

FINANCIAL STATEMENTS

Bridgeport Hospital
Years Ended September 30, 2011 and 2010
with Report of Independent Auditors

Ernst & Young LLP



Bridgeport Hospital

Financial Statements

Years Ended September 30, 2011 and 2010

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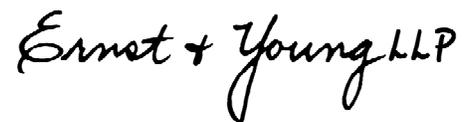
Report of Independent Auditors

The Board of Directors
Bridgeport Hospital

We have audited the accompanying balance sheets of Bridgeport Hospital (the “Hospital”) as of September 30, 2011 and 2010, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 the Hospital’s internal control over financial reporting. Our audits 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 the Hospital’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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bridgeport Hospital as of September 30, 2011 and 2010, and the results of its operations and its changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.



December 21, 2011

Bridgeport Hospital

Balance Sheets

	September 30	
	2011	2010
	<i>(In Thousands)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 37,123	\$ 44,477
Short term investments	18,455	17,550
Accounts receivable for services to patients, less allowance for uncollectible accounts, charity and free care of approximately \$18,248 in 2011 and \$17,020 in 2010	41,819	29,146
Other receivables	1,628	1,231
Prepaid expenses and other current assets	6,759	6,158
Assets limited as to use	3,616	1,446
Third-party payor receivables	2,403	1,411
Total current assets	111,803	101,419
Assets limited as to use	5,788	5,788
Long-term investments	20,685	20,564
Interest in Bridgeport Hospital Foundation, Inc.	48,588	45,642
Other assets	15,604	6,707
Long-term third party payor receivable	1,898	1,288
Property, plant and equipment:		
Land and land improvements	3,532	3,532
Buildings and fixtures	121,717	121,788
Equipment	245,237	235,427
	370,486	360,747
Less accumulated depreciation and amortization	264,952	248,840
	105,534	111,907
Construction in progress	18,530	4,946
	124,064	116,853
Total assets	\$ 328,430	\$ 298,261

	September 30	
	2011	2010
	<i>(In Thousands)</i>	
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 13,294	\$ 11,257
Accrued expenses	41,298	34,944
Current portion of long-term debt	3,832	2,945
Third-party payor liabilities	3,987	2,857
Total current liabilities	<u>62,411</u>	<u>52,003</u>
Long-term debt, net of current portion	49,757	47,145
Professional and general insurance liabilities	13,033	13,400
Long-term third party payor liabilities	13,790	14,960
Accrued pension obligation	51,983	49,237
Other long-term liabilities	18,642	18,417
Total liabilities	<u>209,616</u>	<u>195,162</u>
Commitments and contingencies		
Net assets:		
Unrestricted	74,736	62,529
Temporarily restricted	24,997	23,262
Permanently restricted	19,081	17,308
Total net assets	<u>118,814</u>	<u>103,099</u>
Total liabilities and net assets	<u><u>\$ 328,430</u></u>	<u><u>\$ 298,261</u></u>

See accompanying notes.

Bridgeport Hospital

Statements of Operations and Changes in Net Assets

	Years Ended September 30	
	2011	2010
	<i>(In Thousands)</i>	
Operating revenue:		
Net patient service revenue	\$ 409,615	\$ 359,062
Other revenue	5,876	5,877
Net assets released from restrictions used for operations	1,831	1,077
Total operating revenue	<u>417,322</u>	<u>366,016</u>
Operating expenses:		
Salaries and benefits	187,168	170,691
Supplies and other expenses	162,819	145,192
Depreciation and amortization	17,879	17,768
Bad debts	12,302	13,505
Interest	3,110	3,059
Total operating expenses	<u>383,278</u>	<u>350,215</u>
Income from operations	34,044	15,801
Non-operating (losses) gains:		
Net changes in interest in Bridgeport Hospital Foundation, Inc.	(278)	741
Net realized gains and investment income	657	485
Change in unrealized gains and losses on investments	(417)	540
Excess of revenue over expenses	<u>34,006</u>	<u>17,567</u>

(Continued on next page)

Bridgeport Hospital

Statements of Operations and Changes in Net Assets (continued)

