



**YALE NEW HAVEN HEALTH SERVICES CORPORATION  
D/B/A YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES**

Independent Auditors' Reports as Required by Title 2 U.S. Code of  
Federal Regulations Part 200, *Uniform Administrative Requirements, Cost  
Principles, and Audit Requirements for Federal Awards and Government  
Auditing Standards* and Related Information

Year Ended September 30, 2019

**YALE NEW HAVEN HEALTH SERVICES CORPORATION  
D/B/A YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES**

Independent Auditors' Reports as Required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and Government Auditing Standards* and Related Information

Year ended September 30, 2019

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## Independent Auditors' Report

The Board of Trustees  
Yale New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries:

We have audited the accompanying consolidated financial statements of Yale New Haven Health Services Corporation, d/b/a Yale New Haven Health System and subsidiaries, which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Yale New Haven Health Services Corporation as of September 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



*Emphasis of Matter*

As discussed in note 1(z) to the consolidated financial statements, the System adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and ASU No. 2014-09, *Revenue from Contracts with Customers* during the year ended September 30, 2019 on a retrospective basis. Our opinion is not modified with respect to these matters.

*Other Matters*

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statement as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

KPMG LLP

December 20, 2019

**YALE NEW HAVEN HEALTH SERVICES CORPORATION**  
(d/b/a Yale New Haven Health System and Subsidiaries)

Consolidated Balance Sheets

September 30, 2019 and 2018

(In thousands)

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Current assets:		
Cash and cash equivalents	\$ 532,280	714,309
Short-term investments	2,012,797	1,339,022
Net patient receivables	577,341	495,387
Professional liabilities insurance recoveries receivable	49,737	61,954
Other assets	203,260	155,188
Assets limited as to use – debt service fund	<u>6,553</u>	<u>5,951</u>
Total current assets	3,381,968	2,771,811
Assets limited as to use	155,671	157,436
Long-term investments	331,452	660,786
Interest in the net assets of Greenwich Hospital Endowment Fund, Inc. (GHEF)	98,754	102,654
Professional liabilities insurance recoveries receivable	130,959	113,081
Other assets	143,264	139,871
Property, plant, and equipment, net	2,078,350	1,990,776
Goodwill	<u>185,262</u>	<u>126,470</u>
Total assets	\$ <u><u>6,505,680</u></u>	\$ <u><u>6,062,885</u></u>

**YALE NEW HAVEN HEALTH SERVICES CORPORATION**  
(d/b/a Yale New Haven Health System and Subsidiaries)

Consolidated Balance Sheets

September 30, 2019 and 2018

(In thousands)

<b>Liabilities and Net Assets</b>	<b>2019</b>	<b>2018</b>
Current liabilities:		
Accounts payable and accrued expenses	\$ 791,158	694,509
Current portion of long-term debt	24,778	24,598
Current portion of capital lease obligation	5,203	4,338
Current portion of professional liabilities	50,276	61,954
Variable rate debt classified as current	220,305	108,275
Other liabilities	69,884	91,828
Total current liabilities	<u>1,161,604</u>	<u>985,502</u>
Long-term debt, net of current portion and deferred financing costs	672,491	810,053
Long-term capital lease obligations, net of current portion	128,569	132,691
Accrued pension and postretirement benefit obligations	415,148	238,478
Professional liabilities, net of current portion	217,402	191,385
Other liabilities	384,543	315,259
Deferred revenue	37,767	39,005
Total liabilities	<u>3,017,524</u>	<u>2,712,373</u>
Net assets:		
Net assets without donor restrictions	3,114,197	2,981,711
Net assets with donor restrictions	373,959	368,801
Total net assets	<u>3,488,156</u>	<u>3,350,512</u>
Total liabilities and net assets	<u>\$ 6,505,680</u>	<u>6,062,885</u>

See accompanying notes to consolidated financial statements.

**YALE NEW HAVEN HEALTH SERVICES CORPORATION**  
(d/b/a Yale New Haven Health System and Subsidiaries)

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions:		
Net patient service revenue	\$ 4,626,740	4,297,320
Other revenue	<u>332,194</u>	<u>282,719</u>
Total operating revenue	<u>4,958,934</u>	<u>4,580,039</u>
Operating expenses:		
Salaries and benefits	2,385,230	2,232,817
Supplies and other	2,050,710	1,840,475
Depreciation and amortization	195,513	197,925
Insurance	62,610	49,962
Interest	<u>38,186</u>	<u>37,191</u>
Total operating expenses	<u>4,732,249</u>	<u>4,358,370</u>
Income from operations	<u>226,685</u>	<u>221,669</u>
Nonoperating gains (losses), net:		
Income from investments, donations, and other, net	76,966	121,902
Loss on refunding	(3,215)	—
Change in fair value of swap, including counterparty payments	<u>(45,914)</u>	<u>14,002</u>
Total nonoperating gains, net	<u>27,837</u>	<u>135,904</u>
Excess of revenue over expenses	254,522	357,573
Other changes in net assets without donor restrictions:		
Other	1,220	(6,077)
Net assets restricted for Greenwich Hospital Foundation	—	(73,651)
Net assets released from restrictions for purchases of fixed assets	42,641	44,409
Pension and postretirement related changes other than net periodic benefit cost	<u>(165,897)</u>	<u>65,819</u>
Changes in net assets without donor restrictions	<u>132,486</u>	<u>388,073</u>

**YALE NEW HAVEN HEALTH SERVICES CORPORATION**  
(d/b/a Yale New Haven Health System and Subsidiaries)

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2019 and 2018

(In thousands)

	<u>2019</u>	<u>2018</u>
Net assets with donor restrictions:		
Income from investments	\$ 4,603	3,418
Net realized and unrealized gains on investments	3,917	17,758
Bequests and contributions	69,488	63,662
Net assets released from restrictions for purchases of fixed assets	(42,674)	(44,409)
Net assets released from restrictions for operations	(18,004)	(25,168)
Net assets released from restrictions for clinical programs	(7,939)	(4,102)
Net assets restricted for Greenwich Hospital Foundation	(5,000)	73,651
Change in beneficial interest in perpetual trusts	(675)	803
Other	1,442	(675)
	<u>5,158</u>	<u>84,938</u>
Changes in net assets with donor restrictions		
Increase in net assets	137,644	473,011
Net assets at beginning of year	<u>3,350,512</u>	<u>2,877,501</u>
Net assets at end of year	\$ <u><u>3,488,156</u></u>	<u><u>3,350,512</u></u>

See accompanying notes to consolidated financial statements.

**YALE NEW HAVEN HEALTH SERVICES CORPORATION**  
(d/b/a Yale New Haven Health System and Subsidiaries)

Consolidated Statements of Cash Flows  
Years ended September 30, 2019 and 2018  
(In thousands)

	<b>2019</b>	<b>2018</b>
Operating activities:		
Increase in net assets	\$ 137,644	473,011
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	195,513	197,925
Net realized and change in net unrealized gains and losses on investments	(40,209)	(160,646)
Change in fair value of interest rate swap agreements	41,662	(20,548)
Amortization of long-term debt premium	(2,272)	(3,923)
Amortization of deferred financing costs	561	518
Loss (gain) on refunding of debt	3,215	(326)
Change in beneficial interest in perpetual trusts	675	(803)
Bequests and contributions	(44,355)	(47,810)
Pension and postretirement related changes other than net periodic benefit cost	165,897	(65,819)
Changes in operating assets and liabilities:		
Accounts receivable	(77,320)	(42,067)
Other assets and goodwill	(49,323)	(46,707)
Accounts payable and accrued expenses	76,284	57,521
Professional insurance recoveries and liabilities	8,678	3,435
Other liabilities, accrued pension and postretirement benefit obligations and deferred revenue	(34,957)	21,876
Net cash provided by operating activities	381,693	365,637
Investing activities:		
Acquisitions of property, plant, and equipment	(244,980)	(307,910)
Purchases of investments	(970,968)	(605,224)
Sales of investments	671,835	909,462
Cash paid for the acquisition	(32,168)	—
Amounts deposited with trustee in debt service fund	(602)	618
Net cash used in investing activities	(576,883)	(3,054)
Financing activities:		
Payments of long-term debt	(431,845)	(81,498)
Proceeds from issuance of long-term debt	410,045	—
Proceeds from issuance of term loan	—	64,000
Payments for debt issuance costs	(2,234)	(636)
Payments on capital lease obligations	(4,338)	(4,080)
Payments on notes payable	(2,822)	(2,744)
Bequests and contributions	44,355	47,810
Net cash provided by financing activities	13,161	22,852
Net (decrease) increase in cash and cash equivalents	(182,029)	385,435
Cash and cash equivalents at beginning of year	714,309	328,874
Cash and cash equivalents at end of year	\$ 532,280	714,309
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 37,808	33,566
Non cash acquisitions of property, plant, and equipment	13,252	9,154

See accompanying notes to consolidated financial statements.

**YALE NEW HAVEN HEALTH SERVICES CORPORATION**  
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Notes to Consolidated Financial Statements

September 30, 2019 and 2018

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

**(a) Organization**

Yale New Haven Health Services Corporation (YNHHSC), formed in 1983, was incorporated under the Not-for-Profit Corporation Law to coordinate the activities of the members of the Yale New Haven Health Services Corporation, d/b/a Yale New Haven Health System and Subsidiaries (collectively, the System), and is an integrated regional healthcare delivery system.

The System currently includes the following entities:

YNHHSC is the parent company of Yale New Haven Hospital, Inc. (YNHH), Corporate Professional Business Services, Inc. (CPBS), Bridgeport Hospital and subsidiaries (BH), Greenwich Hospital and subsidiaries (GH), Lawrence + Memorial Corporation and subsidiaries (LMC), and Northeast Medical Group, Inc. (NEMG).

YNHH is a voluntary association incorporated under the General Statutes of the State of Connecticut. The Board of Trustees of YNHH, appointed by YNHHSC, controls the operations of YNHH. YNHH is the parent of the following entities:

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

Yale New Haven Ambulatory Services Corporation and subsidiaries (YNHASC), a Connecticut nonstock, taxable corporation, is a wholly owned subsidiary of YNHH, and is 51% owner of Shoreline Surgery Center, LLC (SSC), and SSC II, LLC. During 2018, YNHASC purchased the remaining 49% of SSCII.

Medical Center Pharmacy and Home Care, Inc. (MCP) is a Connecticut stock, for-profit company, which operates a retail pharmacy. MCP is a wholly owned subsidiary of YNHH.

BH is a voluntary association incorporated under the General Statutes of the State of Connecticut. The Board of Trustees of BH, appointed by YNHHSC, controls the operations of BH. BH is the parent of the following entities:

Bridgeport Hospital Foundation (Foundation) solicits contributions for the benefit of BH and all other tax-exempt healthcare organizations associated with BH.

Southern Connecticut Health System Properties, Inc. is a real estate holding company, which sold primarily all of its assets to Bridgeport Hospital during 1998.

NEMG is a tax-exempt medical foundation that provides physician-related services to BH, GH, YNHH, and LMC and their surrounding communities. NEMG operates autonomously with a separate board, management, and medical staff. YNHHSC must approve the strategic plans, operating budgets, capital budgets, and board appointments of NEMG.

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Notes to Consolidated Financial Statements

September 30, 2019 and 2018

GH is a voluntary association incorporated under the General Statutes of the State of Connecticut. The Board of Trustees of GH, appointed by YNHHS, controls the operations of GH.

GH is the parent corporation of a group of wholly owned subsidiaries, including The Perryridge Corporation, the Greenwich Hospital Endowment Fund, Inc., and Greenwich Ambulatory Surgery Center, LLC. YNHHS is the sole member of the GH. GH and its subsidiaries are Section 501(c)(3) not-for-profit organizations, and are exempt from federal income taxes under Section 501(a) of the Code.

Greenwich Hospital, a nonstock Connecticut corporation, provides healthcare services to the lower Fairfield County and Westchester County, New York communities. Prior to September 18, 2018, GH and the Greenwich Hospital Endowment Fund, Inc. (GHEF) were an Obligated Group under the State of Connecticut Health and Educational Facilities Authority Trust Indenture. On September 18, 2018, GH joined the Yale New Haven Health Obligated Group under the State of Connecticut Health and Educational Facilities Authority Trust Indenture.

On June 26, 2018, the bylaws of GHEF were amended and restated so that the board of GHEF is no longer required to comprise all the members of GH's investment oversight committee. GHEF's charitable purpose remains to solicit, receive, maintain, hold, manage, and administer funds, including, without limitations, endowment funds, for the benefit of GH. As a result of this change in governance control, the financial statements of GHEF are no longer consolidated into the financial statements of GH.

CPBS, a for-profit stock corporation, manages physician practices and provides third-party administration services on certain managed care contracts. The capital stock of CPBS consists of 20,000 shares of common stock, par value of one one-hundredth of a dollar per share. The Board of Directors of CPBS is appointed by YNHHS, the sole shareholder, who controls CPBS's operations.

