



CONSOLIDATED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

Bridgeport Hospital & Healthcare Services, Inc. and  
Subsidiaries  
Years Ended September 30, 2011 and 2010  
with Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

# Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

## Consolidated Financial Statements and Other Financial Information

Years Ended September 30, 2011 and 2010

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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, 2011 and 2010, 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 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 BHHS’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 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 audits provide 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, 2011 and 2010, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

December 21, 2011

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidated Balance Sheets

	<b>September 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 37,449	\$ 45,152
Short term investments	43,693	42,391
Accounts receivable for services to patients, less allowances for uncollectible accounts, charity and free care of approximately \$18,248 in 2011 and \$17,020 in 2010	41,819	29,146
Other receivables	1,822	2,851
Prepaid expenses and other current assets	6,513	5,747
Assets limited as to use	3,616	1,446
Third-party payor receivables	2,403	1,411
Total current assets	<b>137,315</b>	128,144
Assets limited as to use	6,891	6,336
Long-term investments	43,246	40,789
Other assets	16,692	7,645
Long-term third party payor receivables	1,898	1,288
Property, plant and equipment:		
Land, buildings and improvements	126,665	127,420
Equipment	245,257	235,460
	<b>371,922</b>	362,880
Less accumulated depreciation and amortization	265,257	249,254
	<b>106,665</b>	113,626
Construction in progress	18,530	4,946
	<b>125,195</b>	118,572
Total assets	<b>\$ 331,237</b>	\$ 302,774

	<b>September 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 13,308	\$ 11,470
Accrued expenses	40,168	34,734
Current portion of long-term debt	3,832	2,945
Third-party payor liabilities	3,987	2,857
Total current liabilities	<u>61,295</u>	52,006
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	58,208	55,462
Other long-term liabilities	19,012	19,209
Total liabilities	<u>215,095</u>	202,182
Commitments and contingencies		
Net assets:		
Unrestricted	72,064	60,022
Temporarily restricted	24,997	23,262
Permanently restricted	19,081	17,308
Total net assets	<u>116,142</u>	100,592
Total liabilities and net assets	<u><u>\$ 331,237</u></u>	<u><u>\$ 302,774</u></u>

*See accompanying notes.*

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

	<b>Years Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
Operating revenue:		
Net patient service revenue	\$ 409,615	\$ 369,432
Other revenue	6,230	6,446
Net assets released from restrictions used for operations	4,651	4,135
Total operating revenue	<b>420,496</b>	380,013
Operating expenses:		
Salaries and benefits	187,168	184,024
Supplies and other expenses	172,988	147,469
Depreciation and amortization	17,957	17,942
Bad debts	12,302	13,505
Interest	3,110	3,059
Total operating expenses	<b>393,525</b>	365,999
Income from operations	<b>26,971</b>	14,014
Non-operating gains and losses:		
Income from investments, donations, and other, net	642	269
Changes in unrealized gains and losses on investments	(680)	1,497
Excess of revenue over expenses	<b>26,933</b>	15,780

*(Continued on next page.)*

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

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

	<b>Years Ended September 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
Unrestricted net assets:		
Excess of revenue over expenses	\$ 26,933	\$ 15,780
Net assets released from restrictions used for capital acquisitions	535	3,407
Transfers to Yale-New Haven Health Services Corporation	(2,325)	–
Transfers from Yale-New Haven Health Services Corporation	900	–
Other transfers	166	19
Pension liability adjustment	(14,167)	(7,021)
Increase in unrestricted net assets	<b>12,042</b>	12,185
Temporarily restricted net assets:		
Net assets released from restrictions used for operations	(4,651)	(4,135)
Net assets released from restrictions used for capital acquisitions	(535)	(3,407)
Change in unrealized gains and losses on investments	(202)	1,235
Bequests, contributions, and grants	5,613	2,267
Net realized investment gains	1,267	680
Other changes in net assets	243	–
Increase (decrease) in temporarily restricted net assets	<b>1,735</b>	(3,360)
Permanently restricted net assets:		
Bequests, contributions, and grants	1,773	5,076
Increase in permanently restricted net assets	<b>1,773</b>	5,076
Increase in net assets	<b>15,550</b>	13,901
Net assets at beginning of year	<b>100,592</b>	86,691
Net assets at end of year	<b>\$ 116,142</b>	<b>\$ 100,592</b>

