment

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

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

The Hospital has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and direction of the applicable donor gift instrument at the time of the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the Hospital and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Hospital; and (7) the investment and spending policies of the Hospital.

Changes in Endowment Net Asset for the Fiscal Year Ended September 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 461	\$ 17,598	\$ 10,681	\$ 28,740
Investment returns:				
Investment income	45	569	–	614
Net depreciation (realized and unrealized)	(302)	(2,920)	–	(3,222)
Total investment return	(257)	(2,351)	–	(2,608)
Appropriation of endowment:				
Assets for expenditure	(49)	(1,000)	–	(1,049)
Other changes:				
Contributions	–	–	1,551	1,551
Endowment net assets, end of year	\$ 155	\$ 14,247	\$ 12,232	\$ 26,634

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Endowment (continued)

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 as of September 30:

	2009	2008
	<i>(In Thousands)</i>	
Indigent care	\$ 12,739	\$ 13,714
Capital campaign	1,051	957
Other health care services	12,832	14,456
	\$ 26,622	\$ 29,127

Permanently restricted net assets of approximately \$12.2 million and \$10.7 million at September 30, 2009 and 2008, respectively, are donor-restricted endowment principal. The income generated from permanently restricted funds is expendable for purposes designated by donors, including the support of various health care services.

7. Long-term Debt and Line of Credit

Details of long-term debt are as follows at September 30:

	2009	2008
	<i>(In Thousands)</i>	
Tax-exempt revenue bonds:		
Series A, fixed interest rates ranging from 3.5% to 6.625% (a)	\$ 13,815	\$ 14,920
Series C, fixed interest rates ranging from 3.75% to 5.375% (a)	39,060	40,595
Obligation to bank, 5.3% interest (b)	–	155
	52,875	55,670
Less current portion	2,785	2,795
	\$ 50,090	\$ 52,875

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Long-term Debt and Line of Credit (continued)

- (a) The Hospital's Series A and C tax-exempt revenue bonds were issued through the State of Connecticut Health and Educational Facilities Authority ("CHEFA") under a Master Trust Indenture. These bonds are due serially or via mandatory sinking fund redemptions through July 1, 2025. The bonds are collateralized by a pledge of the gross receipts of the Hospital and the Foundation (the "Obligated Group") and a first mortgage on substantially all property, plant and equipment of the Hospital. The Master Trust Indenture also places certain limits on the incurrence of additional borrowings of the Obligated Group and requires the Obligated Group to satisfy certain measures of financial performance while the revenue bonds are outstanding. The Series A and C bonds are insured by commercial bond insurers to maturity.
- (b) The Hospital entered into an agreement with CHEFA on November 28, 2001 to obtain approximately \$5.5 million in financing for the acquisition of equipment. The obligation is collateralized by such equipment. This was fully repaid during 2009.

Principal payments on long-term debt for each of the five years subsequent to September 30, 2009 are as follows (in thousands):

2010	\$ 2,785
2011	2,945
2012	3,115
2013	3,300
2014	3,495
Thereafter	<u>37,235</u>
	<u>\$ 52,875</u>

Cash paid on interest for the years ended September 30, 2009 and 2008 approximated \$3.2 million and \$3.3 million, respectively.

In connection with the Series A and C bonds, the Hospital is required to maintain certain financial covenants. At September 30, 2009 and 2008, the Hospital was in compliance with its financial debt covenants.