	Years Ended	
	September 30	
	2011	2010
	<i>(In Thousands)</i>	
Unrestricted net assets:		
Excess of revenue over expenses	\$ 34,006	\$ 17,567
Net change in interest in Bridgeport Hospital Foundation, Inc.— other transfers	166	1,279
Net assets released from restrictions used for capital acquisitions	535	2,151
Pension liability adjustment	(14,167)	(6,619)
Transfers to Bridgeport Hospital and Healthcare Service, Inc.	(9,233)	(1,847)
Transfers from Yale-New Haven Health Services Corporation	900	—
Increase in unrestricted net assets	12,207	12,531
Temporarily restricted net assets:		
Net changes in the interest in Bridgeport Hospital Foundation, Inc.:		
Change in unrealized gains on investments	(232)	384
Net assets released from restrictions used for operations— Bridgeport Hospital Foundation, Inc.	(2,820)	(3,058)
Bequests, contributions, and grants	5,390	2,238
Net realized investment gains and losses	446	312
Other changes in net assets	631	(1,256)
Transfers to Bridgeport Hospital	(2,130)	(3,153)
Net change in interest in Bridgeport Hospital Foundation, Inc.	1,285	(4,533)
Net assets released from restrictions used for operations	(1,831)	(1,077)
Change in unrealized gains and losses on investments	30	851
Bequests, contributions, and grants	223	29
Net realized investment gains and losses	821	368
Net assets released from restriction used for capital acquisition	(535)	(2,151)
Transfers from Bridgeport Hospital Foundation	2,130	3,153
Other changes in net assets	(388)	—
Increase (decrease) in temporarily restricted net assets	1,735	(3,360)
Permanently restricted net assets:		
Net change in the interest in Bridgeport Hospital Foundation, Inc.:		
Bequests, contributions, and grants	1,773	5,076
Increase in permanently restricted net assets	1,773	5,076
Increase in net assets	15,715	14,247
Net assets at beginning of year	103,099	88,852
Net assets at end of year	\$ 118,814	\$ 103,099

See accompanying notes.

Bridgeport Hospital

Statements of Cash Flows

	Years Ended	
	September 30	
	2011	2010
	<i>(In Thousands)</i>	
Cash flows from operating activities		
Increase in net assets	\$ 15,715	\$ 14,247
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in net interest in Bridgeport Hospital Foundation, Inc.	(2,946)	(2,563)
Depreciation and amortization	17,879	17,768
Bad debts	12,302	13,505
Bequests, contributions, and grants	(7,386)	(7,343)
Changes in unrealized gains and losses on investments	387	(1,391)
Net assets released from restrictions used for capital acquisitions	535	(2,151)
Net realized gains and investment income	(1,478)	(866)
Transfer to Bridgeport Hospital and Healthcare Services, Inc.	9,233	1,843
Change in pension obligation	14,167	6,619
Changes in operating assets and liabilities:		
Accounts receivable, net	(24,975)	(9,550)
Other receivables	(397)	(92)
Prepaid expenses and other assets	(10,816)	(2,327)
Accounts payable	2,037	2,895
Accrued expenses	6,354	(367)
Net change in Third-party payors	(1,642)	8,271
Net change in pension	(11,421)	(5,874)
Professional and general insurance and other long-term liabilities	(142)	(2,146)
Net cash provided by operating activities	<u>17,406</u>	<u>30,478</u>
Cash flows from investing activities		
Net change in investments	(1,413)	(10,545)
Assets limited as to use	(2,170)	114
Acquisitions of property, plant and equipment, net	(23,772)	(14,260)
Gain on sale of assets	-	(14)
Net realized gains and investment income	1,478	866
Net cash used in investing activities	<u>(25,877)</u>	<u>(23,839)</u>
Cash flows from financing activities		
Issuance of long-term debt	6,607	-
Repayments of long-term debt	(3,108)	(2,785)
Transfer to Bridgeport Hospital and Healthcare Service, Inc.	(9,233)	(1,843)
Bequests, contributions, and grants	7,386	7,343
Net assets released from restrictions for capital acquisitions	(535)	2,151
Net cash provided by financing activities	<u>1,117</u>	<u>4,866</u>
Net (decrease) increase in cash and cash equivalents	<u>(7,354)</u>	<u>11,505</u>
Cash and cash equivalents, beginning of year	<u>44,477</u>	<u>32,972</u>
Cash and cash equivalents, end of year	<u>\$ 37,123</u>	<u>\$ 44,477</u>

See accompanying notes.