*See accompanying notes.*

# Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

	<b>Year Ended</b>	
	<b>September 30</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 15,550	\$ 13,901
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,957	17,942
Bad debts	12,302	13,505
Change in unrealized gains and losses on investments	882	(2,733)
Net assets released from restrictions used for capital acquisitions	535	(3,407)
Bequests, contributions, and grants	(7,386)	(7,343)
Net realized gains and investment income	2,997	(962)
Change in pension obligation	14,167	7,021
Changes in operating assets and liabilities:		
Accounts receivable, net	(24,975)	(7,816)
Other receivables	1,029	(874)
Prepaid expenses and other assets	(11,130)	(1,409)
Accounts payable	1,838	2,502
Accrued expenses	5,434	(2,616)
Net change in pension	(11,421)	(5,780)
Net change in third-party payors	(1,642)	7,697
Professional and general insurance and other long-term liabilities	(562)	(2,250)
Net cash provided by operating activities	<u>15,575</u>	<u>27,378</u>
<b>Cash flows from investing activities</b>		
Net change in investments	(4,641)	(12,706)
Assets limited as to use	(2,727)	146
Acquisitions of property, plant and equipment, net	(23,263)	(13,667)
Gain on sale of assets	-	(14)
Net realized gains and investment income	(2,997)	962
Net cash used in investing activities	<u>(33,628)</u>	<u>(25,279)</u>
<b>Cash flows from financing activities</b>		
Issuance of long-term debt	6,607	-
Repayments of long-term debt	(3,108)	(2,785)
Bequests, contributions, and grants	7,386	7,343
Net assets released from restrictions used for capital acquisitions	(535)	3,407
Net cash provided by financing activities	<u>10,350</u>	<u>7,965</u>
Net (decrease) increase in cash and cash equivalents	<u>(7,703)</u>	<u>10,064</u>
Cash and cash equivalents at beginning of year	<u>45,152</u>	<u>35,088</u>
Cash and cash equivalents at end of year	<u>\$ 37,449</u>	<u>\$ 45,152</u>

*See accompanying notes.*

# Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements

September 30, 2011

### **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”), Southern Connecticut Health Services, Inc. (the “Parent”), and Ahlbin Centers for Rehabilitation Medicine, Inc. (“Ahlbin”). BHHS had 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.

Effective April 1, 2010, the operations of Mill Hill was assumed by YNHHSC and began operating as Northeast Medical Group, Inc. (“NEMG”). YNHHSC is the sole member of NEMG. The operations of Mill Hill for the six months ended March 31, 2010 are included in the accompanying consolidated financial statements.

# Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

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.

#### **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.

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 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. See Notes 5 and 6 for additional information relative to temporarily and permanently restricted net assets.

# Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

## Notes to Consolidated 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.

Pledges receivable are included in other receivables (\$0.2 million and \$0.4 million at September 30, 2011 and 2010, respectively) and other assets (\$0.1 million at September 30, 2011 and 2010, respectively) in the accompanying consolidated balance sheets. Pledges receivable are anticipated to be received as follows at September 30:

	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
Due in one year or less	\$ 179	\$ 448
Due after one year through five years	34	52
Total pledges receivable	<u>213</u>	<u>500</u>
Less allowance for doubtful pledges	10	31
Pledges receivable, net	<u>\$ 203</u>	<u>\$ 469</u>

#### 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.

# Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

The amount of the allowances for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

#### **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 excess of revenue 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.

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.

# Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

Certain alternative investments (nontraditional, not-readily-marketable assets) 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.

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

#### **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, and money market funds. Changes in unrealized gains and losses are recorded in the excess of revenue over expenses and losses.

#### **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.

# Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

### 1. Organization and Significant Accounting Policies (continued)

#### Benefits and Insurance

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

The Hospital 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, 2011 and 2010, the estimated liability for self-insured workers’ compensation claims and IBNRs aggregated approximately \$4.1 million and \$3.8 million, respectively, discounted at 3.5% in 2011 and 4.0% in 2010, 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 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.

# Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (continued)

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

#### **Excess of Revenue over Expenses**

The accompanying consolidated 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 nonoperating. Nonoperating gains primarily consist of other income. Changes in unrestricted net assets, which are excluded from excess revenue over expenses, 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 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 & Healthcare Services, Inc. and Subsidiaries

## Notes to Consolidated 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 consolidated 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 consolidated 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. 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.

## 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)**

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.