Line of Credit

As of September 30, 2009, the Hospital had an unsecured revolving line of credit of \$5.0 million with a local bank. The annual interest rate for this line of credit is variable and is based on the bank's prime rate or LIBOR plus 1%. The Hospital had no amounts outstanding under this line of credit as of September 30, 2009 and 2008.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans

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

On June 30, 2006, the Hospital and certain other affiliates of BHHS froze their defined benefit plan. On October 1, 2006 the Hospital and certain other affiliates of BHHS instituted a defined contribution plan covering substantially all employees. The Hospital and certain other affiliates of BHHS match employee 403(b) contributions on a bi-weekly basis, as defined by the defined contribution plan documents, and provides an annual contribution to the employees' accounts based on each employee's year of service and compensation. The Hospital and Mill Hill expensed approximately \$10.1 million and \$9.7 million relating to the defined contribution plan for the years ended September 30, 2009 and 2008, respectively. Amounts due to the defined contribution plan amounted to \$5.6 million and \$5.4 million at September 30, 2009 and 2008, respectively, and are included in accrued expenses.

On September 30, 2007, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit and Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (hereafter referred to as ASC No. 715). In 2009, the Hospital adopted the measurement date provisions of ASC No. 715. ASC No. 715 required the Hospital to measure defined benefit plan assets and obligations as of September 30, the date of its fiscal year-end statement of financial position. Prior to the implementation of this change, the measurement date for the BHHS pension and postretirement benefit plans was June 30. The adjustment to unrestricted net assets at adoption represents a decrease to net assets of \$.3 million and an increase to accrued pension obligation. The adoption of the measurement date provision of ASC No. 715 had no effect on the BHHS financial results for fiscal 2009 or any prior period presented. It will not affect the BHHS operating results in future periods.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

The following table sets forth the funded status of the Hospital and affiliates of BHHS's plans as of September 30:

	Pension Benefits	
	2009	2008
	<i>(In Thousands)</i>	
Change in benefit obligation		
Benefit obligation, beginning of year	\$ (123,444)	\$ (129,476)
Interest cost	(10,488)	(8,110)
Actuarial (loss) gain	(21,893)	9,254
Benefits paid	6,327	4,888
Benefit obligation, end of year	<u>\$ (149,498)</u>	<u>\$ (123,444)</u>
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 130,926	\$ 132,676
Actual return on plan assets	(29,322)	3,138
Benefits paid	(6,327)	(4,888)
Fair value of plan assets, end of year	<u>\$ 95,277</u>	<u>\$ 130,926</u>
Accrued (obligation) benefit	<u>\$ (54,221)</u>	<u>\$ 7,482</u>

BHHS's (accrued) prepaid benefit cost is included within other assets in the accompanying balance sheets at September 30, 2008.

The actuarial loss in 2009 primarily relates to a decrease in the discount rate used to measure the benefit obligation. The actuarial gain in 2008 primarily relates to an increase in the discount rate used to measure the benefit obligation.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

Accumulated Benefit Obligation

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

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Projected benefit obligation	\$ 149,498	\$ 123,444
Accumulated benefit obligation	149,498	123,444
Fair value of plan assets	95,277	130,926

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

	Pension Benefits	
	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Components of net periodic benefit cost		
Interest cost	\$ 10,488	\$ 8,110
Expected rate of return on plan assets	(12,133)	(9,284)
Periodic benefit credit for measurement period	(1,645)	(1,174)
Adjustment for change in measurement date	329	-
	(1,316)	(1,174)

Assumptions

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

	Pension Benefits	
	<u>2009</u>	<u>2008</u>
Discount rate	5.70%	7.00%

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

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

	Pension Benefits	
	2009	2008
Discount rate	7.00%	6.40%
Expected long-term return on plan assets	7.75	7.75

Measurement Date

The measurement date used to determine pension benefits is September 30 in 2009. The measurement date used to determine pension benefits is June 30 in 2008.

Plan Assets

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

Asset category:	Target Allocation 2010	Percentage of Plan Assets	
		2009	2008
Equity securities	10%	12%	52%
Debt securities	75	76	37
Alternative investments	15	12	11
Total	100%	100%	100%

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

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

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Retirement Benefit Plans (continued)

Cash Flows

Contributions: The Hospital and its affiliates are determining the amount to contribute to their defined benefit pension plan in fiscal year 2010.