YNHHS is the sole corporate member of LMC, a system of healthcare that provides a wide array of services throughout the region including Lawrence + Memorial Hospital (L+M), L+M Systems, Inc., VNA of Southeastern Connecticut, L+M Healthcare, VNA of Southeastern Connecticut Inc. (VNA), and LMW Healthcare Inc. (Westerly Hospital). LMC is the parent of the following entities:

L+M is a nonprofit organization incorporated under the General Statutes of the State of Connecticut. Prior to June 28, 2018, L+M and LMC formed an obligated group under their Series F Bond agreements.

Westerly Hospital is a nonprofit organization incorporated under the General Statutes of the State of Rhode Island.

VNA is a not-for-profit organization under the general statutes of the State of Connecticut that provides home healthcare services.

**YALE NEW HAVEN HEALTH SERVICES CORPORATION**  
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Notes to Consolidated Financial Statements

September 30, 2019 and 2018

L+M Indemnity Ltd. was a wholly owned subsidiary of L+M. L+M Indemnity Ltd. that provided professional and general liability insurance to cover medical malpractice claims to LMH, Westerly Hospital, LMPA, and VNA. Effective January 1, 2017, LMC participates in the YNHH insurance program as an additional insured and pays premiums to YNHHSC. L+M Indemnity Ltd. was dissolved on November 28, 2017.

Concurrent with the issuance of the Connecticut Health and Educational Facilities Authority (CHEFA) Revenue Bonds, Yale New Haven Health Obligated Group Issue, Series A, B, C, D, and E dated May 20, 2014, six members of the System were combined to form an Obligated Group. The Obligated Group comprises YNHHSC, YNHH, YNHCCC, BH, the Foundation, and NEMG. On September 18, 2018, GH joined the Obligated Group. Concurrent with Yale New Haven Health Obligated Group entering into a term loan agreement with Bank of America, N.A., dated June 28, 2018, LMC, L+M, and Westerly Hospital joined the obligated group. The members of the Obligated Group have adopted certain governance provisions in their certificates of incorporation and bylaws pursuant to which YNHHSC retains the authority to directly take certain actions on behalf of each Obligated Group member without the approval of the board of trustees of the applicable Obligated Group member, including the incurrence of indebtedness on behalf of each Obligated Group member, the management and control of the liquid assets of each, and the appointment of the president and chief executive officer of each Obligated Group member.

**Acquisition**

On June 9, 2019, YNHHSC and BH acquired substantially all of the business, assets, and operations and assumed certain liabilities of the Milford Health & Medical, Inc. and Subsidiaries (MHM), including The Milford Hospital, Incorporated (MH), a 104-bed acute care hospital located in Milford, CT. Other affiliates of MHM whose assets were acquired in connection with the transaction include the following:

- Milford Hospital Foundation, Inc. (MHF), a Connecticut nonstock corporation, is a subsidiary of the MHM, and functioned as the fund-raising affiliate for the MH. In connection with the transaction, certain assets of MHF were acquired by BH.
- Torry Corporation is a Connecticut stock corporation that operates as a real estate holding company. In connection with the transaction, BH acquired certain assets of Torry Corporation, which consists mainly of real estate.

Also on June 9, 2019 YNHCCC became the sole member of Home Care Plus, Inc. (HCP). MHM was the sole member of HCP, which provides home healthcare services to the residents of the Greater New Haven and Fairfield Counties. Effective June 9, 2019, HCP's bylaws were amended and YNHCCC appoints the Board of Trustees of HCP.

**YALE NEW HAVEN HEALTH SERVICES CORPORATION**  
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Notes to Consolidated Financial Statements

September 30, 2019 and 2018

The total consideration transferred by YNHHC, YNHH and BH was approximately \$91.3 million, including cash of \$32.9 million, the assumption of liabilities of \$48.8 million, and the termination of indebtedness of \$9.6M, as follows (in thousands).

Cash consideration	\$	32,914
Assumption of liabilities		48,764
Termination of indebtedness		<u>9,600</u>
Total consideration		91,278
Working capital received		<u>8,211</u>
Net consideration	\$	<u><u>83,067</u></u>

YNHHC and BH accounted for the business combination by applying the acquisition method of accounting in accordance with Accounting Standards Codification Topic 805, *Business Combinations*.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. Determining the fair value of the assets acquired and liabilities assumed requires judgment and involves the use of significant accounting estimates and assumptions, including assumptions with respect to future cash inflows and outflows and discount rates, among others.

	<u>YNHHC</u>	<u>YNHH</u>	<u>BH</u>	<u>Total</u>
	(In thousands)			
Assets assumed:				
Cash and cash equivalents	\$ —	—	746	746
Short-term investments	—	—	109	109
Net patient receivables	—	—	4,634	4,634
Other current assets	—	—	748	748
Other long-term assets	—	—	1,974	1,974
Property, plant, and equipment, net	—	—	24,855	24,855
Goodwill	—	—	58,212	58,212
Total assets	<u>—</u>	<u>—</u>	<u>91,278</u>	<u>91,278</u>
Liabilities assumed:				
Accrued expenses	—	—	7,113	7,113
Long-term capital lease obligations	—	—	1,081	1,081
Accrued pension	—	—	37,900	37,900
Other liabilities	—	—	1,906	1,906
	—	—	48,000	48,000
Net assets with donor restrictions	<u>—</u>	<u>—</u>	<u>764</u>	<u>764</u>
Assets and liabilities acquired	\$ <u><u>—</u></u>	<u><u>—</u></u>	<u><u>42,514</u></u>	<u><u>42,514</u></u>

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Notes to Consolidated Financial Statements

September 30, 2019 and 2018

	<u>YNHHSC</u>	<u>YNHH</u>	<u>BH</u>	<u>Total</u>
	(In thousands)			
Cash paid for acquisition	\$ —	—	32,914	32,914
Termination of indebtedness owed	<u>1,600</u>	<u>8,000</u>	—	<u>9,600</u>
Change in net assets	<u>\$ 1,600</u>	<u>8,000</u>	<u>32,914</u>	<u>42,514</u>

BH recorded goodwill in the amount of \$58.2 million. In determining the amount of goodwill, all assets acquired and liabilities assumed were measured at fair value as of the acquisition date. Factors contributing to goodwill that resulted from the acquisition include, but are not limited to, the efficiencies that will result from the combination of the campuses and their proximity.

The results of MHM for the period June 9, 2019 through September 30, 2019 have been combined with BH and are included in the consolidated financial statements.

The following table summarizes amounts attributed to MHM since the acquisition date that are included in the accompanying consolidated financial statements (in thousands):

	<u>Period from June 9, 2019 to September 30, 2019</u>
Total operating revenue	\$ 21,077
Total operating expense	<u>22,895</u>
Loss from operations	(1,818)
Nonoperating gains and losses, net	—
Deficiency of revenue over expenses	<u>\$ (1,818)</u>
Change in net assets:	
Net assets without donor restrictions	\$ (1,818)
Net assets with donor restrictions	—
Total change in net assets	<u>\$ (1,818)</u>

The following table represents pro forma unaudited financial information, assuming the acquisition of MHM had taken place on October 1, 2017. The pro forma financial information is not necessarily

**YALE NEW HAVEN HEALTH SERVICES CORPORATION**  
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Notes to Consolidated Financial Statements

September 30, 2019 and 2018

indicative of the results of operations as they would have been had the transaction been effected on the acquisition date (in thousands):

	<b>September 30</b>	
	<b>2019</b>	<b>2018</b>
Total operating revenue	\$ 4,998,119	4,646,480
Total operating expense	4,783,335	4,433,644
Income from operations	214,784	212,836
Nonoperating gains and losses, net	28,670	136,867
Excess of revenue over expenses	\$ 243,454	349,703
Change in net assets:		
Net assets without donor restrictions	\$ 116,340	385,759
Net assets with donor restrictions	5,135	83,666
Total change in net assets	\$ 121,475	469,425

**(b) Principles of Consolidation**

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

**(c) Use of Estimates**

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

**(d) Related-Party Transaction**

For each of the years ended 2019 and 2018, YNHH funded approximately \$40 million as part of its participation in the New Clinical Program Development Corporation (NCPDC), which is included in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets. The NCPDC is a separate corporation established by YNHH and Yale University (the University) for the purpose of funding and supporting clinical research and clinical programs. The NCPDC Board of Directors approves the funding of initiatives and consists of equal representative from both YNHH and the University.

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Notes to Consolidated Financial Statements

September 30, 2019 and 2018

YNHH also received \$40 million during each of the years ended September 30, 2019 and 2018, respectively, from NCPDC, which were recorded as temporarily restricted and released in the same year for capital expenditures.

**(e) Net Assets Without and With Donor Restrictions**

The accompanying consolidated financial statements present information regarding the System's financial position and activities according to two classes of net assets: without donor restriction and with donor restrictions. Resources arising from the results of operations or assets set aside by the Board of Trustees are not considered to be donor restricted. Net assets with donor restriction are those whose use by the System has been limited by donors to a specific time period or purpose. These restricted assets represent funds, including contributions and accumulated investment returns, whose use has been restricted by donors to a specific period or purpose or that have been restricted by donors to be maintained in perpetuity to provide a permanent source of income.

The System is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value. The assets and investment income generated from the trusts is classified as net assets with donors restrictions.

Certain investments are pooled together and consist of net assets without and with donor-imposed restrictions to facilitate their management. Investment income is allocated to both categories of net assets participating in the investment pool on a pro rata basis based on their respective market value. The Board of Trustees approves spending for certain pooled funds based on the spending policy. Realized gains and losses from the sale of securities are computed using the average-cost method and first-in, first-out method.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are met. Contributions receivable to be received after one year are discounted at a discount rate commensurate with the risks involved. Amortization of the discount is recognized as revenue, and is classified as either net assets with or without donor restrictions in accordance with donor imposed restrictions, if any, on the contributions. Contributions are reduced by an allowance for uncollectible contributions. The amount of the allowances for uncollectible contributions is based upon management's assessment of historical and expected net collections. Contributions and pledges receivable are included in other current assets and other assets in the accompanying consolidated balance sheets.

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Net assets without and with donor restrictions are available for the following purposes (in thousands):

	<b>2019</b>	<b>2018</b>
Without donor restrictions:		
Undesignated	\$ 3,114,197	2,981,711
With donor restrictions:		
Perpetual	112,420	112,913
Purpose restricted:		
Specific hospital operations, teaching, research, indigent and free care, and training	248,053	244,291
Plant improvement and expansion	13,486	11,597
Net assets	\$ 3,488,156	3,350,512

Net assets with perpetual donor restrictions of approximately \$112.4 million and \$112.9 million at September 30, 2019 and 2018, respectively, consist of donor restricted endowment principal and beneficial interests in perpetual trusts. The income generated from these funds is expendable for purposes designated by donors, including research, free care, healthcare, and other services.

**(f) Donor-Restricted Gifts**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All gifts are reported as either net assets with or without donor restrictions 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, these net assets are reclassified as net assets without donor restrictions.

**(g) Cash and Cash Equivalents**

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

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

**(h) Accounts Receivable**

Net patient accounts receivable result from the healthcare services provided by the System.

The amount of the implicit price concessions is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid healthcare coverage, and other collection indicators. After satisfaction of amounts due from insurance, the System follows established guidelines for placing certain patient balances with collection agencies,

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subject to certain restrictions on collection efforts as determined by the System policy. See note 2 for additional information relative to third party payer programs.

Net patient accounts receivable has been adjusted to the estimated amounts expected to be collected. These estimated amounts are subject to further adjustments upon review by third party payers. Such receivables do not bear interest.

**(i) Investments**

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

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

Certain alternative investments (nontraditional, not-readily marketable assets) are structured such that the System holds limited partnership interests or pooled units and are accounted for utilizing net asset value (NAV) per unit for measurement of the units' fair value. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. 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. The investments may indirectly expose the System 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 System'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. The System maintains the Yale New Haven Health System Investment Trust (the Trust), a unitized Delaware Investment Trust created to pool assets for investment by the Health System's nonprofit entities. The Trust comprises two pools: the Long-Term Investment Pool (L-TIP) and the Intermediate-Term Investment Pool (I-TIP). Governance of the Trust is performed by the Yale New Haven Health System Investment Committee.

Under the terms of the investment management agreement with the Trust, withdrawals of investments in the L-TIP can be made annually by each hospital on July 1. Amounts withdrawn are subject to a schedule that allows larger withdrawals with longer notice periods. As of September 30, 2019, each hospital can withdraw 100% of its investment in the L-TIP on July 1, 2019. Withdrawals of investments in the I-TIP in any amount can be made quarterly with 30 days' advance notice.

The Trust has entered into an agreement (the Investment Management Agreement) with the University. The University's investment office allows the University to manage a portion of the Trust's investments as part of the University's Endowment Pool (the Pool). The Trust did not make any transfers for the years ended September 30, 2019 and 2018 to the University in exchange for units in the Pool. The University returned \$200 million to the Trust in June 2018. The Trust's interest in the Pool is reported at fair value based on the NAV per units held. The Pool invests in domestic equity, foreign equity, absolute return, private equity, real assets, fixed income, and cash.