Bridgeport Hospital

Notes to Financial Statements

September 30, 2011

1. Organization and Significant Accounting Policies

Bridgeport Hospital (the “Hospital”) is a voluntary association incorporated under the General Statutes of the State of Connecticut. Bridgeport Hospital & Healthcare Services, Inc. (“BHHS”), a Connecticut not-for-profit corporation, is the sole member of the following not-for-profit, non-stock corporations: the Hospital, Bridgeport Hospital Foundation, Inc. (the “Foundation”), Southern Connecticut Health System Properties, Inc. (“Properties”). BHHS had a controlling interest in Mill Hill Medical Consultants, Inc. (“Mill Hill”), a not-for-profit non-stock organization, through its elected representatives on the Mill Hill Board of Directors.

Effective April 1, 2010, control of Mill Hill was assumed by Yale-New Haven Health Services Corporation (“YNHHSC”), and the organization began operations as Northeast Medical Group, Inc. (“NEMG”).

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 and the Hospital continue to operate autonomously with separate boards, management and medical staff; however, YNHHSC approves the Hospital’s strategic plans, operating and capital budgets, and Board appointments.

Use of Estimates

The preparation of the 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.

During fiscal 2011 the Hospital recorded a change in estimate of approximately \$5.0 million related to favorable third-party settlements and during fiscal 2010 recorded a change in estimate of approximately \$5.5 million related to unfavorable third-party settlements.

Temporarily and Permanently Restricted Net Assets

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

Bridgeport Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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.

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 restricted 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 the Hospital'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.

Investments and Investment Income

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

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.

Bridgeport Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Effective January 1, 2010, the Hospital transferred some of its investments into the newly formed Yale New Haven Health System Investment Trust (the "Trust"), a unitized Delaware Investment Trust created to pool assets for investment by the Health System non-profit entities. The Trust is comprised of two pools: the Long-Term Investment Pool ("L-TIP") and the Intermediate-Term Investment Pool ("I-TIP"). Governance of the Trust is performed by the Yale New Haven Health System Investment Committee.

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, 2011, the Hospital can withdraw 100% of its investment in the L-TIP on July 1, 2012. Withdrawals of the Hospital's investment in the I-TIP in any amount can be made quarterly with 30 days advance notice.

Certain alternative investments (nontraditional, not-readily-marketable assets) are structured such that the Hospital holds limited partnership interests and are accounted for under the equity method. Individual investment holdings with the alternative investments may, in turn, include investments in both non-marketable and market-traded securities. Valuations of these investments and, therefore, the Hospital's holdings may be determined by the investment manager or general partner, and for "funds 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. Generally, fair value reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses. These 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.

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

Bridgeport Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Assets Limited as to Use

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

Inventories

Inventories, included in prepaid expenses and other current assets, are stated at the lower of cost or market. The Hospital 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. Refer to Note 7 for additional information relative to debt-related matters.

Benefits and Insurance

The Hospital provides medical, dental, hospitalization and prescription drug benefits to employees for which it is self-insured. Liabilities have been accrued for claims, including claims incurred but not reported (“IBNRs”), which are based on Hospital-specific experience. At September 30, 2011 and 2010, the estimated liability for self-insured employee medical, prescription and other benefit claims and IBNRs aggregated approximately \$1.3 million and is included in accrued expenses in the accompanying balance sheets.

The Hospital is effectively self-insured for workers’ compensation claims. Estimated amounts are accrued for claims, including IBNRs, which are based on Hospital-specific experience. At September 30, 2011 and 2010, the estimated liability for self-insured workers’ compensation claims and IBNRs, discounted at 3.5% in 2011 and 4% in 2010, aggregated approximately \$4.1 million and \$3.8 million, respectively, and is included in other long-term liabilities in the accompanying balance sheets.

Bridgeport Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment purchased are carried at cost and those acquired by gifts and bequests are carried at fair value established at the date of contribution. The carrying amounts of assets and the related accumulated depreciation 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 40 years.

Goodwill

In 2011, the Hospital acquired certain tangible and intangible assets of Cardiac Specialists, P.C. for \$1.6 million. As a result of the transaction, goodwill in the amount of approximately \$800,000 was recorded and is included in other assets at September 30, 2011.

The Hospital is required to perform an annual review of its goodwill for impairment. Based on the Hospital's review at September 30, 2011 and 2010, goodwill was determined not to be impaired.

Excess of Revenue Over Expenses

The accompanying statements of operations and changes in net assets include excess revenue over expenses. Activities, other than those connected with providing health care services, are considered to be non-operating. Changes in unrestricted net assets, which are excluded from excess revenue over expenses, consistent with industry practice, primarily include contributions of, or restricted to, property, plant and equipment, net change in interest in Bridgeport Hospital Foundation, Inc. arising from other transfers, transfer of assets to and from affiliates for other than goods and services, and change in pension liability adjustments.