Estimated future benefit payments: The Hospital and its affiliates expect to pay the following benefit payments as appropriate in thousands:

2010	\$ 6,084
2011	6,267
2012	6,501
2013	6,682
2014	7,074
2015 to 2018	42,215

In addition, certain employees participate in a nonqualified pension benefit program sponsored by the Hospital and Mill Hill. Included in other long-term liabilities in the accompanying balance sheets at September 30, 2009 and 2008 is approximately \$1.3 million and \$3.2 million, respectively, related to the obligation for the nonqualified benefits. The Hospital and Mill Hill have established a trust with fair values of approximately \$0.8 million and \$2.5 million at September 30, 2009 and 2008, respectively, to fund the obligation. Such amounts are included in other assets in the accompanying balance sheets.

9. Professional Liability and Self-Insurance Arrangements

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

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Professional Liability and Self-Insurance Arrangements (continued)

The estimated undiscounted professional liabilities for incurred but not reported professional and comprehensive general liabilities as of September 30, 2009 and 2008 was approximately \$18.8 million and \$17.5 million, respectively, and are reflected at the actuarially determined present value of approximately \$15.1 million and \$13.3 million, respectively, based on a discount rate of 4.5% in 2009 and 5.0% in 2008.

10. Commitments and Contingencies

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

BHHS and its subsidiaries have various lease agreements, some of which provide for adjustments to future lease payments. Lease expense was \$3.6 million respectively, for each of the fiscal years ended 2009 and 2008.

At September 30, 2009, the future minimum rental commitments under these noncancellable operating leases were:

	Total Future Minimum Rental Commitments
	<i>(In Thousands)</i>
Fiscal year:	
2010	\$ 3,488
2011	3,063
2012	2,602
2013	2,147
2014	1,646
Thereafter	11,240

The Hospital has an irrevocable letter of credit with a bank to provide coverage to the State of Connecticut for workers' compensation claims. There were no amounts outstanding under this letter of credit during fiscal years 2009 and 2008.

The Hospital has obtained a surety bond to provide coverage to the State of Connecticut for unemployment compensation in 2009. There were no amounts outstanding in 2009.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Functional Expenses

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

	2009	2008
	<i>(In Thousands)</i>	
Health care services	\$ 219,302	\$ 213,904
General and administrative	158,298	149,393
	\$ 377,600	\$ 363,297

12. Related Party Transactions

Under the affiliation agreement with YNHHSC, the Hospital and Mill Hill purchased certain support and management services and participates in service contracts, lease agreements, and other consulting contracts. The aggregate amount incurred by the Hospital and Mill Hill was approximately \$37.0 million and \$31.6 million in fiscal 2009 and 2008, respectively, pertaining to YNHHSC and approximately \$2.8 million and \$2.7 million in fiscal 2009 and 2008, respectively, pertaining to YNHH.

The Hospital and Mill Hill purchased certain services for the year ended September 30 from YNHHSC as follows:

	2009	2008
	<i>(In Thousands)</i>	
Operating expenses:		
Professional and general liability insurance	\$12,986	\$ 9,615
Information systems	2,866	2,755
Management fees	3,034	3,362
System business office	6,172	5,700
All other	11,910	10,160

Included in depreciation and amortization expense for each of the years ended September 30, 2009 and 2008 is approximately \$0.4 million of costs allocated from YNHHSC for shared capital projects.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Related Party Transactions (continued)

Accounts payable to related organizations is included in accrued expenses in the accompanying consolidated balance sheets for the year ended September 30 as follows:

	<u>2009</u>	<u>2008</u>
	<i>(In Thousands)</i>	
Accounts payable:		
YNHHSC	\$ 2,642	\$ 2,708
YNHH	605	91
	<u>\$ 3,247</u>	<u>\$ 2,799</u>

13. Fair Values Measurements

BHHS has adopted the methods of calculating fair value as defined in FASB ASC No. 820 to value its financial assets and liabilities, where applicable. FASB ASC No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