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Under the terms of the Investment Management Agreement with the University, withdrawals of the Trust's investment in the Pool can be made based upon days' notice provided to the University before their June 30 year end and the total market value of the Pool. For withdrawals of up to 2% of the Pool, 1.4% of the Pool, and 1% of the Pool, the advance notice period is set to a maximum of 360 days, 270 days, 180 days, respectively, prior to the University's fiscal year ending June 30. Withdrawals of the Trust's investment in the Pool can also be made up to 0.6% of the Pool on the last day of any calendar month provided 20 days advance notice is provided.

In March 2006, YNHH entered into an arrangement with the University, whereby the University will manage certain Board-designated assets of YNHH. These Board-designated assets are commingled in the University's endowment pool. As of September 30, 2019 and 2018, the carrying value of assets managed by the University under this agreement was approximately \$12.5 million and \$12.4 million, respectively. Because of the limitations on their use, the assets are separately classified from assets invested under the Investment Management Agreement.

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

**(j) Inventories**

Inventories (included in other current assets) are stated at the lower of cost or net realizable value. The System values its inventories using the first-in, first-out method, with the exception of YNHH's pharmacy inventories, which are valued at average cost.

**(k) Assets Limited as to Use**

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

**(l) Interest in Net Assets of Greenwich Hospital Endowment Fund, Inc.**

The purpose of GHEF is to solicit, receive, maintain, hold, manage and administer funds, including, without limitation, endowment funds of GH, and to use, apply and distribute the whole or any part of the income therefrom and principal thereof exclusively to, or for the benefit of, GH and/or any entities of which GH is, directly or indirectly, the sole member and which are exempt from federal income tax under Section 501(c)(3) of the Code, so long as GH and/or any or all of such entities provide or arrange for the delivery of health care to the Greenwich, Connecticut community and its service area, and to engage in such other activities to promote the purposes of GHEF, all as more fully set forth in the Certificate of Incorporation of GHEF.

The interest in the net assets of GHEF represent the System's beneficial interest in the net assets held by GHEF for the benefit of GH. This asset is accounted for in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-20, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that raises or Holds Contributions for Others*.

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**(m) Perpetual Trusts**

The System is the beneficiary of certain perpetual trusts held and administered by others. The estimated future cash receipts, which are measured based on the fair value of the assets held by the trust, are recognized as assets and contribution revenue at the dates the trusts are established. Beneficial interest in perpetual trusts is recorded as net assets with donor restrictions and are adjusted for any changes in the fair value of the trusts. Income distributions received from the trusts are recorded as without donor restricted contributions when received.

**(n) Interest Rate Swap Agreements**

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

**(o) Benefits and Insurance**

The System is self-insured for medical, dental, hospitalization, and prescription drug benefits provided to employees and has a stop-loss arrangement to limit exposure for these self-insured benefits. These are included in salaries and benefits expense.

**(p) Workers' Compensation and Professional Liability Insurance**

The System is self-insured for workers' compensation claims. The System has a stop-loss arrangement to limit exposure for workers' compensation claims. Estimated amounts are accrued for claims, including claims incurred but not reported (IBNR). At September 30, 2019 and 2018, the estimated discounted liabilities for self-insured workers' compensation claims and IBNR aggregated approximately \$41.8 million and \$43.0 million, respectively, discounted at approximately 1.5%, for the hospitals and are included in other long-term liabilities in the accompanying consolidated balance sheets.

The System records the actuarially determined liabilities for IBNR professional and general liabilities (note 10).

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

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

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Leases are classified as capital leases or operating leases in accordance with the terms of the underlying lease agreements. Lease payments under operating leases are charged directly to rental expense, and are included in supplies and other expenses in the accompanying consolidated statements of operations and changes in net assets.

**(r) Intangibles**

Intangibles consist of trademarks and goodwill. Trademarks are amortized over their life of ten years. Goodwill is evaluated at least annually for impairment or more frequently when events or changes in circumstances indicate that the assets might be impaired. This impairment test is performed at the reporting unit level. The System evaluates goodwill at the entity level as management has determined that the System's operations comprise a single reporting entity. Goodwill is considered to be impaired if the carrying value of the reporting unit, including goodwill, exceeds the reporting unit's fair value. The System has determined that no goodwill impairment exists at September 30, 2019 or 2018.

**(s) Deferred Revenue**

Deferred revenue includes amounts, which have been received that relate to future years. Amounts will be reduced as revenue is earned (note 11).

**(t) Commodity Contracts**

The System procures fuel and has entered into forward delivery agreements and commodity contracts. Substantially all of the System's contracts to procure fuel are designated as, and qualify as, normal purchases; accordingly, such contracts are not accounted for as derivative contracts.

**(u) Excess of Revenue over Expenses**

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

Contributions of, or restricted to, property, plant, and equipment, pension and other postretirement-related changes other than net periodic benefit cost, net assets restricted for Greenwich Hospital Endowment Fund, Inc., and other are excluded from the performance indicator, but are included in change in net assets.

**(v) Income Taxes**

Most entities within the System are not-for-profit corporations as described in Section 501(c)(3) of the Code, and are generally exempt from federal income taxes pursuant to Section 501(a) of the Code. Provisions for income taxes and deferred taxes, which are not material to the consolidated financial statements, have been made for the taxable entities listed above under the description of the System.

U.S. GAAP requires the System to evaluate tax positions taken or expected to be taken in the course of preparing the System's tax returns to determine whether the tax positions are "more-likely than-not" of being sustained by the applicable tax authority based upon the technical merits of the position. The System recognizes the effect of tax positions only if they are more likely than not of being sustained.

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This evaluation had no impact on the operations of the System as of and for the years ended September 30, 2019 and 2018.

**(w) Operating Expenses**

YNHH records amounts received from the University, unrelated area hospitals, and other local healthcare providers for costs incurred on behalf of those organizations as reductions to expenses. These costs consist mainly of salaries and benefits. For the years ended September 30, 2019 and 2018, YNHH recorded approximately \$71.6 million and \$68.3 million, respectively, as reductions to expenses.

**(x) Impairment of Assets**

The System reviews property, plant, and equipment, and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such impairment indicators are present, the System recognizes a loss on the basis of whether these amounts are fully recoverable. There was no impairment charge recognized in 2019 and 2018.

**(y) Reclassifications**

Certain reclassifications have been made to the year ended September 30, 2018, balances previously reported in the consolidated financial statements in order to conform to the year ended September 30, 2019, presentation.

**(z) Accounting Pronouncements**

**Adopted Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) ASU 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance in U.S. generally accepted accounting principles (GAAP) and is intended to improve and converge with international standards the financial reporting requirements for recognizing revenue from contracts with customers. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU 2014-09 also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. Effective October 1, 2018, the System has elected the full retrospective application for the adoption of the guidance to all contracts under the scope of the guidance and there was no material impact to the System related to its existing revenue streams. Periods prior to adoption have been displayed to conform to the net presentation of a single net patient service revenue total in the consolidated statements of operations. Previously, the period ended September 30, 2018 included separate lines for patient service revenue prior to provision for bad debts of \$4,424,536, provision for bad debts of \$127,216, and net patient service revenue less provision for bad debts \$4,297,320. The related presentation of "allowances for doubtful accounts" on the consolidated balance sheets has also been eliminated as a result of the adoption of the standard.

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In August 2016, the FASB issued ASU 2016-14, *Not for Profit Entities (Topic 958): Presentation of Financial Statements of Not for Profit Entities*, which requires not for profit entities to revise its financial presentation to include net asset classifications, provide quantitative and qualitative information as to available resources and management of liquidity and liquidity risk and expanded disclosures on functional expenses. The System adopted the new standard as of September 30, 2019 on a retrospective basis. There were no material changes to the consolidated balance sheets, statements of operations, and changes in net assets or cash flows as a result of the adoption. Periods prior to adoption have been displayed to conform to the new presentation of a single classification of net assets with donor restrictions. Previously, the consolidated balance sheets displayed temporarily restricted net assets of \$255,888 and permanently restricted net assets of \$112,153. The System has elected the permitted option to omit the analysis of expenses by function and nature for 2018.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of ASC Topic 958, Not for Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This guidance is effective for fiscal years beginning after June 15, 2018. The application of this guidance did not have a material impact on the consolidated financial statements.

***Upcoming Accounting Pronouncements***

In February 2016, the FASB issued ASU 2016-02, *Leases*, which will require lessees to recognize most leases on the balance sheet, increasing their reported assets and liabilities – sometimes very significantly. This update was developed to provide financial statement users with more information about an entity's leasing activities, and will require changes in processes and internal controls. The adoption of ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and is applied retrospectively in the year of adoption. The System is currently assessing the impact of the adoption of ASU 2016-02, which is expected to have significant impact on its financial position but limited impact to the results of operations.

In July 2018, the FASB issued ASU 2018-11, *Leases: Targeted Improvements*, which provides an optional transition method that allows entities to initially apply the new lease standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption while comparative periods presented will continue to be in accordance with current ASC Topic 840, Leases. The System is currently assessing the impact of the adoption of ASU 2018-11.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This guidance amends ASC Topic 715, Compensation – Retirement Benefits, to require employers that present a measure of operating income in their statement of operations to include only the service cost component of net periodic pension cost and net periodic postretirement benefit cost in operating expenses (together with other employee compensation costs). The other components of net benefit cost, including amortization of prior service cost or credit, are to be included in nonoperating revenue (expenses). The amendments of the ASU

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should be applied retrospectively and is effective for fiscal years beginning after December 15, 2018. The System is currently assessing the impact of the adoption of ASU 2017-07.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash and restricted cash equivalents. Therefore, the amounts classified as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments of the ASU should be applied retrospectively and is effective for fiscal years beginning after December 15, 2018. The System is currently assessing the impact of the adoption of ASU 2016-18.

In January 2016, FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)* was issued. ASU 2016-01 makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity instruments be measured at fair value, with subsequent changes in fair value recognized in net income. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The new standard also impacts financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. This ASU is effective for fiscal years beginning after December 15, 2018. The System is currently assessing the impact of the adoption of ASU 2016-01.

In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities*, to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this ASU provide technical corrections and improvements related to ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance is effective for fiscal years beginning after December 15, 2018. The System is currently assessing the impact of the adoption of ASU 2018-03.

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

The System's net patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third party payers (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the System bills the patients and third party payers several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied (that is, patient care is provided).

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in the hospital receiving inpatient acute care services or patients receiving services in outpatient centers. The

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Hospital measures the performance obligation from admission into the hospital, or the commencement of an outpatient service, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14a and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at year end which primarily relates to acute care patients (in-house). The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of year end.

The System has arrangements with third-party payers that provide for payments to the System at the amounts different from its established rates. The difference is accounted for as contractual allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges, and per diem payments.

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third party payers, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions on uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience.

Generally, patients who are covered by third party payers are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions and applies the portfolio approach. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. There was no bad debt expense for the years ended September 30, 2019 or 2018.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with this class of patients.

The System has elected the financing component practical expedient and does not adjust the promised amount of consideration from patients and third-party payers for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payer pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow

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payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract. The System has determined that the nature, amount, timing and uncertainty of net patient service revenue and cash flows are affected by payers and service lines.

The composition of net patient service revenue based on service line and primary payer for the years ended September 30 are as follows (in thousands):

	2019			2018		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Commercial	\$ 1,075,787	1,358,526	2,434,313	1,018,664	1,262,486	2,281,150
Medicare	895,766	609,330	1,505,096	862,757	545,358	1,408,115
Medicaid	342,445	289,106	631,551	310,848	242,921	553,769
Self-pay/other	25,831	29,949	55,780	24,363	29,923	54,286
Total all payors	\$ <u>2,339,829</u>	<u>2,286,911</u>	<u>4,626,740</u>	<u>2,216,632</u>	<u>2,080,688</u>	<u>4,297,320</u>

**Receivables**

Third-party payer receivables included in other current assets were \$30.6 million and \$10.7 million at September 30, 2019 and 2018, respectively. Third-party payer liabilities included in other current liabilities were \$65.8 million and \$91.0 million at September 30, 2019 and 2018, respectively. Third-party payer liabilities included in other long-term liabilities were \$84.4 million and \$84.5 million at September 30, 2019 and 2018, respectively.

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 System has established estimates, based on information presently available, of amounts due to or from Medicare, Medicaid, and third party payers for adjustments to current and prior year payment rates, based on System specific data. Such amounts are included in the accompanying consolidated balance sheets. Additionally, certain payers' payment rates for various years have been appealed by the System.

Settlements with third-party payers for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of the cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is new information becomes available), or as years are settled or are no longer subject to audits, reviews, and investigations.

During the years ended September 30, 2019 and 2018, the System recorded a favorable change in estimate of approximately \$1.8 million and \$12.6 million, respectively, which increased net patient service revenue. Included in the change in estimate are amounts related to third party payer settlements.