Income Taxes

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

Bridgeport Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

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.

Interest in Bridgeport Hospital Foundation, Inc.

The Hospital recognizes its accumulated interest in the net assets held by the Foundation as interest in Bridgeport Hospital Foundation, Inc. The Hospital recognizes the periodic change in such interest in its statements of operations and changes in net assets (net change in interest in Bridgeport Hospital Foundation, Inc.).

Asset Retirement Obligation

The Hospital maintains an asset retirement obligation liability related to the estimated future costs to remediate environmental liabilities in certain buildings. The asset and asset retirement obligation liability were approximately \$0.5 million and \$13.3 million, respectively, at September 30, 2011 and approximately \$0.6 million and \$13.2 million, respectively, at September 30, 2010.

Reclassifications

Certain reclassifications have been made to the year ended September 30, 2010 balances previously reported in the balance sheets in order to conform with the year ended September 30, 2011 presentation.

Bridgeport Hospital

Notes to Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

New Accounting Pronouncements

In August 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update 2010-24, “*Topic 954 – Presentation of Insurance Claims and Related Insurance Recoveries.*” The amendments in this update clarify that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The Hospital will adopt the presentation changes to the statement of financial position for periods beginning after December 15, 2010.

In July 2011, the FASB also issued Accounting Standards Update No. 2011-07, “*Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*”(“ASU 2011-07”). Under ASU 2011-07, provision for bad debts related to patient service revenue will be presented as a deduction from patient service revenue (net of contractual allowances and discounts) on the statement of operations with enhanced footnote disclosure on the policies for recognizing revenue and assessing bad debts. The Hospital will adopt the presentation changes to the statement of operations for periods beginning after December 15, 2011.

In August 2010, the Financial Accounting Standards Board (FASB) issued amended guidance relating to measuring charity care for disclosures. The amended guidance requires that the level of charity care provided be presented based on the direct and indirect costs of the charity services provided. Separate disclosure of the amount of any cash reimbursements received for providing charity care must also be disclosed. The System will be required to adopt the disclosures required by the amended guidance for periods beginning after December 15, 2010.

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, 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.

Bridgeport Hospital

Notes to Financial Statements (continued)

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

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 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 the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

Revenue from Medicare and Medicaid programs accounted for approximately 36% and 19%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2011 and 37% and 20%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2010. Inpatient discharges relating to Medicare and Medicaid programs accounted for approximately 37% and 32% respectively, for the year ended September 30, 2011 and 37% and 30%, respectively, for the year ended September 30, 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and are subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital. Cost reports for the Hospital, which serve as the basis for final settlement with government payors, have been settled by final settlement through 2006 for Medicare and 1994 for Medicaid. Other years remain open for settlement.

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 32% from Medicare, 19% from Medicaid, and 49% from non-governmental payors at September 30, 2011 and 32 % from Medicare, 23% from Medicaid, and 45% from non-governmental payors at September 30, 2010.

Bridgeport Hospital

Notes to Financial Statements (continued)

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

Net patient service revenue is comprised of the following for the years ended September 30, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Gross revenue from patients	\$ 1,300,540	\$ 1,185,590
Deductions:		
Contractual allowances	861,347	802,426
Charity and free care (at charges)	29,578	24,102
Net patient service revenue	<u>\$ 409,615</u>	<u>\$ 359,062</u>

3. Uncompensated Care and Community Benefit Expense

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

For financial reporting purposes, the Hospital reports care provided for which no payment was received from the patient or insurer as uncompensated care. Uncompensated care is the sum of the Hospital's free care provided, charity care provided and bad debt expense. In determining uncompensated care, the Hospital excludes contractual allowances. The cost of uncompensated care amounted to approximately \$16.5 million and \$15.5 million in 2011 and 2010, respectively. Additionally, the Hospital incurred losses related to the State Medicaid program of approximately \$27.7 million and \$21.4 million in 2011 and 2010, respectively. The estimated cost of uncompensated care and Medicaid losses were determined using Hospital-specific data.

Annually, the Hospital 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, 2011 and 2010, the amount estimated by management to represent the Hospital's 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 \$18.2 million and \$17.0 million, respectively.