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

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

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

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

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

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Fair Values Measurements (continued)

Financial assets carried at fair value as of September 30, 2009 are classified in the following table in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 35,088	\$ —	\$ —	\$ 35,088
Money market funds	26,702	—	—	26,702
U.S. government obligations	18,362	—	—	18,362
Corporate debt and other securities	24,348	—	—	24,348
Equity securities	1,472	—	—	1,472
Investments at fair value	\$ 105,972	\$ —	\$ —	\$ 105,972
Alternative investments (equity method)				4,813
Investments not at fair value				4,813
Total investments				\$ 110,785

Fair values of the BHHS's long-term debt are based on current borrowing rates for similar types of debt using undiscounted cash flow analyses. The fair value of the long-term debt at September 30, 2009 and 2008 is \$53.2 million and \$53.0 million, respectively.

14. Subsequent Events

As described in Note 1, BHHS adopted ASC 855-10, which requires BHHS to disclose the date through which subsequent events have been evaluated. Management has evaluated subsequent events through January 25, 2010, which is the date the consolidated financial statements were available to be issued. No events have occurred that require consolidated disclosure or adjustment of the consolidated financial statements.

Other Financial Information

Report of Independent Auditors on Other Financial Information

Board of Directors
Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following consolidating balance sheet and consolidating statements of operations and changes in net assets of Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

January 25, 2010

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidating Balance Sheet

For the Year Ended September 30, 2009

(In Thousands)

	BH	BHF	Eliminating Entries	Obligated Group	BHHS	Ahlbin	Properties	Mill Hill	Eliminations	Total
Assets										
Current assets:										
Cash and cash equivalents	\$ 32,972	\$ 605	–	\$ 33,577	\$ 415	\$ 20	\$ 20	\$ 1,056	\$ –	\$ 35,088
Accounts receivable	33,101	–	–	33,101	–	–	–	1,734	–	34,835
Other receivables	1,139	838	–	1,977	–	–	–	–	–	1,977
Prepaid expenses and other current assets	4,789	9	–	4,798	–	–	9	275	–	5,082
Third-party payor receivable	1,517	–	–	1,517	–	–	–	–	(236)	1,281
Due from affiliates	699	–	\$ (608)	91	495	–	–	890	(1,476)	–
Amts deposited with trustee in debt service fund	1,503	–	–	1,503	–	–	–	–	–	1,503
Total current assets	75,720	1,452	(608)	76,564	910	20	29	3,955	(1,712)	79,766
Assets whose use is limited or restricted:										
Escrow funds for long-term debt	7,348	–	–	7,348	–	–	–	–	–	7,348
Trustee assets—self insurance and other	–	539	–	539	–	–	–	41	–	580
	7,348	539	–	7,887	–	–	–	41	–	7,928
Less assets whose use is limited or restricted	(1,503)	–	–	(1,503)	–	–	–	–	–	(1,503)
	5,845	539	–	6,384	–	–	–	41	–	6,425
Long-term investments	26,174	41,595	–	67,769	–	–	–	–	–	67,769
Interest in Bridgeport Hospital Foundation, Inc.	43,079	–	(43,079)	–	–	–	–	–	–	–
Other assets	7,856	509	–	8,365	686	–	–	286	–	9,337
Property, plant and equipment:										
Land, buildings and improvements	125,018	691	–	125,709	–	–	1,402	1,008	–	128,119
Equipment	241,754	–	–	241,754	–	–	–	690	–	242,444
	366,772	691	–	367,463	–	–	1,402	1,698	–	370,563
Less accumulated depreciation and amortization	(260,098)	(165)	–	(260,263)	–	–	(137)	(1,003)	–	(261,403)
	106,674	526	–	107,200	–	–	1,265	695	–	109,160
Construction in progress	12,497	–	–	12,497	–	–	–	–	–	12,497
	119,171	526	–	119,697	–	–	1,265	695	–	121,657
Total assets	\$ 277,845	\$ 44,621	\$ (43,687)	\$ 278,779	\$ 1,596	\$ 20	\$ 1,294	\$ 4,977	\$ (1,712)	\$ 284,954