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The System believes that it is in compliance with all applicable laws and regulations, and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing, except as disclosed in note 11. 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 System. Cost reports for the System's Hospitals, which serve as the basis for final settlement with Medicare have been final settled through FY 2015 for YNH and BH, and final settled through FY 2016 for GH, L+M, LMW and BH's Milford Campus. Other years remain open for settlement with Medicare. The Medicaid cost reporting settlement process terminated in 2015 with all cost reports final settled.

The significant concentrations of accounts receivable for services to patients include 34% from Medicare, 15% from Medicaid, and 51% from nongovernmental payers at September 30, 2019 and 34% from Medicare, 14% from Medicaid, and 52% from nongovernmental payers at September 30, 2018.

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

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

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

Together, charity care and free care represent uncompensated care. The estimated cost of total uncompensated care is approximately \$88.9 million and \$86.8 million for the years ended September 30, 2019 and 2018, respectively. The estimated cost of uncompensated care is based on the ratio of cost to charges, as determined by claims activity.

The allocation between implicit price concession and charity care is determined based on management's analysis on the previous 12 months of hospital data. This analysis calculates the actual percentage of accounts written off or designated as implicit price concessions versus charity care while taking into account the total costs incurred by the System for each account analyzed.

The Connecticut Disproportionate Share Hospital Program (CDSHP) was established to provide funds to hospitals for the provision of uncompensated care and is funded, in part, by an assessment on hospital net patient service revenue. The System made payments into the CDSHP of \$333.1 million and \$367.0 million for the years ended September 30, 2019 and 2018, respectively, for the assessment.

During the years ended September 30, 2019 and 2018, the System received \$155.1 million and \$202.8 million, respectively, in CDSHP distributions, of which approximately \$92.0 million and 126.2 million was related to charity care. These are recorded in net patient service revenue.

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Additionally, the System 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. The System voluntarily assists with the direct funding of several City of New Haven programs, including an economic development program and a youth initiative program.

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

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

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

	<b>2019</b>	<b>2018</b>
Money market funds	\$ 43,290	72,561
U.S. equity securities	298,255	267,544
International equity funds <sup>(a)</sup>	503,476	203,638
Fixed income:		
U.S. government	450,304	403,603
International government <sup>(a)</sup>	2,019	92,018
Corporate bonds	—	3,859
Commodities <sup>(b)</sup>	117	236
Hedge funds:		
Absolute return <sup>(c)</sup>	86,375	17,057
Long/short equity <sup>(d)</sup>	63,166	3,113
Long only	—	5,732
Private equity	12,055	14,672
Real estate <sup>(e)</sup>	8,546	7,434
Interest in Yale University endowment pool <sup>(f)</sup>	917,255	946,157
Interest in MCIC <sup>(g)</sup>	78,122	81,041
Perpetual trusts <sup>(h)</sup>	42,743	43,780
Total	\$ 2,505,723	2,162,445

(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.

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- (b) Investments with external commodities futures manager.
- (c) Investment with external multistrategy 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 include both closed end Real Estate Investment Trusts (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 nontraditional asset classes such as an absolute return, private equity, and real assets.
- (g) YNHH controls less than 20% of the Class A stock of MCIC (note 10); however, for accounting purposes, the investment in the insurance companies is recorded on the equity method because of contractual agreements.
- (h) Investments consist of several domestic and international equity and fixed-income mutual funds, REITs, commodities, and money market funds. There is also an investment in a hedge fund of funds.

**(5) Liquidity**

Financial assets available for general expenditure within one year of the consolidated balance sheet consist of the following (in thousands):

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents	\$ 532,280	714,309
Net patient receivables	577,341	495,387
Assets limited to use	6,553	5,951
Investments, net of assets with donor restrictions	1,694,111	1,043,941
Liquidity resources:		
Syndicated line of credit	<u>100,000</u>	<u>100,000</u>
Total financial assets and liquidity resources available to meet cash needs for general expenditures within one year	\$ <u>2,910,285</u>	<u>2,359,588</u>

The System has certain donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the amounts above. The System has other assets limited to use for donor-restricted purposes which are not available for general expenditure within the next year and are not included in the amounts above.

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

Property, plant, and equipment are as follows (in thousands):

	<b>2019</b>	<b>2018</b>
Land	\$ 162,086	148,454
Buildings and improvements	2,206,010	2,005,219
Equipment	1,561,574	1,555,673
Assets recorded under capital leases	158,444	157,363
	4,088,114	3,866,709
Less accumulated depreciation and amortization, including amortization of capital leases of \$23,499 and \$19,162, respectively	2,109,719	2,015,052
Property, plant, and equipment, net	1,978,395	1,851,657
Construction in progress	99,955	139,119
	\$ 2,078,350	1,990,776

Construction in progress consists of approximately \$49.3 million related to upgrades to YNHH, GH, NEMG, LMC, and BH's infrastructure, \$28.4 million related to the construction of a regional operational center, \$15.5 million related to the construction of a neuroscience center, and \$6.8 million related to renovations for a new primary care consortium. Total commitments at September 30, 2019 for all projects are approximately \$33.4 million.

**(7) Endowment**

The System'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 System 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 System classifies as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment related to the System's beneficial interest in perpetual trusts made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is classified in net assets with donor restrictions until those amounts are appropriated for expenditure by the System in a manner consistent with the standard of prudence prescribed by CUPMIFA. In accordance with CUPMIFA, the System 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

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purposes of the System 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 System; and (7) the investment and spending policies of the System.

Changes in endowment net assets for the year ended September 30, 2019 are as follows (in thousands):

	<b>Without donor restrictions</b>	<b>With donor restrictions</b>		<b>Total</b>
		<b>Original gift</b>	<b>Accumulated gains</b>	
Endowment net assets at beginning of year	\$ 18,796	99,188	113,634	231,618
Investment returns, net	459	—	4,510	4,969
Appropriation of endowment assets for expenditure	—	(97)	(8,785)	(8,882)
Transfers between donor classification	—	10	—	10
Other changes:				
Contributions	—	208	86	294
Change in value of beneficial interest trusts	—	(644)	—	(644)
Endowment net assets at end of year	\$ <u>19,255</u>	<u>98,665</u>	<u>109,445</u>	<u>227,365</u>

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Changes in endowment net assets for the year ended September 30, 2018 are as follows (in thousands):

	Without donor restrictions	With donor restrictions		Total
		Original gift	Accumulated gains	
Endowment net assets at beginning of year	\$ 62,343	112,153	109,129	283,625
Investment returns, net	8,994	173	14,128	23,295
Appropriation of endowment assets for expenditure	(2,196)	(247)	(9,793)	(12,236)
Transfers between donor classification	—	(134)	134	—
Contributions	—	164	36	200
Impact of deconsolidation of GHEF	(50,345)	(13,723)	—	(64,068)
Change in value of beneficial interest trusts	—	802	—	802
Endowment net assets at end of year	\$ <u>18,796</u>	<u>99,188</u>	<u>113,634</u>	<u>231,618</u>

**(a) Underwater Endowments**

Fair market value of assets associated with donor-restricted endowment funds may fall below the level that the donor originally contributed or intended to be of perpetual duration. In accordance with GAAP, deficiencies of this nature are to be reported in net assets without donor restrictions as of year-end. These deficiencies can result from unfavorable market conditions that occur shortly after the investment of new donor restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Trustees. At September 30, 2019 and 2018, the fair market value of all donor restricted endowments exceeds the level of the original contribution.

**(b) Return Objectives and Risk Parameters**

The System has adopted investment and spending policies for endowed assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under these policies, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that over time provide a rate of return that meets the spending policy objectives adjusted for inflation. Actual returns in any given year may vary from this amount.

**(c) Strategies Employed for Achieving Objectives**

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that places greater

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emphasis on equity-based investments to achieve its long-term rate of return objectives within prudent risk constraints.

**(d) Spending Policy and How the Investment Objectives Relate to Spending Policy**

BH, YNHH, and LMC have a policy of appropriating for distribution each year based on a combination of the weighted average of the prior year spending adjusted for inflation and the amount that would have been spent using a predetermined percentage (5.25% for YNHH and LMC and 5.0% for BH) of the current market value of the endowment fund. In establishing this policy, BH and YNHH have considered the long-term expected return on its endowment.

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

**(8) Debt**

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

	2019	2018
Revenue bonds financed with the State of Connecticut Health and Educational Facilities Authority (CHEFA):		
Tax-exempt:		
Series C (GH) maturing July 1, 2026 (variable interest rates with an average rate of approximately 3.22% for fiscal 2019)(a, i)	\$ 23,800	26,770
Series D (BH), maturing July 1, 2025, fixed interest ranging from 2.00% to 5.00%(b)	19,545	22,290
Series E (BH), 3.47% effective interest rate(c)	30,489	31,687
Series N (YNHH), 4.27% effective interest rate(d)	43,665	44,815
Series O (YNHH), 2.84% effective interest rate(d, i)	50,000	50,000
Series A (YNHH), 3.77% effective interest rate(e)	102,300	102,300
Series B (YNHH), 1.80% effective interest rate (e, i)	168,275	168,275
Series C (YNHH), 3.11% effective interest rate(f, i)	49,415	56,725
Series D (YNHH), 3.68% effective interest rate(f, i)	108,275	108,275
Series E (YNHH), 3.47% effective interest rate(c)	38,111	39,608
Series 2013 taxable bonds (YNHH), 4.37% effective rate(g)	132,000	132,000
Series 2014 taxable bonds (YNHH), 4.37% effective rate(h)	50,725	50,725
Series G (LMC), maturing 2023, 3.20% effective interest rate (n)	24,785	25,735

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	<b>2019</b>	<b>2018</b>
Loans payable:		
Term loan (LMC), maturing June 28, 2028, fixed interest rate of 3.68%(o)	\$ 60,020	64,000
Term loan – maturing 2020 (BH), 3.22% fixed interest rate (j)	884	1,615
Note payable (BH) (k)	24	332
Capital lease obligation (YNHH), at imputed interest of 6% (l)	40,070	42,467
Capital lease obligation (BH), at imputed interest rate of 6% (m)	93,702	94,562
Tax-exempt lease (LMC)(p)	1,357	3,140
	1,037,442	1,065,321
Add premium	21,959	24,231
Less:		
Current portion	(250,286)	(137,211)
Deferred costs of issuance, net of accumulated amortization	(8,055)	(9,597)
	\$ 801,060	942,744

- a) In May 2008, GH issued Series C revenue bonds totaling approximately \$53.6 million. The Series C revenue bonds were issued as Variable Rate Demand Bonds (VRDBs) with an average rate of 3.22% at September 30, 2019. The proceeds were utilized for the refunding of outstanding revenue bonds. Principal amounts related to the Series C revenue bonds mature annually each July 1 through fiscal 2026. On September 18, 2018, GH joined the Obligated Group. As a result, GH was replaced by the Obligated Group for all purposes and the Series C Note became secured by an obligation issued under the Master Indenture by YNHHS for itself and on behalf of the other members of the Obligated Group. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.
- b) In May 2012, BH issued Series D revenue bonds totaling approximately \$36.4 million, with coupons ranging from 2.0% to 5.0% and a final maturity of July 2025. The proceeds, including a premium of approximately \$4.1 million, were held in an escrow account and used for the retirement of the outstanding tax-exempt revenue bonds, for Series A and C, and to pay for certain bond issuance costs of approximately \$0.8 million. The bond premium is being amortized using the effective-interest method and is included in interest expense in the accompanying consolidated statement of operations and changes in net assets. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.
- c) In June 2014, the Obligated Group issued Series E revenue bonds totaling approximately \$80.9 million. The Series E revenue bonds were issued as fixed rate bonds with an effective-interest rate of 3.47%. The proceeds included a premium of approximately \$10.1 million. The proceeds were used to finance costs for the installation of machinery and equipment and various renovations and improvements to the infrastructures at BH and YNHH. The bond premium is being amortized as interest expense in the consolidated statement of operations and changes in net assets. The Series E revenue bonds maturing on July 1, 2037 are payable in installments from 2017 to 2034 and July 1, 2037. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.