Revenue from Medicare and Medicaid programs accounted for approximately 36% and 19%, respectively, of the BHHS net patient service revenue for the year ended September 30, 2011 and 37% and 20%, respectively, of the BHHS'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.

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 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 & 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, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Gross revenue from patients	<b>\$ 1,300,540</b>	\$ 1,211,791
Deductions:		
Contractual allowances	<b>861,347</b>	817,020
Charity and free care (at charges)	<b>29,578</b>	25,339
Net patient service revenue	<b><u>\$ 409,615</u></b>	<u>\$ 369,432</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 \$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.

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, 2011 and 2010, 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 \$18.2 million and \$17.0 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.

#### 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>2011</u>	<u>2010</u>
	<i>(In Thousands)</i>	
Assets limited as to use:		
Money market funds	\$ 6	\$ 34
U.S. government	4,249	1,442
Corporate debt	5,895	5,958
U.S. equity securities	357	348
	<u>\$ 10,507</u>	<u>\$ 7,782</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 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	\$ 17,383	\$ 15,289
U.S. equity securities	2,316	2,438
U.S. equity securities – common collective trusts	2,792	5,030
International equity securities (a)	8,941	5,948
Fixed income:		
U.S. government	14,922	14,687
U.S. government – common collective trusts	4,875	6,812
Corporate debt	4,672	10,771
International government (b)	2,655	1,120
Commodities	85	88
Hedge funds:		
Absolute return (c)	3,032	4,415
Long/short equity (d)	1,060	1,006
Real estate (e)	852	767
Interest in Yale University endowment pool (f)	23,354	14,809
Total	\$ 86,939	\$ 83,180

- (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 a strong orientation to equity investments with a strong allocation to non-traditional asset classes such as an absolute return, private equity, and real assets.

## Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

BHHS ownership percentage of the Trust was approximately 7.1% and 7.4% as of September 30, 2011 and 2010, respectively. BHHS's prorata portion of the Trust's investments are included in the above table.

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	\$ 2,453	\$ 1,075
Realized gains on investments, net	544	940
Change in unrealized gains and losses investments	<u>(882)</u>	<u>2,737</u>
	<u>\$ 2,115</u>	<u>\$ 4,752</u>

BHHS has a 47.6% equity interest in Century Financial Services, Inc. ("Century"). At September 30, 2011 and 2010, 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.

#### 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.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**5. Endowment (continued)**

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, 2011 are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
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>

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**5. Endowment (continued)**

Changes in endowment net asset for the fiscal year ended September 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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:				
Contributions	—	—	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>

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:

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

## Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 6. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets of approximately \$19.1 million and \$17.3 million at September 30, 2011 and 2010, 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

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

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.

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%.

## Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

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

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

	<b>Long- Term Debt</b>	<b>Capital Lease Obligations</b>
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.

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.

## Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 8. Retirement Benefit Plans (continued)

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 expensed approximately \$10.1 million relating to the defined contribution plan for the year ended September 30, 2011 and the Hospital and Mill Hill expensed approximately \$10.5 million relating to the defined contribution plan for the year ended September 30 2010. 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

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

	<b>Pension Benefits</b>	
	<b>2011</b>	<b>2010</b>
	<i>(In Thousands)</i>	
<b>Change in benefit obligation</b>		
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	<u>\$ (166,112)</u>	<u>\$ (159,195)</u>
<b>Change in plan assets</b>		
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	<u>\$ 107,904</u>	<u>\$ 103,733</u>
Accrued obligation	<u>\$ (58,208)</u>	<u>\$ (55,462)</u>

The actuarial loss in 2011 and 2010 primarily relates to a decrease 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>2011</u>	<u>2010</u>
	<i>(In Thousands)</i>	
Projected benefit obligation	<b>\$ 166,112</b>	\$ 159,195
Accumulated benefit obligation	<b>166,112</b>	159,195
Fair value of plan assets	<b>107,904</b>	103,733

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

	<b>Pension Benefits</b>	
	<u>2011</u>	<u>2010</u>
	<i>(In Thousands)</i>	
<b>Components of net periodic benefit cost</b>		
Interest cost	<b>\$ 8,423</b>	\$ 8,348
Expected rate of return on plan assets	<b>(8,761)</b>	(9,575)
Recognized net actuarial loss	<b>896</b>	447
Periodic benefit credit for measurement period	<b>\$ 558</b>	\$ (780)

**Assumptions**

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

	<b>Pension Benefits</b>	
	<u>2011</u>	<u>2010</u>
Discount rate	<b>5.2%</b>	5.4%

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:

	<b>Pension Benefits</b>	
	<b>2011</b>	<b>2010</b>
Discount rate	<b>5.4%</b>	5.7%
Expected long-term return on plan assets	<b>6.75</b>	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:

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

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):

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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	<u>\$ 68,667</u>	<u>\$ 24,385</u>	<u>\$ 14,852</u>	<u>\$ 107,904</u>

# Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

## Notes to Consolidated 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 & Healthcare Services, Inc. and Subsidiaries

### Notes to Consolidated 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 nonqualified pension benefit program sponsored by the Hospital. 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 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 & 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, 2011 and 2010 was approximately \$15.5 million and \$16.6 million, respectively, and are 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 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 \$3.9 million and \$3.8 million respectively, for each of the fiscal years ended 2011 and 2010.

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. There were no amounts outstanding in 2011 or 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 & 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:

	<u>2011</u>	<u>2010</u>
	<i>(In Thousands)</i>	
Health care services	<b>\$ 297,358</b>	\$ 282,777
General and administrative	<b>96,167</b>	83,222
	<b><u>\$ 393,525</u></b>	<b><u>\$ 365,999</u></b>

#### 12. Related Party Transactions

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

	<u>2011</u>	<u>2010</u>
	<i>(In Thousands)</i>	
Operating expenses:		
Professional and general liability insurance	<b>\$ 5,830</b>	\$ 10,018
Information systems	<b>3,466</b>	2,952
System business office	<b>6,357</b>	6,164
Other business services	<b>18,906</b>	16,957
	<b><u>\$ 34,559</u></b>	<b><u>\$ 36,091</u></b>

The Hospital funds certain capital assets purchased by YNHHS. 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 each of the years ended September 30, 2011 and 2010 is approximately \$0.3 million and \$0.4 million, respectively, of costs allocated from YNHHS for shared capital projects.

Included in supplies and other expenses are amounts paid to YNHHS for Physician related strategic support of approximately \$7.0 million and \$0.8 million for the years ended September 30, 2011 and 2010, respectively.

## 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:

	2011	2010
	<i>(In Thousands)</i>	
Accounts receivable:		
NEMG	<b>\$ 2,780</b>	\$ 964
	<b>\$ 2,780</b>	\$ 964
Accounts payable:		
YNHHSC	<b>\$14,732</b>	\$ 7,076
YNHH	<b>362</b>	433
	<b>\$15,094</b>	\$ 7,509

#### 13. Fair Values Measurements

In determining fair value, the BHHS 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.

## Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements (continued)

#### 13. Fair Value Measurements (continued)

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	\$ 37,449	\$ —	\$ —	\$ 37,449
Money market funds	17,389	—	—	17,389
U.S. equity securities	2,673	—	—	2,673
International equity securities	8,941	—	—	8,941
Fixed income				
U.S. government	19,171	—	—	19,171
Corporate debt	10,567	—	—	10,567
International government	2,655	—	—	2,655
Interest in Yale University endowment pool	—	23,354	—	23,354
Investments at fair value	<u>\$ 98,845</u>	<u>\$ 23,354</u>	<u>\$ —</u>	<u>122,199</u>
Common collective trusts				7,667
Alternative investments				5,029
Investments not at fair value				<u>12,696</u>
Total investments as of September 30, 2011				<u>\$ 134,895</u>

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 45,152	\$ —	\$ —	\$ 45,152
Money market funds	15,323	—	—	15,323
U.S. equity securities	2,786	—	—	2,786
International equity securities	5,948	—	—	5,948
Fixed income				
U.S. government	16,130	—	—	16,130
Corporate debt	16,728	—	—	16,728
International government	1,120	—	—	1,120
Interest in Yale University endowment pool	—	14,809	—	14,809
Investments at fair value	<u>\$ 103,187</u>	<u>\$ 14,809</u>	<u>\$ —</u>	<u>117,996</u>
Common collective trusts				11,842
Alternative investments				6,276
Investments not at fair value				<u>18,118</u>
Total investments as of September 30, 2010				<u>\$ 136,114</u>

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, 2011 and 2010 is \$59.2 million and \$53.0 million, respectively.