Bridgeport Hospital

Notes to Financial Statements (continued)

3. Uncompensated Care and Community Benefit Expense (continued)

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

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

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

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 (in thousands):

	<u>2011</u>	<u>2010</u>
Assets limited as to use:		
U.S. government	\$ 3,616	\$ 1,442
Corporate debt	5,788	5,792
	<u>\$ 9,404</u>	<u>\$ 7,234</u>

Bridgeport Hospital

Notes to Financial Statements (continued)

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

The composition of investments, including investments held by the Trust, as of September 30 is set forth in the following table (in thousands):

	2011	2010
Money market funds	\$ 1,527	\$ 1,439
U.S. equity securities	1,868	1,968
U.S. equity securities – common collective trusts	1,427	2,570
International equity securities (a)	1,606	3,039
Fixed income:		
U.S. government	10,209	10,038
U.S. government – common collective trusts	2,105	3,055
Corporate debt	4,672	4,791
International government (b)	1,224	440
Commodities	43	45
Hedge funds:		
Absolute return (c)	1,549	2,256
Long/short equity (d)	542	514
Real estate (e)	435	392
Interest in Yale University endowment pool (f)	11,933	7,567
Total	\$ 39,140	\$ 38,114

- (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) Investment with an external long-short equity fund of funds manager with underlying portfolio investments consisting of publicly traded equity positions.
- (e) Investments with external direct real estate managers and fund of funds managers. Investment vehicles both closed end REITs and limited partnerships.
- (f) Yale University Endowment Pool maintains a diversified investment portfolio, through the use of external investment managers operating in a variety of investment vehicles, including separate accounts, limited partnerships and commingled funds. The pool combines an orientation to equity investments with an allocation to non-traditional asset classes such as an absolute return, private equity, and real assets.

Bridgeport Hospital

Notes to Financial Statements (continued)

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

The Hospital's ownership percentage of the Trust was approximately 3.5% and 3.8% as of September 30, 2011, and 2010, respectively. The Hospital's prorata portion of the Trust's investments are included in the above table. Primarily all of the above investments are deemed to be available for satisfying donor restrictions as they become due.

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, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Interest and dividend income, net	\$ 1,012	\$ 456
Realized gains on investments, net	466	410
Change in unrealized gains and losses investments	(387)	1,395
	<u>\$ 1,091</u>	<u>\$ 2,261</u>

5. Endowment

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

The Hospital has interpreted the Connecticut Uniform Prudent Management of Institutional Funds Act (CUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and 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.

Bridgeport Hospital

Notes to Financial Statements (continued)

5. Endowment (continued)

Changes in endowment net assets for the fiscal year ended September 30, 2011 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 80	\$ 14,695	\$ 17,308	\$ 32,083
Investment returns:				
Investment income	9	889	–	898
Net appreciation (realized and unrealized)	(2)	(245)	–	(247)
Total investment return	7	644	–	651
Appropriation of endowment assets for expenditure	–	(97)	–	(97)
Other changes:				
Contribution bequests	–	32	1,773	1,805
Endowment net assets, end of year	<u>\$ 87</u>	<u>\$ 15,274</u>	<u>\$ 19,081</u>	<u>\$ 34,442</u>

Changes in endowment net assets for the fiscal year ended September 30, 2010 are as follows (in thousands):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 71	\$ 13,623	\$ 12,232	\$ 25,926
Investment returns:				
Investment income	6	776	–	782
Net appreciation (realized and unrealized)	3	475	–	478
Total investment return	9	1,251	–	1,260
Appropriation of endowment assets for expenditure	–	(179)	–	(179)
Other changes:				
Contribution bequests	–	–	5,076	5,076
Endowment net assets, end of year	<u>\$ 80</u>	<u>\$ 14,695</u>	<u>\$ 17,308</u>	<u>\$ 32,083</u>

Bridgeport Hospital

Notes to 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 as of September 30 are available for the following purposes:

	2011	2010
	<i>(In Thousands)</i>	
Indigent care	\$ 15,538	\$ 12,855
Capital campaign	16	75
Other health care services	9,443	10,332
	\$ 24,997	\$ 23,262

Permanently restricted net assets of approximately \$19.1 million and \$17.3 million for the years ended September 30, 2011 and 2010, respectively, consists of donor-restricted endowment principal. The income generated from permanently restricted funds is expendable for purposes designated by donors, including the support of various health care services.