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- d) In January 2013, YNHH issued Series N and Series O revenue bonds totaling approximately \$100.0 million. The Series N revenue bonds were issued as fixed rate bonds with an effective-interest rate of 4.27%. The Series O revenue bonds were issued as VRDBs with an effective-interest rate of 2.84% at September 30, 2019. The proceeds, including a premium of approximately \$5.2 million for the Series N revenue bonds, were used to refinance a line of credit. The bond premium is being amortized as interest expense in the accompanying consolidated statement of operations and changes in net assets. The Series N revenue bonds maturing on July 1, 2036 are payable in installments from 2019 to 2036 and the Series N revenue bonds maturing on July 1, 2048 are payable in installments from 2044 to 2048. The Series O revenue bonds maturing on July 1, 2053 are payable in installments from 2049 to 2053. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.
- e) In June 2014, the Obligated Group issued Series A revenue bonds totaling approximately \$102.3 million and Series B revenue bonds totaling approximately \$168.3 million. The Series A revenue bonds were issued as fixed rate bonds with an effective-interest rate of 3.77% at September 30, 2019. The Series B revenue bonds were issued as fixed rate bonds with an effective-interest rate of 1.80% at September 30, 2019. The proceeds from the Series A revenue bonds, including a premium of approximately \$14.8 million, and the proceeds from the Series B revenue bonds, were used to defease certain YNHH revenue bonds. The bond premium is being amortized as interest expense using the effective-interest method in the consolidated statement of operations and changes in net assets. The Series A revenue bonds maturing on July 1, 2034 are payable in installments from 2026 to 2034. The Series B revenue bonds maturing on July 1, 2049 are payable in installments from 2037 to 2040 and from 2044 to 2049. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.
- f) In June 2014, the Obligated Group issued Series C revenue bonds totaling approximately \$83.6 million and Series D revenue bonds totaling approximately \$108.3 million. The Series C revenue bonds were issued as VRDBs with an effective-interest rate of 3.11% as of September 30, 2019. The proceeds from the Series C issuance were used to refund certain YNHH revenue bonds. The Series D revenue bonds were issued as VRDBs with an effective-interest rate of 3.68% as of September 30, 2019. The proceeds from the Series D issuance were used to refund certain YNHH revenue bonds. The Series C revenue bonds maturing on July 1, 2025 are payable in installments from 2017 to 2025. The Series D revenue bonds maturing on July 1, 2048 are payable in installments from 2032 to 2036 and 2044 to 2048. Additionally, the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.
- g) In January 2013, YNHH issued Series 2013 taxable bonds totaling approximately \$132.0 million. The Series 2013 taxable bonds were issued as fixed rate bonds with an effective-interest rate of 4.37%. The proceeds were used to finance and refinance the costs of certain projects and activities in furtherance of YNHH's tax-exempt purpose, including the refinancing of certain existing indebtedness. The Series 2013 taxable bonds maturing on July 1, 2043 are payable in installments from 2037 to 2043.

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- h) In June 2014, the Obligated Group issued Series 2014 taxable bonds totaling approximately \$50.7 million. The Series 2014 taxable bonds were issued as fixed rate bonds with an effective-interest rate of 4.37%. The proceeds were used to finance the costs of certain projects and activities in furtherance of the System's tax-exempt purpose. The Series 2014 taxable bonds maturing on July 1, 2044 are payable in installments from 2038 to 2044.
- i) On June 19, 2019, the Series C, Series D, Series O and GH Series C bonds were remarketed by the Obligated Group at a weekly rate, without any third-party credit or liquidity support to support the Obligated Group's obligation to pay the purchase price of any of the remarketed bonds. The credit facilities that were previously in place with respect to these bonds were terminated on June 19, 2019 and not replaced. Additionally, on July 1, 2019, the Series B bonds were converted to a term mode and remarketed by the Obligated Group. These transactions resulted in a loss of \$3.2 million.
- j) In November 2010, BH obtained a \$6.6 million term loan from the CHEFA. The proceeds of the loan were used to purchase and install energy savings equipment and various renovations and improvements to the infrastructure of BH. The loan is to be paid in monthly installments over ten years at a fixed interest rate of 3.22%.
- k) In November 2016, in connection with an electrical switchgear upgrade, BH entered into a \$0.9 million noninterest bearing note payable with the local electrical utility supplier. The note is to be repaid in equal monthly installments over three years.
- l) YNHH entered into a contract to lease space in a building adjacent to YNHH. YNHH's rental obligation commenced in November 2010. This capital lease has a term of 20 years from the commencement date with the option to extend the lease for four successive terms of ten years. Rental payments increase by 5% every five years. YNHH is also subject to additional rent for its share of expenses, as defined in the contract. YNHH has the option to purchase the property at the end of the fifth, tenth, or twentieth year or at the end of each of the first three ten-year extension periods.
- m) BH entered into an arrangement with a developer to construct a 120,000-square-foot medical office building and adjacent garage in Fairfield County, CT. BH began leasing the property for a 25-year period beginning in April 2016. Management has evaluated the terms of the arrangement and has recorded the project as a capital lease.
- n) On October 10, 2013, Series G was issued on behalf of the L+M Obligated Group in a private placement offering with Bank of America-Merrill Lynch and CHEFA in the amount of \$29.2 million with an interest rate of 3.20% until October 1, 2023 with an option to extend at a negotiated rate with a maturity date of July 1, 2038. On June 28, 2018, L+M joined the Obligated Group. As a result, L+M was replaced by the Obligated Group for all purposes and the Obligated Group has granted a collateral interest to CHEFA on its gross receipts.

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- o) On June 28, 2018, concurrent with L+M joining the Obligated Group (note 1), YNHHS for itself and on behalf of the other members of the Obligated Group entered into a \$64 million term loan agreement with Bank of America, N.A., secured by an obligation issued under the Master Indenture, the proceeds of which were used to defease Series F and to redeem Series H. As a result, Series F became secured by an obligation issued under the Master Indenture by YNHHS for itself and on behalf of the other members of the Obligated Group. The loan is to be paid in annual installments over ten years at a fixed rate of 3.68% with a \$33.0 million balloon payment due on June 28, 2028.
- p) The Lawrence + Memorial Corporation and Lawrence + Memorial Hospital tax-exempt financing agreement was entered into on June 27, 2013 with Banc of America Public Capital Corp. as a lender. A single loan was incurred on such date in the original amount of \$12 million. The loan has a seven year term and is secured by the equipment purchased with the proceeds of the loan. The loan bears interest at a nominal rate of 1.759% and is self-amortizing over its term, which ends on June 27, 2020.

Required monthly payments on the revenue bonds by the System to a trustee are in amounts sufficient to provide for the payments of principal, interest, and sinking fund installments, as well as required payments to certain reserve funds held by the trustee, in accordance with the terms of the agreements, and certain other annual costs of CHEFA.

In May 2016, YNHHS entered into a syndicated line of credit with a consortium of banks in the amount of \$100.0 million. As of September 30, 2019, the System has not drawn on this line of credit and there is no outstanding balance. The line of credit allows repayment at any time during the term and requires that any remaining unpaid balance be repaid at the expiration date of May 5, 2020. This obligation bears interest at a rate equal to LIBOR plus 0.575% per annum.

Arbitrage rules apply to tax-exempt debt issued after August 31, 1986. The rules require that, in specified circumstances, earnings from the investment of tax-exempt bond proceeds, which exceed the yield on the bonds, be remitted to the federal government. There were no arbitrage liabilities at September 30, 2019 and 2018.

Prior to the remarketing in 2019, the hospitals maintained the bank letters of credit to ensure the availability of funds to purchase any VRDBs tendered by bondholders that the remarketing agents were unable to remarket to new bondholders.

The terms of the various financing arrangements between CHEFA and the System, and the bank and the System provide for financial covenants regarding the System's debt service coverage ratio and liquidity ratio. Additionally, the Obligated Group has granted a collateral interest to CHEFA on their gross receipts.

Capitalized interest at September 30, 2019 and 2018 totaled approximately \$30.3 million and \$29.5 million, respectively.

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Scheduled principal payments based on debt maturities and capital lease obligations are as follows (in thousands):

	<u>Debt</u>	<u>Capital lease obligations</u>
Year ending September 30:		
2020	\$ 245,083	12,918
2021	22,883	12,979
2022	23,665	12,979
2023	23,775	12,979
2024	44,120	12,979
Thereafter	<u>544,144</u>	<u>159,534</u>
	\$ <u><u>903,670</u></u>	224,368
Less interest		<u>(90,596)</u>
		\$ <u><u>133,772</u></u>

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

<u>Swap type</u>	<u>Expiration date</u>	<u>System receives</u>	<u>System pays</u>	<u>Notional amount at September 30</u>	
				<u>2019</u>	<u>2018</u>
Obligated Group:					
Series B – fixed to floating	July 1, 2049	67% of LIBOR	2.31	\$ 100,965	100,965
Series B – fixed to floating	July 1, 2049	67% of LIBOR	2.29	67,310	67,310
Series C – fixed to floating	July 1, 2025	LIBOR	4.65	33,008	37,891
Series D – fixed to floating	July 1, 2036	LIBOR	5.50	44,505	44,505
Greenwich Hospital:					
Series C – fixed to floating	July 1, 2026	LIBOR	4.70	<u>16,264</u>	<u>18,291</u>
				\$ <u><u>262,052</u></u>	<u><u>268,962</u></u>

The swap agreements set the interest rate at a level viewed as desirable by the System. Such agreements expose the System to credit risk in the event of nonperformance by the counterparties; some of the risk is collateralized. At September 30, 2019 and 2018, the fair value of the swap agreements based on current interest rates was approximately \$67.1 million and \$25.4 million, respectively, representing a payable to the counterparties (recorded in other long-term liabilities).

For the YNHH Series O swap, there was a favorable change in fair value of \$0.2 million for the year ended September 30, 2018, which was recorded in excess of revenue over expenses. No collateral was required under the Series O swap agreement for the year ended September 30, 2018. This swap was terminated in May 2018.

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In June 2014, YNHHS, on behalf of the Obligated Group, entered into LIBOR swap rate locks with two counter parties (the Series B swaps). For the Series B swaps, there was an unfavorable change in fair value of approximately \$30.4 million and \$11.5 million for the years ended September 30, 2019 and 2018, respectively, which was recorded in excess of revenue over expenses. No collateral was required under the Series B swap agreements for the years ended September 30, 2019 and 2018.

For the YNHHS Series C swap, there was an unfavorable change in fair value of approximately \$1.0 million and a favorable change of \$2.6 million, respectively, for the years ended September 30, 2019 and 2018, which was recorded in excess of revenue over expenses. No collateral was required under the Series C swap agreement for the years ended September 30, 2019 and 2018.

For the YNHHS Series D swap, there was an unfavorable change in fair value of approximately \$9.6 million and \$5.1 million for the years ended September 30, 2019 and 2018, respectively, which was recorded in excess of revenue over expenses. No collateral was required under the Series D swap agreement for the years ended September 30, 2019 and 2018.

In connection with its Series C revenue bonds, GH entered into an interest rate swap agreement (the GH swap) with a financial institution. For the GH swap, there was an unfavorable change in fair value of approximately \$0.7 million and \$1.3 million for the years ended September 30, 2019 and 2018, respectively, which was recorded in excess of revenue over expenses. No collateral was required under the GH Series C swap agreement for the years ended September 30, 2019 and 2018.

**(9) Pensions and Postretirement Benefits**

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

The System also sponsors contributory 403(b) plans and 401(k) plans covering substantially all employees. Employer contributions for certain 403(b), made to a matching 401(a) plan, and 401(k) plans are determined based on employee contributions and years of service. The System contributed approximately \$69.3 million and \$66.2 million for the years ended September 30, 2019 and 2018, respectively. Amounts due to the defined-contribution plans amounted to \$35.0 million and \$33.5 million at September 30, 2019 and 2018, respectively, and are included in accrued expenses to be paid before the plans' year-end in the accompanying consolidated balance sheets.

YNHHS maintains a Section 457 Nonqualified deferred compensation plan. Contributions are made on a pretax basis. The balances recorded at September 30, 2019 and 2018 in other assets and other long-term liabilities were approximately \$52.4 million.

On June 30, 2006, BH froze its defined-benefit plan. On October 1, 2006, BH instituted a defined-contribution plan.

Effective as of December 31, 2006, GH amended its defined-benefit pension plan to freeze benefits for employees who were under age 50 with less than five years of service. Effective January 1, 2007, GH began providing a matching contribution and a length of service contribution, in addition to its incentive

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contribution, for its defined-contribution plan for all employees no longer accruing benefits under the defined-benefit plan. Employees who were age 50 or older with five years of service continue to accumulate benefits under the defined-benefit plan, and do not participate in the defined-contribution plan. On March 29, 2018, GH amended its defined-benefit pension plan to cease benefit accruals under the plan with respect to all formerly grandfathered members as of September 30, 2019, so that all members' pensions, to the extent not previously frozen, will be fixed on that date and those members are now eligible to participate in the GH defined-contribution plan.

On June 30, 1999, L+M froze its defined-benefit plan. The benefits are based on years of service and the employee's compensation during the last five years of employment. L+M provides healthcare and life insurance benefits to its retired employees who meet certain eligibility requirements. L+M's policy is to fund the cost of postretirement benefits other than pensions as incurred. This plan was frozen to include only those employees who retired prior to May 1, 1994. On August 27, 2018, L+M amended its defined-benefit pension plan to cease benefit accruals under the plan with respect to all formerly grandfathered members as of December 31, 2018, so that all members' pensions, to the extent not previously frozen, will be fixed on that date. In addition, those members are now eligible to participate in the L+M defined-contribution plan.