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (continued)

**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.

## 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 statement 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.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

December 21, 2011

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidating Balance Sheet

September 30, 2011

(In Thousands)

	Hospital	Foundation	Eliminating Entries	Obligated Group	Parent	Properties	Eliminations	Total
<b>Assets</b>								
Current assets:								
Cash and cash equivalents	\$ 37,123	\$ 169	\$ –	\$ 37,292	\$ 150	\$ 7	\$ –	\$ 37,449
Short term investments	18,455	25,238	–	43,693	–	–	–	43,693
Accounts receivable	41,819	–	–	41,819	–	–	–	41,819
Other receivables	1,628	170	–	1,798	24	–	–	1,822
Prepaid expenses and other current assets	6,383	123	–	6,506	–	7	–	6,513
Third party payor receivables	2,403	–	–	2,403	–	–	–	2,403
Due from affiliates	376	–	(353)	23	6,168	–	(6,191)	–
Assets limited as to use	3,616	–	–	3,616	–	–	–	3,616
Total current assets	111,803	25,700	(353)	137,150	6,342	14	(6,191)	137,315
Assets limited as to use	5,788	1,103	–	6,891	–	–	–	6,891
Long-term investments	20,685	22,561	–	43,246	–	–	–	43,246
Interest in Bridgeport Hospital Foundation, Inc.	48,588	–	(48,588)	–	–	–	–	–
Long-term third party payor receivable	1,898	–	–	1,898	–	–	–	1,898
Other assets	15,604	163	–	15,767	925	–	–	16,692
Property, plant and equipment:								
Land, buildings and improvements	125,249	106	–	125,355	–	1,310	–	126,665
Equipment	245,237	20	–	245,257	–	–	–	245,257
	370,486	126	–	370,612	–	1,310	–	371,922
Less accumulated depreciation and amortization	(264,952)	(74)	–	(265,026)	–	(231)	–	(265,257)
	105,534	52	–	105,586	–	1,079	–	106,665
Construction in progress	18,530	–	–	18,530	–	–	–	18,530
	124,064	52	–	124,116	–	1,079	–	125,195
Total assets	\$ 328,430	\$ 49,579	\$ (48,941)	\$ 329,068	\$ 7,267	\$ 1,093	\$ (6,191)	\$ 331,237

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2011

(In Thousands)

	Hospital	Foundation	Eliminating Entries	Obligated Group	Parent	Properties	Eliminations	Total
<b>Liabilities and net assets</b>								
Current liabilities:								
Accounts payable	\$ 13,294	\$ 14	\$ –	\$ 13,308	\$ –	\$ –	\$ –	\$ 13,308
Accrued expenses	35,130	254	–	35,384	4,764	20	–	40,168
Due to affiliates	6,168	353	(353)	6,168	–	23	(6,191)	–
Current portion of long-term debt	3,832	–	–	3,832	–	–	–	3,832
Third-party payor liabilities	3,987	–	–	3,987	–	–	–	3,987
Total current liabilities	62,411	621	(353)	62,679	4,764	43	(6,191)	61,295
Long-term debt, net of current portion	49,757	–	–	49,757	–	–	–	49,757
Professional and general insurance liabilities	13,033	–	–	13,033	–	–	–	13,033
Long-term third-party payor liabilities	13,790	–	–	13,790	–	–	–	13,790
Accrued pension liability	51,983	–	–	51,983	6,225	–	–	58,208
Other long-term liabilities	18,642	370	–	19,012	–	–	–	19,012
Total liabilities	209,616	991	(353)	210,254	10,989	43	(6,191)	215,095
Net assets:								
Unrestricted	74,736	25,194	(25,194)	74,736	(3,722)	1,050	–	72,064
Temporarily restricted	24,997	9,711	(9,711)	24,997	–	–	–	24,997
Permanently restricted	19,081	13,683	(13,683)	19,081	–	–	–	19,081
Total net assets	118,814	48,588	(48,588)	118,814	(3,722)	1,050	–	116,142
Total liabilities and net assets	\$ 328,430	\$ 49,579	\$ (48,941)	\$ 329,068	\$ 7,267	\$ 1,093	\$ (6,191)	\$ 331,237

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

Consolidating Statement of Operations and Changes in Net Assets

For the Year Ended September 30, 2011

(In Thousands)