7. Long-Term Debt and Line of Credit

A summary of long-term debt at September 30 is as follows:

	2011	2010
	<i>(In Thousands)</i>	
Tax-exempt revenue bonds:		
Series A, fixed interest rates ranging from 3.5% to 6.625%	\$ 11,390	\$ 12,640
Series C, fixed interest rates ranging from 3.75% to 5.375%	35,755	37,450
Term loan, (3.22% fixed interest rate)	6,127	-
Capital lease obligation	317	-
	53,589	50,090
Less current portion	3,832	2,945
	\$ 49,757	\$ 47,145

Bridgeport Hospital

Notes to Financial Statements (continued)

7. Long-Term Debt (continued)

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. The 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.

In November 2010, the Hospital obtained a \$6.6 million term loan from CHEFA. The proceeds of the loan are to be used for the purchase and installation of energy savings equipment and various renovations and improvements to the Hospital's infrastructure. The loan is to be paid in monthly installments over 10 years at a fixed interest rate of 3.22%.

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

	Long- Term Debt	Capital Lease Obligations
2012	\$ 3,699	\$ 148
2013	3,903	80
2014	4,118	47
2015	4,338	47
2016	4,569	8
Thereafter	32,645	-
	\$ 53,272	330
Less interest		(13)
Total capital lease obligation		\$ 317

Cash paid on interest for the years ended September 30, 2011 and 2010 approximated \$3.1 million and \$3.0 million, respectively.

In connection with Series A and C bonds, the Hospital is required to maintain certain financial covenants. At September 30, 2011 and 2010, the Hospital was in compliance with its financial debt covenants.

Bridgeport Hospital

Notes to Financial Statements (continued)

7. Long-Term Debt (continued)

Assets recorded under the capital lease obligations totaled \$0.3 million as of September 30, 2011. Accumulated depreciation for the capital lease obligations totaled \$0.1 million September 30, 2011.

Line of Credit

As of September 30, 2010, 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 at September 30, 2010 and the line of credit expired during 2011.

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 matches employee 403(b) contributions on a bi-weekly basis, as defined by the defined contribution plan documents, and provides an annual contribution to the employees' accounts based on each employee's year of service and compensation. The Hospital expensed approximately \$10.1 million and \$9.8 million relating to the defined contribution plan for the years ended September 30, 2011 and 2010, respectively. Amounts due to the defined contribution plan amounted to \$5.8 million and \$5.5 million at September 30, 2011 and 2010, respectively, and are included in accrued expenses.

Bridgeport Hospital

Notes to 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	
	2011	2010
	<i>(In Thousands)</i>	
Change in benefit obligation		
Benefit obligation, beginning of year	\$ (159,195)	\$ (149,498)
Interest cost	(8,423)	(8,348)
Actuarial loss	(4,026)	(6,630)
Benefits paid	5,532	5,281
Benefit obligation, end of year	\$ (166,112)	\$ (159,195)
Change in plan assets		
Fair value of plan assets, beginning of year	\$ 103,733	\$ 95,277
Actual return on plan assets	(2,276)	8,737
Employer contribution	11,979	5,000
Benefits paid	(5,532)	(5,281)
Fair value of plan assets, end of year	\$ 107,904	\$ 103,733
Accrued obligation	\$ (58,208)	\$ (55,462)
Net amounts allocated to Parent	6,225	6,225
Accrued benefit cost	\$ (51,983)	\$ (49,237)

The accrued benefit obligation allocated to Parent is determined using the participant data of each entity.

The actuarial loss in 2011 and 2010 primarily relates to a decrease in the discount rate used to measure the benefit obligation.

Bridgeport Hospital

Notes to 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:

	2011	2010
	<i>(In Thousands)</i>	
Projected benefit obligation	\$ 166,112	\$ 159,195
Accumulated benefit obligation	166,112	159,195
Fair value of plan assets	107,904	103,733

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

	Pension Benefits	
	2011	2010
	<i>(In Thousands)</i>	
Components of net periodic benefit cost		
Interest cost	\$ 8,423	\$ 8,348
Expected rate of return on plan assets	(8,761)	(9,575)
Recognized net actuarial loss	896	447
Periodic benefit expense (credit) for measurement period	558	(780)
Less amounts allocated to affiliates	-	94
Benefit expense (credit)	\$ 558	\$ (874)

Assumptions

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

	Pension Benefits	
	2011	2010
Discount rate	5.2%	5.4%

Bridgeport Hospital

Notes to 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	
	2011	2010
Discount rate	5.4%	5.7%
Expected long-term return on plan assets	6.75	7.75

Measurement Date

The measurement date used to determine pension benefits is September 30 in 2011 and 2010.