As part of the acquisition, BH assumed the MHM defined-benefit plan that covers all eligible employees of MHM. The benefits are based on years of service and the employee's compensation. Effective December 31, 2005, the Plan closed it to new participants hired subsequent to January 1, 2006. Effective January 1, 2010, the Plan was frozen for all nonunion participants. Effective January 31, 2012 the Plan was frozen for union nurses and all other hospital personnel. Effective April 30, 2013, the Plan was frozen for union maintenance personnel.

Effective December 31, 2018 certain postretirement plans were amended to change the eligibility criteria for certain postretirement benefits and to change the value of certain benefits under the plan. The amendments reduced the projected benefit obligation of the plans by \$11.2 million.

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

Included in unrestricted net assets at September 30, 2019 and 2018 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service credit of approximately \$22.7 million and \$15.1 million, respectively, and unrecognized actuarial losses of approximately \$527.6 million and \$354.3 million, respectively. The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2020 are approximately \$4.3 million and \$20.5 million, respectively.

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The following table sets forth the change in benefit obligations, change in the plans' assets, and the reconciliation of underfunded status of the System's defined-benefit plans and postretirement benefits plan as of September 30, 2019 and 2018 (in thousands):

	Defined-benefit pension plans		Postretirement benefits plan	
	2019	2018	2019	2018
Change in benefit obligation:				
Benefit obligation at prior measurement date	\$ 1,144,852	1,194,519	81,166	86,432
Service cost	24,620	26,309	2,573	3,541
Interest cost	48,973	44,281	3,097	3,231
Plan amendments	—	—	(11,227)	—
Actuarial loss (gain)	160,572	(57,403)	12,407	(9,692)
Employee contributions	21	22	—	—
Benefits paid	(60,028)	(57,425)	(2,222)	(2,346)
Acquisitions	94,006	—	—	—
Curtailments	—	(5,451)	—	—
	1,413,016	1,144,852	85,794	81,166
Benefit obligation at current measurement date				
Change in plans' assets:				
Fair value of assets at prior measurement date	985,646	952,850	—	—
Actual return on plans' assets	56,060	46,977	—	—
Employee contributions	21	22	—	—
Employer contributions	43,679	43,222	2,222	2,346
Benefits paid	(60,028)	(57,425)	(2,222)	(2,346)
Acquisitions	56,050	—	—	—
	1,081,428	985,646	—	—
Fair value of plans' assets at current measurement date				
Accrued benefit cost	\$ (331,588)	(159,206)	(85,794)	(81,166)

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The accrued benefit cost included in the consolidated balance sheets includes the following (in thousands):

	<b>Accrued pension and postretirement obligations</b>		<b>Fair value of plans' assets</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
YNHH and subsidiaries – accrued pension and postretirement obligations	\$ (241,421)	(171,250)	508,647	477,616
Bridgeport Hospital – accrued pension and postretirement obligations	(103,074)	(32,319)	241,189	179,535
Greenwich Hospital – accrued pension and postretirement obligations	(46,120)	(19,256)	196,696	197,203
Lawrence + Memorial – accrued pension and postretirement obligations	(26,767)	(17,547)	134,896	131,292
	<u>\$ (417,382)</u>	<u>(240,372)</u>	<u>1,081,428</u>	<u>985,646</u>

*Benefit Obligation and Assumptions*

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

	<b>2019</b>	<b>2018</b>
Projected benefit obligation	\$ (1,498,810)	(1,226,018)
Accumulated benefit obligation	(1,418,627)	(1,157,617)
Fair value of plans' assets	1,081,428	985,646

As of September 30, 2019 and 2018, the underfunded status of the qualified defined-benefit pension plans was approximately \$360.2 million and \$189.3 million, respectively, and that of the nonqualified defined-benefit pension plan was approximately \$57.2 million and \$51.1 million, respectively. Additionally, there are assets limited as to use of approximately \$93.7 million and \$95.0 million, which are available to satisfy the obligations of the nonqualified defined-benefit pension plan at September 30, 2019 and 2018, respectively.

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The net periodic benefit cost for the years ended September 30, 2019 and 2018 is as follows (in thousands):

		Defined-benefit pension plans		Postretirement benefits plan	
		2019	2018	2019	2018
Service cost	\$	24,620	26,309	2,573	3,541
Interest cost		48,973	44,281	3,097	3,231
Expected return on plan assets		(69,891)	(71,971)	—	—
Amortization of prior service cost		(1,568)	(1,615)	(2,054)	(37)
Recognized net actuarial loss		14,040	19,952	(819)	(33)
Net periodic benefit cost	\$	<u>16,174</u>	<u>16,956</u>	<u>2,797</u>	<u>6,702</u>

Other changes in net assets (OCNA) (income) loss for the years ended September 30, 2019 and 2018 is as follows (in thousands):

		Defined-benefit pension plans		Postretirement benefit plan	
		2019	2018	2019	2018
OCNA at prior fiscal year-end	\$	354,488	410,685	(15,568)	(5,946)
Amounts amortized during the year:					
Net prior service credit		1,568	1,615	2,054	37
Net (loss) gain		(14,040)	(19,952)	819	33
Occurring during the year:					
Net prior service cost		—	—	(11,227)	—
Net loss (gain)		174,401	(32,409)	12,407	(9,692)
Curtailments		—	(5,451)	—	—
OCNA at current fiscal year-end	\$	<u>516,417</u>	<u>354,488</u>	<u>(11,515)</u>	<u>(15,568)</u>

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Weighted average assumptions used to determine benefit obligations at September 30, 2019 and 2018 are as follows:

	<b>Defined-benefit pension plans</b>		<b>Postretirement benefits plan</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Discount rate, qualified plan	3.2 %	4.3 %	2.7%–3.3%	3.1%–3.8%
Discount rate, nonqualified plans	3.3	3.8	—	—
Rate of compensation increase, qualified plans	2.5–4.0	2.5–4.0	—	—
Rate of compensation increase, nonqualified plans	5.0	5.0	—	—

Weighted average assumptions used to determine net periodic benefit cost for the years ended September 30, 2019 and 2018 are as follows:

	<b>Defined-benefit pension plans</b>		<b>Postretirement benefits plan</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Discount rate for determining net periodic benefit cost at year-end, qualified plan	3.8%–4.3%	3.7%–3.8%	3.9%–4.4%	3.1%–3.8%
Discount rate for determining net periodic benefit cost at year-end, nonqualified plan	4.3	3.8	—	—
Expected rate of return on plan assets	6.25–7.25	6.25–7.25	—	—
Rate of compensation increase qualified plan	2.5–4.0	2.5–4.0	—	—
Rate of compensation increase nonqualified plan	5.0	5.0	—	—

For measurement purposes relating to the postretirement benefits plans, a 4% and 4%–5% annual rate of increase in the per capita cost of covered healthcare benefits was assumed for fiscal 2019 and 2018, respectively. Rates are assumed to increase annually at 4.0%.

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

		<u>1% Increase</u>	<u>1% Decrease</u>
Effect on total of service and interest cost components	\$	1-61	(1)-(71)
Effect on postretirement benefit obligations		24-479	(22)-(569)

The asset allocation of the System's pension plans at September 30, 2019 and 2018, on a combined basis, was as follows:

<u>Asset category</u>	<u>Target allocation</u>	<u>Percentage of assets</u>	
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Equity securities	42 %	42 %	48 %
Debt securities	—	2	21
Alternative investments	58	56	31
			<u>100 %</u>

Financial assets, as of September 30, 2019, are classified in the following table (see note 15 for description) (in thousands):

	<u>Investments measured at NAV*</u>	<u>Investments classified in the fair value hierarchy (Level 1)</u>	<u>Total</u>
Money market funds	\$ —	35,616	35,616
U.S. equity securities	—	158,103	158,103
International equity funds	220,954	51,150	272,104
Fixed-income funds:			
U.S. government	—	308,951	308,951
Commodities	4,069	3,400	7,469
Private equity	24,151	—	24,151
Hedge funds:			
Absolute return	128,658	—	128,658
Long/short equity	113,072	—	113,072
Long only equity	6,330	—	6,330
Real estate	26,974	—	26,974
Total investments	\$ <u>524,208</u>	<u>557,220</u>	<u>1,081,428</u>

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\* Certain investments that are measured at fair value using the NAV per share (or its equivalent practical expedient) have not been classified in the fair value hierarchy.

Financial assets, as of September 30, 2018, are classified in the following table (see note 15 for description) (in thousands):

	<b>Investments measured at NAV*</b>	<b>Investments classified in the fair value hierarchy (Level 1)</b>	<b>Total</b>
Money market funds	\$ —	29,979	29,979
U.S. equity securities	27,257	207,757	235,014
International equity funds	119,403	85,846	205,249
Fixed-income funds:			
U.S. government	—	188,177	188,177
Corporate debt	—	16,975	16,975
Commodities	5,456	—	5,456
Private equity	21,189	—	21,189
Hedge funds:			
Absolute return	231,330	—	231,330
Long/short equity	14,466	—	14,466
Long only equity	23,336	—	23,336
Real estate	14,475	—	14,475
<b>Total investments</b>	<b>\$ 456,912</b>	<b>528,734</b>	<b>985,646</b>

\* Certain investments that are measured at fair value using the NAV per share (or its equivalent practical expedient) have not been classified in the fair value hierarchy.

There are no pension investments that are measured at fair value based on Level 2 and Level 3 inputs at September 30, 2019 or 2018.

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The following table is a summary of total investments as of September 30, 2019 and 2018, respectively, with restrictions to redeem the investments at the measurement date and any unfunded capital commitments (in thousands):

<u>Description of investment</u>	<u>Carrying value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Notice period</u>
International equity funds	\$ 220,954	—	Daily/monthly	1–30 days
Commodities	4,069	—	None-quarterly	None and 45–90 days
Private equity	24,151	19,140	N/A	N/A
Hedge funds:				
Absolute return	128,658	—	Quarterly/annual	30–95 days
Long/short equity	113,072	—	Quarterly	45–90 days
Long only equity	6,330	—	Quarterly	30–45 days
Real estate	26,974	23,850	None	None
	<u>\$ 524,208</u>			

<u>Description of investment</u>	<u>Carrying value</u>	<u>Unfunded commitment</u>	<u>Redemption frequency</u>	<u>Notice period</u>
U.S. equity securities	\$ 27,257	—	Monthly/quarterly	30–60 days
International equity funds	119,403	—	Daily/monthly	1–30 days
Commodities	5,456	—	None-quarterly	None and 45–90 days
Private equity	21,189	4,057	N/A	N/A
Hedge funds:				
Absolute return	231,330	—	Quarterly/annual	30–95 days
Long/short equity	14,466	—	Quarterly	45–90 days
Long only equity	23,336	—	Quarterly	30–45 days
Real estate	14,475	19,179	None	None
	<u>\$ 456,912</u>			

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

The System's pension portfolios return assumption is based on the targeted weighted average return of comparative market indices for the asset classes represented in the portfolio and adjusted for pension-related expenses.

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The future cash flows of the System relative to retirement benefits are expected to be as follows (in thousands):

	<u>Defined-benefit pension plans</u>	<u>Postretirement benefit plan</u>
Estimated benefit payments related to year(s) ending		
September 30:		
2020	\$ 69,990	2,724
2021	72,956	2,978
2022	77,345	3,279
2023	81,179	3,583
2024	83,398	3,889
2025 to 2029	440,555	23,939

The System expects to make contributions of approximately \$50.0 million for pension benefits and approximately \$2.7 million for postretirement benefits in fiscal 2020.

**(10) Professional Liability Insurance**

In 1978, YNHH and a number of other unrelated academic medical centers formed The Medical Centre Insurance Company Ltd. (the Captive) to insure for professional and comprehensive general liability risks. In 1997, the Captive formed MCIC Vermont, Inc. (MCIC) to write direct insurance for the professional and general liability risks of the shareholders. Since 1997, the Captive has acted as a reinsurer for varying levels of per claim limit exposure. MCIC has reinsurance coverage from outside reinsurers for amounts above the per claim limits. In addition, the insurance structure includes a layer where the hospitals are self-insured for claims. Premiums are based on claims made coverage, and are actuarially determined based on actual experience of the System, the Captive, and MCIC.

YNHH controls less than 20% of the Class A stock of MCIC; however, for accounting purposes, the investment in the insurance companies is recorded on the equity method because of contractual agreements. This investment is recorded in long-term investments and is approximately \$78.1 million and \$81.0 million for the years ended September 30, 2019 and 2018, respectively.

The System's entities of GH, BH, and NEMG participate in the YNHH insurance program as additional insureds. These entities initially pay premiums to YNHHSC. YNHHSC generally assumes the responsibility for ensuring that all the System members pay all premiums owed by them to MCIC. YNHHSC manages MCIC's operations for all other System members.