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2009

(In Thousands)

	BH	BHF	Eliminating Entries	Obligated Group	BHHS	Ahlbin	Properties	Mill Hill	Eliminations	Total
Liabilities and net assets										
Current liabilities:										
Accounts payable	\$ 8,362	\$ 135	\$ -	\$ 8,497	\$ 13	\$ -	\$ 22	\$ 436	\$ -	\$ 8,968
Accrued expenses	34,176	4	-	34,180	-	5	-	3,165	-	37,350
Due to affiliates	1,135	608	(608)	1,135	-	23	318	-	(1,476)	-
Current portion of long-term debt	2,785	-	-	2,785	-	-	-	-	-	2,785
Third-party payor liabilities	-	-	-	-	-	-	-	236	(236)	-
Total current liabilities	46,458	747	(608)	46,597	13	28	340	3,837	(1,712)	49,103
Long-term debt, net of current portion	50,090	-	-	50,090	-	-	-	-	-	50,090
Accrued pension liability	48,492	-	-	48,492	-	-	-	5,729	-	54,221
Professional and general insurance liabilities	16,423	-	-	16,423	-	-	-	-	-	16,423
Long-term third-party payor liabilities	9,990	-	-	9,990	-	-	-	-	-	9,990
Other long-term liabilities	17,540	795	-	18,335	-	-	-	101	-	18,436
Total liabilities	188,993	1,542	(608)	189,927	13	28	340	9,667	(1,712)	198,263
Net assets:										
Unrestricted	49,998	23,286	(23,286)	49,998	1,583	(8)	954	(4,690)	-	47,837
Temporarily restricted	26,622	12,959	(12,959)	26,622	-	-	-	-	-	26,622
Permanently restricted	12,232	6,834	(6,834)	12,232	-	-	-	-	-	12,232
Total net assets	88,852	43,079	(43,079)	88,852	1,583	(8)	954	(4,690)	-	86,691
Total liabilities and net assets	\$ 277,845	\$ 44,621	\$ (43,687)	\$ 278,779	\$ 1,596	\$ 20	\$ 1,294	\$ 4,977	\$ (1,712)	\$ 284,954

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

For the Year Ended September 30, 2009

(In Thousands)

	BH	BHF	Eliminating Entries	Obligated Group	BHHS	Ahlbin	Properties	Mill Hill	Eliminations	Total
Operating revenue:										
Net patient service revenue	\$ 349,484	\$ –	\$ –	\$ 349,484	\$ –	\$ 154	\$ –	\$ 21,642	\$ –	\$ 371,280
Other revenue	4,458	–	–	4,458	252	9	291	13,284	(12,972)	5,322
Net assets released from rstcd used for operations	1,853	2,533	–	4,386	–	–	–	–	–	4,386
Total operating revenue	355,795	2,533	–	358,328	252	163	291	34,926	(12,972)	380,988
Operating expenses:										
Salaries and benefits	169,045	–	–	169,045	70	–	–	26,174	–	195,289
Supplies and other expenses	146,608	2,533	–	149,141	–	221	313	8,405	(12,972)	145,108
Depreciation and amortization	18,962	–	–	18,962	–	–	74	432	–	19,468
Bad debts	13,240	–	–	13,240	–	–	–	1,295	–	14,535
Interest	3,200	–	–	3,200	–	–	–	–	–	3,200
Total operating expenses	351,055	2,533	–	353,588	70	221	387	36,306	(12,972)	377,600
Income from operations	4,740	–	–	4,740	182	(58)	(96)	(1,380)	–	3,388
Nonoperating (losses) gains:										
Net changes in interest in Bridgeport Hospital Foundation, Inc.	(2,936)	–	2,936	–	–	–	–	–	–	–
Income from investments, donations, and other, net	(599)	(3,990)	–	(4,589)	–	–	–	(398)	–	(4,987)
Change in unrealized gains (losses) and investment income	385	1,054	–	1,439	–	–	–	3	–	1,442
(Deficiency) excess of revenue and gains over expenses and losses	1,590	(2,936)	2,936	1,590	182	(58)	(96)	(1,775)	–	(157)