Plan Assets

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

	Target Allocation 2012	Percentage of Plan Assets 2011	2010
Asset category:			
Equity securities	10%	14%	11%
Debt securities	75	73	77
Alternative investments	15	13	12
Total	100%	100%	100%

Financial assets carried at fair value as of September 30, 2011 and 2010 are classified in the following tables in one of the three categories described in footnote 13 (in thousands):

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 3,812	\$ —	\$ —	\$ 3,812
U.S. equity securities	14,623	—	—	14,623
International equity securities	—	—	5,312	5,312
Fixed income:				
U.S. government	31,939	7,719	—	39,658
Corporate debt	17,933	16,666	—	34,599
International government	360	—	—	360
Private equity	—	—	9,540	9,540
Total Investments as of September 30, 2011	\$ 68,667	\$ 24,385	\$ 14,852	\$ 107,904

Bridgeport Hospital

Notes to Financial Statements (continued)

8. Retirement Benefit Plans (continued)

	Level 1	Level 2	Level 3	Total
Money market funds	\$ 10,545	\$ –	\$ –	\$ 10,545
U.S. equity securities	11,964	–	–	11,964
Fixed income:				
U.S. government	36,632	11,308	–	47,940
Corporate debt	–	19,329	–	19,329
International government	1,632	–	–	1,632
Private equity	–	–	9,330	9,330
Hedge funds:				
Long/short equity	–	–	2,993	2,993
Total Investments as of September 30, 2010	<u>\$ 60,773</u>	<u>\$ 30,637</u>	<u>\$ 12,323</u>	<u>\$ 103,733</u>

The composition and presentation of financial assets categorized as Level 3 investments in the tables above for the fiscal year ended September 30, 2011 and 2010 are as follows (in thousands):

	Private Equity	International Equity	Hedge Funds	Total
Beginning balance as of October 1, 2010	\$ 9,330	\$ –	\$ 2,993	\$ 12,323
Realized gains	–	–	–	–
Unrealized gains (losses)	65	(688)	(93)	(716)
Purchases, sales, issuance, settlements, transfers, other	145	6,000	(2,900)	3,245
Ending balance as of September 30, 2011	<u>\$ 9,540</u>	<u>\$ 5,312</u>	<u>\$ –</u>	<u>\$ 14,852</u>

	Private Equity	International Equity	Hedge Funds	Total
Beginning balance as of October 1, 2009	\$ 8,906	\$ –	\$ 2,900	\$ 11,806
Realized gains	–	–	–	–
Unrealized gains	424	–	93	517
Purchases, sales, issuance, settlements, transfers, other	–	–	–	–
Ending balance as of September 30, 2010	<u>\$ 9,330</u>	<u>\$ –</u>	<u>\$ 2,993</u>	<u>\$ 12,323</u>

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.

Bridgeport Hospital

Notes to Financial Statements (continued)

8. Retirement Benefit Plans (continued)

The Hospital's pension portfolio return assumption of 6.75% 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.

Cash Flows

Contributions: The Hospital and its affiliates expected contribution to the defined benefit pension plan in fiscal year 2012 is approximately \$15.4 million.

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

2012	\$ 6,705
2013	6,843
2014	7,160
2015	7,428
2016	7,850
2017 to 2022	48,319

In addition, certain employees participate in a Hospital sponsored nonqualified pension benefit program. Included in other long-term liabilities in the accompanying balance sheets at September 30, 2011 and 2010 is approximately \$1.2 million and \$1.3 million, respectively, related to the obligation for the nonqualified benefits. The Hospital has established a trust with fair values of approximately \$1.1 million and \$0.8 million at September 30, 2011 and 2010, 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

Notes to 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, 2011 and 2010 was approximately \$15.5 million and \$16.6 million, respectively, and is reflected at the actuarially determined present value of approximately \$13.3 million and \$13.8 million, respectively, based on a discount rate of 3.5% in 2011 and 4.0% in 2010.

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 to be 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 financial position or results of operations of the Hospital.

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 2011 and 2010.

The Hospital has obtained a surety bond to provide coverage to the State of Connecticut for unemployment compensation in 2011 and 2010. There are no amounts outstanding during fiscal years 2011 and 2010.