Effective January 1, 2017, LMC participates in the YNHH insurance program as an additional insured and pays premiums to YNHHSC. Prior to January 1, 2017, LMC purchased claims made professional and general liability insurance to cover medical malpractice claims from L&M Indemnity Ltd. Lawrence + Memorial Hospital, Westerly Hospital, LMPA, and VNA adopted the policy of self-insuring the tail portion of its malpractice insurance coverage. During this time, management accrued its best estimate of losses as incidents, which give rise to potential losses occur. Exposure for LMC claims incurred prior to January 1, 2017 and reported after January 1, 2017 is retained by the Corporation will be paid under a deposit

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program with the Captive (assets totaling approximately \$16.3 million and \$23.8 million) that are on deposit with the Captive at September 30, 2019 and 2018, respectively, and are reported within professional liabilities insurance recoveries receivable and related deposit in the accompanying consolidated balance sheet.

MCIC's policy is to establish retrospective-related premiums for its shareholders equivalent to estimated losses and general and administrative expenses, less estimated investment income, so that its results of operations are breakeven each year. The System accrues premiums as incurred.

The estimate for claims-made professional liabilities and the estimate for incidents that have been incurred but not reported aggregated approximately \$267.7 million and \$253.3 million at September 30, 2019 and 2018, respectively, for the System.

The undiscounted estimate for incidents that have been incurred but not reported aggregated approximately \$95.2 million and \$86.2 million for the System at September 30, 2019 and 2018, respectively, and is included in professional insurance liabilities in the accompanying consolidated balance sheets at the actuarially determined present value of approximately \$87.0 million and \$78.3 million, respectively, based on a discount rate of 1.5% for the years ended September 30, 2019 and 2018.

The System has recorded related insurance recoveries receivable of approximately \$180.7 million and \$175.0 million at September 30, 2019 and 2018, respectively, in consideration of the expected insurance recoveries for the total discounted claims-made insurance. The current portion of professional liabilities and the related insurance receivable represents an estimate of expected settlements and insurance recoveries over the next 12 months.

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

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**(11) Commitments and Contingencies**

**(a) Leases**

The System leases various equipment and properties under several noncancelable operating leases that range in terms. The System is responsible for operating expenses, as defined, during the lease terms. Future minimum lease payments under these leases are as follows (in thousands):

2020	\$	48,469
2021		45,088
2022		41,609
2023		37,166
2024		32,565
Thereafter		<u>187,134</u>
	\$	<u><u>392,031</u></u>

The System incurred rent expense under these leases of approximately \$64.2 million and \$57.0 million for the years ended September 30, 2019 and 2018, respectively.

**(b) Cancer Hospital**

YNHH has a shared facilities and services agreement with the University in connection with the Cancer Hospital. YNHH and the University both contributed to the development of a comprehensive cancer treatment facility. Funds were contributed by the University to YNHH and were recorded as deferred revenue at YNHH. Deferred revenue, from this agreement, at September 30, 2019 and 2018, was \$37.8 million and \$39.0 million, respectively, and is amortized over the life of the agreement.

**(c) Litigation**

Various lawsuits and claims arising in the normal course of operations are pending, or are in progress, against the System. Such lawsuits and claims are either specifically covered by insurance as explained in note 10, or are deemed immaterial. While the outcomes of the lawsuits and claims cannot be determined at this time, management believes that any loss, which may arise from these actions, will not have a material adverse effect on the consolidated financial position or changes in net assets of the System.

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

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**(12) Functional Expenses**

The System provides general acute healthcare services to residents within its geographic areas. Net expenses related to providing these services are as follows (in thousands):

	<u>Healthcare services</u>	<u>General and administrative</u>	<u>Total</u>
For the year ended September 30, 2019:			
Salaries and benefits	\$ 1,995,119	390,111	2,385,230
Supplies and other expenses	1,774,278	276,432	2,050,710
Depreciation and amortization	163,294	32,219	195,513
Insurance	39,867	22,743	62,610
Interest	32,027	6,159	38,186
	<u>\$ 4,004,585</u>	<u>727,664</u>	<u>4,732,249</u>
For the year ended September 30, 2018	\$ 3,635,623	722,747	4,358,370

**(13) Other Revenue**

Other revenue consisted of the following (in thousands):

	<u>Year ended September 30</u>	
	<u>2019</u>	<u>2018</u>
Cafeteria and vending	\$ 6,791	7,376
Contributions	1,830	2,205
Parking income	10,271	9,967
Net assets released from restrictions for operations	18,004	23,086
Net assets released from restrictions for clinical programs	3,740	2,473
Net assets released from restrictions for free care	4,199	2,319
Grants	27,349	35,522
Rental income	7,223	7,881
Foundation distributed income	5,000	5,316
Pharmacy sales	205,786	145,541
Other	42,001	41,033
	<u>\$ 332,194</u>	<u>282,719</u>

For pharmacy sales, each prescription claim is its own arrangement with the customer and is a performance obligation. Revenue is recognized at a point in time.

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**(14) Nonoperating Gains and Losses, Net**

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

	<b>Year ended September 30</b>	
	<b>2019</b>	<b>2018</b>
Income from investments, donations, and other, net	\$ 71,051	192,023
Loss on early extinguishment of debt	(3,215)	—
Change in unrealized (losses) gains on investments, net	5,915	(70,121)
Change in fair value of swap, including counterparty payments	(45,914)	14,002
	\$ 27,837	135,904

**(15) Fair Values of Financial Instruments**

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

ASC 820-10, *Fair Value Measurements – Overall*, 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 inputs are assigned the lowest priority.

**YALE NEW HAVEN HEALTH SERVICES CORPORATION**  
(d/b/a Yale New Haven Health System and Subsidiaries)

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

Financial assets carried at fair value as of September 30, 2019 are classified in the following table by level within the fair value hierarchy as described above (in thousands):

	Investments measured at NAV*	September 30, 2019		Total
		Investments classified in the fair value hierarchy		
		Level 1	Level 2	
Cash and cash equivalents	\$ —	532,280	—	532,280
Money market funds	—	43,290	—	43,290
U.S. equity securities	—	298,255	—	298,255
International equity funds	423,778	79,698	—	503,476
Fixed-income funds:				
U.S. government	—	450,304	—	450,304
International government	—	2,019	—	2,019
Commodities	117	—	—	117
Hedge funds:				
Absolute return	86,375	—	—	86,375
Long/short equity	63,166	—	—	63,166
Private equity	12,055	—	—	12,055
Real estate	8,464	82	—	8,546
Interest in Yale University endowment pool	917,255	—	—	917,255
Perpetual trusts	42,743	—	—	42,743
Beneficial interest in remainder trust	1,721	—	—	1,721
<b>Total investments</b>	<b>\$ 1,555,674</b>	<b>1,405,928</b>	<b>—</b>	<b>2,961,602</b>
Liabilities:				
Interest rate swaps	\$ —	—	(67,149)	(67,149)

\* Certain investments that are measured at fair value using the NAV per share (or its equivalent practical expedient) have not been classified in the fair value hierarchy.

**YALE NEW HAVEN HEALTH SERVICES CORPORATION**  
(d/b/a Yale New Haven Health System and Subsidiaries)

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

Financial assets carried at fair value as of September 30, 2018 are classified in the following table by level within the fair value hierarchy as described above (in thousands):

	<b>September 30, 2018</b>			
	<b>Investments measured at NAV*</b>	<b>Investments classified in the fair value hierarchy</b>		<b>Total</b>
		<b>Level 1</b>	<b>Level 2</b>	
Cash and cash equivalents	\$ —	714,309	—	714,309
Money market funds	—	72,561	—	72,561
U.S. equity securities	7,476	260,068	—	267,544
International equity funds	171,281	32,357	—	203,638
Fixed-income funds:				
U.S. government	—	403,603	—	403,603
International government	28,886	63,132	—	92,018
Corporate bonds	—	3,859	—	3,859
Commodities	236	—	—	236
Hedge funds:				
Absolute return	16,473	584	—	17,057
Long/short equity	3,113	—	—	3,113
Long only equity	5,732	—	—	5,732
Private equity	14,672	—	—	14,672
Real estate	7,323	111	—	7,434
Interest in Yale University endowment pool	946,157	—	—	946,157
Perpetual trusts	43,780	—	—	43,780
Beneficial interest in remainder trust	1,743	—	—	1,743
<b>Total investments</b>	<b>\$ 1,246,872</b>	<b>1,550,584</b>	<b>—</b>	<b>2,797,456</b>
Liabilities:				
Interest rate swaps	\$ —	—	(25,487)	(25,487)

\* Certain investments that are measured at fair value using the NAV per share (or its equivalent practical expedient) have not been classified in the fair value hierarchy.

The amounts reported in the tables as detailed above do not include assets invested in the System's defined-benefit pension plan. The beneficial interest in remainder trust listed in the above tables are included in other assets. The interest rate swaps listed above are classified in the accompanying consolidated balance sheets as other long-term liabilities at September 30, 2019 and 2018. There are no assets or liabilities that are measured at fair value based on Level 3 inputs at September 30, 2019 or 2018.

**YALE NEW HAVEN HEALTH SERVICES CORPORATION**  
(d/b/a Yale New Haven Health System and Subsidiaries)

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

The following is a summary of total investments as of September 30, 2019 and 2018, with restrictions to redeem the investments at the measurement date and any unfunded capital commitments (in thousands):

<u>Description of investment</u>	<u>Carrying value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Notice period</u>	<u>Funds availability</u>
International equity funds	\$ 423,778	None	Daily/monthly/quarterly	1–30 days	1–30 days
Commodities	117	None	None/quarterly	None–90 days	None–90 days
Hedge funds:					
Absolute return	86,375	None	Quarterly/annual	30–90 days	30–90 days
Long/short equity	63,166	None	Quarterly	45–90 days	45–90 days
Private equity	12,055	1,697	N/A	N/A	N/A
Real estate	8,464	13,383	None	None	None
Interest in Yale University endowment pool	917,255	None	*	*	*
Perpetual trusts	42,743	None	*	*	*
Beneficial interest in remainder trust	1,721	None	*	*	*
	<u>\$ 1,555,674</u>				

\* See note 1 for descriptions.

<u>Description of investment</u>	<u>Carrying value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Notice period</u>	<u>Funds availability</u>
U.S. equity securities	\$ 7,476	None	Monthly/quarterly	30–60 days	30–60 days
International equity funds	171,281	None	Daily/monthly/quarterly	1–30 days	1–30 days
Fixed-income funds:					
International government	28,886	None	Daily/monthly	1–10 days	1–10 days
Commodities	236	None	None/quarterly	None–90 days	None–90 days
Hedge funds:					
Absolute return	16,473	None	None	None	None
Long/short equity	3,113	None	None	None	None
Long only equity	5,732	None	30 days	1 year	1 year
Private equity	14,672	2,407	N/A	N/A	N/A
Real estate	7,323	2,267	None	None	None
Interest in Yale University endowment pool	946,157	None	*	*	*
Perpetual trusts	43,780	None	*	*	*
Beneficial interest in remainder trust	1,743	None	*	*	*
	<u>\$ 1,246,872</u>				

\* See note 1 for descriptions.

The fair value of long-term debt was approximately \$956.4 million and \$950.1 million at September 30, 2019 and 2018, respectively. The fair value of long-term debt is classified as Level 2 in the fair value hierarchy as it uses a combination of quoted market prices and valuation based on current market rates. The carrying value of all other financial instruments approximates fair value.

**YALE NEW HAVEN HEALTH SERVICES CORPORATION**  
(d/b/a Yale New Haven Health System and Subsidiaries)

Notes to Consolidated Financial Statements

September 30, 2019 and 2018

**(16) Subsequent Events**

Management has evaluated subsequent events through December 20, 2019, which is the date the consolidated financial statements were issued. No other events have occurred that require disclosure or adjustment to the consolidated financial statements.