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

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

For the Year Ended September 30, 2009

(In Thousands)

	BH	BHF	Eliminating Entries	Obligated Group	BHHS	Ahlbin	Properties	Mill Hill	Eliminations	Total
Unrestricted net assets:										
(Deficiency) excess of revenue and gains over expenses and losses	\$ 1,590	\$ (2,936)	\$ 2,936	\$ 1,590	\$ 182	\$ (58)	\$ (96)	\$ (1,775)	\$ -	\$ (157)
Net changes in interest in BHF, Inc. – change in unrealized gains and losses on investments and other	49	-	(49)	-	-	-	-	-	-	-
Net assets released from restrictions used for capital acquisitions and other	957	-	-	957	-	-	-	-	-	957
Transfers from (to) other	(1,849)	49	-	(1,800)	(600)	-	-	2,400	-	-
Change in unrealized gains and losses on investments - CFS	-	-	-	-	(48)	-	-	-	1	(47)
Additional minimum pension liability	(59,538)	-	-	(59,538)	-	-	-	(3,480)	(1)	(63,019)
(Decrease) increase in unrestricted net assets	(58,791)	(2,887)	2,887	(58,791)	(466)	(58)	(96)	(2,855)	-	(62,266)
Temporarily restricted net assets:										
Net changes in interest in Bridgeport Hospital Foundation, Inc.:										
Change in unrealized gains and losses on investments	773	-	(773)	-	-	-	-	-	-	-
Net assets released from restrictions used for operations—Bridgeport Hospital Foundation, Inc.	(2,533)	-	2,533	-	-	-	-	-	-	-
Restricted contributions	5,704	-	(5,704)	-	-	-	-	-	-	-
Net realized investment gains and losses	(1,486)	-	1,486	-	-	-	-	-	-	-
Transfer to FDN from Bridgeport Hospital	(2,158)	-	2,158	-	-	-	-	-	-	-
Net assets from restrictions used for operations	(1,853)	(2,533)	-	(4,386)	-	-	-	-	-	(4,386)
Change in unrealized gains and losses on investments	(328)	773	-	445	-	-	-	-	-	445
Net assets released from restrictions used for capital acquisitions	(957)	-	-	(957)	-	-	-	-	-	(957)
Restricted contributions	140	5,704	-	5,844	-	-	-	-	-	5,844
Net realized investment gains and losses	(1,965)	(1,486)	-	(3,451)	-	-	-	-	-	(3,451)
Transfer from Bridgeport Hospital Foundation, Inc. and other transfers	2,158	(2,158)	-	-	-	-	-	-	-	-
(Decrease) increase in temporarily restricted net assets	(2,505)	300	(300)	(2,505)	-	-	-	-	-	(2,505)
Permanently restricted net assets:										
Permanently restricted contributions	1,551	1,551	(1,551)	1,551	-	-	-	-	-	1,551
Decrease in permanently restricted net assets	1,551	1,551	(1,551)	1,551	-	-	-	-	-	1,551
(Decrease) increase in net assets	(59,745)	(1,036)	1,036	(59,745)	(466)	(58)	(96)	(2,855)	-	(63,220)
Net assets at beginning of year	148,597	44,115	(44,115)	148,597	2,049	50	1,050	(1,835)	-	149,911
Net assets at end of year	\$ 88,852	\$ 43,079	\$ (43,079)	\$ 88,852	\$ 1,583	\$ (8)	\$ 954	\$ (4,690)	\$ -	\$ 86,691