The Hospital has various lease agreements. Lease expense for the fiscal years 2011 and 2010 was approximately \$3.1 million, respectively. Future minimum payments under these leases are as follows:

2012	\$ 3,089
2013	2,570
2014	2,290
2015	1,292
2016	1,227
Thereafter	4,639
	<u>\$ 15,107</u>

Bridgeport Hospital

Notes to Financial Statements (continued)

11. Functional Expenses

The Hospital provides general health care services to residents within its geographic location, including pediatric care, cardiac catheterization and outpatient surgery. Net expenses related to providing these services for the year ended September 30 are as follows:

	2011	2010
	<i>(In Thousands)</i>	
Health care services	\$ 297,515	\$ 273,168
General and administrative	85,763	77,047
	\$ 383,278	\$ 350,215

12. Related Party Transactions

The Hospital provides management services and purchases support and management services and participates in service contracts, lease agreements and other consulting contracts with affiliated organizations. The related amounts for the years ended September 30 were as follows:

	2011	2010
	<i>(In Thousands)</i>	
Services to affiliates:		
NEMG	\$ 529	\$ 257
SCHS Properties	15	15
BHHS	10	10
Mill Hill	-	257
	\$ 554	\$ 539
Services from affiliates:		
YNHH	\$ 3,193	\$ 2,520
BHHS	20	17
Mill Hill	-	5,801
SCHS Properties	136	129
NEMG	14,277	5,158
YNHHSC	28,729	26,073
	\$ 46,355	\$ 39,698

Bridgeport Hospital

Notes to Financial Statements (continued)

12. Related Party Transactions (continued)

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

	2011	2010
	<i>(In Thousands)</i>	
Operating expenses:		
Professional and general liability insurance	\$ 5,830	\$ 8,357
Information systems	3,466	2,952
System business office	6,357	6,164
Other business services	18,906	16,957
	\$ 34,559	\$ 34,430

The Hospital funds certain capital assets purchased by YNHHSC. Included in prepaid expenses and other assets were approximately \$9.2 million at September 30, 2011 and approximately \$1.3 million at September 30, 2010.

Included in depreciation and amortization expense for the years ended September 30, 2011 and 2010 is approximately \$0.3 million and \$0.4 million, respectively, of costs allocated from YNHHSC for shared capital projects.

Accounts receivable from and payable to related organizations included in prepaid expenses and other assets, and accrued expenses, respectively, in the accompanying balance sheets for the years ended September 30 are as follows:

	2011	2010
	<i>(In Thousands)</i>	
Accounts receivable:		
Properties	\$ 23	\$ 99
Foundation	353	325
NEMG	2,780	—
	\$ 3,156	\$ 424
Accounts payable:		
BHHS	\$ 6,168	\$ 1,022
YNHHSC	10,004	6,325
NEMG	—	170
YNHH	362	433
	\$ 16,534	\$ 7,950

Bridgeport Hospital

Notes to Financial Statements (continued)

13. 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.

ASC 820-10, *Fair Value Measurements*, 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.

Financial assets carried at fair value as of September 30, 2011 and 2010 are classified in the following tables in two of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 37,123	\$ –	\$ –	\$ 37,123
Money market funds	1,527	–	–	1,527
U.S. equity securities	1,868	–	–	1,868
International equity securities	1,606	–	–	1,606
Fixed income				
U.S. government	13,825	–	–	13,825
Corporate debt	10,460	–	–	4,672
International government	1,224	–	–	1,224
Interest in Yale University endowment pool	–	11,933	–	11,933
Investments at fair value	\$ 67,633	\$ 11,933	\$ –	79,566
Common collective trusts				3,532
Alternative investments				2,569
Investments not at fair value				6,101
Total investments as of September 30, 2011				\$ 85,667

Bridgeport Hospital

Notes to Financial Statements (continued)

13. Fair Value Measurements (continued)

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 44,477	\$ –	\$ –	\$ 44,477
Money market funds	1,439	–	–	1,439
U.S. equity securities	1,968	–	–	1,968
International equity securities	3,039	–	–	3,039
Fixed income				
U.S. government	11,480	–	–	11,480
Corporate debt	10,584	–	–	10,584
International government	440	–	–	440
Interest in Yale University endowment pool	–	7,567	–	7,567
Investments at fair value	\$ 73,427	\$ 7,567	\$ –	80,994
Common collective trusts				5,624
Alternative investments				3,207
Investments not at fair value				8,831
Total investments as of September 30, 2010				\$ 89,825

Fair values of the Hospital'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, 2011 and 2010 is \$59.2 million and \$53.0 million.

The Hospital's alternative investments and common collective trusts are reported using the equity method of accounting (see note 1).

14. Subsequent Events

Subsequent events have been evaluated through December 21, 2011, which is the date the financial statements were available to be issued. No events have occurred that require disclosure or adjustment of the financial statements.

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