**YALE-NEW HAVEN HEALTH SERVICES CORPORATION  
d/b/a YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES**

Supplementary Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

<u>Federal grantor/program title and pass-through grantor</u>	<u>Federal CFDA number</u>	<u>Direct award number or pass-through entity identifying number</u>	<u>Passed through to subrecipients</u>	<u>Total Federal expenditures</u>
U.S. Department of Health and Human Services:				
Public Health Emergency Prep – State of Connecticut Department of Public Health/Community Health Association	93.069	DPH22333PHP,	\$ —	1,617,838
Emergency Medical Services for Children - HRSA	93.127	H33MC29430	—	199,305
Ryan White HIV/AIDS Program (RWHAP) Part D Women, Infants, Children and Youth (WICY) Program - Children's Medical Center	93.153	H12HA31109	—	64,782
Substance Abuse and Mental Health Services	93.243	6H79TI081127-01M002, SM-17-006	—	286,102
Alcohol Research Programs - Rhode Island Hospital	93.273	7017137290-1	—	25,460
Center for Disease Control and Prevention – Investigations and Technical Assistance – State of Connecticut Department of Public Health	93.283	2014-0028, 2014-0025, 2014-0042, 2019-0117	—	174,887
Well Integrated Screening and Evaluation for Women Across the Nation and Technical Assistance - State of Connecticut Department of Children and Families	93.436	2014-0028, 2014-0025, 2014-0042, 2019-0117	—	35,441
Accountable Health Communities	93.650	1P1CMS331558-01-00	—	532,819
Hospital Preparedness Program Ebola Preparedness and Response	93.817	2018-1003	—	326,793
National Bioterrorism Hospital Preparedness Program – State of Connecticut Department of Public Health/Public Health Solutions	93.889	DPH20760/17-yNH-01_AMD	—	925,296
Healthy Start Initiative – The Community Foundation for Greater New Haven	93.926	20081513	—	63,384
HIV Prevention Activities – Health Department Based – State of Connecticut Department of Public Health	93.940	2013-0141	—	33,970
Block Grants for Community Mental Health Services – State of Connecticut Department of Mental Health and Addiction Services	93.958	12MHA2103AA	—	107,231
TANF Cluster:				
Temporary Assistance for Needy Families (TANF) State of Connecticut Department of Children and Families	93.558	11000-DCF91110-16092	—	993,508
Total TANF Cluster			—	993,508
Maternal, Infant, and Early Childhood Home Visiting Center Cluster:				
Maternal, Infant, and Early Childhood Home Visiting Program – State of Connecticut Office of Early Childhood	93.870	18OECMHV01BHF, 18OECMHV01VNS	—	854,991
Total Maternal, Infant, and Early Childhood Home Visiting Center Cluster			—	854,991
Aging Cluster:				
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	06-0916608	—	44,610
Total Aging Cluster			—	44,610
Total U.S. Department of Health and Human Services			\$ —	6,286,417

**YALE-NEW HAVEN HEALTH SERVICES CORPORATION  
d/b/a YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES**

Supplementary Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

<u>Federal grantor/program title and pass-through grantor</u>	<u>Federal CFDA number</u>	<u>Direct award number or pass-through entity identifying number</u>	<u>Passed through to subrecipients</u>	<u>Total Federal expenditures</u>
U.S. Department of Agriculture (note 3):				
WIC Grants to States - State of Connecticut - Special Projects	10.578	non-contract	\$ —	3,500
Special Supplemental Nutrition Program for Women, Infants and Children (WIC) – State of Connecticut Department of Public Health/Hospital of St. Raphael	10.557	2017-0052-0	547,181	5,228,750
Total U.S. Department of Agriculture			<u>547,181</u>	<u>5,232,250</u>
U.S. Department of Housing and Urban Development:				
Lead Hazard Reduction Demonstration Grant Program - Connecticut Children's Medical Center	14.905	CTLHBL0615-16 CTLHD294-16	—	64,416
Total U.S. Department of Housing and Urban Development			<u>—</u>	<u>64,416</u>
U.S. Department of Justice:				
Crime Victim Assistance/Discretionary Grants - Northwestern University	16.582	2017-VF-GX-K136	—	33,426
Total U.S. Department of Justice			<u>—</u>	<u>33,426</u>
U.S. Department of Labor:				
Nursing Apprenticeship Initiative - Connecticut Department of Labor	17.285	AAI 11300 88805 17 2103	—	267,000
H-1B Job Training Grants - AHIMA Foundation/Capital Workforce Partners	17.268	AO-27825-15-60-A-17, 11100	—	268,631
Total U.S. Department of Labor			<u>—</u>	<u>535,631</u>
U.S. Department of Transportation:				
Highway Safety Cluster:				
State and Highway Community Safety Connecticut Department of Transportation	20.600	0199-0709-AD, 0199-0709-AE	—	192,392
Total Highway Safety Cluster			<u>—</u>	<u>192,392</u>
Total U.S. Department of Transportation			<u>—</u>	<u>192,392</u>
Total expenditures of federal awards			<u>\$ 547,181</u>	<u>12,344,532</u>

See accompanying notes to supplementary schedule of expenditures of federal awards.

**YALE NEW HAVEN HEALTH SERVICES CORPORATION  
D/B/A YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES**  
Notes to Supplementary Schedule of Expenditures of Federal Awards  
Year ended September 30, 2019

**(1) Summary of Significant Accounting Policies**

The following is a summary of significant accounting policies relating to Yale New Haven Health Services Corporation, d/b/a Yale New Haven Health System and Subsidiaries' (the System) federal grant programs.

**(a) Basis of Presentation**

The accompanying supplementary schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the System under programs of the federal government and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the System's consolidated financial statements. Because the Schedule presents only a selected portion of the operations of the System, is it not intended to, and does not, present the consolidated financial position, changes in net assets, or cash flows of the System.

**(b) Indirect Costs**

The System has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**(c) Consolidated Reporting**

Federal expenditures of the following entities are included in the accompanying Schedule for the year ended September 30, 2019:

Entity	Federal award expenditures
Yale-New Haven Health Services Corporation	\$ 3,453,441
Yale-New Haven Hospital	6,897,460
Bridgeport Hospital	1,354,272
Greenwich Hospital	—
Lawrence & Memorial Corporation	639,359
Northeast Medical Group	—
	\$ 12,344,532

**YALE NEW HAVEN HEALTH SERVICES CORPORATION  
D/B/A YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES**

Notes to Supplementary Schedule of Expenditures of Federal Awards

Year ended September 30, 2019

**(2) Awards Passed Through to Subrecipients**

Of the federal expenditures presented in the accompanying Schedule, the System provided \$547,181 of federal awards to subrecipients as follows:

<u>Program title</u>	<u>CFDA</u>	<u>Subrecipient</u>	<u>Reported by</u>	<u>Amount provided</u>
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	Fair Haven Community Health Clinic	Yale-New Haven Hospital	\$ 275,564
Special Supplemental Nutrition Program for Women, Infants and Children	10.557	Cornell Scott Hill Health	Yale-New Haven Hospital	\$ 271,617

**(3) Food and Nutrition Awards**

During the year ended September 30, 2019, the System provided nutritional counseling and distribution of food vouchers through the State of Connecticut Department of Public Health Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). The U.S. Department of Agriculture, the federal agency that sponsors the WIC program, has determined that such WIC food instruments are considered “property in lieu of money” and, therefore, should be reported as federal awards expended by the System. The total amount reported as federal awards on the accompanying Schedule represents the value of food vouchers redeemed of \$3,441,552 plus administrative costs of \$1,787,198.

**(4) Pass-Through Awards Received**

The System is the subrecipient of federal funds, which are reported as pass-through funds on the Schedule as the expense is incurred.



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

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

The Board of Trustees  
Yale New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries:

We have audited, in accordance with the auditing standards general accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Yale New Haven Health Services Corporation d/b/a Yale New Haven Health System and Subsidiaries (the System), which comprise the consolidated balance sheets as of September 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 20, 2019.

*Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



*Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 20, 2019



KPMG LLP  
345 Park Avenue  
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## **Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

The Board of Trustees  
Yale New Haven Health Services Corporation  
d/b/a Yale New Haven Health System and Subsidiaries:

### **Report on Compliance for Each Major Federal Program**

We have audited Yale New Haven Health Services Corporation d/b/a Yale New Haven Health System and subsidiaries' (the System's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System's major federal programs for the year ended September 30, 2019. The System's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of the System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the System's compliance.

#### *Opinion on Each Major Federal Program*

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

#### *Other Matters*

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2019-001. Our opinion on each major federal program is not modified with respect to this matter.



The System's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The System is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The System's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

### **Report on Internal Control Over Compliance**

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the consolidated financial statements of Yale New Haven Health Services Corporation, d/b/a Yale New Haven Health System and subsidiaries, as of and for the year ended September 30, 2019, and have issued our report thereon dated December 20, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in



accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

June 25, 2020

**YALE NEW HAVEN HEALTH SERVICES CORPORATION  
D/B/A YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES**

Schedule of Findings and Questioned Costs

Year ended September 30, 2019

**(1) Summary of Auditors' Results**

- (a) Type of report issued on whether the consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:
  - Material weaknesses: **No**
  - Significant deficiencies: **None reported**
- (c) Noncompliance material to the consolidated financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
  - Material weaknesses: **No**
  - Significant deficiencies: **None reported**
- (e) Type of report issued on compliance for major programs: **Unmodified**
- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes, identified as Finding 2019-001**
- (g) Major programs:

<u>Name of federal program or cluster</u>	<u>CFDA numbers</u>	<u>Expenditures</u>
TANF Cluster	93.558	\$ 993,508
Accountable Health Communities	93.650	532,819
Special Supplemental Nutrition Program for Women, Infants and Children – State of Connecticut	10.557	5,228,750

- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
- (i) Auditee qualified as a low-risk auditee: **Yes**

**(2) Findings Relating to the Consolidated Financial Statements Reported in Accordance with Government Auditing Standards**

None.

**YALE NEW HAVEN HEALTH SERVICES CORPORATION  
D/B/A YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES**

Schedule of Findings and Questioned Costs

Year ended September 30, 2019

**(3) Finding and Questioned Costs Relating to Federal Awards**

<b>Finding Number 2019-001:</b>	Completeness and Accuracy of Schedule of Expenditures of Federal Awards
<b>Grantor:</b>	Department of Health and Human Services
<b>Program Name:</b>	Accountable Health Communities
<b>CFDA Number:</b>	93.650

*Specific Criteria*

In accordance with 2 CFR 200.510, the auditee must prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502. This section states that the determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs.

Further, the non-Federal entity must establish and maintain an effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and terms and conditions of the Federal award (2 CFR 200.303).

*Condition and Context*

Prior to September 30, 2019 reporting, the System did not include funding received from the Department of Health and Human Services, Accountable Health Communities on the schedule of expenditures of Federal awards. The grant, which was first received and associated funds expended in fiscal year 2018, was not properly identified as federal awards expended as outlined in the applicable requirements above.

*Possible Asserted Cause and Effect*

The System's policies, procedures and internal controls were not sufficient to have proper identification of federal awards, as well as improper secondary review during the grant set-up process to ensure federal funds are properly identified, and subsequently reported. Further, the System did not perform a proper re-evaluation over the completeness of the schedule of Federal awards on an annual basis.

*Questioned Costs*

None.

*Recommendation*

We recommend that the System enhance its policies, procedures and controls to strengthen the identification of grants which are federally-funded, and that proper review of the schedule of federal awards occurs to ensure complete and accurate reporting on an annual basis.

**YALE NEW HAVEN HEALTH SERVICES CORPORATION  
D/B/A YALE NEW HAVEN HEALTH SYSTEM AND SUBSIDIARIES**

Schedule of Findings and Questioned Costs

Year ended September 30, 2019

*Views of Management*

The System state and federal grant management was centralized into the Grants Resource Office (GRO) in October 2018. Since that time the GRO has worked with each subsidiary to identify and review all grants. The GRO has collaborated with the Finance and Accounting departments to ensure awareness of all Federal grant funds through access to our grant management database along with regular updates and communications between operational and financial divisions within the System.

*Completion Date*

10/1/2018

Summary Schedule of Prior Audit Findings  
Year ended September 30, 2019

Fiscal year	Finding number	Finding	Program title	Questioned costs	Comments
2018	001	The System does not have a process in place to review reports before they are submitted to the OEC.	Maternal, Infant and Early Childhood Home Visiting Program	None	Finding has been remediated in 2019.

## **CORRECTIVE ACTION PLAN REGARDING FISCAL 2019 FINDINGS**

### **2019-001 Control Deficiency: Completeness and Accuracy of Schedule of Federal Expenditures**

*Federal Program:*

Accountable Health Communities

*Federal Agency:*

U.S. Department of Health and Human Services

Award Number: 1P1CMS331558

#### ***Criteria***

In accordance with 2 CFR 200.510, the auditee must prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502. This section states that the determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs.

Further, the non-Federal entity must establish and maintain an effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and terms and conditions of the Federal award (2 CFR 200.303).

#### ***Condition, Cause, Effect, and Context***

Prior to September 30, 2019 reporting, the System did not include funding received from the Department of Health and Human Services, Accountable Health Communities on the schedule of expenditures of Federal awards. The grant, which was first received and associated funds expended in fiscal year 2018, was not properly identified as federal awards expended as outlined in the applicable requirements above. The System's policies' procedures and internal controls were not sufficient to have proper identification of federal awards, as well as improper secondary review during the grant set-up process to ensure federal funds are properly identified, and subsequently reported. Further, the System did not perform a proper reevaluation over the completeness of the schedule of Federal awards on an annual basis

#### ***Questioned Costs***

There are no questioned costs required to be reported.

#### ***Recommendation***

We recommend that the System enhance its policies, procedures and controls to strengthen the identification of grants which are federally-funded, and that proper review of the schedule of federal awards occurs to ensure complete and accurate reporting on an annual basis.

#### ***Views of Responsible Officials and Planned Corrective Action***

The System state and federal grant management was centralized into the Grants Resource Office (GRO) in October 2018. Since that time the GRO has worked with each subsidiary to identify and review all grants. The GRO has collaborated with the Finance and Accounting departments to ensure awareness of all Federal grant funds through access to our grant management database along with regular updates and communications between operational and financial divisions within the System.

Responsible Officials: Associate Director and Grants Coordinator Post Award, Grant Resource Office.

Date of Completion: Completion date of October 1, 2018.