	Hospital	Foundation	Eliminating Entries	Obligated Group	Parent	Properties	Eliminations	Total
Operating revenue:								
Net patient service revenue	\$ 409,615	\$ -	\$ -	\$ 409,615	\$ -	\$ -	\$ -	\$ 409,615
Other revenue	5,876	-	-	5,876	231	280	(157)	6,230
Net assets released from restrictions used for operations	1,831	2,820	-	4,651	-	-	-	4,651
Total operating revenue	417,322	2,820	-	420,142	231	280	(157)	420,496
Operating expenses:								
Salaries and benefits	187,168	-	-	187,168	-	-	-	187,168
Supplies and other expenses	162,819	2,820	-	165,639	7,179	327	(157)	172,988
Depreciation and amortization	17,879	-	-	17,879	-	78	-	17,957
Bad debts	12,302	-	-	12,302	-	-	-	12,302
Interest	3,110	-	-	3,110	-	-	-	3,110
Total operating expenses	383,278	2,820	-	386,098	7,179	405	(157)	393,525
Income from operations	34,044	-	-	34,044	(6,948)	(125)	-	26,971
Non-operating gains (losses):								
Net changes in interest in the Foundation	(278)	-	278	-	-	-	-	-
Income from investments, donations, and other, net	657	(15)	-	642	-	-	-	642
Change in unrealized losses and investments	(417)	(263)	-	(680)	-	-	-	(680)
Excess (deficiency) of revenue over expenses	34,006	(278)	278	34,006	(6,948)	(125)	-	26,933

Bridgeport Hospital & Healthcare Services, Inc. and Subsidiaries

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

For the Year Ended September 30, 2011

(In Thousands)

	Hospital	Foundation	Eliminating Entries	Obligated Group	Parent	Properties	Eliminations	Total
Unrestricted net assets:								
Excess (deficiency) of revenue over expenses	\$ 34,006	\$ (278)	\$ 278	\$ 34,006	\$ (6,948)	\$ (125)	\$ -	\$ 26,933
Net changes in interest in the Foundation – change in unrealized gains and losses on investments and other transfers	166	-	(166)	-	-	-	-	-
Net assets released from restrictions used for capital acquisitions	535	-	-	535	-	-	-	535
Other transfers	-	166	-	166	-	-	-	166
Transfers to/from BHHS	(8,821)	-	-	(8,821)	8,821	-	-	-
Transfers from YNHHS	900	-	-	900	-	-	-	900
Transfers to YNHHS	(412)	-	-	(412)	(1,963)	50	-	(2,325)
Pension liability adjustment	(14,167)	-	-	(14,167)	-	-	-	(14,167)
Increase (decrease) in unrestricted net assets	12,207	(112)	112	12,207	(90)	(75)	-	12,042
Temporarily restricted net assets:								
Net changes in interest in the Foundation:								
Change in unrealized gains and losses on investments	(232)	-	232	-	-	-	-	-
Net assets released from restrictions used for operations	(2,820)	-	2,820	-	-	-	-	-
Transfers to the Hospital	(2,130)	-	2,130	-	-	-	-	-
Bequests, contributions, and grants	5,390	-	(5,390)	-	-	-	-	-
Other changes in net assets	631	-	(631)	-	-	-	-	-
Net realized investment gains and losses	446	-	(446)	-	-	-	-	-
Net assets from restrictions used for operations	(1,831)	(2,820)	-	(4,651)	-	-	-	(4,651)
Change in unrealized gains and losses on investments	30	(232)	-	(202)	-	-	-	(202)
Net assets released from restrictions used for capital acquisitions	(535)	-	-	(535)	-	-	-	(535)
Bequests, contributions, and grants	223	5,390	-	5,613	-	-	-	5,613
Net realized investment gains and losses	821	446	-	1,267	-	-	-	1,267
Other changes in net assets	(388)	631	-	243	-	-	-	243
Transfers from the Foundation and other transfers	2,130	(2,130)	-	-	-	-	-	-
Increase (decrease) in temporarily restricted net assets	1,735	1,285	(1,285)	1,735	-	-	-	1,735
Permanently restricted net assets:								
Bequests, contributions, and grants	1,773	1,773	(1,773)	1,773	-	-	-	1,773
Increase (decrease) in permanently restricted net assets	1,773	1,773	(1,773)	1,773	-	-	-	1,773
Increase (decrease) in net assets	15,715	2,946	(2,946)	15,715	(90)	(75)	-	15,550
Net assets at beginning of year	103,099	45,642	(45,642)	103,099	(3,632)	1,125	-	100,592
Net assets (deficiency) at end of year	\$ 118,814	\$ 48,588	\$ (48,588)	\$ 118,814	\$ (3,722)	\$ 1,050	\$ -	\$ 116,142

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